Entrepreneurship, Skills Development, Finance

International Labour Office
Geneva

Small stall in a market in Madras.

7.3 MICROFINANCE AND THE INFORMAL ECONOMY: TARGETED STRATEGIES TO MOVE OUT OF INFORMALITY

Microfinance can be an important support for the transition to formality both through providing incentives to move out of informality and through their position within supervisory frameworks. They have the advantage of being flexible and accessible to the poor while also being regulated. Importantly, MFIs can support informal operators' access to other markets and income generating opportunities and are therefore attractive partners for informal economy operators that wish to grow. MFIs also often offer the advantage of not requiring formal property as collateral for loans and rely less on written documentation than formal financial institutions. Similarly, the underlying poverty alleviation orientation of MFIs enables them to meet both equity and efficiency objectives including job creation, reducing vulnerability and facilitating empowerment through group organization.

KEY CHALLENGES

- Microfinance and informality
- The role of microfinance in addressing market failure
  - Legal form
  - Transaction costs
  - Information assymetries
  - Collateral substitutes
  - Moving towards formality through documentation
- Assessing impact on economic and social indicators
- Sustainability issues

Microfinance and informality. Microfinance has grown rapidly as a sector throughout the world and is widely recognized as a valuable instrument to combat financial exclusion of poor communities. Microfinance has attracted interest as a strategy for reducing poverty for several reasons: it has rapid, massive and verifiable effects; it can be measured and evaluated; it can often be scaled up quickly; it can be targeted with precision at the poor and sometimes even the very poor; microfinance recycles financial resources generated in the local economy (unlike grant or transfer-based programs in poverty reduction). Above all, microfinance empowers: it is a catalyst for organizing, and also treats the poor as autonomous, responsible individuals who are expected and want to take charge of their lives.

While microfinance is generally recognized to have positive income stabilization effects on the self-employed and micro enterprises in the informal economy, much less is known about the impact of microfinance on supporting the move out of informality. It is likely there is a strong link because loan, deposits and other service contracts contain elements of the formal economy, without being at the same time as sophisticated as mainstream bank services. Also, in order to grow microfinance institutions encourage their clients to grow themselves from livelihood activities to genuine micro-enterprises, and from these to small and medium enterprises.

The ILO's interest in this link stems from the fact that moving out of informality is intrinsically woven into the Decent Work agenda. It has consequences for the wages of workers on the payroll of a micro-entrepreneur. Higher labour incomes provide more margin to protect against risks. Transitioning to formality also facilitates the creation of safe working conditions; it helps ensure fair and equitable access to employment opportunities, and it contributes to the elimination of child labour and abolition of bonded labour. In all of the above instances microfinance can make a difference,[2] by providing incentives to move out informality.

MFIs themselves have an interest in alleviating decent work deficits amongst their clients. One reason is that this is a way to counteract the negative publicity caused by controversies around excessively high interest rates and aggressive collection practices. In Bolivia, Mexico, India, Bangladesh and many other places MFIs have become criticized because of what is perceived

2 In view of the emerging evidence the ILO Governing Body mandated the Office in November 2005 to explore ways to systematically gear microfinance to more Decent Work.

What is Microfinance?

Microfinance covers financial services such as savings, credit, insurance and remittances to low income groups, very often women. What distinguishes microfinance from conventional finance is the aim to serve poor people – and generally people outside the reach of the formal financial market – through financially sustainable microfinance institutions. Most banks for example are not poverty-oriented and do not carry a social mission. Microfinance, by contrast, embodies a viable combination of equity and efficiency.[1]

In a world where most private enterprises employ fewer than ten workers and where self-employment is pervasive, microfinance facilitates the acquisition of assets needed by small economic actors to improve their enterprise and to access markets. All over the world large numbers of people are engaged in informal activities. It is primarily this clientele operating in the informal economy that is targeted by micro finance institutions (MFIs).

Microfinance contributes to:

- Job creation via products that facilitate small investments in fixed assets and working capital (e.g. credit, equity, leasing, guarantees).
- Reducing Vulnerability through products (e.g. savings, emergency loans and insurance products) which stabilize incomes of people living near the subsistence level.
- Empowerment through group organization that give voice.

1 For more details see Resources section to access: ILO, 2002. "Microfinance for employment creation and enterprise development."

in the public opinion as excessive interest rates and "exploitative," "usurious" practices. MFIs therefore need to show tangible, massive welfare effects on their clients, including for example enabling parents to send their children to school or facilitating clients to settle doctor's fees through disposing of savings balances or that clients have better access to the formal economy. Another reason that MFI's have a stake in supporting the transition to formality is that less informal clients become more transparent to the MFI, hence less risky.

