

MICROFINANCE

AN EMPLOYERS' GUIDE

INTERNATIONAL ORGANISATION OF EMPLOYERS

May 2006

PREFACE

Microfinance is the provision – on a sustainable basis - of financial services to those that have difficulties in accessing the financial market. Microfinance and micro-credit are often used interchangeably, they are, however, different. Microfinance in itself is a wider concept covering a number of different elements such as loans, savings, leasing, guarantees, insurance, transfer services and other financial services and products targeted at low income clients. This guide focuses more broadly on ‘microfinance’.

The role played by microfinance and microfinance institutions (hereafter ‘MFIs’) will evidently differ depending on the given national social, economic and cultural circumstances. Likewise the role that employers’ organizations will play will differ depending on their role and mandate.

This short guide is not an exhaustive document dealing with every aspect of microfinance but has been written to assist employers’ organizations in developing and defining an appropriate role in national microfinance strategies, where this is relevant. That role can vary from being one of advocacy to deeper partnership approaches with MFIs. In cases, employers’ organizations themselves can seek to take on a more direct role.

This guide outlines the different approaches employers’ organizations can take and provides some examples of their activities and those of their member companies in this area. The information for this guide was gathered from IOE member organizations in 2005 as part of the ongoing work of the Secretariat.

It will be used to guide work with interested employer’ organizations in acquiring the capacity to deliver services in any one of the areas outlined; the guide also helps to structure the IOE position on work by the ILO, following the adoption in November 2005 by the ILO of a policy and strategy on microfinance.

INTRODUCTORY REMARKS

Microfinance is a complex subject and it means different things to different people. Broadly speaking it has two sides: a protective and a productive side. The protective side focuses on microfinance applications that reduce the vulnerability of low-income clients - for example, through appropriate savings services, micro-insurance and emergency loans. The productive side of microfinance – and this is the angle most employer’ organizations (EOs) will be more interested in – looks at the use of appropriate credit, leasing, guarantee, insurance and transfer services for investment, production and growth.

Microfinance has sprung up over the past twenty years or so as a result of serious market imperfections and policy failures, especially - but not exclusively - in poor economies. The importance of access to finance for investment is a key determinant for the profitability and even survival of enterprises, particularly in those economies with a predominance of micro and small enterprises.

This guide provides a number of cases that illustrate the different levels of involvement of EOs in this field, ranging from information exchange and referral services (e.g. legal advice on property registries or the deductibility of capital costs) to advocacy and lobbying on everything from interest rate policies to actually providing, via a subordinated agency, risk-sharing instruments that facilitate access to finance (such as a guarantee fund).

Microfinance can make a powerful contribution to employment generation and wealth creation in developing, transition and developed economies. Conceptually it is driven by the simple idea that individuals need access to affordable financial services that will allow them to make deposits, transfer funds, access insurance and invest in what they consider most important. Often, the lack of access to these services inhibits individuals from managing risk and planning for the future, and does not provide an important buffer for sudden emergencies, business risks, and seasonal slumps.

Microfinance is not something that is uniquely confined to developing or transition economies; it can be a vital source of finance for struggling entrepreneurs in developed countries and be a real springboard to get unemployed people back into the workforce.² The real difference with microfinance is that, unlike many development strategies, it is a ‘bottom up’ process – it is driven by an individual’s desire and motivation to climb up the prosperity ladder. It is this individual motivation that leads to high rates of repayment and low defaults.

“Microfinance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change peoples’ lives for the better, especially the lives of those who need it most.”

Kofi Annan, UN Secretary-General

² In Europe the European Commission estimates that 90% of the 2 million businesses created in Europe every year have fewer than five employees. A third are launched by the unemployed. The Commission noted that €3.5bn of microfinance - defined as loans to small business below €25,000 - was provided in the European Union's 25 member States in 2001.

EMPLOYERS' ORGANIZATIONS: *DEVELOPING A ROLE*

Financial policies which concern changes in the interest rate, access to the financial market for new banks, operating conditions for banks and financial institutions that cater to enterprises, as well as commercial law dispositions that regulate contracts between lender and borrower are the parameters for investment, production and employment creation. Employers' organizations therefore at one point or another may be called upon to take policy positions on these issues.

For legal or regulatory reasons employers' organizations may not always be able to become directly involved in delivering financial services. EOs are in most cases not designed to take on a direct role on financial intermediation, either as lender, borrower or guarantor. However, there are examples of EOs establishing separate financing entities (see section f).

