



THIRD ITEM ON THE AGENDA

**ILO policy statement:
Microfinance for decent work**

1. In the context of the International Year of Microcredit, the Governing Body's Employment and Social Policy Committee decided at its 292nd Session in March 2005 to formulate a statement of ILO policy on the contribution of microfinance to the Decent Work Agenda. The ESP Committee mandated a tripartite drafting group to work out a text for discussion and adoption at the 294th Session of the Governing Body in November 2005. This drafting group was composed of the regional coordinators and representatives of the employers' and workers' organizations with offices in Geneva.
2. In preparing the policy statement, the drafting group took as its starting point a draft vision statement prepared by an Office task force set up by the Director-General to review the recommendations of the peer review of microfinance in the ILO, carried out in 2003 by the Consultative Group to Assist the Poorest.¹ The drafting group met four times from April to July 2005. In addition, regional briefings were organized at the International Labour Conference in June 2005. The subsequent versions of the text were circulated by the regional coordinators and the social partner organizations to their respective group members for comments and observations.
3. *The Employment and Social Policy Committee may wish to invite the Governing Body to endorse the draft ILO policy statement contained in the appendix to this document, on the understanding that follow-up action will be taken within the framework of the approved programme and budget together with any extra-budgetary funds that will be mobilized.*

Geneva, 4 October 2005.

Point for decision: Paragraph 3.

¹ The Director-General accepted an invitation from the Consultative Group to Assist the Poorest to participate in a peer review of microfinance. Following submission of their report, an internal task force was set up to review the outcome and make recommendations to the Director-General concerning the follow up. The task force generally endorsed the recommendations.

Appendix

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Mandate, principles and values

“All national and international policies and measures, in particular those of an economic and financial character, should be ...accepted only in so far as they may be held to promote and not to hinder the achievement of ... social justice ... It is a responsibility of the International Labour Organization to examine and consider all international economic and financial policies and measures in the light of this fundamental objective” (Constitution of the ILO and the Philadelphia Declaration).

The ILO policy on microfinance for decent work is grounded in the ILO Constitution. A range of international labour standards deal with access to finance and the capacity to manage it as conditions for decent work.² In particular, the 2002 ILC resolution on the informal sector presents microfinance as a bridge to help informal operators find their way into the mainstream economy.

Microfinance translates fundamental ILO values into action: it opens up opportunities for participation in the economy, it fosters solidarity and it empowers the working poor.

The concept

Decent employment and incomes depend critically on the financial market, its competitiveness, accessibility, equity, fairness and efficiency. Strategies that open up access to finance on fair terms have an obvious social significance.

Microfinance is the provision of financial services to the poor on a sustainable basis. Financial services that the working poor need and demand include different types of credit, savings, guarantees, insurance, transfer payments, remittances and other transactions. Microfinance is addressed to the poor and those excluded from market transactions. It seeks to broaden and deepen the market by emphasizing that ultimately microfinance institutions have to be sustainable, i.e. self-financing.

Scope

Initiated by the Governing Body in March 2005 to mark the International Year of Microcredit and adopted by the Governing Body in November 2005, this policy statement positions the ILO in the area of microfinance, internally and externally. Considering the complex and diverse roles that microfinance plays to help attain the Millennium Development Goals,³ the ILO has to have a common vision and speak with one voice. Its approach should integrate and harmonize its strategic objectives. The policy thus provides the framework for Office operations and technical programmes and it is expected that as a

² See annex: International Labour Standards and Microfinance.

³ See also www.cgap.org; G8 summits in 2003, 2004 and 2005; the Micro credit Summit in Santiago in April 2005; the UN Initiative on Inclusive Financial Sector Development in which the ILO participates with the World Bank, IMF, IFAD and UNCDF and UNDESA; the Financing for Development (Monterrey) process.

result the Office acts coherently and in line with established international performance standards in microfinance.

Goals

Given its mandate the ILO strives for a world with better opportunities in the access to markets, resources and services. That is particularly valid for financial services, as they give choices, allow sustained improvements in livelihoods and opportunities for decent work, stabilize family incomes, reduce vulnerability and help the poor to cope with and mitigate risk. Obviously, access to finance is not an alternative to decent incomes: both objectives have to be addressed simultaneously.

Microfinance makes a powerful contribution to decent work in a variety of ways: ⁴

- integrating financial and social policies (for example by raising awareness of central banks to the distributional effects of measures regarding access to the financial market);
- creating conditions for wage and self-employment (for example by informing governments of different options to create conditions for job-intensive private sector investments or facilities for start-ups coming out of unemployment);
- reducing vulnerability (by giving people in debt bondage the possibility to access village banks and other microfinance institutions);
- strengthening the voice of the social partners (for example by developing tools and advisory services to inform migrant workers of the costs and risks of different options for remittances);
- promoting gender equality (for example by disseminating what works in targeting); and
- empowering the poor (for example by developing techniques to organize families with working children in joint liability groups and combining them with education and awareness raising).

