



International
Labour
Organization

FACTS ON *Microfinance and Decent Work*

“It is the responsibility of the ILO to examine and consider all international economic and financial policies and measures in the light of social justice.”

ILO Constitution

Because its constituents – governments, workers’ and employers’ organizations – each bring their perspectives to the table, the ILO is an ideal forum for furthering microfinance to meet the poverty challenge.

The ILO promotes opportunities for women and men to obtain decent and productive work. The ILO builds on the links between microfinance and Decent Work.

Microfinance makes a powerful contribution to decent work by providing opportunities for small investments in self-employment and job creation. And, through emergency loans, micro-savings and micro-insurance, it provides the means for people to manage risks of living near the subsistence level. These contributions can have considerable impact in the following areas:

■ **Job creation.**

Microcredit is a key element in promoting self-employment, helping people to start or expand businesses and thereby create jobs.

■ **Empowerment of women.**

Microfinance improves women’s representation and position within households and communities.

■ **Reducing vulnerability.**

Microfinance provides a safety net for the working poor – whether they work for wages or are self-employed.

The ILO and Microfinance

Microfinance often plays an important role in the ILO’s programmes, particularly those aimed at helping countries comply with core labour standards such as the abolishment of forced labour and child labour.

These initiatives...

... help the parents of child labourers generate income so they can replace family income that is lost when their children stop work and go to school.

... provide poor workers with an alternative source of credit so they do not have to borrow from their employers and risk slipping into debt bondage.

... assist women who are vulnerable to human trafficking to initiate income-generating activities.

Microfinance and Bonded Labour: A Case Study

Until it was abolished in 2000, the Kamaya system, a form of bonded labour in Nepal, was prevalent in the Tharu Community of the western Terai region of the country. Its abolishment outlawed the debt arrangements that underpinned the system and many people were liberated from forced labour.

But effective abolition takes time, as desperate economic and social conditions still cause people to return to bondage as a way to get money.

Mrs. Baijayanti Mala Chaudhary and her husband, both former Kamayas, live in Binauna District. They have one son and four daughters.

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The ILO Social Finance Programme

Given the considerable impact that financial markets have on decent work in a globalized world, the ILO created in 1991 the Social Finance Programme as a focal point to analyze, evaluate and disseminate financial sector issues relevant for employment and social justice. The programme is organized around three major themes...

- Reduce vulnerability
- Invest in job creation
- Make financial policies more employment-focused

The ILO focuses on institutions that work for the poor, on market imperfections and the resulting social costs, and on policies that have proven successful in overcoming obstacles to market access for the working poor. The Social Finance Programmes undertakes action research to show the viability of microfinance, to test various approaches in target group outreach and service delivery, and to monitor and assess the impact of microfinance on household income and assets.

Over the past decade the ILO has pioneered several microfinance applications: linking worker remittances to microfinance, post-conflict microfinance, micro-leasing, micro-insurance and micro-equity.

This work has been carried out in partnership with ILO constituents – for example, with trade unions to improve the conditions of bonded home-workers, worker banks and other such initiatives, and with employer organizations on issues such as start-up financing for new entrepreneurs, property rights and collateral.

Upcoming Events

3-4 November 2005, International Conference Centre of Geneva – *Microfinance and Public Policy*, organized by the ILO, Geneva Institute of Development Studies, University of Geneva and University of Cambridge.

8 November 2005, at the UN in New York – *UN Forum on Inclusive Financial Sectors*, organized by UNCDF and Financing for Development Office.

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Case Study (continued)...

Not having enough land to cultivate sufficient food for the family, Mrs. Chaudhary felt obliged to send her daughter to work as a domestic child labourer in the house of a local judge.

Through an ILO programme that supports local anti-bonded labour initiatives, Mrs. Chaudhary has joined a new self-help group that enables her to share experiences and voice concerns collectively with others in her position, as well as receive help on how to manage family finances so that she can avoid bonded labour in the future. "Now we can at least bargain with our master on wages and through the group we learn about savings and curtailing unnecessary expenses, which are the most crucial aspects to the poor like us." In addition, the Chaudhary children are now receiving some schooling.

International Year of Microcredit The Challenges Ahead

In 1998, the UN General Assembly declared 2005 the International Year of Microcredit in recognition of microcredit's contribution to poverty reduction. For microfinance to make an effective contribution to the attainment of the Millennium Development Goals, the following challenges will need to be met over the next ten years:

- Make the policy environment more conducive to open access for the working poor to affordable financial services.
- Improve the performance of microfinance institutions.
- Improve knowledge of the socio-economic impacts, and particularly the gender impacts, of microfinance.
- Help microfinance institutions scale up through linkages with local and international financial institutions.
- Tap the international capital markets – particularly socially responsible investment funds, pension funds, etc. – to foster and support micro finance institutions.
- Improve policies in support of social finance.