

**MICROFINANCE - IMPLEMENTING AN EFFECTIVE STRATEGY**

**SUMMARY:** *The Australian Government has demonstrated commitment towards Financial Inclusion and Microfinance through development of its 'Financial Services for the Poor' strategy and its ongoing partnerships and programs in various countries (especially in the Pacific). The planned assessment of this Strategy needs to be coupled with the development of financial and social impact targets as well as financial commitment towards the strategy. In November 2011 we will also see the Global Microcredit Summit in Spain. Engagement by Australia with leaders in this field at the Summit will be a critical element of Australia's strategy development and implementation. This month we will write to Members of Parliament, noting Australia's commitment towards its Financial Inclusion and Microfinance program and requesting increased financial commitment to this strategy as well as calling for Australia's attendance at the Global Microcredit Summit 2011.*

**BACKGROUND**

Financial Exclusion is a fundamental dilemma for many poor people, who are unable to access financial services and therefore unable to borrow or save money. In the developing world, 2.7 billion adults (72% of the adult population) don't have access to any financial services due to their poverty, illiteracy, gender or because they live in a remote region. Financial Inclusion "is the delivery of a range of financial services to the poor and disadvantaged. It includes the provision of fair borrowing, safe saving, relevant and meaningful financial education and appropriate insurance products." A key component of financial inclusion is microfinance.

However, it is important to note that Microfinance is not the 'silver bullet' for poverty eradication, as noted in the *State of the Microcredit Summit Campaign 2011* report "Microcredit is a tool for unlocking human dreams. But microcredit, by itself, is usually not enough." After 30 years of growth, the sector has diversified to include a wide breadth of different interventions, products and business models. A recent report by the *UK All-Party Parliamentary Group on Microfinance* noted that while models such as commercial microfinance have a place in the system, it is critical to promote "socially focused microfinance activity which genuinely aims to tackle poverty and improve the quality of life for clients."

**AUSTRALIAN FINANCIAL INCLUSION STRATEGY UPDATE**

In recognition of this need for financial inclusion and effective strategy on its implementation, the Australian Government released its strategy document, 'Financial Services for the Poor – A Strategy for the Australian aid program 2010–2015' in March 2010. The report outlines the following key focus areas:

- A policy and regulatory environment that allows institutions offering financial services to the poor to enter the market and grow.
- Financial service providers and infrastructure that have the capacity to provide high quality financial services to the poor.

- Innovative models of financial service provisions that are used effectively to extend outreach to underserved regions and groups.
- Increased capacity of clients to understand and utilise financial services effectively.

The importance of Microfinance was also highlighted in the recent Independent Aid Review and the Government's Response to the review (released July 2011) with financial services noted within priority areas of: promoting opportunities for all (with a focus on women's empowerment and participation) and sustainable economic development (with a focus on rural livelihood and private sector development).

Work has commenced on the implementation of the financial inclusion strategy, with expansion in the Pacific through the Pacific Financial Inclusion network (PFIP). This network seeks to increase the number of low income and rural households, micro and small enterprises in Pacific Island Countries (PICs) that have on-going access to quality and affordable financial services. Australia also undertakes programs in Indonesia, Vietnam, Bangladesh, Peru and Afghanistan.

### ***Success Story***

*PFIP has been focused on catalyzing innovative financial inclusion approaches. In Fiji, a quarter of the adult population now has a mobile money wallet—the first of its kind in the Pacific. The mobile money service enables individuals to receive dividend payments on their mobile phone. This can simply be taken with the phone to the local Post Office to exchange e-money for cash. This has been hugely beneficial to rural communities, whom until recently, had to travel long distances (costing upto 15-30% of their modest allowance on travel) often to pick up cheques and then cash it at the bank.*

*In addition Mobile phone financial service providers, launched 'mobile money' in Fiji. This program aims to support and accelerate the development and use of mobile money agents in rural districts and small islands. After the first month, the two mobile providers had enrolled 128,000 users, of whom more than 20,000 had no bank account.<sup>1</sup>*

### **Effective Implementation**

**Measuring Progress:** AusAID has tentatively set its mid term review on the effectiveness of the financial inclusion strategy for early 2012. Measurement of progress towards achieving the strategy's outcomes will require baseline data on the programs currently being funded. AusAID will also need to develop numerical targets to demonstrate positive financial and social impacts.

**Increasing funding:** The Government indicated in the 2010-11 Budget it would double microfinance funding to up to \$20m by 2012-13. However, the Government will have reached this funding level in 2010-11. Therefore, over the next two years, it would be appropriate to redouble funding to \$45 million per year by 2013-14.

### **UPCOMING ACTIVITY – GLOBAL MICROCREDIT SUMMIT 2011**

The Global Microcredit Summits are the largest microfinance gatherings in the world, this year's Summit will be held in Valladolid, Spain from November 14-17, 2011. More than 2,000 delegates from more than 100 countries

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<sup>1</sup> AusAID, "G2P: Expanding Financial Inclusion in the Pacific, Fiji's Transfer of Social Welfare Recipients to a Savings-linked Electronic Payment System", M. Leonard 2011

are expected to attend, including heads of state and government and other dignitaries. The 2011 Summit seeks to provide opportunities for microfinance practitioners, advocates, investors and donors to assess progress, discuss challenges to achieving the goals set for 2015, share best practices, and accelerate innovations.

The summit will also provide a forum to garner opinions on growth of commercial microfinance operators, how to assist the 'poorest of the poor' and tapping into innovative technology to improve the sector's effectiveness.

It is therefore critical for high-level Australian government and AusAID participation at this conference to ensure Australia's continued engagement in this ever- evolving poverty alleviation sector.

For more information on the Global Microcredit Summit 2011 visit:

<http://www.globalmicrocreditsummit2011.org/>

## **ACTION:**

Write to your Members of Parliament or the Minister for Foreign Affairs, the Honourable Kevin Rudd MP (or Dr Craig Emerson, Acting Minister for Foreign Affairs) raising the following key points:

- Note Australia's commitment towards its Financial Inclusion and Microfinance program through its ongoing programs and partnerships in the Pacific.
- Call on the Australian Government to support the 2011 Global Microcredit Summit through participation and attendance from Minister Rudd's Office and/or the Director General of AusAID.
- Call on the Australian Government to show financial commitment for its microfinance strategy by redouble funding to \$45 million per year by 2013-14.

## **ABOUT MICROCREDIT SUMMIT**

The Microcredit Summit Campaign, launched in 1997, seeks to extend benefits to the hundreds of millions of the poorest people who cannot obtain financial services through the mainstream financial system. The original goal for the Microcredit Summit Campaign was to provide access to credit and other financial services to 100 million of the world's poorest families. This goal was achieved in 2007, only slightly later than the original target date of the end of 2005.

The second stage of the Campaign has two goals for 2015:

- To reach 175 million of the world's poorest families with credit and other financial services by 2015
- Having 100 million of the poorest families move above the poverty line of \$US 1 per day.

By the end of 2009, the number of the poorest borrowers had reached 128 million, well on the way to the 2015 target.

For more information on the Microcredit Summit campaign visit; <http://www.microcreditsummit.org/news/>