



FACT & ACTION SHEET February 2009

State of the Microcredit Summit Campaign 2009 – Exciting News and New Challenges

SUMMARY: *The State of the Microcredit Summit Campaign 2009 report reveals that the Campaign achieved its original target of reaching 100 million of the world's poorest families with credit and other financial services in 2007. This is an achievement to celebrate. The report also reveals new challenges, as the global financial crisis may lead to reduced investor support for microfinance, and increased attention to targeting the poorest people and measuring improvements in living standards for borrowers is required. Our letters this month will recognise the achievements of the Microcredit Summit Campaign, and call on the Australian Government to recognise these challenges as it develops and resources its microfinance strategy.*

BACKGROUND

Microfinance is an effective means of fighting poverty. It provides the poor with a safe and reliable place to save money when they can and borrow when they need it, as well as access other basic services which are not normally available to them due to their poverty, illiteracy or because they live in remote areas (refer to Annex 1 for an overview of microfinance).

Microfinance has proven to be a powerful tool to help the world's poorest people to lift themselves out of poverty, and improve their entire family's nutrition, education and housing¹. A review of around 100 impact studies of microfinance since 1986 found a wide range of evidence that microfinance programs can increase incomes and lift families out of poverty. Access to microfinance can improve children's nutrition and increase their school enrollment rates, among many other outcomes (Nathanael Goldberg, 2005)².

I. Australia and Microfinance

The Asia-Pacific region contains 64% of the people in the world living in absolute poverty, and the majority of microfinance borrowers. Australia is therefore well placed to respond to this need by assisting the poor to gain access to critical microfinance services.

Over the past decade Australia's aid program has supported several successful microfinance organisations, including BRAC in Bangladesh and CEP in Vietnam. However, in recent years Australian funding for microfinance has reached a plateau, and even decreased. In 2006-07, spending was \$10.9 million, down from a peak of \$14.3 million in 2003-04. Microfinance expenditure looks set to drop further in 2007-08 with some programs ending and no new ones being brought on to replace them.

¹ Consultative Group to Assist the Poor (CGAP) focus note No.24 (January 2003): Is microfinance an effective strategy to reach the Millennium Development Goals?

² Goldberg, N. (2006), *Measuring the Impact of Microfinance: Taking Stock of What We Know*

II. The Microcredit Summit Campaign reaches its original goal!

The Global Microcredit Summit Campaign started with the Microcredit Summit in 1997, at which 2,900 delegates committed to the goal of reaching 100 million of the world's poorest families with credit and other financial services by 2005. The first survey of microfinance organisations by the Summit Campaign revealed that the total number of borrowers who were among the poorest in their countries was 7.6 million at the end of 1997.

From this baseline, the number of borrowers who are among the poorest has increased to 106.6 million by the end of 2007, achieving the Microcredit Summit Campaign's original goal and representing growth in the number of very poor borrowers of 30% per year. Including the families of borrowers, more than 500 million of the poorest people are now benefiting from access to credit and financial services!

The *State of the Microcredit Summit Campaign 2009* report suggests the achievement of the goal of 100 million very poor borrowers is comparable to the first landing on the moon in 1969, as both were audacious objectives which many people believed were not achievable. However, reaching 100 million very poor borrowers, unlike the first moon landing, attracted little publicity. We now have the chance to ensure that the achievement of this goal attracts the attention it deserves.

III. Challenges for the coming years

The Microcredit Summit Campaign has adopted two new goals for achievement by 2015:

- Working to ensure that 175 million of the world's poorest families, especially the women of those families, are receiving credit for self-employment and other financial and business services
- Working to ensure that, from a starting point of 1990, 100 million of the world's poorest families move from below US\$1 a day adjusted for purchasing power parity (PPP) to above US\$1 a day adjusted for PPP.

Assuming five persons per family, reaching 175 million of the world's poorest families would benefit 875 million people, or 60% of the total number of people living in extreme poverty.

The *State of the Microcredit Summit Campaign* report highlights several challenges for the coming years:

- Combining a continuing focus on reaching the poorest borrowers with achieving financial viability – the report suggests these goals can be reconciled by microfinance organisations seeking to reach larger numbers of clients and making a small profit margin per client.
- Maintaining the growth of microfinance in the wake of the global financial crisis, which is leading to reduced availability of commercial lending and equity capital for microfinance organisations. This is likely to require aid organisations and private foundations to play a larger role in supporting microfinance.
- Providing increased information about the terms and conditions of loans and the impact on poverty of microfinance. The report includes details of the Microfinance Transparency initiative, which aims to provide information on microfinance interest rates and fees on a clear and consistent basis. Under this initiative, organisations charging higher rates would need to justify this practice.

IV. Australian Government action

AusAID is undertaking consultation on the framework for its microfinance investments for the next several years, and is planning to release a strategy at the time of the 2009-10 Budget (May 2009).

RESULTS Australia has provided a response to AusAID's issues paper on microfinance (attached) which sets out some priorities for microfinance in the aid program:

- Ensure that the strategy is adequately resourced – with investment of \$25-30 million in 2009-10, and \$45 million by 2010-11.
- Maintain a focus on extending financial services to the poorest, and assessments of the impacts of access to finance on the poorest;
- A geographic coverage that responds to both the scale of need in Asia and the unique environment of Pacific island nations; and
- AusAID needs a microfinance unit with dedicated staff in order to effectively implement the strategy.

ACTION:

Write a letter to the editor, noting the importance of access to financial services in overcoming poverty:

1. Note that the growth in the number of very poor borrowers to more than 100 million in 2007 is a momentous achievement that provides some rare good news on both poverty reduction and the financial sector.
2. Note that the global financial crisis creates challenges for the future growth of microfinance, requiring an increased role for government and private donors rather than commercial investors.
3. Acknowledge the Australian Government for working towards a microfinance strategy.
4. Encourage the Government to increase microfinance expenditure to \$25-30 million in 2009-10 and \$45 million by 2010-11, and concentrate on supporting organisations that focus on the poorest people.

OR

Approach your local newspaper to request that it runs a story on the release of the *State of the Microcredit Summit Campaign 2009* report and the achievement of the original Summit goal, or request that a local radio station conducts an interview on the achievement of the Summit goal.

More information:

State of the Microcredit Summit Campaign 2009 report: www.microcreditsummit.org

Microfinance Gateway: www.microfinancegateway.org

CGAP: www.cgap.org

Goldberg, N. (2006), *Measuring the Impact of Microfinance: Taking Stock of What We Know*: <http://www.grameenfoundation.org/pubdownload/~pubid=29>

Annex 1 – What is microfinance?

Microfinance provides the poor with access to financial services which are not normally available to them through the mainstream banking system due to their poverty, illiteracy or because they live in remote areas. Microfinance can include:

- **Small loans** – loans of as little as a few dollars to a few hundred dollars, usually with no collateral, and mainly used to start or expand self-employment ventures. Such ventures include sewing clothes, running food stands, raising pigs, chickens or vegetables, making crafts and operating bicycle rickshaws.
- **Deposit and savings services** - giving the poor a chance to save through small regular deposits can help them to smooth out their income and expense flows over the year and prepare for large expenditures – both planned and unplanned.
- **Insurance products** - health, life and crop or livestock insurance can help reduce the negative financial impacts of illness, death and natural disasters.
- **Money transfer services** – many poor families have one or more family members working away from home. The ability to send money home safely helps families to keep a steady income source year-round.