



THIRD ITEM ON THE AGENDA

**Microfinance for employment creation
and enterprise development**

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1. This document has been prepared in response to a request by the Officers of the Committee on Employment and Social Policy to report on the outcome of the 1998-99 ILO Action Programme, “Enterprise creation by the unemployed – The role of microfinance”. It also responds to queries made over the past few years in the Governing Body concerning the role and comparative advantage of microfinance in the promotion of decent work.
2. Microfinance is the provision of financial services to the poor on a sustainable basis. Access to financial services protects and empowers the poor by giving them choices. Financial services help the poor to cope with vulnerability.¹ Microfinance 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. It is one important element of the ILO’s employment creation and enterprise development strategies. In view of its contribution to employment, income generation and enterprise development, the ILO is challenged to explore how to position itself.
3. This paper provides up-to-date background information about recent trends and accomplishments of microfinance in both developing and developed countries. It identifies the origins 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 seeks the guidance of this Committee on a coherent framework for future Office activities on this critical topic.

I. Microfinance: Concept and significance

4. In a world where most private sector operators employ less than ten workers and where self-employment is pervasive, microfinance facilitates the acquisition of assets for accessing markets. It embodies, like few other development strategies, a viable combination of equity and efficiency. Most banks are not poverty-oriented. They do not have a social mission. What distinguishes microfinance from conventional finance is the aim 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 social improvement.
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.

¹ The World Bank CGAP (Consultative Group to Assist the Poorest) Strategy Paper, p. 6.

6. Microfinance is primarily associated with poverty reduction in developing countries, but over the past 15 years has become global, with schemes, programmes and government policies operating in other parts of the world. Close to 90 countries have microfinance institutions (MFIs) with relative concentrations in Latin America and Asia. MFIs respond to the diverse needs of the working poor in the informal economy, some of whom need a small working capital loan, others an opportunity to make small amounts of savings, others some form of insurance or remittance payment services.²
7. Microfinance is a global phenomenon but 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, improve their quality of life, and 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, microfinance in developed countries 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

² See the discussion on the informal economy, 90th Session of the ILC, 2002.

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 several million customers. In West Africa, ILO-supported village banks reach more than 20 per cent of the population, more than retail 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 by encouraging 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 US\$268, which is substantially below annual per capita GDP across the regions, and US\$62 on average in deposits).³
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, 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.

³ C. Lapenu and M. Zeller: *Distribution, growth and performance of microfinance institutions in Africa, Asia and Latin America: A recent inventory*, IFPRI, Nov. 2000.

II. The origin of microfinance

- 14.** Small may be beautiful but in finance it is a handicap. The Global Employment Forum in November 2001 showed the growing awareness of the need to address financial sector issues from a social perspective. This section highlights three main aspects of market failure – legal status, transaction costs and information asymmetries – that explain why it is difficult for the self-employed, micro- and small enterprises to access capital. It also illustrates the social dimension of finance.
- 15.** As single proprietorships and partnerships, most small businesses are usually not required to disclose their financial statements; they do not have the kind of collateral that potential investors or creditors expect as security to protect against default risk.⁴ The performance of a small undertaking hinges on one person, the entrepreneur. This increases risks. Entrepreneurs also tend to have a very personalized and proprietary attitude towards their undertaking. They do not like to share ownership with an associate. This limits the equity position of an enterprise and in turn makes access to loans more difficult and expensive.
- 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 – 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

According to an estimate by a savings bank association 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 concerns lenders or investors not having sufficient information about the entrepreneur's history or intentions to make realistic decisions. Small business owners 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 affects most severely 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 US\$500 loan in a developing country, or a US\$5,000 loan in an industrialized country, will go a lot further toward creating jobs.
- 19.** In theory, such market failure should be dealt with by supply and demand adjustments and competition. Competition, however, tends to force financial institutions to go upmarket to

⁴ B. Balkenhol and H. Schütte: "Collateral, collateral law and collateral substitutes", SFP (Social Finance Programme) Working Paper No. 26, ILO, Geneva, 2001.

more profitable transactions with clients having a larger debt-absorption capacity. New technologies like credit-scoring methods, however, have to some extent made bankable population groups that used to be unbankable, like immigrants, the unemployed and single mothers. In developing countries, financial markets tend to be more distorted, limiting the benefits of competition. This calls for more market-enhancing initiatives, such as the creation of MFIs, liberalization of market entry, flexible supervisory regimes and the promotion of a microfinance infrastructure.

III. Impact of microfinance

20. Microfinance contributes to employment and income stabilization; it mitigates risk and helps to cope with vulnerability. MFIs that provide emergency loans, accessible and safe savings and 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 group of clients near the poverty line for whom income stabilization is more important than asset accumulation. On average, the working poor in the informal economy and micro-enterprises do not create many additional jobs but the quality of their livelihoods is still improved. MFIs also cater to those few growth-oriented micro-enterprises, usually less than 10 per cent, which do create additional jobs for other wage employment. 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.⁵
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.⁶

⁵ 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).

⁶ 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

23. Another aspect of employment quality is the stability of the income-earning opportunity. There is strong empirical evidence from around the world that the availability of a range of regular, simple and affordable financial services keeps the working poor from falling into utter destitution. In developed countries, the self-employed using microfinance 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.⁷
24. Decent work remains a challenge. Self-employment induced through the provision of microfinance in developed countries may not necessarily be superior to prior wage employment in terms of wages, working hours, social security and other benefits,⁸ but it is an attractive alternative to continued 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

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).