■ The role of microfinance in addressing market failure

Formal finance providers cannot directly deal with home-based producers and microenterprises, because of their very small scale of operations. Another obstacle is the absence of a legal form that allows insight into the ownership situation[3]:

- **Legal form.** Small businesses that are unincorporated are usually not required to submit financial reports. Nor do not have the kind of collateral that investors or creditors expect as security to protect against default risk.The performance of a small undertaking therefore hinges on the qualities of one person, the entrepreneur – a fact that increases the risk exposure of the lender. Many family-based enterprises also tend to have very personalized and proprietorial attitude towards their undertaking, which makes them reluctant to share ownership and decision making with associates. This weakens their equity position and makes access to loans more difficult.

- **Transaction costs.** The most important constraint to market access lies in the functioning of the financial market itself. Key to the functioning of financial markets is access to information about risks and returns. Gathering and processing accurate information about clients and their proposed projects are costly. The cost for banks to evaluate a loan application is largely fixed and independent of loan size. Thus, financial institutions tend to seek out larger and better-secured transactions. Even in developed countries, the average start-up capital for people coming out of unemployment and seeking to set up their own business (£6,000 in the United Kingdom, €22,000 in Ireland, €25,000 in Germany, €23,000 in France and C$12,000 in Canada) is sometimes considered too small by banks.

- **Information asymmetries.** Lenders or investors feel that they do not have sufficient information about the entrepreneur's history or intentions to make sound decisions. Very small business owners also do not maintain appropriate accounts nor financial statements which reduces the validity of information.

  In contrast to banks MFIs are less constrained in the way they secure their loan portfolio. This has made microfinance attractive for people without property rights and land titles. Among the techniques that MFIs have adopted to overcome collateral constraints, are:

3 ILO 2002 Microfinance for employment creation and enterprise development. GB. 285/ESP/3. Governing Body. Geneva.

- **Collateral substitutes.** In the absence of assets with property rights verifiable in courts joint liability,[4] personal guarantees, the pledging of household goods, jewelry, and other items enforce repayment obligations socially; in contrast to conventional collateral, if and when an asset is liquidated, the residual cash value of such items are of little or no use in repossession procedures. This substitution of conventional collateral is one of the hallmarks of microfinance.

  Joint liability is strategically used by some MFIs to reach poorer, less formal clients (RCPB/Burkina, OTIV/Madagascar). Joint liability works via peer pressure, primarily to reduce default rates, and this peer pressure can be used to also sensitize clients about cost-effective ways to improve decent work standards, like reducing child labour or hazardous working conditions. Jewelry, household appliances and other collateral substitutes are used by CVEVA Mali only for smaller transactions. By accepting and insisting on specific household appliances as collateral substitutes, the MFI generates information about the household-enterprise. Most financial cooperatives expect some prior deposits.

  Some MFIs, however, are increasingly moving away from collateral substitution. Those that operate both individual and group-based transactions tend to use more and more conventional collateral for individual transactions while continuing to rely on joint liability for group-based transactions. The larger the loan amount, the more likely the use of conventional security.

- **Moving towards formality through documentation.** Another way to address lack of client information is to encourage clients to document themselves before they become eligible to larger loans. Documents give information about the client, and the more information is available the safer the transaction. Formality also gives additional leverage to ensure client's compliance with regulations.

  The Government of Brazil, for example, induced micro entrepreneurs to register by applying a simplified tax payment system.[5] The Alexandria Business Association (ABA), an MFI in Egypt, links follow-up loans to progressively higher documentation requirements, thus encouraging borrowers to slowly "graduate" out of informality.

  Some major challenges confront MFIs including the quality of the jobs created as a result. The concern for job creation resonates increasingly in the microfinance industry. Major microfinance networks refer to the expected impact on jobs as one of the key benefits of their programmes. Opportunity International, for example, claimed having created or maintained over 1.2 million jobs in 2004 worldwide.[6] MFIs cater primarily to the self-employed and household activities, many are own account operators with unpaid family workers. While clients may be able to generate employment, this does not necessarily mean full-time, stable and remunerated jobs, but also largely unpaid family jobs. Moreover, employment in the informal economy is often sub-standard: unproductive, poorly remunerated, not recognized or protected by law, lacking social protection and economic security. So far, the evidence would suggest that the services provided by MFIs tend to stimulate more

4 B.Balkenhol and H.Schütte, Collateral, collateral law and collateral substitutes, Social Finance Working Paper no 24, 2nd edition, 2004

5 Jose Mauro de Morais, Credit support program for micro, small and medium enterprises in Brazil, OECD Conference Brasilia, March 2006, p.26

6 For more details see Resources section to access: Opportunity International UK Annual report 2004, p.7

demand for unpaid family labour and child labour, apprentices, day workers, less for wage employment. This may be due to the limited productivity boosts induced by micro-loans in livelihood micro-enterprises.