EOs are more likely to focus on: a lobbying role; in facilitating access for members to financing institutions; or building relationships with banks and microfinance institutions (MFIs).

The first step for an EO is to establish whether access to finance is a problem and/or whether it is a high priority for its current membership. Additionally, it needs to ascertain if it is a broader obstacle for the wider business community, in particular micro and small enterprises. It then needs to determine what role it, as a national organization, can play. This decision will be based on issues such as:

- *How important an issue is it? For instance, if access to finance is a major constraint on business and potential enterprises then it is acting as a cap on membership development (i.e. potential members of the organization cannot grow).*
- *What capacities the organization has and how can they be used most effectively? If these capacities do not exist yet, how can they be best built up? Who would pay for this?*
- *Does the organization have the technical resources to lobby for changes or should it partner with others?*
- *Does the wider membership recognize access to finance as a major issue and is it prepared to pay for these services – at least up to a point?*
- *Does the organization have relationships and alliances with other organizations with similar goals that could work in partnership on the issue?*
- *Is the issue an opportunity to raise the profile of the organization as an advocate of SME issues and in the process position itself for membership development in that sector?*

Pakistan: Cluster financing loom operators

Quality production – but working in isolation

In the Pakistani city of Hyderabad business activities consist mainly of trade in a range of goods and agricultural commodities as well as the manufacture of woven fabrics, glass bangles and spices. Fabrics are woven using looms and there is a large number of such loom operators in various parts of the city. The products they produce are sold locally to retailers and also to wholesalers from neighbouring cities, including Karachi.

The fabric is mostly sold on the basis of a 45-day credit note. This means that weavers must wait a month and a half for payment. In some cases this can restrict the cash flow needed to buy new materials to undertake new work. Nonetheless, the quality of work is high and products are in great demand. Many wholesalers export the fabric to Europe.

These loom operators do not have the resources to expand their operations. They have been in business for generations and fabric manufacturing is the only source of income for the families. The majority of loom operators work in an unorganized fashion, without proper bookkeeping or accounting systems and without adequate management systems for handling orders and production. Most of them do not realize the potential that exists in terms of the market and how their businesses might expand to meet demand. In fact, most of them under-rate their businesses and do not believe that a bank or other financial institution would provide them with access to finance.

Cluster financing approach of the Employers' Federation of Pakistan (EFP)

The Employers' Federation of Pakistan was well aware of the activities of fabric makers. The federation studied the sector, its officers visited the workshops of loom operators and the EFP felt that it might be able to assist in making the sector more successful. Based on its knowledge, the EFP decided that a cluster financing approach might be useful.

The Federation approached the local association of loom operators with the idea. The association's Executive Committee was apprised of the concept of cluster financing and a strategy was developed. Under the scheme a group of fifty loom owners moved their operations to a Common Facility Centre, where each owner was allocated a specific workspace. The rent was shared by all fifty in proportion to the space allocated. A central accounting department and an administration department were established to assist the owners. With this concentration of businesses, the centre was able to attract three SME finance institutions (two leasing companies and a commercial bank). The leasing companies financed the leasing of looms so that the businesses could expand. Meanwhile, the commercial bank provided working capital to finance the additional raw material requirements of the operators.

In addition to the financing, the technical and marketing aspects of the loom operators was also given due importance. Operators were provided with training to upgrade their skills and with information about markets and export opportunities. As a result of the technical and financial support, the fifty enterprises have experienced a doubling of their turnover and eighteen of them have started to export. The involvement of the EFP began in July 2004 and ended in March 2005 as the centre became viable.

(a) Shaping an Advocacy Role

Successful microfinance projects generally require well-developed regulatory frameworks to ensure that they are sustainable. In this connection, EOs can have a role in identifying the key impediments to efficient forms of financial intermediation and then subsequently lobby to clear them.

A lobbying agenda could range from explicit actions, whereby a specific obstacle has been identified by members for action (e.g. interest rate ceilings or the need for certain fiscal incentives) to more general efforts. For example, EOs can position themselves as advocates on general issues such as corruption and specifically highlight its malign influence on microfinance (corruption raises the cost of financial transactions, allows undesirable transactions to take place and undermines consumer confidence in the financial system) or the ‘social impact’ poor access to finance can have. Lack of collateral can be for many would-be entrepreneurs a barrier to accessing formal credit institutions and leave illicit means such as illegal money lenders as the only financing options.

