



BULLETIN ON THE *eradication of poverty*



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Time to End Poverty

General Assembly assesses role of microcredit in the eradication of poverty, and progress in the implementation of recommendations related to the first United Nations Decade for the Eradication of Poverty (1997-2006).

Role of microcredit in the eradication of poverty

The Secretary-General's reports on the role of microcredit in the eradication of poverty (A/53/223 and Add. 1) and on the implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006) (A/53/329), were discussed in the Second Com-

mittee during the fifty-third session of the United Nations General Assembly.

The report on microcredit was the first ever to be prepared by the Secretary-General in response to a request by the General Assembly. Its main findings are briefly summarized below. It was recognized that since the World Summit for Social Development the priority given to poverty eradication has grown. It is now also broadly accepted that robust economic growth that is labour-intensive and equitable, combined with larger outlays of social expenditures, especially directed towards the poor (now estimated at 1.3 billion people), are a winning combination in the fight against poverty.

Several factors have led to increased interest in microcredit in promoting growth with greater equity. Not least is the growing recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit. With the availability of small-scale loans, it is possible to develop the latent capacity of the poor for entrepreneurship, and thereby introduce them to the small-scale enterprise sector. This could allow them to be more self-reliant, create employment opportunities and, most importantly, engage women in economically productive activities.

Currently, there are about 3,000 microfinance institutions in developing countries. The growing importance of the role of microcredit in the eradication of poverty reflects the recent success of small-scale lending programmes, such as the Grameen Bank in Bangladesh.

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These programmes rely on lending (usually a few hundred dollars) to small enterprises, in agriculture, distribution, crafts, trading and similar activities. The participatory nature of these projects, together with the emphasis on women entrepreneurs and job creation, has raised hopes of reducing poverty through this approach.

Over the past decade, microfinance institutions have succeeded (while traditional financial institutions have failed) in providing credit and savings services to the entrepreneurial poor, through innovative strategies. These include the provision of small loans to poor people, especially in rural areas, at full-cost interest rates, without collateral. Borrowers are organized into groups, which reduces the risk of default. These are also effective mechanisms through which to disseminate valuable information on ways to improve the health, legal rights, sanitation and other relevant concerns of the poor. Above all, many microcredit programmes have targeted one of the most vulnerable groups in society—women—who live in households that own little or no assets. By providing opportunities for self-employment, many studies have concluded that these programmes have significantly increased women’s security, autonomy, self-confidence and status within the household.

Regional developments

Asia

The Asian region has experienced the fastest growing number of microfinance institutions. An innovative approach that has been used by Grameen Bank’s credit-delivery system is “peer group monitoring” to reduce lending risk, coupled with the practice of weekly public meetings—at which attendance is compulsory—for the repayment of loan instalments and the collection of savings. The Grameen Bank now reaches over 2 million people, with cumulative lending of about \$2.1 billion. Not all microfinance institutions use peer-group monitoring. Some institutions, such as the Bank Rakyat of Indonesia, which serves 2.5 million clients and 12 million small savers, rely on character references and locally recruited lending agents in place of physical collateral.

Thailand’s Bank of Agriculture and Agricultural Cooperatives services approximately 1 million micro-borrowers and 3.6 million micro-savers. Newcomers, such as the Association for Social Advancement of Bangladesh, with half a million clients, and the People’s Credit Funds of Viet Nam, with more than 200,000 members or clients, are other examples of the potential for growth in the industry. Other institutions, such as the Association of Cambodia Local Economic Development Agencies, Buro-Tangail of Bangladesh, the Self-Employed Women’s Association Bank of India, and Amanah Ikhtiar Malaysia, are also making good progress.

Various institutions are involved in the delivery of microfinance services. They include formal commercial banks, rural banks, cooperative institutions, credit unions and non-governmental organizations. Their methods of doing business range from Grameen Bank-style solidarity groups and institutions dealing with individual clients to self-managed self-help groups. Some institutions have gone beyond credit to offer insurance and other financial services. Both the Grameen Bank and the Bangladesh Rural Advancement Committee offer non-financial services, such as retail outlet facilities for products of their clients.

Latin America

In Latin America, Acción International, a non-profit development agency, and its affiliates were reported to have disbursed \$1 billion in loans to poor microentrepreneurs in the past five years. Its first-time loans are between \$100 and \$200, and the overall repayment rate is above 98 per cent. Its network of 19 affiliates in Latin America and North America provides \$300 million a year in loans to poor entrepreneurs (56 per cent of whom are women). Since 1987, Acción’s network has grown from 13,000 to more than 285,000 active borrower clients. The six largest affiliates now provide \$1 million per month in loans. Banco Solidario of Bolivia, which has grown from a credit-providing non-governmental organization to a fully licensed commercial bank, provides financial services to 67,000 people, more than one half of the total



number of clients in the entire Bolivian banking system. The Association for the Development of Microenterprises of the Dominican Republic and Acción Comunitaria del Peru have achieved sustainability.

