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SIXTH ITEM ON THE AGENDA

Microfinance for employment creation and enterprise development

Contents

1. This document has been prepared in response to a request by the Committee on Employment and Social Policy to report on the outcome of the ILO Action Programme for/of 1998-99 “Enterprise creation by the unemployed – The role of microfinance”. It also responds to queries and observations made over the past few years in the Governing Body concerning the role and comparative advantage of the ILO in finance. [1]

2. Microfinance is the provision of financial services to the poor on a sustainable basis. It is a fast-growing, dynamic field in development cooperation, attracting substantial investment and aid resources and inducing governments and international organizations to adopt coherent policies and strategies. In view of its impact on employment, incomes and enterprise development, the ILO is challenged to explore how to position itself politically, technically and financially.

3. This paper provides up-to-date background information about recent trends and accomplishments of microfinance in both developing and developing countries. It identifies market failure as the origin of microfinance and illustrates the impact of microfinance on creating jobs and improving the quality of employment. It highlights the policy implications of microfinance and the possible roles of social partners in supporting microfinance to fulfil its potential. This paper recommends that the ILO formulate a policy on finance to provide a coherent framework for future Office activities on this critical topic.

I. Microfinance – concept and significance

4. Microfinance is not a new concept: the Raiffeisen banks and other savings and credit cooperatives that emerged in Europe in the nineteenth century catered to farmers and artisans. They were microfinance institutions in all but name. What distinguishes microfinance from conventional finance is the claim to serve poor people (and generally people outside the reach of the formal financial market) while remaining sustainable. Microfinance promises to reduce poverty without perpetual subsidies. It promises to use the market to attain a social good.

5. The socio-economic benefits of microfinance are threefold:

- *Job creation:* Credit, equity, leasing, payment and guarantee products facilitate small investments in fixed assets and working capital by micro- and small enterprises.

- *Poverty reduction:* Savings, emergency loans and insurance products stabilize income levels and reduce the vulnerability of people living near the subsistence level.

- *Empowerment:* Group formation and other delivery techniques in microfinance develop a sense of responsibility, strengthen social capital and empower the poor, especially women.

6. Microfinance is primarily associated with poverty reduction in developing countries, and over the past 15 years has become global, with schemes, programmes and government policies in every part of the world. Close to 90 countries have microfinance institutions (MFIs) with relative concentrations in Latin America and Asia.

[1] GB.280/11/3 report of the Programme, Financial and Administrative Committee on the Programme and Budget proposals for 2002-03.

7. While microfinance is a global phenomenon, there are significant differences, particularly between developing and developed countries, in terms of transaction size, volume of loan portfolios, and performance of institutions providing microfinance, as summarized in table 1. Microfinance in developing countries is a strategy to develop and deepen the financial sector, to make the market more accessible to the poor. Given the enormous pent-up demand for capital, microfinance can be a profitable strategy that helps the working poor to survive, to improve their quality of life, and to create jobs for themselves and others.

Table 1. Microfinance in developed and developing countries – a comparison

	Developing countries	Developed countries
Objectives	Provision of financial services to the poor on a sustainable basis	Provision of credit (and training) to assist specific target groups (e.g. unemployed, immigrants, single parents)
Market size	Majority of the population – between 60 and 80 per cent of households	Eligible target population is a minority in the active population
Market density	Often high which lowers transaction costs	Low client density: higher transaction costs
Access to financial services	Majority of population usually has no bank account; pervasive informal finance	Despite competitive financial sector, gradual disappearance of accessible high street banks
Income alternatives	Income packaging with limited sources and substantial instability (transfers, wages, entrepreneurial income)	Income packaging at a higher level with broader range of resources; social safety net; greater scope for planning
Regulation	Less defined. Generally less constraining	Complex
Operational costs	Relatively low for clients and for MFIs	Relatively high
Loan amounts	Nominally small but relatively large – often more than annual GDP per capita	Nominally and relatively small – often less than 5 per cent of GDP per capita
Economies of scale	Yes	Difficult to achieve
Potential for full cost recovery	Over 60 MFIs worldwide are profitable	Unlikely

Adapted from Frankiewicz: “Calmeadow Metrofund: A Canadian Experiment in Sustainable Microfinance”, 2001.