What microfinance can do is to remove *one* constraint to entrepreneurship and enterprise development. It is however not a panacea in itself. If a small entrepreneur is facing a whole range of constraints, one of which is the availability of working credit and investment credit, then microfinance would help relieve that constraint, not the others. Having an extremely open and efficient system of financing is pointless if other obstacles in the business environment emasculate enterprise start-up and development. For instance, inadequate property laws can make it impossible for poor borrowers to use assets such as their homes as collateral for loans. MFIs can help address this issue and promote the idea of recognition of informally existing property rights.

Constraints and obstacles for financing will form one strand of an EO’s lobbying efforts. Commissioning research, either independently or with other partners, can be a valuable component of such efforts. EOs should first however look to existing research and data. A useful resource in these efforts is the World Bank’s **Doing Business** database³. This database provides comparative data on the business environment across 155 countries. Specifically the database will provide EOs with data on the ease of access to finance.

The table hereafter (data from 2005) shows the main indicators, which include: a Legal Rights Index, which measures the degree to which collateral and bankruptcy laws facilitate lending; a Credit Information Index, which measures rules affecting the scope, access and quality of credit information; public credit registry coverage; and private credit bureau coverage. The index provides individual breakdowns by country.

³ <http://www.doingbusiness.org/>

<u>Region or Economy</u>	<u>Legal Rights Index</u>	<u>Credit Information Index</u>	<u>Public registry coverage (% adults)</u>	<u>Private bureau coverage (% adults)</u>
East Asia & Pacific	5.3	1.8	1.7	9.6
Europe & Central Asia	5.6	2.5	1.4	6.6
Latin America & Caribbean	3.8	4.5	11.5	31.2
Middle East & North Africa	4.1	2.0	1.9	1.7
OECD: High income	6.3	5.0	7.5	59.0
South Asia	3.8	1.8	0.1	0.6
Sub-Saharan Africa	4.4	1.5	0.8	3.5

Microfinance – helping to formalize businesses

The leading and oldest Egyptian microfinance institution (MFI) is the Alexandria Business Association (ABA), established in 1983) with the objective of providing support to the private sector, promoting the interest of business and representing the sector to the government.

In 1989 ABA (with USAID) created the ABA Small and Micro Enterprises Project offering financing to existing small and micro-entrepreneurs of the governorate (the entity was registered with the Ministry of Social Affairs in 1988 as a private non-profit organization).

Besides the usual goals of income generation and better yield for the micro-entrepreneurs, this programme aims at improving social, cultural and health standards and at **integrating micro businesses into the formal sector**: the eligibility requirements (below) are tied with assistance and business development services to the clients to accomplish them.

Loan Size	Requirements
US\$500	Personal ID Card/Fixed Business address
US\$800	Ability to read and write
US\$1,250	Social Security Certificate
US\$1,600	Tax card
US\$2,500	Bank Checking Account
US\$3,300	Financial Statement for the Business & Tax Statement

In 2001, it strengthened its position with a grant activity programme aimed at helping unemployed people to start businesses through a conditional grant. 75% of the grant beneficiaries sustained their businesses. The new ABA has reached its goals of promoting existing small and micro enterprises, to raise the incomes of SMEs and to help their transformation from informal to formal. **In 2004, around 1,400 clients out of 24,000 active clients formalized their activities.** It took them between 1.5 and 3 years. For more information contact the Federation of Egyptian Industries (FEI): <http://www.fe.org.eg>

Achieving better access to Finance in Africa: How EOs can advocate effectively for policy change

Efforts to liberalize the financial sector in four African countries (Benin, Ghana, Senegal and Zimbabwe) have not systematically improved access to the financial market. Through an ILO programme (“Impact of Financial Sector Liberalization on the Poor”) each of the four countries formed ‘national steering committees’ or NSCs (with key EO participation)³ to test whether measures to liberalize the financial sector were actually impacting positively in terms of increased competition and access to finance.

The research work carried out under the programme examined supply and demand side changes as a result of relaxed refinancing requirements, withdrawal of the State from the ownership and management of banks, the closure of development finance institutions and incentives for foreign banks to enter the domestic financial market. Many of the issues that arose were matters of direct concern to businesses: changes in lending volumes to SMEs, modification in overall transaction costs as a result of liberalization, changed patterns in repayment performance, etc.

In all four cases the clear finding was that the measures taken had not improved tangible access conditions for most domestic businesses. The number of banks did not increase, many more foreign banks were not established, and existing banks were more concerned with consolidating their financial performance than making efforts to reach out – by way of financial innovations – to small and medium enterprises.

