

# Sans Poverty



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FOCUS ON  
MICROFINANCE

July 2007, Issue  
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North American Affairs  
Newsletter

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## MICROFINANCE: BREAKING THE CYCLE OF POVERTY

Typically, low-income people, especially those living in rural areas, have been unable to obtain basic financial services, like savings accounts, credit, insurance and payment services from the formal financial sector. Microfinance is the provision of these services to low-income people, through innovative business models. They frequently involve smaller amounts of funds processed, and shorter term contracts than their traditional counterparts.

What key lessons have we learned about the financial needs of poor people?

- Poor people, like everyone else, need permanent access to financial services. Therefore, the long - term sustainability of service providers is critical.
- Access to micro-credit is not sufficient; the poor also need access to savings, insurance and payment services.
- Most organizations need capacity building more than money for lending.
- The numbers of "unbanked" people worldwide are startling. The potential market for microfinance is estimated to be anywhere up to 3 billion working-age adults. Only about one sixth of those who could make use of formal financial services are currently being reached.



The potential market for microfinance is estimated to be up to 3 billion adults. Only about one sixth currently have access to formal financial services. ©The World Bank.

The World Bank Group provides a coordinated and integrated approach for promoting sustainable microfinance and the development of inclusive financial systems. The approach combines investment and advisory work from the IBRD/IDA (between 1 and 6 percent of total Bank lending was used for access to financial services in FY05), commercial investment from the IFC ( \$420.79 million by June 30, 2006), and training, research, advisory and information services from the Consultative Group to Assist the Poor (CGAP).

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## IDA IN MADAGASCAR: Microfinance in Madagascar Boosts Small Clients', Women's Savings

**Challenge:** At the start of the 1990s, all of Madagascar's banks were state-owned and failing. State banks had abandoned their original mandate of financing small clients. Although liberalization in the following decade revived the bankrupt financial sector, the introduction of commercial banks did not properly meet the needs of poorer clients.

**Approach:** In 1993-97, a pilot project established networks of saving and loans associations in two provinces. The Microfinance Project, approved in 1999, scaled-up this effort, improving the existing networks and expanding to additional provinces.

**Results:** Access to financial services by low-income populations grew significantly in the last six years. More than 150,000 people (45 percent of them women) are active members of financial cooperatives active in four of the country's six provinces. IDA contributed US\$16.4 million out of total US\$20.4 million costs.

**Highlights:**



The Microfinance Project scaled up a network of

- The number of financial cooperatives increased to 150 in 2006, from 47 in 1999.
- Membership in microfinance networks increased from 30,000 to 159,430 clients in six years. Women's membership increased from 15 percent in 1999 to 45 percent in 2006.
- Credit granted reached US\$7.3 million. Average loan balance doubled from US\$150 to US\$311 in six years.
- Total savings reached US\$11.1 million. Average member's savings increased from US\$20 to US\$70 in six years.
- A financially viable network: Operational self-sufficiency (revenues covering capital and partly operating expenses) exceeded targets and reached an average of 133 percent.
- The project is part of long-term financial sector reform and has already built the legal and regulatory framework for an emerging microfinance industry.

savings and loans associations in Madagascar. Research has shown women entrepreneurs to be better savers and borrowers. © World Bank

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Win up to US \$20,000: Enter the IFC - FT Essay Competition

The International Finance Corporation of the World Bank Group (IFC) and the Financial Times (FT) are holding their second annual Essay Competition. This year's theme is "Private Sector Development: Creating Markets, Transforming Lives."

The Competition is soliciting action-oriented essays that:

- Provide insight into current Private Sector Development (PSD) research
- Develop and support the implementation of leading-edge PSD initiatives
- Strike a balance between conceptual and practical considerations for private-sector involvement in developing countries, and the effect of that involvement on development
- Reflect innovative, data-supported research resulting from the author's own professional or academic work
- Target economic & financial policymakers, the international financial community and/or international domestic investors

Six awards will be granted to the top papers as judged by the Awards Committee:

- 1 Gold Award of US\$20,000
- 2 Silver Awards, each US\$10,000
- 3 Bronze Awards, each US\$5,000

IFC and FT will publish all winning essays on their websites and may provide publication in additional formats at their discretion.