8. By contrast, in developed countries microfinance largely emerged from the debate on welfare reform. It is a market-oriented strategy to assist socially and economically vulnerable people; particularly the unemployed who want to try self-employment. In developed countries, microfinance is a social service that depends partially on public sector support. The radically divergent markets and operating conditions between developed and developing countries necessitate different enabling environments and policy interventions.

9. MFIs respond to a real demand. In developing countries, this is reflected in high repayment rates, often exceeding the corresponding figure in commercial banks. Globally MFIs reach close to 60 million clients, led by MFIs in Bangladesh and Indonesia that reach over a million customers each. In West Africa ILO supported village banks reach more than 20 per cent of the population, more than savings banks (ILO/PASMEC data bank). Similar rapid advances in market penetration are recorded in Bangladesh, Indonesia, Bolivia, Nicaragua and some Eastern European countries. In developed countries, the demand is much smaller and more segmented.

10. MFIs reach a high percentage of women: 73 per cent of microfinance clients in Latin America, 70 per cent in Africa and 88 per cent in Asia; micro-loans not only empower women through group formation, they also have beneficial effects on the satisfaction of basic household needs. Research has shown that for every dollar earned with a micro-loan, a male borrower would spend 47 cents on food, health and child education, while a woman would spend 84 cents. Generally, MFIs are poverty-focused: they manage very small loans and deposits (on average loans of $268, which is substantially below annual per capita GDP across the regions, and $62 on average in deposits). [2]

11. A growing number of MFIs in developing countries, like the BRI Unit Desas in Indonesia, Compartamos in Mexico and ASA in Bangladesh, have attained full financial sustainability, i.e. they are free from subsidies. Following the example of BancoSol in Bolivia, the current trend in the industry is for microfinance NGOs to transform into regulated financial institutions, which enable them to attract private equity, refinance themselves on the market, and offer a wider range of financial services. Other MFIs still struggle to cover their operating costs with operating revenue – many are not yet independent of (hidden or explicit) subsidies. As long as they maintain control over portfolio quality and have professional management, the financial position of MFIs in developing countries tends to improve as they expand. In fact, the number of profitable MFIs that submit performance data to the *MicroBanking Bulletin*, an industry journal, has increased from 19 in 1997 to 57 at the end of 2001.

12. In developed countries, financial independence is probably an unrealistic goal for most if not all MFIs. Organizations cannot achieve economies of scale – the average portfolio rarely exceeds 400 clients – yet operating costs are high, interest rates are low, and their best clients can easily graduate to the formal banking sector. In this context, sustainability is relative in the sense that subsidies to support the microcredit initiative are less than the welfare transfers that would otherwise be required.

13. MFIs worldwide are moving towards higher degrees of cost recovery and subsidy independence. More than other branches of development cooperation, microfinance has developed, refined and constantly improved tools for monitoring sustainability. Whatever subsidy dependence remains, it is at least transparent.

II. Market failure: The origin of microfinance

14. Small may be beautiful in some respects, but in finance it is a handicap. This section highlights three main aspects of market failure – legal status, transaction costs and information asymmetries – that make it difficult for small enterprises to access capital.

15. As single proprietorships and partnerships, most small businesses are usually not required to disclose their financial statements; moreover, they often do not have the kind of collateral that potential investors or creditors expect. [3] The performance of a small undertaking hinges on the well-being of the entrepreneur, which increases lender and investor risks. Entrepreneurs have a very personalized and proprietary attitude towards

[2] C. Lapenu and M. Zeller: *Distribution, growth and performance of microfinance institutions in Africa, Asia and Latin – America, a recent inventory*, IFPRI, Nov. 2000 (draft).

[3] B. Balkenhol and H. Schütte: “Collateral, collateral law and collateral substitutes”, SFP (Social Finance Programme) Working Paper No. 26, ILO, Geneva, 2001.

their undertaking. They do not like to share ownership. This weakens the equity position of an enterprise.