These findings allowed the NSCs to go back to the monetary authorities and Ministries of Finance and argue for supplementary measures (primarily in the area of risk-reducing infrastructural improvements, such as guarantee funds, credit rating agencies and fiscal incentives). The process as a whole allowed employer/business associations to have a more sustained dialogue with monetary authorities and learn about the intricacies of financial sector development.

Two key lessons emerged from this exercise. First, policy dialogue is a long process; it took time for the NSCs to acquire authority and be accepted by the central banks. Second, sometimes employer organizations have more visibility and impact if they join other interest groups with similar objectives.

³ The employers’ – or in a larger sense, business – organizations involved in the four NSCs were: Private Enterprise Foundation (PEF) in Ghana; the Chambre de Commerce et de l’Industrie du Bénin (CCIB) and the Conseil National du Patronat in Benin; the Chambre de Commerce d’Industrie et d’Agriculture de Dakar (CCIAD); the Confederation of Zimbabwe Industries (CZI), the Zimbabwe National Chamber of Commerce (ZNCC) and the Indigenous Business Women Organization (IBWO) in Zimbabwe.

(a) Guiding Government Policy

Some employers' organizations will play facilitation roles and look to guide government policy. For instance, some EOs advise governments on the formation of institutions that help to spread risk and build the trust needed for loans. Such institutions can assist entrepreneurs who lack a guarantor to secure lending from a financial institution. Other examples include consortium type organizations where, once a potential members' business plan has been approved, he or she can formally join a peer-review type collective institution (and receive for example access to the group's low interest creditors or receive loan guarantees).

Ideally, governments should not play a direct role in the provision of microfinance; moreover, experience has shown that governments generally lack the technical skills and political independence needed to manage microfinance programmes effectively.

EOs can raise awareness of the costs and benefits of the most pervasive government interventions within the business community. A number of government interventions can in fact be harmful to the development of microfinance – for example, interest rate ceilings can make it too hard for MFIs to emerge and then to stay in business and can undermine the profitability of lending (and thus reduce the supply of loans). On the other hand, members of EOs may also lobby against the high cost of credit demanded by MFIs precisely because they need to build up a cost-covering operation and start-up costs are high for them. Likewise, subsidizing credit at the customer level can lead to high default levels, distort the market and not get to the clients it was intended to help.

“The long-term goal should be to have private financial institutions supporting small and medium enterprises — and to encourage well-functioning capital markets. This will require putting into place and developing credit bureaus and other mechanisms to provide credit references — an effective way of strengthening financial systems.”

**Report of the UN Commission on the Private Sector and Development
‘Unleashing entrepreneurship: making business work for the poor’**

EOs should advocate for market orientated solutions to gaps in financing options. However, in some cases subsidized finance, while not an ideal type of finance because it transfers resources on political grounds and can distort the market, may be necessary to create a market and it can have long term benefits for society if done properly. In particular, it is useful in markets which do not function properly because of inadequate institutions, weak property rights or other such reasons. EOs can play a watchdog role in ensuring that subsidized finance does not distort the normal market and that it is used only where market solutions are not possible.

(b) Providing Guidance to Prospective Entrepreneurs

Budding entrepreneurs cannot get off the ground in the first place if they have no access to seed capital – for good ideas to be realized they need that initial investment. Unfortunately for many would-be entrepreneurs getting the start-up capital is the largest barrier. In this connection employers' organizations can play a role in providing guidance to such individuals.

Many microfinance schemes are not applicable to young people without experience or collateral or other guarantees, and financing for young entrepreneurs should be seen as a stand-alone concept. For example, in Sweden what are called *Drivhus* schemes, located in Swedish university campuses are student-driven organizations that aim to enable more students at tertiary level to become entrepreneurs. They essentially aim at fostering ideas that students have and then developing them into concrete projects.

A number of EOs run 'business-education' link programmes⁴ which are one mechanism that EOs and their member companies can use to provide practical advice to prospective entrepreneurs and SMEs on running a business – in particular the financial aspects.

EOs can assist in 'education roles' perhaps through networks where mentors from larger companies could provide advice.⁵ A key role in this respect that EOs can play is through the establishment of *Youth Entrepreneurship Networks*. A number of EOs have established such Networks.⁶ Their objective broadly speaking is to provide young entrepreneurs with representation and advocacy along with specific services such as information and guidance (including financing options).