Africa

In West Africa, where microfinance institutions are still in their infancy, a World Bank case study on nine microfinance programmes—the Pride, Crédit rural and Crédit mutuel de Guinée; Crédit mutuel du Sénégal and Village Banks Nganda of Sénégal; Réseau des caisses populaires and Sahel Action Project de promotion du petit crédit rural of Bukina Faso; and Caisses villageoises du pays dogon and Kafo Jignew of Mali—concluded that all nine of these programmes are very much in the mainstream of best practice in the field of microfinance. In terms of sustainable lending to microentrepreneurs, the study gave high marks to the programmes on the following basis: all nine programmes are located near their clients and in the largest catchment areas possible; they use lending technologies that are simple, well tailored to the cultural environment and inexpensive for both lender and client; they have employed effective techniques for obtaining high repayment rates; and most include savings, which meet a critical need of many people.

International support for microcredit

While recognizing the potential of microcredit in poverty reduction, there is an urgent need for a more concerted international effort to enable microcredit to spread and succeed on the scale that expectations now require. It was with that perspective that the World Bank has led the process of international coordination primarily by establishing the Consultative Group to Assist the Poorest (CGAP), in 1995.

CGAP, which comprises 25 members, including United Nations bodies, is a multi-donor effort to address the problems facing microfinancing. The most important of these are lack of access to information, the measurement of loan delinquency, setting of interest rates, design-

ing lending procedures and developing business projects. The objective of CGAP is to foster good donor practices, including performance standards. Many United Nations organs that support microcredits tend to emphasize capacity-building and institutional strengthening, training and consultations to spread best practices.

An important positive development from the CGAP process is that success stories and their characteristics are now much better known. To spread these best microcredit practices to different parts of the world—often under vastly varying conditions—is now the central challenge facing the international community and the developing world.

With regard to the level of funding to microcredit institutions in its first two-and-a-half years, CGAP provided about \$18 million in grants to microcredit institutions, and also committed \$400 million in the past three years in microfinance activities. Grants have been made directly to institutions and networks of practitioners. Eligibility criteria have included the following: (a) institutions must serve more than 3,000 very poor clients, of which at least 50 per cent must be women; (b) institutions must be operationally self-sufficient and on the path to financial self-sufficiency; and (c) institutions must be on the path to mobilizing domestic commercial resources.

Need to strengthen microcredit institutions and programmes

Microcredit could play a stronger role in development if certain requirements were met. These include the need:

- (a) To perceive microcredit lending as part of a comprehensive programme of support to the small enterprise sector, which already employs an estimated 500 million poor people around the world;
- (b) For Governments of developing countries to formulate plans and programmes in support of small enterprises in general, of which microcredit should be an integral part; and the need for the regulatory framework to be receptive to small enterprises;
- (c) For microcredit to be seen as complementary to the



provision of basic services, such as education, housing, health and nutrition;

- (d) To strengthen the administrative structures of existing microcredit institutions;
- (e) To ensure the long-term sustainability of microcredit operations by, among other things, including in them the savings mobilization function;
- (f) For donor countries to ensure that financial intermediation programmes are soundly based and operate through solid local entities;
- (g) For better coordination among donor countries to avoid duplicative projects and fragmentation of available institutional capacity in the developing countries.

First United Nations Decade for the Eradication of Poverty (1997-2006)

The Secretary-General's report on the implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006) (A/53/329), which was also discussed by the Second Committee, provided further information on progress made in the implementation of recommendations and activities related to the Decade. The report underscored the link between poverty, human rights and development and stressed the importance of international cooperation in the fight against global poverty.

The main conclusion of the report was that while hundreds of millions of people have been lifted from the yoke of poverty and despair as a result of the dramatic rise in global living standards over the past 25 years, millions more have been added to those living in abject poverty in the latter part of the 1990s due to a reversal of gains in the fight against poverty in many parts of the world.

The report recognized that though widespread in developing countries, poverty also affects industrialized societies and is growing in countries with economies in transition.