16. The most important constraint to market access lies in the functioning of the financial market itself. Financial markets trade information about risks and returns. Gathering and processing such risk-related information about a client and the project is costly. Because of the high proportion of fixed transaction costs – i.e. the costs for the banks to evaluate a loan application are roughly the same regardless of loan size – financial institutions tend to seek out larger and better secured transactions (see box 1). In developed countries, the average start-up capital for people coming out of unemployment and seeking to set up their own business is too small for banks: $6,000 in the United Kingdom, €22,000 in Ireland, €25,000 in Germany, €23,000 in France and C$12,000 in Canada.

Box 1. Finance gap in Germany

According to an estimate by the German Savings Bank Association (DGSV) the fixed administrative costs of processing an application for a start-up loan is between €767 and €2,352. These costs arise regardless of the loan sum. As the bank's profit on this financial product is approximately 1 per cent of the loan amount, the bank effectively only looks at applications for over €76,700 – while the average start-up capital for new enterprises coming out of unemployment is €25,000.

17. The third aspect of market failure is information asymmetries whereby lenders or investors do not have sufficient information about the entrepreneur's history or intentions to make realistic decisions. Small businesspersons often do not maintain appropriate accounting practices or produce financial statements; start-ups do not have any track record.

18. The market failure in finance is critical for employment: the rationing out by banks most severely affects those enterprises that have the greatest job-creating capacity. In 1992-96, in the United States, 5.8 million jobs were created in enterprises with one to four employees compared with 2.3 million in enterprises of between 100 and 499, whilst those with more than 500 employees actually lost 600,000 jobs (US Small Business Administration statistics). Small and micro-enterprises are also more cost-effective job creators – a $500 loan in a developing country, or a $5,000 loan in an industrialized country, will go a lot further toward creating jobs in a small enterprise than in an international conglomerate.

19. Competition can partly help to reduce the gap between the supply and demand. In developed countries, the demand for microcredit is limited in part because competition has forced some financial institutions to go downmarket. Through the use of new technologies and credit-scoring methods, the unbanked segments of the SME market have been narrowed to those without track records – recent immigrants, the unemployed and single mothers – or those with bad credit histories. Competitive financial markets are less common in developing countries, but where there are a number of microfinance institutions, such as in Bolivia, one finds a broad array of financial products, sensitivity to customer service and lower interest rates.

III. Impact of microfinance on employment and enterprise development

20. Microfinance contributes to both self- and wage employment. The direction, depth and quality of that effect depend on the clients of the MFI. MFIs that provide emergency loans, accessible and safe savings and possibly life insurance to clients near the poverty line help stabilize the income-generating activity of an enterprise-household. By contrast, MFIs that cater primarily to micro- and small enterprises with incomes above the poverty line induce wage employment either via the substitution of unpaid by paid family labour or by regular wage earners.

21. In developing countries, MFIs tend to focus on the former market – clients around the poverty line for whom income stabilization is more important than enterprise growth. Even though on average these enterprises do not create many new jobs, they improve the quality of self-employment for the micro-entrepreneur. Furthermore, MFIs tend to serve a handful of growth-oriented enterprises, usually less than 10 per cent of their clients, who do create paid jobs for others. Even though job creators are just a small segment of an MFI's market, because the entire market is so vast, the job creation potential is significant. [4]

22. Although intuitive, it is not easy to demonstrate how improved access to finance contributes to *job* creation. The impact of microfinance on employment can most easily be detected in *enterprise* creation, especially within the framework of targeted government schemes. In developed countries, microfinance programmes that promote self-employment are primarily for people who could not normally negotiate a start-up loan on market terms with a commercial bank, i.e. unemployed, welfare recipients, women with part-time family obligations. The indirect job creation induced by self-employment programmes in industrialized countries is less than one additional job created per self-employed person. [5]

23. Another aspect of employment quality is the durability of the job. The self-employed using microfinance in developed countries do just as well as other business starters in terms of the survival rate: two-thirds of all self-employed are still in business three years after the enterprise creation, which is equivalent to the survival rate in "normal" self-employment. [6]

[4] An impact assessment of microcredit schemes in Peru, for example, finds a positive effect of microcredit on employment, which is on average nine days of extra employment per month. "Nine days of extra employment per month … may not seem large. However, if this estimate is extrapolated to the approximately 40,000 clients that ACP/Mibanco had at the end of 1999, the magnitude of the impact is striking: over 4.3 million workdays per year, or the equivalent of 17,414 full-time jobs, of which 6,259 are paid positions for non-household members. This translates into one full-time job for every 2.3 loans outstanding at the time" (AIMS Peru case study, 2001, p. xiv). In Uganda, the clients of MFIs had 0.87 average paid employees compared to 0.54 for a control group of non-borrowers, suggesting causality in the job creation potential of microfinance (AIMS Uganda case study, 2001). Similar research in Zimbabwe, however, did not reveal any statistically significant difference between borrowers and the control group (AIMS Zimbabwe case study, 2001).