- **Assessing impact on economic and social indicators.** Beyond anecdotal stories, there is still not enough information about the impact of microfinance. The reason is that the average client of MFIs is a "household-enterprise" where changes in employment are difficult to track, for instance: whether a seasonal job is transformed into a permanent job or whether a paid job is downgraded into an apprenticeship or whether children who had been attending school drop out and work.

  The household-enterprise is a "black box" with highly fungible financial resources, generated and spent by the household and the enterprise for investment, savings and consumption. The goals of such a complex unit as a household-enterprise are equally complex: household-enterprises seek to generate income, manage risks and protect themselves against income fluctuations by diversifying income sources and by building human capital over the longer term through education and health care.[7]

● Major challenges confront MFIs including the quality of the jobs created as a result

  There are also methodological challenges to establishing the "impact" of microfinance on employment:

  - Employment is an **indirect** effect, filtered by decisions made by the client, not by the MFI providing the credit; therefore it may be difficult to ascertain whether the employment change results directly from microfinance or other factors;
  - The **shifts and substitution effects** taking place over time between different forms of paid and unpaid employment in a household-enterprise are largely hidden.
  - The shifts in demand for labor do not necessarily enhance work quality. If a loan allows parents to have sufficient additional income that they can afford to send a child back to school, then it has improved work quality for the entire household-enterprise; But taking out a loan could also mean that family members have to work or that children are withdrawn from school to work longer hours.

- **Sustainability issues.** Sustainability is another key challenge that MFIs face. Since only a small number of micro activities have the potential to accumulate capital, increase productivity, grow in assets and turnover, and create wage employment subsequently, some MFIs have opted to focus on these growth-oriented micro-enterprises or even go straight into "meso" finance, i.e. SME finance. The advantages to the MFI is that higher yields at lower transaction costs; it diversifies the client base and allows the introduction of new services like longer term investment financing, leasing and cross-subsidization of loss-making business lines. For example, the African Capacity Enhancement Program (ACEP), an MFI in Senegal,

7 Income-generation: The most common approach is to provide microfinance services (credit, equity, leasing, and payment and guarantee products) to start or expand an income-generating activity in a micro enterprise. This allows entrepreneurs to build assets and to create and sustain jobs. Risk-management and reduction of vulnerability: microfinance also plays a role for vulnerable persons to cope with and mitigate risk. Through appropriate risk-managing financial services, such as savings, emergency loans and possibly insurance products, microfinance helps vulnerable groups to stabilize income levels and smooth consumption and thereby to weather the storms of unpredictable expenses and income droughts. Empowerment: Microfinance approaches, e.g.: group lending, savings mobilisation etc, enable persons to take over financial responsibility for their life and thereby strengthening social capital and empowering people, especially women. The titles in J.D. von Pischke's credit impact bibliography in fact reveal that the preferred dependent variables are empowerment, risk management and community level issues. J.D. von Pischke, Poverty, Human development and Financial Services, UNDP Occasional Papers 25, New York, 1999.

considers that of its 20,000 active borrowers, over 1,000 have growth potential. It introduced a new scheme ACEP-PME[8] which is meant to cater to loans up to $34,000. In Madagascar, the Action pour le Développement et le Financement des Micro-Entreprises (ADEFI) with the help of the Agence Française de Développement launched in 2002 a medium-term investment credit aimed at small and medium-sized businesses with the expectation to cross-subsidize services targeted at the poor. In Burkina Faso, the cooperative bank network Réseau des Caisses Populaires du Burkina (RCPB) recently set up a Centre Financier aux Entrepreneurs, geared towards responding to the demands of SME clients[9].

Sustainability is a key challenge facing micro-finance institutions

8 African Capacity Enhancement Program–Petites et Moyennes Entreprises (Small and Medium Enterprises)

9 For more details see http://www.ruralfinance.org/fileadmin/templates/rflc/documents/1178721168497_Burkina_Faso.pdf

Young women negotiating a loan, Bolivia.

EMERGING APPROACHES AND GOOD PRACTICES

- Meeting protective (and productive) needs in the informal economy
- Microinsurance
- Release from bonded labour
- Integration, non-discrimination, equal opportunities
- Creating wage employment
- Working conditions
- Combining financial and non-financial services
- Targeting
- Smart subsidies: Resolving the poverty-sustainability dilemma
- Combining financial and non-financial services
- Role of banks and public authorities

Meeting protective (and productive) needs in the informal economy. Microfinance has continued to evolve over the last 30 years. Overall, MFIs have been strong in responding flexibly to a variety of needs of clients in the informal economy as they innovate financial service provision, expand the range of financial products beyond entrepreneurial credit, and link financial with non-financial services. The perception of the scope and direction of microfinance has changed considerably. All MFIs have diversified their credit products to include emergency loans and longer term loans while many have in addition acquired the legal capacity to take deposits either from their members (if they are a cooperative) or from the general public (if they transform into a financial institution). Several, and in particular those that are keenest on poverty reduction, offer training, legal awareness courses, maternal health care, and other non-financial services.

