DONOR BRIEF
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*Helping to Improve Donor Effectiveness in Microfinance*

# MICROFINANCE AND THE MILLENNIUM DEVELOPMENT GOALS

*The international community has made a strong commitment to the Millennium Development Goals (MDGs). Many donor agencies want to know whether microfinance, or financial services for the poor, is an effective tool for reaching the MDGs. In response, CGAP launched a study of the empirical evidence on the poor's access to financial services and how this access supports the MDGs. This brief summarizes the results of recent professional studies on the impact of microfinance, recognizing the difficulties of comparing studies that apply different levels of methodological rigor.*

***How does microfinance contribute to the Millennium Development Goals?***

Access to financial services underpins the ability of the poor to achieve the MDGs on their own terms in a sustainable way. Financial services enable the poor to increase and diversify incomes, build human, social and economic assets, and improve their lives in ways that reflect the multidimensional aspects of poverty. Evidence shows that poor people choose to invest in a wide range of assets: better nutrition, improved health, access to schooling, a better roof on their homes, and expansion of their small businesses.

***How does microfinance support the eradication of extreme poverty and hunger?***

Poor people in most countries have virtually no access to formal financial services. A small loan can help break the cycle of poverty when it is invested in an economic activity that generates increased earnings. Similarly, saving money in a safe place provides the poor a cushion against sudden shocks, such as illness or a bad harvest, which could easily push them into destitution. Studies of microfinance clients show that:

- In India, half of SHARE clients have graduated out of poverty.
- In El Salvador, the weekly income of FINCA clients increased on average by 145%.
- In Vietnam, clients of a Save the Children partner organization reduced food deficits from three months to one month.

***How does access to financial services improve education?***

Greater access to financial services and increased incomes allow poor people to invest in their children's future. Studies on the impact of microfinance on children's schooling show that:

- In Bangladesh, nearly all girls in Grameen Bank client households received schooling, compared to 60% of girls in non-client households. Basic education competency (reading, writing, and arithmetic) among 11-14 year-old children in BRAC client households doubled in 3 years (from 12% in 1992 to 24% in 1995), overtaking children in non-member households.
- In Uganda, Foccas clients spent a third more than non-clients on their children's education.

***How does access to financial services improve the health of children and women?***

Loss of earnings due to illness and health care-related expenses can quickly erode incomes and savings, often forcing the poor to sell off assets and go into debt. Access to financial services allows clients to seek health care services when needed, rather than wait until an illness has reached crisis proportions. Some microfinance programs explicitly include education on basic health issues as part of their credit and savings methodology. Studies show that financial services have had a strong positive impact on children and women's health:

- In Bangladesh, fewer BRAC clients suffered from severe malnutrition than non-clients.

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- In Bolivia, CRECER clients had better breast-feeding practices, responded better with rehydration therapy for children with diarrhea, and had higher rates of DPT3 immunization among their children.
- In Uganda, 95% of Foccas clients benefited from a microcredit program that combined financial services with educational practices to improve the health and nutrition of their children, as compared to 72% for non-clients. In addition, 32% had tried an AIDS prevention practice, twice the percentage for non-clients.

***Does microfinance support public infrastructure?***
There have been few studies of the impact of financial services for the poor on public infrastructure. However, evidence shows that increased earnings lead the poor to invest in improved housing, water, and sanitation. Many microfinance programs provide specific loans for tube-wells and toilets; some, such as SEWA in India, have linked microfinance to slum improvement projects. Such projects facilitate community infrastructure, paid for by loans from microfinance institutions.

***How does access to financial services empower women?***
The ability to borrow, save, and earn income enhances poor women's confidence, enabling them to better confront systemic gender inequities. Existing studies show that this empowerment takes different forms:

- In Indonesia, female clients of BRI were more likely than non-clients to make joint decisions with their husbands concerning allocation of household money, children's education, use of contraceptives and family size.
- In Nepal, 68% of Women's Empowerment Program members said they made decisions on buying and selling property, sending daughters to school, marrying children, and family planning.
- In India, SEWA clients have lobbied for higher wages, the rights of women in the informal sector, and resolving neighborhood issues.
- In Bangladesh, Bolivia, Nepal, the Philippines and Russia, clients of microfinance programs have run for local government office and won.

***How can donors use microfinance to help achieve the MDGs?***

- Communicate to staff that access to financial services contributes to the attainment of the MDGs.
- Support different kinds of financial institutions that provide an array of financial services to the poor. Greater impact could be achieved if clients had access to services beyond standard microcredit that better meet their needs (e.g., deposit services, transfer payments, microinsurance).
- Approach microfinance as part of a private sector or financial sector development strategy that seeks to provide financial services to the poor on a permanent, large-scale basis. Financial services can contribute to ongoing social returns only when microfinance providers are sustainable.
- Support government policies that promote the deepening of the financial sector to reach poorer clients, for example, through abolishing interest rates caps.
- Recognize that, in many cases, microfinance may not be the best tool for poverty alleviation. Targeted anti-poverty and social safety net programs may be better alternatives when dealing with extremely poor or destitute people who are not engaged in any economic activity.

**Author:** Ousa Sananikone, CGAP. **Source:** This note is a synthesis of Elizabeth Littlefield, Jonathan Morduch, and Syed Hashemi Mesbahuddin, "Is Microfinance an Effective Strategy to Reach the Millennium Development Goals?" *CGAP Focus Note* (forthcoming, 2003).

**Where to go for more information. Books/Articles:** Jonathan Morduch and Barbara Haley, "Analysis of the Effects of Microfinance on Poverty Reduction" (Ottawa, Canada: Results Canada, 2001). J. Sebstad and D. Snodgrass, "Clients in Context: The Impacts of Microfinance in Three Countries" (Washington, D.C.: USAID/AIMS, Management Systems International, 2002). Anton Simanowitz, with Alice Walter, "Reaching the Poorest While Building Financially Self-Sufficient Institutions, and Showing Improvements in the Lives of the Poorest Women and their Families," in *Pathways Out of Poverty*, ed. Sam Daley Harris (Connecticut: Kumarian Press, 2002). **Websites:** AIMs website - www.mip.org. Impact Assessment Center - www.microfinancegateway.org/impact. World Bank, Millennium Development Goals website -www.developmentgoals.org.

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