[5] OECD/DoL, *Self-Employment Programmes for the Unemployed*, OECD, 1995, p. 12: a survey of 269 enterprises supported through a scheme in Ireland showed that the vast majority had no workers other than the business starter. In the United States, micro-enterprises created on average 0.5 jobs in addition to the owner. In Canada, 37 per cent of Self-Employment Assistance (SEA) businesses hired paid employees (full time or part time), "the equivalent of 16 months of employment for each business". In the Netherlands, by contrast, 70 per cent of participants in one scheme had no employees, 14 per cent had one and only 16 per cent had two or more. This confirms Meager's finding from Denmark and the United Kingdom with 35 indirectly created posts for 100 self-employed (N. Meager: *Arbeitsmarktpolitik für Existenzgründer*, WZB, Berlin, 1995, p. 2).

[6] In Germany, 70.4 per cent of recipients of the bridging allowance are still in business after three years compared to 64 per cent of "normal" start-ups. In the United Kingdom, 60 per cent of new businesses still trade within three years as do half of all businesses started under the Enterprise Allowance Scheme which "compares favourably with mean survival duration of 32 months for all people (employed and unemployed, assisted or not) entering self-employment". In Canada, the survival rate of self-employed coming out of unemployment assisted by SEA is 72.6 per cent compared to 73.7 per cent among the unassisted; 80 per cent of Calmeadow Metrofund clients are still in business after three years. In Ireland 47 per cent of Area-Based Partnership Company

The evidence is less clear in developing countries, but presumably micro-enterprises are even more durable in this context, if only because entrepreneurs have less opportunity to leave self-employment for wage-employment.

24. Self-employment induced through the provision of microfinance is not necessarily superior to prior wage employment. In developed countries, the evidence on characteristics such as wages, working hours, social security and other benefits is mixed. [7] In other respects, however, microfinance-supported self-employment is superior to wage employment, and certainly to unemployment. Most new entrepreneurs are satisfied to be more in control of their work and life. "Self-Employment Assistance Programme (SEA) participants in Canada expressed greater satisfaction with their lives compared to those in the comparison group on all aspects: overall financial security, business and job skills, level of control ... (and) quality of life."

25. For women in particular, self-employment – whether part or full time – is often a strategy to manage domestic and work duties: they "seek self-employment for its flexibility – such as the ability to work part time or only part of the year, to work non-standard hours and/or to work at home which allows them to better balance work and family responsibilities". Similar experiences have been found in developing countries where it is even more difficult for women to manage their productive and reproductive responsibilities.

IV. The cost-effectiveness of microfinance programmes

26. The cost-effectiveness of microfinance needs to be analysed differently in each market. In developing countries, microfinance is mostly (or at least increasingly) market-driven. In

(ABPC) beneficiaries are in business six years after start-up; 73.6 per cent of 156 respondents of a survey in Dublin after 2.5 years. In France, 39.8 per cent of long-term unemployed who had gone into self-employment still operate the initially chosen entrepreneurial activity five years after start-up, compared to an average survival rate of all new self-employment of 49.6 per cent. Seventy-five per cent of clients of a French programme were still in business after two years and 30 per cent of firm closures were due to the fact that the owner had gone back to wage employment. Another programme in France reports a survival rate of 80 per cent after four years. In the Netherlands, 61 per cent of Bbz recipients are still in business after 3.5 years compared to an average survival rate of 68 per cent, considerably higher than the 52 per cent survival rate reported by OECD/DoL (op. cit., p. 13). In the United States, the Self-Employment Incentive Program (SEIP) evaluation showed that 79 per cent of businesses created by programme participants are still operating 2.5 years later and the Self-Employment Learning Project (SELP) study reports a survival rate of 57 per cent five years after creation.