(c) Working with Microfinance Institutions (MFIs)

Employer organizations can lobby to ensure that the environment in which MFIs operate is conducive to creating and maintaining competitive institutions. Financial institutions need the appropriate skills for lending to entrepreneurs to properly determine the merit of proposals. At the lower end of the lending spectrum, microfinance institutions lend often with little or limited analysis of risk. Furthermore, guidance and training for the beneficiaries of microfinance is essential

⁴ These links take a variety of approaches, such as the partnering of a particular business with a school, which then works with the school in providing site visits or training periods, helping the schools' technology and communications capacity, providing advice on the job market (i.e. job interviews, etc.)

⁵ There are a number of these 'Big-brother type' network schemes. The Big Enterprise – Small Enterprise Productivity Improvement Programme is an example of cooperation which is facilitated by the Employers' Confederation of the Philippines www.ecop.org.ph The Plato Network employs the 'parenthood principle' whereby senior managers from large companies act as facilitators to groups of SMEs and entrepreneurs over a two-year period. www.plato.ie.

⁶ The Employers' Confederation of Mexico (COPARMEX) established its first Network nearly twenty years ago and now has 50 youth chapters throughout the country: www.coparmex.org.mx. The Jamaica Employers' Confederation officially launched a Young Entrepreneurs Association (YEA) in January 2006 (JEF received advice from COPERMEX in this respect: www.jamaicaemployers.com). The Federation of Nepalese Chambers of Commerce and Industry (FNCCI) has developed the Nepalese Youth Entrepreneurs Federation (NYEF) : www.nyef.org.np. APINDO the Indonesia employers have an extensive Network of youth entrepreneurs : <http://www.apindo-id.org>. Employers in Honduras are currently exploring this model (COPERMEX is again assisting in this work).

and they ideally should have some training in the basic principles of entrepreneurial activity.

What is becoming clear is that there are increasing demands for more and better services from MFIs - higher loan amounts, faster turn-around times, lower loan requirements and lower prices (evidence also suggests that customers are willing to comply with higher requirements to receive faster services, larger loans and greater flexibility).

EOs can facilitate in shaping dialogue on such services and can work directly with MFIs in helping them identify new demand driven services. This may entail raising the profile of microfinance and the services that it provides or potentially could provide amongst its membership. It also may entail working closely with MFIs in changing cultural attitudes to microfinance – i.e. start viewing microfinance as part of the global financial system.

EOs can also play an important facilitation role between MFIs and other partners (i.e. member companies). For example, in many instances microfinance is far too labour-intensive (borrowers can typically receive daily visits from their bankers, for example); additionally other means are cumbersome and unreliable (e.g. credit evaluation often relies on character or cash flow evaluation rather than the statistical techniques used by credit card companies in developed companies). EOs can help match potential partners, help exchange technologies and methodologies. For instance, in many developing countries the most effective piece of technology is arguably the mobile phone and new methods of transferring funds through mobile phones are becoming more accessible (mobile phones can now be used to transfer funds directly, pay loans and make deposits. Employer organizations can highlight the potential of this device to governments in its lobbying efforts).⁷

MICROFINANCE IN CROATIA

In Croatia HAMAG - Croatian Agency for Small Business - has been established with the strong support of the Croatian Employers' Association (CEA) to assist entrepreneurs with well drafted business plans but lacking a guarantor. HAMAG in those cases guarantees 60-80% of the total amount:

http://www.hamag.hr/about_us.aspx

⁷ The costs of handsets are decreasing, but often governments are imposing 'connection taxes' and other charges (often as much as 50% of the total cost) which acts as a bar to their further diffusion.

(d) Harnessing Remittances

Remittances from migrants are increasingly playing a major role in many countries' economic development.⁸ Remittances from international migrants to their home countries are now the second-largest source of external finance for developing countries after foreign direct investment.⁹ A study by the World Bank found that, in some cases, remittances were even larger than official development aid.¹⁰ Additionally, while international capital flows have fluctuated with market cycles, remittances have increased, even during economic recession. They are perhaps one of the most stable forms of finance.

It now is becoming easier to access remittances. While many commercial banks in the past have been hesitant to enter the remittances sector because of a combination of high licence fees required to offer the service, unregulated workers sending money (i.e. no visa) that is now changing. For instance, in the US some banks are now offering services to account holders who want to send remittances to certain Latin and Central American countries (as well as Mexico) without charge (the money can be retrieved at other banks and payment agencies).