MFI's have diversified their financial products and also offered non-financial services to better meet the needs of poorer clients

Microinsurance. One of the most dynamic changes is the growing demand for microinsurance for a variety of contingencies (health, life, assets, accident, old age, crop failure etc.). BASIX, one of India's premier microfinance institutions, collaborated with insurance companies to offer a wide range of insurance products such as life, livestock, rainfall, and health insurance. [10]

An MFI in India has collaborated with insurance companies to offer a range of insurance products such as life, livestock, rainfall and health insurance

Generally MFIs which supply services to workers and enterprises in the informal economy realize more and more that the poor need protection against a variety of risks. Any threat to their health and well-being immediately endangers their livelihoods. GRET created a microinsurance programme after it was becoming apparent that the main cause of arrears and loan default among many of their microfinance clients was out-of-pocket health expenses.

Release from bonded labour. The National Rural Support Programme (NRSP), a multi-purpose NGO in Pakistan, has since 1998, used a broad mix of social mobilization and microfinance to make sure that "haaris", a caste of bonded labourers who had escaped economic servitude, do not slip back

10 For more details see Resources section to access: ICMR, 2005. An Industry Note - Microinsurance - Taking Risk Management to the Grassroots Report. Center for Management Research.

In Pakistan access to microfinance and non-financial services has helped former bonded labourers avoid a return to forced labour

into debt bondage. Former haaris were provided with a "safety net" to reduce the likelihood of freed bonded labourers being exploited again or returning to bonded labour. The economic components of this safety net included access to affordable micro-credit, a savings programme and a land-lease programme that has so far enabled 54 families (out of a total of 400 families) to own a piece of land. The mix of financial and non-financial services led to tangible results as none of the families living in the participating settlements returned to debt bondage.[11]

■ **Integration, non-discrimination, equal opportunities.** Women and other discriminated groups have particularly benefited from access to micro-finance. Examples of initiatives launched by MFIs to include formerly discriminated groups of the populations include:

- FECECAM[12] in Benin, RCPB[13] in Burkina Faso, Kafo and Nyegisio in Mali, among others, developed specific products targeted at illiterate women (« le tout petit crédit pour les femmes»)
- Flexible collateral requirements: loans between $10 and $50 are secured by a Guarantee Fund (PAMECAS in Senegal)
- Decentralizing disbursements and collection to mobile loan officers (AMMACTS[14] in India, CAME[15] in Mexico)
- Setting up of distribution points (Nyegisio in Mali, Kaxa Taon in Mexico) close to home-based clients.

Promoting gender equality through access to finance

Women entrepreneurs throughout the world contribute to economic growth and sustainable livelihoods of their families and communities. Microfinance helps empower women from poor households to make this contribution. By the end of 2006, microfinance services had reached over 79 million of the poorest women in the world. The business case for focusing on female clients is substantial, as women often register higher repayment rates. They also contribute larger portions of their income to household consumption than men. Thus there is a strong business and public policy case for targeting female borrowers. Children of women microfinance borrowers also reap benefits, as there is an increased likelihood of fulltime school enrolment and lower drop out rates, particularly for girls.

Although the positive impacts of microfinance on women's empowerment are strongly evident, special measures may need to be put in place to offset negative outcomes. In some cases male household members may take control of the loan, while in others women may struggle with a heavier workload created by the responsibility for loan payment. Moreover differences in literacy, property rights and social attitudes about women may limit impact outside of the immediate household.

Strategies for advancing gender equality through microfinance include:

- Capacity building on gender mainstreaming for MFI staff
- Adjusting financial services to better address women's needs (including tailored financial products, savings products to manage risk, microinsurance, adjusting collateral requirements and encouraging the registration of property in women's names)
- Offering access to non-financial services (including literacy training and business training)
- Community based awareness raising on gender issues and women's income generation

11 For more details see Resources section to access: website of the National Rural Support Programme (NRSP).
12 Fédération des caisses d'épargne et de crédit agricole mutuel
13 Réseau des caisses populaires du Burkina
14 Acts Mahila Mutually Aided Coop Thrift Society
15 Centro de Apoyo al Microempresario

- Strengthening women's groups (not only as a means of lowering MFI costs but also to enable the delivery of non-financial services such as literacy and health programmes. These groups can also be an important means of giving women voice and strengthening bargaining power in poor communities.