Beneficiaries

The Office has the responsibility to operationalize the ILO policy on microfinance for decent work. The direct beneficiaries of Office know-how, advice and services are the constituents. Employers' and workers' organizations as well as governments interact with financial institutions. By taking position on financial market and policy issues that affect decent work and incomes, ILO constituents positively and constructively influence the environment for microfinance institutions and their clients.

This should indirectly benefit employers and workers, the self-employed, homeworkers, migrant workers, the working poor in the informal economy whose labour is their main – and often only – asset, working women ⁵ and all those who may find it difficult to access the financial market for resources that would allow them to secure decent work.

⁴ Taken from ILO press release *Microfinance paves the way for decent work* (18 Nov. 2004).

⁵ *Working out of poverty*, Report of the Director-General to the ILC, 2003

Role of the ILO: Its comparative advantages

The rationale for ILO interest in and commitment to microfinance is decent work, i.e. the net social outcome in terms of employment, incomes and social dialogue. Microfinance that is oriented towards decent work is “social” finance. This emphasizes the finality and unique angle of the ILO’s interest and involvement. Social finance is the ILO’s accepted and recognized brand in this field, signalling its distinctive position and identity, and communicating to donors and the outside world in general the ultimate purpose of the ILO’s conceptual and policy work on microfinance.

The ILO is a global private public partnership. Because of its alliances with global employers’ and workers’ organizations, the ILO’s views, advice and analysis weigh in most effectively with regard to the outcomes of finance on decent work.

The suitable ILO intervention levels are with regard to policy analysis and advice, markets and institutions. It is at the macro and meso levels that ILO analysis and advice can best be brought to bear. The ILO cannot or should not seek to make loans itself or provide other financial services directly.

Implementation: Instruments and priorities

For microfinance to effectively contribute to decent work and help attain the Millennium Development Goals, several challenges will need to be met over the next ten years: scale-up the access for the working poor to affordable financial services; integrate microfinance institutions into the domestic and international financial markets; improve policies in support of microfinance for decent work;⁶ advise and guide microfinance institutions to become and remain sustainable and competitive, trimming their own and their clients’ transaction costs, develop innovative products and services like savings, housing finance, education loans and consumer finance and generally respond efficiently to changing demand and market conditions.

This ILO policy provides a coherent and comprehensive framework for different outcomes under the ILO strategic objectives. This policy is to be operationalized along the lines of the CGAP peer review and Task Force Action Plan: an effectively mandated, staffed and resourced focal point, the Social Finance Programme, and a framework approach for fund raising and resource mobilization. The Office is also called upon to pursue and deepen its existing partnerships with other international organizations, notably within the framework of CGAP and similar networks. Progress in implementation should be reviewed, in connection with a general debate at a future International Labour Conference.

In the next biennium and within the Strategic Policy Framework 2006-09, the Office is to develop services and tools in response to the expressed demand by constituents in the following priority areas:

1. More employment
 - Analysis of the employment impact of microfinance; successful experiences, policies that work at the domestic and international levels, good institutional practices: what has worked and why has it worked so well?
 - Policy packages involving microfinance, taking into account experiences in the “social economy”, involving Member-owned intermediaries such as savings, credit,

⁶ ILO press release *Microfinance paves the way for decent work* (18 Nov. 2004).

and insurance cooperatives and generally giving due consideration to the particular socio-economic conditions of member States.

2. Less vulnerability

- Facilitate the access of migrant workers to remittances, through financial literacy programmes, measures to reduce their costs and risks and leverage remittances for investment via links to microlending programmes.
- Pilot test, disseminate and evaluate the impact of risk-coping and mitigating techniques for a more stable access of bonded labourers and other vulnerable groups to affordable and convenient savings, credit, insurance and payment facilities.
- Identify good practices that lead informal operators into the mainstream economy, taking into account the key role of property rights and access to collateral.

3. Stronger social partners

- Document policies that undermine microfinance markets and those that enhance competition; participate in the design of national microfinance policies and help governments to ensure good governance in MFIs, with regard to regulatory frameworks that protect small depositors and facilitate access to financial services.
- Advise ministries of labour on the design and management of social funds, exploring the scope of linking debt relief to microfinance.
- Enhance the capacity of employers' and workers' organizations to adopt informed positions on financial policies that affect decent work.
- Maximize the impact of microfinance in the context of wage policies and wage protection to protect workers against over-indebtedness and in situations of firm insolvencies.
- Explore the role of collective bargaining in relation to access to microfinance and payroll deductions.