



Social Finance

The Challenge

Access to finance is a fundamental condition for poverty reduction, job creation, income security and social protection. But access to finance alone does not automatically yield social benefits. For this to happen, workers, entrepreneurs, migrants, families with working children and others on the margin of the financial market must be able to make informed choices about when and when not to contract debt, how best to save, why pay day loans are not always a good idea and what to look out for in the small print of insurance contracts. Financial capabilities go hand in hand with better market access.

Institutions that practise social finance have a double bottom line. Their profitability is balanced by considerations of social responsibility. They empower those who individually would not make a difference in the financial market. By inducing the poor to organize themselves access to finance also builds a bridge out of informality.

Social finance is thus a cross-cutting concern and touches upon employment, social protection, fundamental rights such as the prevention of child labour and bonded labour, and capacity building of social partner organizations. Social finance is also a critical issue or concern for migrant workers who send home money to support their families as it can be linked up with savings products for schooling at home, or health-related expense accounts or loans for housing improvements and construction. Financial services help organize the working poor, particularly those in the informal economy. Not only can finance be used as a channel to promote a better understanding of workers' rights, but it also can be a catalyst for capacity building, including the empowerment of women.

The ILO Response

All ILO work on employment derives its current mandate from the Global Employment Agenda (2003) and the ILO Declaration on Social Justice for a Fair Globalization (2008). The latter, as well as the 1944 Philadelphia Declaration, expect the ILO to "consider... financial policies in the light of social justice". The Global Jobs Pact (2009) emphasizes the need to reorient policies governing and regulating the financial sector. It also underlines the importance of access to finance for enterprise and job creation.

Worker organizations are often concerned about fair pricing, transparency in financial contracts and the effects of financial market functioning on employment, incomes, pensions and housing security. Employer organizations have a stake in making sure that markets work also for smaller and medium-sized firms, which happen to be the main engine for new jobs. Investment costs tend to be lower in competitive and efficient financial markets. Governments in high-income countries are concerned about systemic risks of financial service providers that have become too big to fail, forcing public authorities into massive bail-outs and guarantee arrangements; in developing economies, on the other hand, governments are more concerned about the small size and fragility of their financial sectors compared to the needs of the real economy. Thus, whatever their specific "interest" in finance, each group of ILO constituents understands that finance determines to a large extent the conditions for consumption, savings and investment in enterprises and households, and thus for employment.

The ILO Social Finance Network reflects the cross-cutting scope of social finance with members in all sectors and regions and its Social Finance Programme as focal point. Through this network the ILO ensures coherence in analysis and action and fosters the capacity of its constituents to help their members.

ILO work on social finance is organized around:

- Microfinance for Decent Work: Action Research Programme – working with 20 microfinance institutions across the world to experiment with strategies to promote the ILO Decent Work Agenda among businesses in the informal economy, including occupational safety and health, reducing child labour, and encouraging formalization;
- research with financial institutions to detect the impact of their operations on the poor and identify ways to induce them to innovate for more employment and decent work;
- Microinsurance Innovation Facility – providing innovation grants and technical assistance, conducting research and knowledge management to improve access to better insurance products for large numbers of the working poor. Currently collaborating with dozens of insurers and delivery channels to improve access to more valuable products to manage risks;
- capacity building, often jointly with the ILO International Training Centre in Turin, Italy, of employers' and workers' organizations;
- advice on policies that work for better access to finance;
- tool development; and
- partnerships with central banks and international networks such as the Consultative Group to Assist the Poor (CGAP), academic and other research institutes.



photo by Mak Remissa

Key Tools and Resources

Churchill, C. (ed.). 2006. *Protecting the poor: A microinsurance compendium* (Geneva, ILO and MunchRe Foundation).

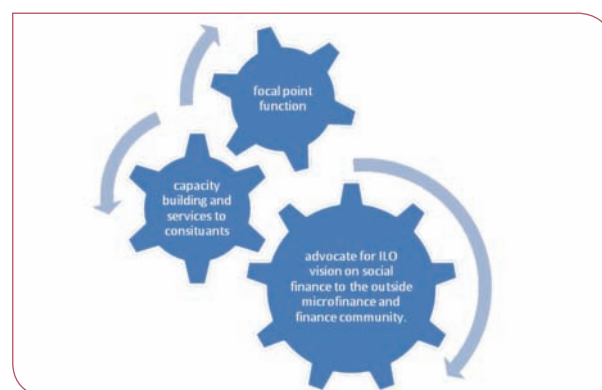
ILO. 2005. *ILO policy statement: Microfinance for decent work*. Governing Body document GB. 294/ESP/3, 294th Session (Geneva).

—. 2006. *Microfinance for decent work: Organizations and responsibilities of the Social Finance Programme*. DG Circular 246 (Geneva).

Social and microfinance training packages on the following topics: middle management, managing product diversity, microinsurance, guarantee funds, mutual guarantee associations, microfinance in a post-conflict setting.

See <http://www.ilo.org/socialfinance>

Social Finance Working Papers series: over 50 issues published. http://www.ilo.org/employment/Whatwedo/Publications/lang--en/WCMS_123795/index.htm



How is SFP's action articulated?



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