See: Small Change, Big Changes: Women and Microfinance, International Labour Office http://www.ilo.org/gender/Events/lang--en/docName--WCMS_091581/index.htm

■ **Creating wage employment.** Several MFIs are keen to move into the market segment of SME finance synonymous with job creating clients. For example a special SME window has been created in Burkina Faso: Centre de Financement d'Entreprise at the RCPB, ACEP-PME in Senegal, ADEFI[16] in Madagascar. In other cases special products have been developed: equipment finance, mutual assistance fund (TYM Fund in Vietnam); life, credit life, livestock and other asset-based insurance (BASIX, ASA[17], Cashpor, AMACTS/ all India), particularly suitable to SMEs.

■ **Working conditions.** Microfinance programmes have also been channels for providing information and incentives to improve working conditions. For example Al Amana in Morocco provides leaflets on work place improvements and some MFIs use collateral substitution is provided as an incentive for improvements in working conditions. For example CVEVA in Mali, RCPB in Burkina Faso, OTIV in Madagascar.

In Morocco an MFI uses collateral substitutes for improvements in working conditions

■ **Targeting.** Targeting is potentially a strong means to support the transition to formality. MFIs have always targeted clients. Part of their anti-poverty mission is to correct market failure and build bridges to those excluded by conventional financial institutions. MFIs usually target by observable individual characteristics like age, gender or skills profile.

● Targeting is potentially a strong means to support the transition to formality, including through targeting decent work outcomes

As MFIs continue to evolve there is strong potential for them to target decent work outcomes. Clients who meet eligibility criteria could get preferential treatment, whether through interest rebates, relaxed collateral requirements or fast track arrangements for speedy issuance of loans.

MFIs could also opt to support only income generating activities without health hazards and child labour.[18] An MFI could, for example, choose not to lend to enterprises in the construction sector unless the businesses have insurance for workplace accidents.[19] MFIs can also target market segments signaled by average transaction sizes and collateral requirements. MFIs can target location, excluding some and including others.

The complexity of targets varies: there are single and fairly inclusive targets (like "poor women" or "rural poor" or "micro-entrepreneurs" or "informal enterprises"), and there are also complex, more exclusive targets ("rural women below the poverty line in drought-affected areas where Dalits form the majority of the population"[20] or "women in poor households earning less

16 Action pour le Développement et le Financement des Micro-Entreprises
17 Activists for Social Alternatives
18 This is comparable to negative investment criteria advocated for example for large scale financial corporations in the Equator principles.
19 In extreme cases it may wish to exclude from its portfolio any activity known to violate decent work norms. An example for targeting a specific line of business with a view to maximize job creation – albeit not from the micro-finance field – is the J for Jobs initiative of a US trade union controlled life insurance company.
20 Action for Social Advancement (ASA), India.

than $6.5 a month and total assets no more than $1,000; between 18 and 55, good physical condition."[21] Some MFIs target broadly, yet with explicit exclusions: "not the young, no wage earners."[22]

Targeting is a good illustration of the substantial discretion at the disposal of MFIs. Methodologies can and do evolve over time. Amongst the MFIs that have changed their target groups are PRIZMA (Bosnia), which broadened its target clients either marginally from "women only" to "women and their families," or extensively like RCPB which added SMEs to their target clients, or Nyegisio which enlarged its catchments' area from 100 percent rural to mixed rural and urban.

■ **Smart subsidies: Resolving the poverty-sustainability dilemma.** A fundamental issue faced by practitioners and donors is how to preserve the dual commitment of MFIs to poverty reduction (thus decent work) and profitability. The balance can be a challenge particularly when a social mission implies lower profit margins and higher transaction costs for the MFI.

This can mean that there are MFIs with a pronounced social mission that may have sustainability problems. Public funds are one way of enabling MFIs to continue to support poverty reduction. Public sector promotion of MFIs comprises a host of measures, including subsidies. Budgetary support to MFIs is not inherently good or bad, it all depends whether they are tailored to avoid market distortions and induce better institutional performance in MFIs. Some of the lessons learnt in this respect are[23]:

- Subsidizing networks or apex institutions create fewer distortions than subsidizing individual MFIs.
- Subsidizing the intermediary distorts less than subsidizing the client directly.
- Subsidies that come without strings attached are likely to have a greater adverse effect than performance-linked grants.
- Subsidies attached to an exit strategy are preferable to subsidies without time limit.

● Public funds are one way of enabling MFIs to continue to support poverty reduction, but with caveats to ensure subsidies are 'smart'

A few minimum requirements to enable public policy to support 'smart' subsidies include:

- An MFI must have a ratio of operational self-sustainability of at least 100, i.e. it must cover its operational cost by operational revenues, leaving aside inflation, subsidies and accounting errors.
- MFIs should over time show a progression towards full financial sustainability
- Massive and deep outreach can compensate for a temporary shortfall in financial sustainability.