⁷ 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 (ABPC) beneficiaries are in business six years after start-up; 73.6 per cent of 156 respondents of a survey in Dublin were still in business 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 while 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 (“Besluit bijstandverlening Zelfstandigen” – Decree on the Provision of Assistance to the Self-Employed, the Netherlands) 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.

⁸ 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.

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 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 microfinance to the status of a profitable market niche.
28. In industrialized countries, microfinance programmes make economic sense: the budget expenditure is more than offset by savings on welfare allocations, unemployment benefits and other transfers, coupled with increased tax and other fiscal revenues. In the United States, the savings by the federal Government per participant is estimated to be US\$8,000 per year. This corresponds to a “return on investment” of between US\$2.06 to US\$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.⁹

⁹ The per capita costs of microfinance programmes such as SEA in Canada (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 euro 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 NGO agents of a scheme show costs per successful starter ranging from €1,660 to €6,060.

29. In general, continued 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, considering that alternative strategies such as food-for-work, public sector employment or employment guarantee schemes, etc., tend to come at a higher net cost to the taxpayer?

V. Policy implications

30. Against the backdrop of the Millennium Development Goal to halve the number of those living on less than US\$1 a day by the year 2015, governments and social partners are called upon to review the social costs and benefits of alternative anti-poverty strategies.
31. In developing countries, the enormous scale of the informal economy, and its insatiable demand for financial services, has enabled many MFIs 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 credit bureaux, collateral registries, property rights and judicial procedures to enforce loan contracts – to accommodate the large volume and small transactions of microfinance.
32. In industrialized countries, microfinance complements and enhances active labour market policies.¹⁰ Obviously, self-employment is not the answer for every unemployed worker. However, larger budget outlays are warranted to support those unemployed who want to be entrepreneurs, especially since microcredit appears to be a more cost-effective solution than social safety nets. Other measures would be to review the regulatory framework to induce more bank lending to start-ups, to review the interest rate structure to facilitate the entry of more MFIs or to give a special tax treatment to MFIs.
33. Generally government should not become directly involved in lending and financing decisions. Microfinance institutions are basically private initiatives and are as such generally free from certain inefficiencies. 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 a fund. Second, government involvement in the lending process can result in decisions on loan allocation being made for political purposes, which means that resources may end up in the hands of the influential rather than the needy.

¹⁰ 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. A criticism, however, 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).

VI. Role of the social partners

34. As microfinance affects shifts and changes between and within wage employment, unemployment and self-employment, the social partners have a considerable interest in influencing policy and the performance of markets.
35. Trade unions are increasingly involved 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. Trade unions have an important role in helping the self-employed to organize through collective action, as do membership-based organizations such as 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 a safe and competitive return to pension fund investments.
36. Employers' organizations support microfinance schemes because they facilitate enterprise development and employment generation. They support efforts to improve the enabling environment for microfinance through measures to clarify property rights, collateral law, registries and judicial procedures. Microfinance also helps stimulate domestic demand and reduce dependence on welfare payments. Employers' organizations may wish to contribute more to national policy-making on microfinance to encourage a policy and regulatory environment conducive to enterprise development and employment creation.

VII. The role of the ILO

37. The Philadelphia Declaration mandates the ILO to consider the social dimension of finance, i.e. how financial institutions, financial markets and financial sector policies affect employment and income. Finance, including microfinance, concerns all four strategic objectives of the Decent Work Agenda. There is a growing range of financial sector issues addressed by the Office, including:
 - bonded labour, debt bondage and child labour, and homeworkers;¹¹
 - links between labour and financial market policies;
 - asset reconstruction in post-conflict rehabilitation;
 - small enterprise finance;
 - socially responsible investments;
 - microfinance as mitigation against HIV/AIDS risks;
 - remittances by migrant workers; and
 - wage guarantee funds, wage policy and stock-ownership schemes.

¹¹ 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.

- 38.** Through action-research and technical cooperation projects, the work of the Office seeks to promote the capacity and interest of governments and the social partners to help the poor access vital financial services. This work involves local alliances with a range of institutions such as central banks and other authorities in designing incentive-based regulatory environments; it helps financial institutions that cater to job-creating enterprises to perform better while maintaining their focus on their clientele.
- 39.** In view of the pervasiveness of finance as a determining factor of decent work, and considering the prominent role that microfinance plays as a powerful vehicle translating the Decent Work Agenda in the context of PRSPs (Poverty Reduction Strategy Papers) and the Millennium Development Goals (see GB.285/ESP/2), the Committee may wish to provide guidance to the Office regarding its activities in the area of 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. Such guidance would also be timely in view of the fact that the ILO (in early 2003) will be subject to a peer review in the framework of CGAP (Consultative Group to Assist the Poorest) – a 26-strong consortium of agencies active in microfinance with a secretariat housed at the World Bank.
- 40.** The Committee's guidance could address the following three areas: (1) clarifying how an ILO strategy for microfinance can contribute to the Decent Work Agenda and in particular to raising the capacity of governments and the social partners to influence the policy and institutional framework for microfinance; (2) defining the future direction and focus of the Office's work; and (3) impact assessment of microfinance programmes (especially small revolving funds) on the promotion of decent work opportunities.

Geneva, 7 October 2002.