As such a stable source of finance remittances can (and does) play a major role in financing enterprise creation and development. EOs could potentially play a facilitation role in harnessing remittances into local opportunities and helping to scale-up such opportunities.¹¹ EOs can raise awareness of the role of remittances and lobby national governments to play a more active role in seeking to capitalize on remittances.¹² EOs could also partner with EOs in countries with a large or growing migrant population (from the home country) to promote use of remittances for national development projects.

The employers' organization in Honduras - *Consejo Hondureño de la Empresa Privada (COHEP)* - with financial assistance from the Government of China (Taiwan), established in 2002 a separate foundation which provides micro-finance facilities to micro, small and medium-sized enterprises. The foundation targets enterprises across a range of sectors. Due to the excellent results in its first two years of operation, the financial assistance has been doubled.

Most loans to enterprises are for business expansion, purchase of new machinery or tools or funds relative to sales strategies. Minimum loans are US\$500, with maximum loans of US\$5,000 (there is an interest rate of 0%). COHEP charges the foundation an administrative fee. For further information contact: <http://www.cohep.com>.

⁸ <http://www.ilo.org/public/english/employment/finance/download/remitt.pdf>

⁹ In 2004, remittances to developing countries exceeded \$126 billion -- up nearly 48.7 percent from 2001. India received \$17.4 billion during 2004, Mexico \$14.6 billion, Philippines \$7.9 billion, China \$4.6 billion, Pakistan \$4 billion, Morocco \$3.6 billion and Bangladesh \$3.2 billion. Actual amounts were probably much larger because they often flow through informal channels eluding official data collection. The US was the largest source of workers' remittances (\$34.1 billion) followed by Saudi Arabia (\$14.9 billion). They were followed by Germany (\$9.9 billion), Switzerland \$9.2 billion and France \$4.7 billion.

¹⁰ 1989-2000 officially reported remittances were about 20% more than all official development aid

¹¹ In Jalandhar District in Punjab, a north Indian state, remittances received in the 1970s contributed to the Green Revolution in the State by enabling families to purchase tractors, fertilizers, etc, to increase agricultural production.

¹² For example, the Indian government campaigns in countries with large Indian migrant populations urging its professional emigrants to invest in Indian remittance-backed bonds. Indian banks market the bonds and they are capitalized on the flow of future remittance monies to India. Some developing countries have found that foreign currency accounts with prime rates of exchange and prime/assured interest rates are a useful way to attract expatriate earnings

MONTENEGRIN EMPLOYERS' INITIATIVE ON MICROFINANCE

The Montenegrin Union of Employers (MUE) launched a major initiative, jointly with the IOE, on Microfinance in February 2006. MUE had commissioned a number of studies seeking to identify the key obstacles to smaller enterprise creation and development in Montenegro. Access to finance was consistently identified as the main barrier. There are limited providers of capital to small entities and the MUE identified a major gap in the market. They saw the initiative in three ways:

- a) as a means to develop small enterprises in Montenegro;
- b) in positioning the MUE as an organization increasingly representative of the interests of SMEs;
- c) as a commercial opportunity for the MUE

Nationally the initiative had the support of the Central Bank and the national agency for SME development, the heads of both those organizations attended along with the Minister for Economy, who represented the Government. The importance of the initiative was reflected in the widespread media coverage.

MUE also engaged the ILO, the European Bank for Reconstruction and Development (EBRD), employers from Croatia and Bosnia Herzegovina, and organizations representing microfinance institutions in Bosnia Herzegovina in the exercise.

(f) Employer organizations: *Playing a direct role*

In rare cases the EO itself may wish to play a direct role in microfinance, although the majority of EOs prefer not to go down this route. This would entail the establishment of a separate entity by the EO. This may be an option in countries where the current providers are inadequate and a real gap exists in the market. In Montenegro, for example, the Montenegrin Union of Employers (MUE) is currently pursuing this option. In Cameroon the employers (GICAM) are also currently examining a similar initiative where they have identified a gap in the market.

FINANCIAL INSTITUTIONS AND EMPLOYER ORGANIZATIONS

In the 1990s, commercial banks gradually began to expand their activities into the microfinance sector. Some microfinance institutions (MFIs) also transformed from non-governmental organisations (NGOs) into licensed banks, thus becoming a part of the formally regulated financial services industry. In this hybrid sector, mainstream financial institutions and specialized microfinance institutions meet and influence each other.