Efficiency comparisons only make sense in relation to a cluster or group of similar MFIs that use similar resources, offer similar products and operate in similar markets. Within its clusters MFIs should advance towards the performance levels of the one MFI that is performing best. Subsidies conditioned on performance and a contractual basis are not likely to distort the market. Lastly, MFIs that are and remain inefficient and continue to depend on subsidies should be cut off from public support.

21 TYM, Viet Nam.
22 CVECA Burkina Faso.
23 Balkenhol, Bernd, ed., 2007. Microfinance and public policy: Outreach, performance and efficiency. Geneva: International Labour Office.

■ **Combining financial and non-financial services.** In isolation, financial service provision, training or advocacy or legal awareness courses usually do not make a dent on poverty; but their combination does. Vocational training is more effective if at the end of a training course there is a prospect of funding to apply the skills acquired; inversely, the utilization of loans is improved when some non-financial service improves technical and managerial competence. In addition, several MFIs, especially those with a social mission, see financial services as a vehicle to transmit other messages.

An example is Freedom from Hunger which combines microcredit to very poor women with health education, literacy and business training. "Credit with Education" has become recognized as an effective way to help families become food secure.[24] The approach is also implemented in Burkina Faso (RCPB), in Mali (NYEGISIO) and in Madagascar (VOLA). Another example is NRSP in Pakistan where former bonded labourers are organized in small units for literacy training, legal awareness raising, social mobilization and – of course - distributing and collecting loans.

Non-financial services are costly, and a major drawback is that they rarely can be fully charged to the client; nor can these costs always be fully absorbed by the MFI through cross-subsidization. Attempts by MFIs in West Africa to charge women the full costs of "Credit with Education" led to a dramatic client drop-out. Furthermore, under certain conditions, non-financial services can limit outreach: ASA in Bangladesh, for example, had 140,000 active members in 1990 when it provided a whole range of services typical of multi purpose NGOs, like skills training, awareness raising, in addition to savings and credit; in 1991, its decision to focus on microfinance allowed ASA to literally explode its outreach to over 5 million by the end of 2005.[25] For this reason MFIs increasingly seek to outsource non-financial services, such as self help groups.

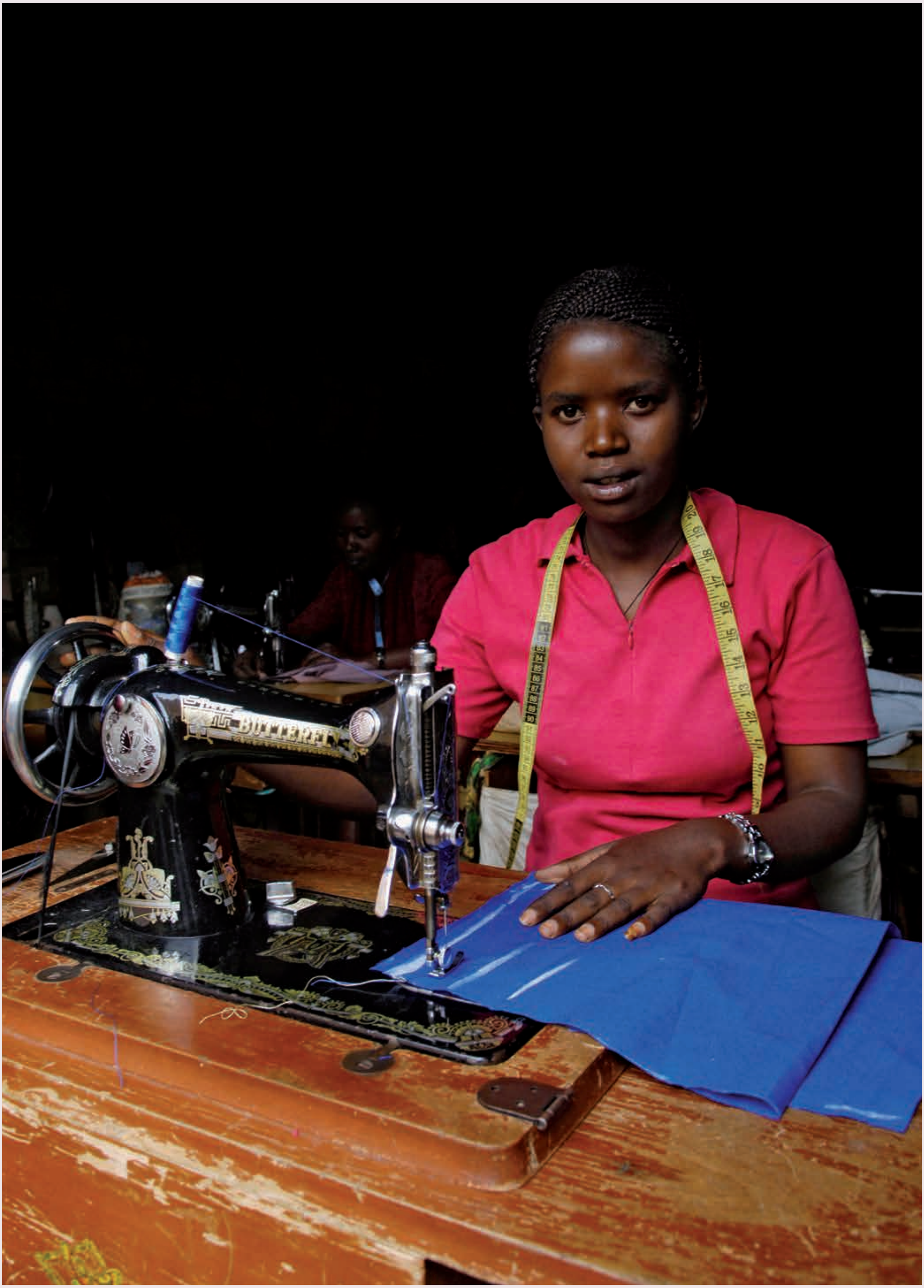
● The combination of financial and non-financial services opens entry points to support the move out of informality