Possible actions and initiatives to be undertaken for the rest of the Decade

These should include the need for:

- * Increased investments in **education** to bring about greater equality of opportunity and to enable individuals and countries to realize their potential and make the most of their resources. Educating the young, in particular, to meet these challenges should become a priority for every society. Education for all, including an improvement in the quality of basic education, should continue to be the main focus of educational policies, particularly in developing regions where population pressures are strong. This is particularly important since in spite of the progress in student enrolments in the developing world, an estimated 140 million school-age children, 60 per cent of them girls, do not go to school, and over 900 million adults, two thirds of whom are women, are illiterate.
- * Further improvements in **health**. Based on the World Health Organization review of overall health trends in the past 50 years, remarkable improvements in health have been due to sustained socio-economic development, the wider provision of safe water supply, sanitation facilities and personal hygiene, and the establishment and expansion of national services. Tragically, while average life expectancy has been increasing, three of every four people in the least developed countries today die before the age of 50—the global life expectancy figure of half a century ago.
- * The provision of **safe water, basic sanitation and food safety**, to reduce the incidence of epidemics, especially diarrhoeal disease, which causes high mortality and morbidity in many developing countries. In spite of efforts made during the International Drinking Water Supply and Sanitation Decade, about 20 per cent of the world population lacks access to safe water, and about 50 per cent lacks access to adequate forms of sanitation. It is important that considerations of equitable and responsible use of water become an



integral part of formulating strategic approaches to integrated water management at all levels, in particular in addressing the problem of people living in poverty.

- * **Specific programmes to provide credit** to those sectors most adversely affected by the recent financial crisis in East Asia (which has slowed the pace of poverty reduction in the region), including agriculture, small and medium-sized enterprises and exporters. There is also a need to strengthen the financial sector through policies that would both inhibit the flow of volatile short-term capital and encourage long-term capital, especially foreign direct investment. To contain the social costs, there is a need for direct employment creation schemes, which include labour-intensive public works schemes and credit schemes to promote self-employment and enterprise development.
- * **Addressing the case of African countries**, which experienced a sustained, albeit fragile, economic recovery in the mid-1990s, and where poverty remains pervasive, urban unemployment is high, underemployment is common and many countries subsist in low productivity. In fact, many African countries and the least developed countries remain highly vulnerable to exogenous shocks, such as those related to weather or volatile international commodity prices. Most of these countries have experienced a setback in development: their economies have declined, social conditions have worsened, and they have become increasingly marginalized from the mainstream of the world economy.
- * **Further debt initiatives** to reduce the debt burden, which continues to be a constraint to many developing countries, especially in Africa and the least developed countries. Debt-servicing contributes to poverty when public revenue is diverted from productive sector expenditure, such as education, health and physical infrastructure, to debt-servicing. The most important recent development in debt relief for the least developed countries is the heavily indebted poor countries (HIPC) initiative. The initiative provides a framework for implementing a strategy of

burden-sharing among all creditors to reduce HIPC debt to a sustainable level. Linking global goals and targets to the issues of financing and assistance in achieving the commitments of the World Summit for Social Development and other conferences is of particular importance. Poor countries will need major external financing to alleviate poverty. Global official development assistance has fallen to just 0.25 per cent of gross domestic product (GDP) in 1996—the lowest since foreign aid was institutionalized with the Marshall Plan about 50 years ago. So far, only Denmark, the Netherlands, Norway and Sweden have met or exceeded the 0.7 per cent target. Also noteworthy is the fact that Ireland and the United Kingdom of Great Britain and Northern Ireland have begun increasing aid as a proportion of (GDP).

The most important challenge facing the international community is to enable the poorest developing countries, especially those in Africa and the least developed countries, to develop capacities, integrate better into the global economy and thereby benefit from the opportunities offered by globalization. Debt relief, additional and well-targeted resources, access to markets, information and technology, as well as better trade opportunities, are all crucial to poverty reduction and eradication.

Information on United Nations poverty eradication activities via the Internet

Regularly updated information on the activities of the Department of Economic and Social Affairs of the United Nations Secretariat, including follow-up to the World Summit for Social Development and the first United Nations Decade for the Eradication of Poverty, can be obtained via the Department's home page on the Internet, at:

www.un.org/esa/

and on the home page of its Division for Social Policy and Development, at:

www.un.org/esa/socdev/



Access is available on the Division's home page to the home page of the first United Nations Decade for the Eradication of Poverty, which can also be reached directly at:

www.un.org/esa/socdev/poverty

Access is available on the home pages of both the Division and the Decade to the home page of the World Summit for Social Development, which offers relevant information about activities leading up to and including the Summit, as well as the text of the Copenhagen Dec-

laration and Programme of Action. Additional information on follow-up activities to the Summit will be added periodically. The Summit home page may be reached directly at:

www.un.org/esa/socdev/wssd

Information on activities of the Commission for Social Development is available on the Division's home page or at:

www.un.org/esa/social



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Editor, *Bulletin on the Eradication of Poverty*
United Nations Secretariat
Room DC2-1334
New York, NY 10017, USA