There are two reasons for international banks to become involved in microfinance. On the one hand, they can use microfinance to advance their Corporate Social Responsibility (CSR) policies. On the other hand, many international banks are also involved in microfinance as a means to achieve more or less immediate business targets. Microfinance can lead to market development when banks assist small informal-economy businesses which subsequently evolve into better-run and somewhat larger businesses. The same can be done at the level of microfinance institutions, which grow from weak financial actors into strong ones.

Many banks seem to be following a ‘dual strategy’, in which they combine both types of objectives; they cannot usually rely on only one. Microfinance is still a modest operation and the costs and risks incurred may be high compared to traditional banking activities. In addition, international banks are still lacking the necessary experience, the branch network and sometimes the specialized personnel that can turn microfinance into a major operation. At the other end of the continuum, ignoring profit figures would result in merely token forms of involvement, not in substantial investments.

Some express a fear that, if such financial institutions pursue microfinance in purely business terms, that could leave them open to criticism of profiteering from the poor (while in fact the opposite is the case). However, that attitude and those fears seems to be changing and there is greater realization that access to capital that major financial institutions bring has the potential to really radicalize microfinance.

A number of banks are now offering services such as debit cards that can be used to draw on international accounts. Models are emerging that demonstrate the potential for microfinance to become part of mainstream financial systems. Creative new delivery channels for microfinance are coming on stream, aided in a number of cases by new information technology.¹³ Microfinance providers are also increasingly partnering with others and looking at new ways to deliver financial services through, for example, retail outlets, internet kiosks and Post Offices.

¹³ The Consultative Group to Assist the Poor (CGAP) website has the latest news on debit cards etc: <http://www.cgap.org/>:

Microfinance in Jamaica: Scotiabank

Micro Enterprise Financing Ltd. (MEFL) was established in inner-city Kingston, Jamaica in November 2002 and is a unique partnership between Scotiabank Jamaica (which is a leading member of the Canadian Employers' Council), the Canadian International Development Agency (CIDA) and the Kingston Restoration Company (KRC). Scotiabank provided CAN\$2 million in start-up capital at a nominal rate, and oversees MEFL's operations and the Bank's Managing Director in Jamaica is on MEFL's board. MEFL's target customer base is persons who would not normally have access to credit (especially women and the underprivileged).

In the three years since MEFL began operating, it has granted more than 6,551 new and repeat loans to 1,365 clients, 81% of them women. Clients receive business and personal development training from MEFL's officers, and are mentored and monitored as their loans are paid off. They are organized into small groups, with each member guaranteeing the others' loans. The repayment rate is currently 97%: <http://www.nextbillion.net/node/1589>.

In the short to medium term, combining CSR and concrete commercial objectives appears to be an effective way to make long-term investments in the microfinance sector. In the future, this strategy may enable international banks to gradually emphasize the commercial side over the CSR side, and thus increase their commitment to microfinance activities.

Employers' organizations can both take a leadership role in these developments – raising awareness of the opportunities presented by microfinance – while at the same time playing a role in facilitating dialogue amongst financial institutions in terms of this twin commercial/CSR path. EOs can also help facilitate dialogue between member companies from the financial sector and smaller entities, providing a forum where issues affecting both can be discussed and hopefully resolved.

COLLECTIVE APPROACHES: THE DUTCH EXPERIENCE

In the Netherlands, after some early initiatives in the mid-1990s from NGOs, a Platform for Microfinance was established in 2003, in which several banks, NGOs, the Ministry of Foreign Affairs and several development agencies participate. In 2004 the portfolio of loans, guarantees and investment shares had already reached a volume of over €200 million. Currently fifteen organizations cooperate in the platform. <http://www.micro-finance.nl>

ING

ING has set up ING Microfinance Support, a programme based in the Netherlands which aims at raising awareness of microfinance and gives Dutch employees of the Group the opportunity to participate in Microfinance efforts. Three thousand employees joined the Special network and may be active in awareness-raising activities for microfinance as well as by providing technical assistance to MFIs or by investing in micro credit funds. Since 2004, ING has had an alliance with Oikocredit, an international organization based in the Netherlands that supports and invests in MFIs. Under this agreement, these MFIs are entitled to request technical assistance from ING. In 2004, sixteen projects were executed in the Netherlands and in various emerging markets (Mexico, Montenegro, Nicaragua, Philippines, Russia, Serbia and Sierra Leone). In 2006 ING will work with twenty five MFIs in building their capacity.