From the angle of supporting the transition to formality the wide choices in microfinance methodologies are quite attractive: links of financial services with training are good for job creation, moving out informality, combating child labour and debt recycling; in general, these combinations respond to client needs and open opportunities to the MFI to link access to finance to the acquisition of specific competencies.

■ **Role of banks and public authorities.** The role of public authorities, i.e. governments, central banks and donors is to provide an enabling environment that reduces the level of risk in the financial market. Entry points for policy interventions comprise consumer protection, transparency norms for financial institutions, anti-monopoly and antitrust measures, among others perfecting the financial infrastructure. More specifically, there is interest in exploring the necessity of public policy to ensure that the increasing involvement of private sector investors in microfinance does not lead to mission drift, pushing aside MFIs with a more social agenda and usually higher per client transaction costs. The notion of "smart subsidies" signals the need to ensure the survival of a diversified microfinance industry, yet at the same time avoiding market distortions and perverse moral hazard effects.[26]

● The role of public authorities, is to provide an enabling environment that reduces the level of risk in the financial market

24 For more details see the Resources section to access: Freedom from Hunger homepage:
25 For more details see: Nurul Shekh, Microfinance and Poverty Reduction: is there a trade-off? A case study from rural Bangladesh, Nordic Journal of Development Research No.2 2006, volume 33, Oslo, p.373
26 This argument is developed in B.Balkenhol (ed.), Microfinance and Public Policy, Palgrave McMillan/ILO, 2007



This young woman has benefited from microcredit to set up her own business. Rwanda.

RESOURCES

This section provides a list of resources which can enable the reader to delve deeper into the issue. Details of the good practices cited above can be accessed here. The section comprises international instruments, International Labour Conference conclusions, relevant publications and training tools. A bibliography of references in the text is further below. There may be some overlap between the two.

Relevant Publications

Aliber, M.A. 2002 Informal finance in the informal economy: promoting decent work among the working poor. (ILO working paper on the informal economy; no. 14).. ILO Geneva.
http://www.hsrc.ac.za/Research_Publication-3861.phtml

Balkenhol, B. 1999 Credit Unions and the Poverty Challenge - Extending Outreach, Enhancing Sustainability. Employment Sector. ILO Geneva,
http://www.ilo.org/dyn/infoecon/iebrowse.page?p_lang=en&p_ieresource_id=563

Balkenhol B.; Gueye EH. 1994 Tontines and the banking system: is there a case for building linkages? ILO Geneva
http://www.ilo.org/dyn/infoecon/iebrowse.page?p_lang=en&p_ieresource_id=749

Chua, R.T and Llanto, G. 1996 Assessing the Efficiency and Outreach of Urban Micro-finance Schemes. Working paper 15. ILO Geneva.
http://www.ilo.org/public/english/employment/finance/download/wpap15.pdf

Freedom from Hunger homepage:
http://www.freedomfromhunger.org/programs/index.php

ICMR, 2005. An Industry Note - Microinsurance - Taking Risk Management to the Grassroots Report. Center for Management Research.
http://www.icmrindia.org/casestudies/catalogue/Business%20Reports/An%20Industry%20 Note%20-%20Microinsurance%20-%20Taking%20Risk%20Management%20to%20the%20 Grassroots.htm

IFLIP and ELIFID working papers, 2001-2004. Social Finance Program. ILO Geneva.
http://www.ilo.org/public/english/employment/finance/policy/iflipub.htm