[7] In France, 45 per cent of one scheme's clients have an income equivalent to the minimum wage, 20 per cent had less and 35 per cent had more, but this income gap disappears over time. Social security is another aspect. Unemployment insurance and welfare entitlements – where they exist – cover against illness-related risks. There is no equivalent protection for starters into self-employment. In Ireland 73 per cent of recipients in the Area-Based Partnership Company (ABPC) scheme maintain their health insurance plan, because they continue to receive welfare payments while starting their enterprise. Also, most self-employed coming out of unemployment leave old-age pension systems, in the United Kingdom more than a third and in the United States almost two-thirds. The self-employed work more hours than comparison groups in wage employment. "Self-Employment Assistance (SEA) participants in Canada work more hours after participation in the programme than before". In the Netherlands, 25 per cent work more than 60 hours a week. In Germany, the self-employed spend on average 54 hours per week in their enterprise. The data presented here are findings of the ILO Action Programme "Enterprise creation by the unemployed – The role of microfinance". They are to be found in detail in a forthcoming ILO publication.

this context, MFIs typically need short-term subsidies until they achieve sustainability, which can be anywhere from two to seven years depending on their target market and operating environment. In developed countries, the cost-effectiveness of microfinance programmes is a matter of comparing per capita subsidies with the welfare transfers that would otherwise be necessary.

27. In Africa, Asia and especially Latin America – even in the newly independent States – there are examples of profitable MFIs. Almost all of these success stories required subsidies to support their research and development efforts and to fund operating shortfalls until they broke even. The existence of market leaders in all regions creates a demonstration effect, shortens the learning curve, and reduces the start-up subsidies that may have been required. In fact, in parts of Latin America, several microfinance initiatives started with purely private capital, without subsidies. The accomplishments of some MFIs – and heightened competition in the traditional banking sector – have raised micro-enterprise finance to the status of a profitable market niche.

28. Microfinance programmes for employment make economic sense in industrialized countries if the budget expenditure is more than offset by savings on welfare allocations, unemployment benefits and other transfers, coupled with increased tax and other revenue. In the United States, the total amount of savings by the federal Government per participant is estimated to be $8,000 per year. This corresponds to a “return on investment” of between $2.06 to $2.72 for each dollar spent on such programmes. In Canada in 1993-94, start-up businesses also yielded a net economic benefit in the form of gains in tax revenue and a reduction in unemployment insurance and social assistance of C$21 million per year. [8]

29. In developed economies, the combination of a small, dispersed market and high operating costs makes the provision of microfinance subsidy-dependent. [9] In those countries, subsidy dependence poses a question of policy choice: what price is society prepared to pay for giving people in precarious situations a chance to succeed, for integrating socially vulnerable groups into the market?

V. Policy implications

30. As long as enterprise restructuring and privatization entail lay-offs of large numbers of workers, and as long as poverty is pervasive in many parts of the world, there will be political and social pressures on governments and the social partners to do something. Two

[8] The per capita costs of microfinance programmes like in Canada SEA (C$5,583) are in the middle range compared to other government *loan* programmes (Community Future Development Corporations (CFDC)) C$3,430, Small Business Assistance Loans Act (SBLA) C$13,369 and Société d’Aide au Développement de la Collectivité (SEDC) C$2,631). In the United States, the cost per client of a micro-enterprise development programme is comparable to that of other employment-focused welfare-to-work programmes. The average cost per self-employed in France (€5,340) compares favourably with the unit costs of unemployment benefits or other labour market integration models. Also, different agents providing microfinance packages in developed countries operate with different levels of efficiency: in France loan delivery costs range from €0.02 to €0.3 per franc of micro-loan. In the United States, delivery costs per beneficiary vary between US$630 and US$12,000 with an average of US$2,556. In the Netherlands the five support NGOs agents of a scheme show costs per successful starter ranging from €1,660 to €6,060.

[9] In the United States, the levels of financial self-sufficiency range from 0 per cent to 91 per cent with an average of 21 per cent; no programme produces a surplus.

key approaches include launching programmes to facilitate the transition to self-employment and ensuring that financial markets respond to the demand for capital by small and micro-enterprises. The policy implications, though, are quite distinct in developed and developing countries: the former requires a more interventionist approach, while a light hand has been most effective in the latter.

