



MICROFINANCE: A KEY TOOL IN THE FIGHT AGAINST POVERTY AND THE EMPOWERMENT OF THE WORLD'S POOR—ESPECIALLY WOMEN

Microfinance is an effective low-cost investment with large returns

What is microfinance? Microfinance offers poor people access to credit and other financial services and gives them a chance to work their way out of poverty. Loans, often as little as \$50 or \$100, enable very poor people, especially women, to start or expand tiny businesses without depending on money-lenders who often demand exorbitant interest rates.

Why is microfinance so effective? Micro-loans are development assistance that is recycled, not lost. Every dollar committed to microfinance is multiplied several times over when loans are repaid and lent to other needy entrepreneurs. Study after study has shown that in spite of poverty, high risk and rapidly changing environments, good microfinance programs boast a repayment rate of more than 95 percent.

Why is microfinance especially important for women?

Microfinance increases opportunities for women: Across Africa, young girls and women are faced with limited opportunities. After formal schooling (for those girls who are lucky enough to go to school), too many women have no choice but to turn to commercial sex work and other risky behavior to make ends meet and provide for themselves and their families. This is because traditional forms of credit are not available to women in many parts of the developing world because they lack capital and assets such as land. Microfinance programs offer them an alternative to a life of despair, providing them with the income they need to start small businesses and earn a living with dignity. The independence and autonomy provided by a secure source of income can also be a lifeline for women facing domestic violence.

Microfinance provides young women with a future: For young girls, a microcredit loan can be a path to a brighter future, allowing families to avoid desperate choices such as marrying off young daughters to older men, or adolescent girls being forced to take up with older “sugar daddies” in exchange for food and money.

US programs on microfinance are already working: Microfinance has been shown to be an effective intervention to reach women—microfinance programs run by the United States Agency for International Development have encouraged women's participation and, according to data of the Agency, women have comprised two-thirds or more of the micro-loan clients in Agency-funded microenterprise projects since 1997.

Microfinance has a multiplier effect and transforms whole communities

- Microfinance programs fit well into broader community development and are complimentary to ongoing health and education programs across Africa. Increased income generated by microloans has an immediate and lasting impact on quality of life for millions of families — the ability to afford food, shelter, education and healthcare.
- Children of borrowers are more likely to be in school and to enjoy better nutrition than those of non-borrowers. This is especially significant given the impact that getting and keeping girls in school has on reductions in HIV infection
- Microloans can also spur community development—as businesses income increases, they are able to expand and the effects spread beyond the family into the local community, through contribution to the local economy and employment of others. Access to financial services and the development of microenterprises are also vital factors in the stable growth of developing countries and in the development of free, open, and equitable international economic systems.



- Many microfinance programs work on the concept of group loaning and offer their members important experiences with civic participation and engagement. Thus, the benefits of microenterprise don't just help individuals grow strong businesses; rather, they help entire communities to develop and prosper.

Microfinance can be an integral part of HIV/AIDS prevention and care strategies as well as broader healthcare and education efforts

Microfinance as a vehicle through which to reach people:

Microfinance structures already in place, particularly group models that meet as often as weekly, provide a structure for the deployment of health education. Microfinance organizations are already delivering education services in child nutrition, group management skills, marketing skills, and accounting for business and have a built in capacity to add more services. The devastation wrought by the HIV/AIDS pandemic is compounded by the prevalence of tuberculosis and malaria, widely recognized as diseases of poverty. Microfinance can help people onto the path out of poverty and educate them about how to protect themselves from, AIDS, TB and malaria can help keep them and their families and communities on that path.

Microfinance as a tool in the fight against HIV/AIDS:

Microfinance programs and the income they generate offer an opportunity to fight the poverty and vulnerability that makes women and all poor people susceptible to HIV/AIDS. Furthermore, access to microfinance is crucial in communities devastated by AIDS to provide caretakers with income. For example, an estimated eighty percent of borrowers of the FINCA program in Uganda are caring for AIDS orphans. A survey of 750 Opportunity International clients in Uganda and Zimbabwe revealed that on average, these clients cared for 2.3 AIDS orphans each and that thirty percent of their business income is diverted to AIDS-related expenses.

What is the Potential for Scaling up Microfinance?

Today, more than 2,500 microfinance institutions are serving more than 80 million clients worldwide, but just under six million of these people are in Sub-Saharan Africa. The potential for expanding microfinance activities in Africa is vast, as are the opportunities to adapt microfinance instruments for AIDS-affected communities. If current activities could be expanded to reach just an additional 500,000 very poor women in Africa, 2.5 million lives could be impacted. The estimated cost of reaching these half a million women is just \$100 million and the benefits will be spread to their communities and families, playing a critical role in the fight against AIDS and extreme poverty¹.

¹ The Microcredit Summit's Declaration and Plan of Action estimated that it costs \$200 per poor client: \$150 in loan capital and an additional \$50 in technical assistance and institutional development costs. (www.microcreditsummit.org)