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ASK THE EXPERT: Elizabeth Littlefield

Each month, we invite you to ask questions of one World Bank expert. Selected questions and responses are published in the following newsletter. This month, Elizabeth Littlefield awaits your questions. Please email them to us at [info\\_us@worldbank.org](mailto:info_us@worldbank.org).

Elizabeth Littlefield, a joint U.K./U.S. national, is one of the Bank's senior spokespeople on microfinance. She is the Chief Executive Officer of the Consultative Group to Assist the Poor (CGAP), a multi-donor organization created to help build a large scale permanent microfinance industry providing flexible, high-quality financial services on a sustainable basis to the poor. CGAP provides technical assistance and strategic advice, development and dissemination of technical tools and services, delivery of training, and in-depth research products. Prior to joining CGAP in 1999, Ms. Littlefield was the Managing Director in charge of J.P. Morgan's financing business in Central, Eastern and Southern Europe, Central Asia, Middle East and Africa. Her responsibilities encompassed public and private financings for governments, corporations and banks, and related advisory work such as debt management and credit rating advisory. She also held positions at J.P. Morgan as a Vice President and Head Debt Trader in Africa, Eastern Europe and Asia, and as a Director in J.P. Morgan's Paris office, among others. Ms. Littlefield also spent 1989-1990 providing banking consultancy to several microfinance institutions in West and Central Africa. She has served on the Board of Trustees of Women's World Banking from 1992-1994 and on the Executive Committee of the Board as treasurer from 1994-1999.



## LAST MONTH YOU ASKED ABOUT: WATER

Jamal Saghir, our Water expert, answered.

Question: What critical policy decisions at the international level will be important drivers for success in water resources management for Africa in the next half a century?

Answer: Water security, achieved through successful water resources management and access to adequate water by all, will be at the center of growth and sustainability in Africa over the next 50 years (2-3 generations). Africa suffers from a legacy of highly variable hydrology and inadequate institutions and infrastructure to manage its water resources and delivery of water services. Current water management is not resilient to the impacts of water shocks and/or unreliable water for production or livelihoods, making for a significant obstacle to growth.

1. The first key decision will be to mobilize assistance - financial and technical - to strengthen African institutions at the national and regional level, so that they can manage the hydrologic variability through an appropriate and sustainable stock of water infrastructure.

Water resources development and management remain at the heart of the struggle for growth, sustainable development and poverty reduction. Impact of rainfall variability and climate change on GDP is significant with serious loss of life and property. Establishing a minimum platform of hydraulic infrastructure to manage the destructive forces of water (floods and droughts) would leverage benefit from the productive services of water for growth, such as hydropower (renewable energy) for increased access to electricity, and irrigated agriculture for more efficient food production.

2. The second key decision will be to assist Africa to significantly improve access to water by all.

The international development community has recognized the importance of the impact of access to water on poverty reduction and must now address the challenge of implementation through a concerted national and international response. The significant financing gap for service delivery infrastructure must be met through sustained international assistance. But this is not enough. The finance and economics equation must be balanced by institutional and social reform driven by government commitment.



Overcoming the crisis of access to safe drinking water and adequate sanitation is one of the great human development challenges of the early 21st century. The significant financing gap for service delivery infrastructure must be met through sustained international assistance. © World Bank

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## FOR YOUR BOOKSHELF



The Microfinance Revolution: Sustainable Finance for the Poor  
by Marguerite Robinson

[Click here to order this book from InfoShop.](#)

Around the world, a revolution is occurring in finance for low-income people. The microfinance revolution is delivering financial services to the economically active poor on a large scale through competing, financially self-sufficient institutions. In a few countries this has already happened; in others it is under way. The emerging microfinance industry has profound implications for social and economic development. For the first time in history, capital is well on its way to being democratized.

The Microfinance Revolution is aimed at a diverse readership: economists, bankers, policymakers, donors, and social scientists; microfinance practitioners and specialists in local finance and rural and urban development; and members of the general public interested in development.

"A magnificent work" - Elizabeth Littlefield, CEO, Consultative Group to Assist the Poorest (CGAP)

"A much-needed wake-up call for economists" - David E. Bloom, Clarence James Gamble Professor of Economics and Demography, Harvard University

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Published by the North American Affairs team, Sans Poverty highlights World Bank projects, policies and programs. We aim

to make it a concise, interesting and informative read. Please send us your comments at [info\\_us@worldbank.org](mailto:info_us@worldbank.org).

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