31. In developing countries, the enormous scale of the informal economy, and its insatiable demand for financial services, has enabled many microfinance institutions to grow exponentially, usually outside the purview of regulatory authorities. Where governments have tried to promote microfinance through the creation of wholesale funding institutions or apex bodies, the results have been mixed. More important than promoting microfinance is the creation of an enabling environment, including the licensing of deposit-taking institutions, the elimination of interest rate controls, clear delineation of property rights, and adjustments to prudential norms to take into consideration the unique features of micro-lending methodologies. In addition, many countries require upgrades of their financial sector infrastructure – including the credit bureaux, collateral registries, and judicial procedures to enforce loan contracts – to accommodate the large volume and small transactions of microfinance.

32. In industrialized countries, microfinance is primarily a service to assist disadvantaged groups, but compared to other labour market instruments, governments have allocated only modest budget resources to microfinance and self-employment promotion. For example, in 1998, the French Government spent 170 million French francs on self-employment programmes, just 2 per cent of all expenditure on employment policies. In the Netherlands, the Bbz scheme's cost of Nfl.240 million represents less than 3 per cent of welfare costs in 1998. [10] These limited contributions partly reflect the fact that self-employment is not the answer for every unemployed worker. In general, however, larger outlays are warranted to support those who want to be entrepreneurs, especially since microcredit appears to be a more cost-effective solution than traditional social safety nets. Other measures would be to review the regulatory framework to induce more bank lending to start-ups, to examine the interest rate structure or to facilitate the entry of more MFIs; or to give a special tax treatment to MFIs. [11]

33. Policy choices should be informed, but many questions remain regarding the employment effects of microfinance, costs and benefits, clients, markets and agents, successes and failures. Since the experience with microfinance is still quite new in developed countries, further experimentation with public policies is justified.

34. In both contexts, it is critical that microfinance institutions be seen as private initiatives. In most cases, two fatal flaws taint government loan programmes. First, borrowers are likely to perceive a government loan as a handout and may not feel obligated to repay it, which can undermine the sustainability of the loan fund. Second, active government involvement in the lending process often results in credit decisions being made for political purposes, which means that resources may end up in the hands of the influential rather than the needy.

[10] A further criticism is that the programmes are inconsistent: the "Out of Work Income Benefits" scheme in the United Kingdom requires that to remain eligible for welfare allowances, a claimant must not work more than 16 hours per week in employment or self-employment – obviously not an incentive to venture seriously into self-employment ("From Unemployment to Self-Employment, The Role of Microfinance", ILO, London, 2000, Part I).

[11] J. Evers, M. Jung and K. Wand: "Incentives and sanctions for better performance", SFP (Social Finance Programme) Working Paper (draft), ILO, Geneva, Feb. 2000, p. 11.

VI. Role of the social partners

35. As microfinance affects shifts and changes between and within wage employment, unemployment and self-employment, the social partners have an opportunity and a responsibility to influence policy and markets.

36. Trade unions are interested in monitoring the conditions of homeworkers, the terms of the financial transactions that suppliers impose on them, and the impact of microfinance on the quality of employment. They have an important role in helping the self-employed to organize through collective action, like the Working Women's Forum (WWF) and Self-Employed Women Association (SEWA) in India. They can also use their resources to support self-employment initiatives. The Fonds de Solidarité, for example, is a trade union-owned fund geared towards employment creation in Quebec, which ensures also a safe and competitive return to pension fund investments.

37. Employers' organizations support microfinance schemes because they facilitate enterprise development and employment generation. Microfinance also helps stimulate domestic demand and reduce dependence on welfare payments. Employers' organizations may wish to contribute to national policy-making on microfinance to encourage a policy and regulatory environment conducive to enterprise development and employment creation.

38. In addition, both trade unions and employers' organizations have a responsibility to make good practices and policies better known.

VII. The role of the ILO

39. The Philadelphia Declaration mandates the ILO to consider the social dimension of finance, i.e. how financial institutions, market mechanisms and policies affect employment and income. Finance, and naturally microfinance, concerns all four strategic objectives of the Decent Work Agenda. This is illustrated by the growing range of financial sector issues dealt with in the ILO by the Social Finance Programme, including:

- bonded labour, debt bondage and child labour, and homeworkers; [12]
- links between labour and financial market policies;
- asset reconstruction in post-conflict rehabilitation;
- small enterprise finance;
- microfinance as mitigation against HIV/AIDS risks;
- remittances by migrant workers;
- wage guarantee funds, wage policy and stock ownership schemes.

40. Through action-research and technical cooperation projects, the work of the Office seeks to help the poor access vital financial services. It involves central banks and other authorities in designing incentive-based regulatory environments; it helps financial institutions that

[12] See (second Global Report) *Stopping forced labour*, Report of the Director-General to the 89th Session of the ILC 2001; Report I(B), pp. 105-106.

cater to job-creating enterprises to perform better while maintaining their focus on their clientele.

41. In view of the pervasiveness of finance as a determining factor of decent work, the Committee may wish to examine the need for defining an ILO policy on finance – and microfinance. This would be a practical follow-up to the Director-General's Report to the International Labour Conference, 2001, giving several examples of market-conforming financial instruments and institutions that achieve social objectives. The Governing Body at its March 2001 session called on the Office to work more on finance and investment issues as they affect employment. This should be done in close partnership and consultation with international financial organizations to bring decent work to the centre of policies directed at international capital markets. [13]

42. The formulation of a focused ILO policy on finance would seem to be timely for several reasons:

- *Need for an update:* Various ILO Conventions and Recommendations deal with finance and the financial market in a disparate, uncoordinated way. They tend to adopt a partial perspective of the financial market, depending on the focus of the instrument.

- *Presence:* The International Conference on Financing for Development (Monterrey, 21-22 March 2002) invites governments "to ensure that the global systems of finance and trade fully support economic growth and social justice for all the peoples of the world". It proposes initiatives to strengthen the domestic financial sector with a view "to develop capital markets and financial instruments to promote savings ... and to foster microcredit and credit for all SMEs ...". A vision with clearly formulated policy goals and tools would help the ILO to make its voice and position heard.

- *Coherence:* The ILO has committed itself to contribute to the goal of the Microcredit Summit campaign which is to ensure that "100 million of the world's poorest families, especially the women of those families, receive credit for self-employment and other financial and business services by the year 2005". A policy or position statement underpinning this commitment is still missing.

- *Global:* In addition to being the only organization concerned about the effects of microfinance on job creation and employment quality, the ILO is also one of the few that considers its global potential. While microfinance in developed and developing countries is indeed quite distinct, the ILO is in a position to broker those lessons that are transferable.

- *Significance for decent work:* Microfinance is an integral part of the ILO's Decent Work Agenda:

  – decent work considers the poor as potential entrants to the labour and capital market, as does microfinance; both microfinance and decent work look at the general issue of market access and exclusion;

  – decent work takes a normative position on the level and stability of income; microfinance likewise factors in a sense of dignity as well as subjective criteria of well-being; both take a broad view of household and enterprise needs;

[13] GB.280/WP/SDG/1.

– decent work expressly addresses the needs of the working poor, of people in atypical employment situations; so does microfinance;

– decent work is essentially about gender equality: microfinance is an anti-poverty strategy that reaches mostly women; and

– decent work takes a comprehensive look at employment, social protection and basic human and social rights; microfinance opens opportunities, provides security and empowers the poor.

43. Such a policy would further provide guidance and a framework for coherent office activities in this field, *information and action research* (analysis of impact on employment, sharing of good practices, international observatory and data bank), *capacity building* (guidelines and standards to monitor poverty and employment impact), *expert advice* (how to design, start and manage microfinance programmes for employment), *policy framework* (define a stimulating and incentive-based legal, fiscal and regulatory environment for microfinance) and *tripartite consultations*. [14]

44. ***The Committee may wish to express its views on the need for an ILO policy statement in this area, to which the Office could be asked to prepare an issues paper and make a corresponding recommendation to the Governing Body.***

Geneva, 30 January 2002.

Point for decision: Paragraph 44.

[14] See 1990 ILC resolution on self-employment.