

MICROFINANCE



Poor families rarely have spare resources to invest in their future to lift them out of poverty. Plan works together with local institutions in developing countries to establish programs that offer financial services to the poor. These programs improve the lives of poor people and their children by promoting their economic security and increasing their ability to manage and reduce financial risks.

“The life of the poor is one long risk” Microfinance client in the Philippines

Background

Around 1.2 billion people live on less than US\$1 a day; 75% of these people are women.ⁱ Many have little or no access to health care and lack the means to provide sufficient nutritional food for themselves and their families. This level of poverty is associated with a sense of powerlessness and vulnerability, as well as the physical and social underdevelopment of children.

Microfinance, the provision of small loans and savings facilities, is an effective way for poor people to increase their economic security and thus reduce poverty. Microfinance enables poor people to manage their limited financial resources, reduce the impact of economic shocks and increase their assets and incomeⁱⁱ. Women who participate in microfinance programs generally develop a stronger ability to negotiate on behalf of themselves and their children.

Unfortunately the majority of the world's poor do not have access to formal microfinance services. Many have to turn to informal moneylenders who charge exorbitant interest rates. Savings are very important to poor people, but without a safe place to keep their money they are vulnerable to losing their valuable savings. The need to find a safe place to keep savings is so strong that poor people are willing to pay others to take on the responsibilityⁱⁱⁱ.

Plan's Response

Plan is committed to increasing access to microfinance services for the very poor, and places a special emphasis on access for women. Plan works in partnership with local microfinance organisations to establish and support lending and saving programs that can eventually become financially self-sufficient. This in turn has a positive impact on the lives of poor children.

Trusting and collaborative partnerships are at the heart of Plan's microfinance programs. Plan works with partner organisations to create business plans and weigh up the strengths and weaknesses of potential programs. Start up costs and technical support are provided to ensure each program has a sustainable and positive impact on the community that it is serving.

Plan has joined hundreds of other organisations in a global commitment to reaching 100 million women with credit for self-employment, and other financial and business services by the year 2005^{iv}.

Philippines

Araceli is from a rural village in the Philippines. Her husband is a farm tenant and their family relies on a share of the seasonal rice harvest as the main source of income. To supplement their earnings, Araceli takes care of her neighbours' livestock and makes brooms. For her household, being poor meant having to set aside a handful of rice whenever a meal is prepared to ensure they have something to eat the next day.

Several years ago Araceli encountered the Centre for Agriculture and Rural Development, a microfinance organisation that has a partnership with Plan Philippines. Araceli invested her first loan (\$25) in petty rice trading. Her second

loan (\$125) allowed her to produce more brooms, the volume sufficient to venture to Manila where she could sell them for double the price offered by local traders. With her third loan (\$175), she bought a cow. A fourth loan (\$250) was again invested in her broom making enterprise. With another loan (\$1,250) and some savings, Araceli bought the farm her husband was tilling from their landlord of many years. Araceli now has 28 cows.

For maintaining an impressive loan record, Araceli was given the opportunity to get an “accelerated” loan (\$3,125), which she used to buy a residential property in the town centre. With discipline, hard work, an undying entrepreneurial spirit and access to savings and credit services, Araceli has built a bright and secure future for her family. Household income from her enterprises and the farm has so improved and been sustained that her three children have been able to go to college – an achievement most farm tenants can only dream of.

ⁱ The World Bank *World Development Report 2000/2001: Attacking Poverty* (Oxford University Press, New York) 2001.

ⁱⁱ Jonathan Morduch and Barbara Haley for Canadian International Development Agency *Analysis of the Effects of Microfinance on Poverty Reduction* November 2001

ⁱⁱⁱ S. Rutherford *The Poor and their Money*. p.13

^{iv} The Microcredit summit campaign was organized in 1997. This is a global movement that involves Governments, foundations, networks and practitioners of the microfinance community. The goal is to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services, by the year 2005.