

58th Session of the United Nations General Assembly 2nd Committee
Panel discussion on “Microcredit, poverty eradication and the empowerment of women”
23 October 2003, 3 – 6 p.m.
Trusteeship Council Chamber
Issues Paper
Prepared by UNCDF

"Now that the nations of the world have committed themselves to reduce by half by the Year 2015 the number of people living on less than \$1 a day, we must look even more closely at the pivotal role that sustainable microfinance can play and is playing in reaching this Millennium Development Target " *UN Secretary-General, Kofi Annan*

Of the six billion people who inhabit the earth, roughly half live on less than two dollars a day, and one in every five people, or 1.2 billion, live on less than \$1 per day. Women, especially in developing countries, bear an unequal share of the burden of poverty. UNDP estimates that women comprise 70% of the world's poorest people. Efforts to eradicate poverty must be directed towards concrete and sustainable solutions.

It is globally agreed that poverty is partially determined by the ability of households to access capital and other essential financial services that allow them to generate greater returns and weather cash flow fluctuations. Whether to start an enterprise, save for a child's schooling, insure against natural disasters, or cover health care costs, access to microcredit and other financial services can significantly improve the lives of people living in poverty.

Studies of the impact of microcredit in more than 24 countries found dramatic improvements in household income levels. These improvements took place primarily through growth in the borrower's business, which translated into increased household income. The studies found that access to microcredit allowed the borrower to increase the number of goods or services sold and reduce the costs of supplies and raw materials. As a result, sales increased and profits grew 25% to 40%. As an example, in Indonesia it was found that microcredit borrowers increased their incomes by 12.9 percent compared to increases of 3 percent in control-group incomes. Another study on Bank Rakyat Indonesia borrowers on the island of Lombok in Indonesia reported that the average incomes of clients had increased by 112 percent and that 90 percent of households had moved out of poverty.

With access to financial services, comes decision-making power, particularly for women. Microfinance programs from different regions report increasing decision-making roles of women clients. The Women's Empowerment Program in Nepal found that 68 percent of its members were making decisions on buying and selling property, sending their daughters to school, negotiating their children's marriages, and planning their family. TSPI in the Philippines reported that program participation increased the percentage of women who were principal household-fund managers from 33 percent to 51 percent. In the control group, only 31 percent of women were principal fund managers.

The economically active poor are not a heterogeneous group but make financial decisions based on their income flows, propensity to save, risk aversion, stage of life and, most importantly, access to sustainable financial products and services. They are savers and investors who manage complex household economies and make weighted financial decisions. However, although we can globally agree that poor people warrant and deserve to have access to sustainable financial services, the demand for microcredit and microfinance is largely unmet. In 2002, rough estimates suggest that the demand for microcredit was somewhere between 500 to 600 million people worldwide, of which only around 30 million had access. Although many poor and low-income people do not yet have access to financial services, the number of customers that use microcredit and microfinance, has grown between 25 and 30 percent annually over the past five years.

The key question is what actions can we take to dramatically increase access to financial services so that microcredit and microfinance can meet its potential in contributing to achieving the goals of the Millennium Development Declaration?