

Microfinance and the MDGs – making a difference?

Introduction

In 2005 signatory countries to the Millennium Development Goals assessed the progress made towards achieving the goals at that point. 2005 was also declared by the United Nations to be the International Year of Microcredit. In the 2005 review it was assumed that strengthening access to financial services for poor and underprivileged people in developing countries contributes to various MDGs, including MDG 1 on reducing extreme poverty; MDG 2 on achieving universal basic education; MDG 3 on empowering women; and MDGs 4-6 on improving various aspects of health.

Has Microfinance contributed to the achievement of the Millennium Development Goals?

Studies show that in some areas microfinance programmes have improved the life quality, education, and health of communities. However there is still a lack of robust studies that prove that microfinance causes, rather than is just associated with, reductions in poverty. CGAP's (The Consultative Group to Assist the Poor, a leading microfinance research agency) latest study, explains that very often the methodologies employed in studies on microfinance make it difficult to see a direct correlation between the benefits of microfinance and decreasing poverty levels – in many cases because the studies do not cover a long enough time period.

Despite this, most development agencies recognise microfinance as contributing both directly and indirectly to the MDGs.¹ Moreover, low-income individuals have proven that when enabled to do so they save money; when the very poor can benefit from efficient savings models, it allows the accumulated cash to add to the overall economic growth of their household and state. Loans have historically proven that they can break the cycle of poverty when the borrowed money is invested in an economic activity that generates increased earnings, particularly when this is combined with a programme that teaches individuals about savings too, enabling them in all aspects of social and economic life.

How does Microfinance contribute to the Millennium Development Goals?

Goal 1: Eradicate extreme hunger and poverty

Microfinance can fuel small and medium private sector enterprises and stimulate the development of networks of suppliers, business expansion and eventually create wealth for all those involved. In countries like Pakistan microfinance has had the greatest impact on the achievement of MDG 1 due to efficient income generation in the area of agriculture and farming,² resulting in an increase in the income of clients.

- India: half of the microfinance institution (MFI) SHARE's clients have graduated out of poverty
- El Salvador: the weekly income of FINCA clients increased on average by 145%
- An in-depth World Bank study examining three Bangladeshi microfinance institutions found microfinance accounted for 40 percent of the reduction of moderate rural poverty in the areas in which they operated.

Goal 2: Achieve universal primary education

Financial services and wealth generation almost always results in investments in personal and child education:

- Bangladesh: the majority of all girls in the household of Grameen Bank clients received access to schooling while basic competency in writing and reading among 11-14 year old children of BRAC clients doubled in 3 years (from 12% in 1992 to 24% in 1995)³

¹ Sununtar Setboonsarng & Ziyodullo Parpiev, Microfinance and the MDGs in Pakistan, March 2008

² Ibid

³ CGAP Donor Brief, No. 9, December 2002

- Uganda: Focass clients spent a third more than non-clients on schooling for their children

Goal 3: Promote gender equality and empower women

Poor women are more vulnerable to health, income, age and death related risks⁴. Microfinance gives women confidence, and the ability to confront gender injustice through increased “literacy, numeric and economic skills to engage in off-farm employment”⁵. It creates opportunities to increase their wealth and better their families.

- Indonesia and Nepal: BRI and Women’s Empowerment Programme members said that after being involved in microfinance programmes they were able to make decisions on buying and selling property, sending children to school and family planning
- In Russia, Bangladesh and the Philippines, women ran for local government office after assistance from MFIs.

Goals 4 and 5: Reduce Child Mortality Rate and Improve Maternal Health

Access to financial services can also open the door for an individual to learn about health care, and can enable individuals to budget for healthcare as part of a credit and savings process and thus seek help for preventative healthcare or in the early stages of an illness rather than waiting until it is too late.

- Bangladesh and Bolivia: fewer BRAC clients suffered from severe malnutrition than non-clients⁶ and CRECER clients had better breast feeding practices, responded better to rehydration therapy and had higher rates of DPT3 (Diphtheria-Pertussis-Tetanus) immunisation among their children⁷

Does it really have an impact?

A CGAP report issued at the start of 2010 questioned how well individual “anecdotes represent the general experience of the hundreds of millions who have benefited from microfinance services”⁸ especially as only a small percentage can be seen to graduate out of poverty. It is important to note that the field of microfinance is varied, and not all programmes sustainably reduce clients’ poverty.

Factors that may limit the impact microfinance can have include: client selection is not always easy or efficient; support and mentoring for clients throughout the process, which are crucial to ensuring wider benefits are achieved, is almost always limited as this is expensive and donor funds to support microfinance are limited. Third, emphasis is often on how much money is delivered and not on how efficiently it is spent through microfinance.

One thing that is certain is that financial tools are more important to the poor than to the rich⁹. ‘Economic poverty is not just a matter of low incomes, but also of irregular and uncertain incomes’¹⁰ and thus financial tools are vital in helping individuals to cope with poverty. As the examples given for each MDG above demonstrate, microfinance programmes can lead to a dramatic increase in the welfare of clients across various sectors including income, health and education. Access to financial services is hugely important for the poor, but it must be delivered effectively.

⁴ Microfinance Paper no. 3, ILO, 2009

⁵ Investing in Development: A practical Plan to Achieve the Millennium Development Goals, Millennium Project Overview Report, 2005

⁶ CGAP Donor Brief, No. 9, December 2002

⁷ Ibid

⁸ CGAP Focus Note No. 59, January 2010

⁹ Collins, Morduch, Rutherford and Ruthven, Portfolios of the Poor: How the World’s Poor Live on \$2 a Day, Princeton University Press, 2009

¹⁰ Ibid