RABOBANK

The Rabobank Foundation was established in 1973. Its focus outside the Netherlands is on support for people who have no access to financial services. The Foundation pursues its objectives by supporting cooperatives or member-based organizations which offer an opportunity to save, borrow or insure. Rabobank Foundation supports development projects in a variety of ways: for instance, donations can be provided for institutional development, loans for credit schemes, guarantees, and holdings in risk-bearing capital. Trade finance can also be provided, a prime example being the funding of Fair Trade products. In addition, the Foundation makes its expertise in the field of cooperative banking available in the form of on-site technical assistance. The Foundation's assistance is aimed at helping the recipient organization to develop into a sound financial institution and it supports an average of one hundred and fifty projects each year: fifty in the Netherlands and one hundred in over forty countries.

The Dutch Employers VNO-NCW have worked closely with a number of their members from the financial sector on microfinance initiatives (efforts are currently underway to link initiatives by their members to work at ILO level).

EOs which in particular are looking to expand membership amongst smaller entities need to demonstrate to that constituency the value of membership of the organization – what benefits, large and small, membership brings. Advocacy efforts could focus on getting better access to finance and better credit options (e.g. seeking better sharing of credit information and stronger legal rights in terms of bankruptcy along with more efficient enforcement).

Enterprises and in particular small enterprises are more likely to interact effectively with financial institutions in countries with sound legislative environment. One study shows that small firms are 40% more likely to have a bank loan in countries with credit registries for the simple reason that registries help sort good borrowers from bad.¹⁴ EOs can raise awareness of the need for an environment that is conducive to competition, as more competition will help reduce costs. One argument in this respect could be the need for credit ratings agencies that provide an independent assessment of institutions as these can make it easier for financial institutions to enter new markets.

CONCLUDING REMARKS

Employers' organizations, as key national actors, play an important leadership role in society, leading opinion and raising awareness of crucial issues that impact on enterprise creation and development (and as a consequence, broader society).

Access to finance, or rather lack of, is one such critical issue. Without adequate access to finance enterprise development will be stunted. Opportunities to grow and expand and, consequently, create more employment will be retarded. EOs therefore have a major stake in this respect. The main question for consideration is how they should shape that engagement.

¹⁴ Love and Mylenko (2003)

RESOURCES

www.ilo.org/socialfinance: ILO
www.uncdf.org : UN Capital Fund
<http://www.cgap.org/>: Consultative Group to Assist the Poorest
www.yearofmicrocredit.org: International Year of Microcredit 2005
www.microcreditsummit.org: Microcredit Summit
www.fdc.org: Foundation for Development Cooperation
www.microfinance.lu : ADA (Appui au Développement Autonome)

Associations

www.seepnetwork.org: Small Enterprise Education Network
www.microenterpriseworks.org: Association for Enterprise Opportunity
www.mfnetwork.org: Microfinance Network
www.afmin-ci.org: Africa Microfinance Network
www.sanabelnetwork.org: Sanabel Microfinance Network of Arab Countries
www.mfc.org.pl : Microfinance Center for Central and Eastern Europe and the New Independent States - MFC
<http://www.european-microfinance.org>: European Microfinance Network
www.woccu.com : The world council of Credit Unions :

Affiliate Networks

www.accion.org: ACCION International
<http://www.swwb.org/English/1000/> : Women's World Banking
www.villagebanking.org: FINCA International Village Banking

Multilateral Organizations

http://www.europa.eu.int/comm/enterprise/entrepreneurship/financing/index_en.htm : European Union Commission - Access to Finance:
www.adb.org/microfinance: Asian Development Bank
www.afdb.org :African Development Bank
www.ifad.org: International Fund for Agricultural Development
www.iadb.org/sds/mic/publication/gen_159_3802_e.htm: Inter-American Development Bank
www.ifc.org/sme: International Finance Corporation
www.uncdf.org/english/microfinance: United Nations Capital Development Fund

Training

www.itcilo.org/microfinance: The Boulder Microfinance Training Program
www.ruralfinance.org: Rural Finance Learning Centre

Virtual Libraries

www.microfinancegateway.org: Microfinance Gateway
www.lamicrofinance.org : le Portail Microfinance
www.gdrc.org/icm :Virtual Library on Microcredit
www.alternative-finance.org.uk: Alternative Finance

Journals

www.microjournal.com: Journal of Microfinance
<http://www.itdgpublishing.org.uk/sed.htm>: Small Enterprise Development

Microfinance Institutions

www.grameen.com
www.sewa.org

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