ILO 1998, International Labour Standards and Microfinance: A Review 1998, Working Paper 20, Social Finance Unit, ILO Geneva
http://www.ilo.org/wcmsp5/groups/public/---ed_emp/documents/publication/wcms_117999.pdf

ILO, 1998, Women in the Informal Sector and their Access to Microfinance. Paper prepared by ILO for the Inter-Parliamentary Union (IPU) Annual Conference, Windhoek, Namibia, 2-11 April 1998.
http://www.gdrc.org/icm/wind/uis-wind.html

ILO, 2002. “Microfinance for employment creation and enterprise development.” GB.285/ESP/3.
http://www.ilo.org/public/english/standards/relm/gb/docs/gb285/pdf/esp-3.pdf

Manje, L.; Craig Churchill. The Demand for Risk-managing Financial Services in Low-income Communities: Evidence from Zambia. Employment Sector. 2002. ILO Geneva.
http://www.ilo.org/dyn/infoecon/iebrowse.page?p_lang=en&p_ieresource_id=455

Mayoux,L. Micro-finance and the Empowerment of Women: A review of the key issues. ILO Geneva.
http://www.ilo.org/public/english/employment/finance/download/wpap23.pdf

Nagarajan, G. et al. “Introduction to microfinance in conflict-affected communities. A training manual.” Employment Sector. ILO Geneva.
http://www.ilo.org/public/libdoc/ilo/2002/102B09_320_engl.pdf

National Rural Support Programme (NRSP). (Pakistan)
http://nrsp.org.pk/index.htm

Opportunity International UK Annual report 2004
http://www.opportunity.org/media-center/publications/annual-report/

Puri, S. and Ritzema, T. Migrant Worker Remittances, Micro-finance and the Informal Economy: Prospects and Issues. Working Paper 21. ILO Geneva.
http://www.globalmigrationgroup.org/uploads/UNCT_Corner/theme5/remittances/Migrant_Worker_Remittances_Micro-finance_and_Informal_Economy.pdf

Wesselink, B. Monitoring Guidelines for Semi-Formal Financial Institutions Active in Small Enterprise Finance. Employment Sector. 1996.
http://www.ilo.org/dyn/infoecon/iebrowse.page?p_lang=en&p_ieresource_id=189

Tools

Churchill,C. et al. 2003, Making Insurance Work fro Microfinance Institutions: A Technical Guide for Developing and Delivering Microinsurance, ILO Turin 2003.

Deelan,L. et al 2003 Leasing for Small and Micro Enterprises: A Guide for designing and managing leasing schemes in developing countries, ILO Geneva 2003

Deelan, L.; Molenaar,K. 2004 Guarantee Funds for Small Enterprises – A Manual for Guarantee Fund Managers, ILO Geneva 2004

van Doorn, J; Churchill,C. 2004 Microfinance against child labour: Guidelines, ILO Geneva 2004
ILO Data base on micro-insurance schemes.
http://white.oit.org.pe/ipec/documentos/microfinance_guideline.pdf

ILO 2000 Making Guarantee Funds Work for Small and Micro Enterprises, ILO, Turin

ILO, 2003. Mutual Guarantee Associations: What they are and how they work. ILO Geneva,
http://europeandcis.undp.org/files/uploads/PR/ILO_Mutual%20Guarantee%20Associations_Guidelines_2001.pdf

ILO /UNHCR 2002, Introduction to Microfinance in Conflict Afflicted Communities: A Training Manual, ILO Geneva

For further information see the ILO's Social Finance Unit website http://www.ilo.org/employment/areas/social-finance/lang--en/index.htm

References

Balkenhol, Bernd, ed., 2007. Microfinance and public policy: Outreach, performance and efficiency. Geneva: International Labour Office.

Balkenhol, B. and H.Schütte, Collateral, collateral law and collateral substitutes, Social Finance Working Paper no 24, 2nd edition, 2004

de Morais, Jose Mauro. Credit support program for micro, small and medium enterprises in Brazil, OECD Conference Brasilia, March 2006,

ICMR, (Centre for Management Research India) 2005. An Industry Note - Microinsurance - Taking Risk Management to the Grassroots Report. Center for Management Research.
http://www.icmrindia.org/casestudies/catalogue/Business%20Reports/BREP027.htm

ILO, 2002. "Microfinance for employment creation and enterprise development." GB.285/ESP/3. Committee on Employment and Social Policy. Governing Body. Geneva: International Labour Office.

ILO 2005 'Microfinance for Decent Work GB.294/ESP/3 Committee on Employment and Social Policy. Governing Body. Geneva: International Labour Office.

Opportunity International UK Annual report www.opportunity.org.uk

Shekh, Nurul. Microfinance and Poverty Reduction: is there a trade-off? A case study from rural Bangladesh, Nordic Journal of Development Research No.2 2006, volume 33, Oslo, p.373

Contents: