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United Nations Industrial Development Organization (UNIDO)

**"Recognizing the Contribution of Sustainable Micro-finance
for the Very Poor to Achieving the Millennium Development Goals"**

Chairperson - Klaus Kogler

Welcome all! My name is Klaus and I will be your Chairperson in the United Nations Industrial Development Organisation (UNIDO) at the 11th Vienna International Model United Nations. I feel honoured and excited to serve as your Chairperson and hope to give you an experience that you will enjoy and remember. I am looking forward to seeing a great display of diplomacy, debate and creative ingenuity from all of you.

Let me introduce myself: I was born in Hartberg (Austria) on 21 July 1983 and am currently studying Energy and Environmental Management at the University of Applied Science in Pinkafeld. I began my involvement with Model United Nations as a delegate at the Vienna International Model United Nations in 2003. When chairing the UNIDO-committee in summer 2005, I will have been involved in Model United Nations for the fourth time. For me, Model United Nations has been an invaluable experience that has expanded my perception beyond country's borders, and I hope this simulation will allow you to do the same. Furthermore, I strongly encourage all delegates to actively participate and engage in diplomacy and debate.

The following pages will provide you with basic information about this year's issue. I urge you to comprehensive preparation and research – look beyond UN documents, think outside the box. It is needless to say that those who will bring innovative solutions to the table will be amply rewarded for their efforts. If you have any general questions, feel free to contact our Chair-team under unido.vimun@afa.at

Co-Chairperson - Manuel Neumann

As a Business Administration and Economics student in Graz, Austria, I have always searched for international experiences and challenges. Having studied one year in Spain and having followed an internship in Bolivia I passed yet some time abroad and gained different international impressions. To deepen and broaden my international knowledge will play a key role in my future education. When I heard of VIMUN and its excellent reputation I thought of it as an extraordinary event for students and young professionals. This year through my involvement of the United Nations Student and Youth Organization of Austria and my international experiences I got the opportunity to participate as Co-Chairperson of the UNIDO.

My motivation for this event is especially high as I consider VIMUN as a great platform to exchange knowledge, different experiences, cultures and personal points of views with young people from all over the world. Furthermore, I am convinced that such events are of utmost importance for my personal development and especially VIMUN is a very good opportunity to get a better insight into the working procedures of the United Nations. Future Chair or Co-chairpersons should be absolutely interested in UN-related topics and strongly motivated to take the responsibility to coordinate the proceeding of the delegations preparations and discussions before and during VIMUN, as their work contributes an important part to the UN-simulation. However, I am sure that all the efforts are absolutely worth it and people will leave VIMUN with new impressions, valuable experiences for their future and an extraordinary time having passed.

Usher - MMag. Nina Friehs

I studied Law at the University of Vienna and Université Paris II Panthéon-Assas as well as History and History of Art at the University of Vienna. At the moment I am working on my doctoral dissertation, precisely on an international comparison of the restitution measures with regard to artworks appropriated by the National-Socialists.

At the time of writing I am doing an internship at the UNESCO in Paris. I have decided to work for VIMUN because I am very interested in international issues and especially the work of the international organisations. After completion of my thesis I envisage an international career and I think VIMUN is an exciting possibility to have a closer look at the work of an international conference.

United Nations Industrial Development Organization (UNIDO)

“ . . . UNIDO’s future direction is defined not by what it did in the past, but by the needs of developing countries and countries with economies in transition, which will matter in the future.”

Carlos Magariños, current Director-General of UNIDO

Mission

The United Nations Industrial Development Organization (UNIDO) helps developing countries and countries with economies in transition in their fight against marginalization in today's globalised world. It mobilizes knowledge, skills, information and technology in order to promote productive employment, a competitive economy and a sound environment. Carlos Magariños, the current Director-General of UNIDO, describes the Organization as a specialized United Nations agency that focuses its efforts on relieving poverty by fostering productivity growth. (see www.unido.org/doc/3352)

Background

UNIDO was set up in 1966 and became a specialized agency of the United Nations in 1985. As part of the United Nations common system, UNIDO has responsibility for promoting industrialization throughout the developing world, in cooperation with its 171 Member States ([The Member States](#)). Its headquarters are in Vienna, Austria, and it is represented in 35 developing countries. This representation and a number of specialised field offices for investment and technology promotion and other specific aspects of its work, give UNIDO an active presence in the field. (see www.unido.org/doc/3352)

Structure: Governing Bodies

UNIDO has three policy-making organs: The Programme and Budget Committee; the Industrial Development Board; and the General Conference.

The chief policy-making organ of the Organization, the **General Conference**, comprising representatives of all Member States, takes place every two years. The Conference is UNIDO's supreme governing body, which determines the guiding principles and policies, approves the budget and work programme of UNIDO and appoints the Director-General. It also elects representatives to the 53 seats on the Industrial Development Board and to the 27 seats on the Programme and Budget Committee. ([About the General Conference](#))

The **Programme and Budget Committee**, consisting of 27 Members, elected by the General Conference for a two-year term, is a subsidiary organ of the Board and assists it in preparing work programmes and budgets. The Programme and Budget Committee meets once a year. ([About the Programme and Budget Committee](#))

The **Industrial Development Board**, consisting of 53 Members reviews the implementation of the work programme, the regular and operational budgets and makes recommendations to the General Conference on policy matters, including the appointment of the Director-General (the DG heads the UNIDO Secretariat), every four years. The Board meets once in General Conference years, and twice in other years. ([About the Industrial Development Board](#))

Core Functions and Services

As a **global forum**, UNIDO generates and disseminates knowledge relating to industrial matters and provides a platform for various actors in the public and private sector, civil society organizations and the policy-making community in general in order to enhance cooperation, establish dialogue and develop partnerships which help address the challenges ahead.

As a **technical cooperation agency**, UNIDO designs and implements programmes to support the industrial development efforts of its clients. It also offers tailor-made specialized support for programme development. The two core functions are both complementary and mutually supportive. On one hand, experience gained in the technical cooperation work of UNIDO can be shared with policy makers; on the

other, the Organization's analytical work shows where technical cooperation will have the greatest impact by helping to define priorities.

The broad programmatic objectives and priorities of UNIDO are given in the Business Plan on the Future Role and Functions of UNIDO which was endorsed by the seventh session of the General Conference in 1997, in its resolution GC.7/Res.1. This Business Plan grouped the activities of UNIDO into two areas of consideration: (a) Strengthening industrial capacities, including programmes in support of the global forum function and policy advice; and (b) Cleaner and sustainable industrial development.

In addition to that, while maintaining the universal character and vocation of UNIDO, the Business Plan provided for the Organization's activities to be focused geographically on the least developed countries, particularly in Africa; sectorally on agro-based industries; and thematically on small and medium enterprises (SMEs).

What is more, in order to be a more efficient and effective organization UNIDO formulated a comprehensive and coherent corporate strategy: "Developing industry: productivity enhancement for social advance" which rests on the premise that productivity enhancement, driven by improved skills, increased knowledge and upgraded technology, plays a crucial role in promoting faster growth. (see www.unido.org/doc/3352)

UNIDO achieves its objectives through:

- (a) **Integrated programmes (IPs) or country service frameworks (CSFs)**, based on combinations of its eight service modules or in
- (b) **Stand-alone projects** involving only one or two service modules.

UNIDO's eight Service Modules are:

1. Industrial Governance and Statistics
2. Investment and Technology Promotion
3. Industrial Competitiveness and Trade
4. Private Sector Development
5. Agro-Industry
6. Sustainable Energy and Climate Change
7. Montreal Protocol (substances that deplete the ozone layer)
8. Environmental management

"Integration" within an IP should not only be achieved on the level of the Service Modules selected for the programme, it also has to be achieved on the level of donor mechanisms, national counterparts and other development activities in the country or region.

With regard to the methods of delivery of its technical cooperation services, UNIDO is in the process of developing a set of thematic initiatives to supplement the existing modalities of integrated programmes, country service frameworks and stand-alone projects. These initiatives are intended to provide specialized assistance to developing countries and countries with economies in transition in meeting particularly pressing development needs in line with the international development agenda and UNIDO's comparative advantages in the field of industrial development (see www.unido.org/doc/3352).

Facts and figures

I. Technical cooperation

During 2003 UNIDO's technical cooperation programmes and projects totalled some US\$94.6 million. New project approvals in 2003 amounted to about US\$84.4 million. Technical cooperation is funded mainly through voluntary contributions from donor countries and institutions, as well as by the United Nations Development Programme, the Multilateral Fund for the Implementation of the Montreal Protocol, the Global Environment Facility and the Common Fund for Commodities. Under its new approach, where integrated programmes are the main instrument for delivery of technical cooperation, 51 programmes are in place and most of them are in operation. Of the US\$146.7 million already committed, 40% has been allocated to Africa, 20% to the Arab region and 40% to Central and Eastern Europe, Asia and Latin America.

II. Financial resources

Funding for UNIDO activities is drawn from the regular budget, the operational budget and voluntary contributions. The regular budget is derived from Member States' assessed contributions. The operational budget is derived from the implementation of projects. The estimated volume of UNIDO operations for 2004-2005 is €356 million. The break-up is as follows: regular budget €144.3 million, operational budget €21.5 million and anticipated voluntary contributions €189.8 million. (see www.unido.org/doc/3352)

Introduction to the issue

"Recognizing the Contribution of Sustainable Micro-finance for the Very Poor to Achieving the Millennium Development Goals"

The past few years have shown a significant evolution of the international development agenda, driven in particular by the Millennium Declaration adopted by the Millennium Summit of world leaders, which was held in September 2000, and resulted in the identification of eight specific Millennium Development Goals (MDGs). They were introduced as part of a wider attempt to encourage the international community to stop talking about making a difference in the developing world and join forces to start doing something about it. Although improvements have been achieved in many areas in Sub-Saharan Africa, the number of people living in poverty is still greater now than it was in 1990. The international community does have a lot of "tools" to fight poverty, such as capacity building, industrial development, donor mechanisms. In the arsenal of poverty-reducing techniques, micro-credit certainly has its justification.

The eight Millennium Development Goals

World leaders from both rich and poor countries committed themselves - at the highest political level - to a set of eight time-bound targets that, when achieved, will end extreme poverty worldwide by the year 2015. Goals 1 through 7 commit them to raise the poor out of poverty and hunger, get every child into school, empower women, reduce child mortality, improve maternal health, combat HIV/AIDS, malaria and other diseases, and ensure environmental sustainability. Goal 8 explicitly recognizes that eradicating poverty worldwide can be achieved only through a global partnership for development. Furthermore, the eight Goals are by nature inter-linked and the success or failure on any one Goal will affect efforts to achieve all the others.

By 2015 all 191 United Nations Member States have pledged to:

Goal 1: Eradicate extreme poverty and hunger

Reduce by half the proportion of people living on less than one dollar a day.
Reduce by half the proportion of people who suffer from hunger.

In our world today:

1.2 billion people live on less than \$1 per day.
800 million people go to bed hungry every day.
28,000 children die from poverty related causes every day.

Goal 2: Achieve universal primary education

Ensure that all boys and girl complete a full course of primary schooling.

In our world today:

115 million school-aged are not in school; 56 percent of them girls and 94 percent of them in developing countries.
133 million young people cannot read or write.
Only 37 of 155 developing countries have achieved universal primary school completion.

Goal 3: Promote gender equality and empower women

Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels by 2015.

In our world today:

Two thirds of the world's illiterate people are female.
The employment rate for women is two-thirds that for men.
Women only held 15% of seats in national parliaments in 2003.
Women represent half of the 40 million people infected with HIV worldwide and due to their vulnerability in many societies in Africa, this number is growing.

Goal 4: Reduce child mortality

Reduce by two thirds the child mortality rate among children under five.

In our world today:

Over 11 million children under the age of five die each year, most from preventable diseases.
In low-income countries, one out of every 10 children dies before the age of five. In wealthier nations, this number is only one out of 143.

Goal 5: Improve maternal health

Reduce by three quarters the maternal mortality ratio.

In our world today:

Some 14,000 women and girls die each day from causes related to childbirth, 99 percent in the developing world.
More than 50 million women suffer from poor reproductive health and serious pregnancy-related illness and disability.
More than 500,000 women die from complications of pregnancy and childbirth every year.

Goal 6: Combat HIV/AIDS, malaria and other diseases

Halt and begin to reverse the spread of HIV/AIDS.
Halt and begin to reverse the incidence of malaria and other major diseases.

In our world today:

About 8,000 people died every single day as a result of AIDS in 2003.
An estimated 4.8 million people became newly infected with HIV in 2003-that's more than 13,000 every day.
Approximately 15 million children around the world have lost one or both parents to AIDS.
An estimated 860,000 children in sub-Saharan Africa lost teachers to AIDS in 1999 alone.
Approximately 40% of the world's population - mainly those living in the world's poorest countries are at risk of contracting malaria.
Malaria causes more than 300 million acute illnesses and at least one million deaths annually.
An estimated two million deaths resulted from tuberculosis in 2002.
Some of the world newly infected with tuberculosis bacilli every second.

Goal 7: Ensure environmental sustainability

Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources.
Reduce by half the proportion of people without sustainable access to safe drinking water.
Achieve significant improvement in lives of at least 100 million slum-dwellers by 2020.

In our world today:

Forests are disappearing at unprecedented rates globally, displacing indigenous peoples from their native homes and uprooting their livelihoods.
The collapse of fisheries around the world threatens to exacerbate hunger and poverty among poor coastal communities throughout the developing world.
Over 2.4 billion people lack access to proper sanitation facilities and one billion lack access to drinkable water.
Some two million children die every year – 6,000 a day – from preventable infections spread by dirty water or improper sanitation facilities.

Goal 8: Develop a global partnership for development

Develop further and open trading and financial system that is rule-based, predictable and non-discriminatory. Includes a commitment to good governance, development and poverty reduction – nationally and internationally.

Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction.

Address the special needs of landlocked and small-island developing states.

Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term.

In cooperation with the developing countries, develop decent and productive work for youth.

In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.

In cooperation with the private sector make available the benefits of new technologies – especially information and communication technologies.

Sources and links for further research

Millennium Development Goals, about the Goals

<http://www.millenniumcampaign.org/site/pp.asp?c=grKVL2NLE&b=185455>

The official homepage to the UN Millennium Development Goals

<http://www.un.org/millenniumgoals/>

The Millennium Development Goals

http://www.micahchallenge.org/millennium_development_goals/

UNIDO's Industrial Development Report 2004, Industrialization, Environment and the Millennium Development Goals in Sub-Saharan Africa

<http://www.unido.org/idr>

UNIDO and the Millennium Development Goals

<http://www.unido.org/doc/30373>

Microfinance and the Millennium Development Goals

“One day our grandchildren will go to museums to see what poverty was like.”

Muhammad Yunus, founder of the Grameen bank

History

The concept of micro-credit was first developed by Muhammad Yunus, a U.S.-educated professor of economics who first got into the business of fighting poverty during a 1974 famine in his homeland of Bangladesh, one of the poorest countries in the world. Yunus discovered that very small loans could make a significant difference in a poor person's ability to survive. His first loan consisted of \$27 from his own pocket which he lent to a woman who made bamboo furniture, which she sold to support herself and her family. However, traditional banks were not interested in making tiny loans to poor people, who were considered poor repayment risks.

In 1976, Yunus founded the Grameen Bank to make loans to poor Bangladeshis. Since then the Grameen Bank has issued more than 3 billion in loans to some 2.4 million borrowers. To ensure repayment, the bank uses a system of “solidarity groups”: small informal groups which apply together for loans and whose members act as co-guarantors of repayment and support one another's efforts at economic self-advancement. As it has grown, the Grameen Bank has also developed other systems of alternate credit that serve the poor. In addition to micro-credit, it offers housing loans as well as financing for fisheries and irrigation projects, venture capital, textiles, and other activities, along with other banking services such as savings.

The success of the Grameen model has inspired similar efforts throughout the developing world and even in industrialized nations including the United States. Many, but not all, micro-credit projects also emulate its emphasis on lending specifically to woman, who suffer disproportionately from poverty and who are more likely than men to devote their earnings to serving the needs of the entire family.

The World Bank estimates that there are now more than 7.000 micro-finance institutions, serving some 16 million poor people in developing countries. In November 2002, more than 2000 delegates from 100 countries gathered at a Micro-credit Summit in New York City, with the goal of reaching 100 million of the world's poorest families, with credit for self-employment and other financial and business services by the year 2005. Support for these goals has come from prominent world leaders (see Quotations on the last page of the Preparation Paper) and major financial institutions. The Economic and Social Council of the United Nations proclaimed the year 2005 as the International Year of Micro-credit.

Definition and Background

Most micro-credit programmes are set up in the following way: ("New Study Confirms Benefits of Bangladesh's Microcredit Programmes", 1998) Credit services are targeted to landless or assetless borrowers, who are moderately to extremely poor. Borrowers are placed into groups of 10-20 people which meet regularly with the loan officer of the micro-credit programme. These groups of borrowers substitute for collateral and take over the role of securing the loans dispersed. Each borrower in a group agrees to be held liable for all debts incurred by any member of the group. In the event that a borrower defaults, the other members of the group are required to make up the amount in default. Borrowers are encouraged or even required to monitor the behaviour of one another to make sure that no one is danger of default. This process has led to extremely low rates of default, especially for first time borrowers. Repayment rates are usually above 95 %.

Extremely small business ventures, such as those financed with micro-credit loans, are known as micro-enterprises. Micro-enterprise clusters are simply groups of micro-enterprises located in close proximity to one another and engaging in similar business activities. The benefits of clustering will be outlined at a later point. Clustering can either arise spontaneously, or as a result of outside encouragement from government or NGO's.

Most micro-credit programmes target women as the most desirable borrowers. This is partly a result of the policy of social empowerment and partly a result of the perception that women have higher repayment rates than men. As noted above, loans are usually collateral free. Maturity is normally 50 weeks with repayment in weekly instalments. All financial transactions are conducted in the presence of the entire borrowing group and all transactions are recorded in individual passbooks. Most micro-credit programmes begin with small loans, but allow borrowers to take more and more as they repay each previous loan and thus prove themselves good credit risks. Finally, borrowers have full freedom to choose the activities to be financed. Loans need not be spent only on investment; spending for consumption is equally acceptable.

In broad terms all micro-credit programmes are working towards the goal of decreasing income poverty and decreasing the vulnerability of the poor. Micro-enterprise clusters claim to enhance these effects by improving on the micro-credit financed enterprises such as distance from markets and inefficiency.

The Benefits

The main benefits of micro-credit claimed by proponents are:

- I. reduction in vulnerability to adverse circumstances on the part of the poor
- II. increase in consumption in the same group
- III. reduction in income-poverty

The supporters of micro-enterprise clusters further claim that clustering increases the chances of success and prosperity for poor loan recipients.

I. Reduction of Vulnerability

One of the most important benefits of micro-credit programmes is its ability to reduce vulnerability among the poor. This reduction occurs through a number of different channels. Micro-credit programmes help borrowers to insure themselves against crises by building up household assets. Such assets can be

sold if needed. They can also be used as security or proof of credit worthiness when dealing with businessmen or more traditional lending agencies. Finally, the diversification of assets can reduce the risks of catastrophic loss. For example, a family that relies on sharecropping could easily be bankrupted by a single crop loss, whereas a family with a diversified base of crops and livestock or handicraft income could survive until the next harvest. Other aspects of micro-credit programmes such as skill-training and female empowerment also contribute to a family's ability to cope with crises by increasing the variety of responses a family can make to a challenging situation.

These reductions in vulnerability are important because they allow poor people to begin to hold their own place in the society. Gains made in prosperous times are partially protected during bad times, and the cycle of poverty is arrested. This is really a vital benefit for the great numbers of poor people who live in rural, agricultural areas. To quote Zaman (2000), "seasonal deficits play a key part in the poverty process in Bangladesh." The same is true in many other parts of the world. The relative abundance at harvest time, which derives both from the sale of crops and the increased demand for labour is usually more than matched by the poverty of rest of the year. The introduction of natural disasters into the equation tends to make the situation even bleaker for the poorest members of a society. So the beneficial effects of micro-credit on vulnerability are quite pronounced.

II. Increased Consumption

Another benefit of micro-credit programmes is the increase in household consumption. One researcher in Bangladesh has found that for every 100 taka (the unit of currency in Bangladesh) lent to a female borrower, household consumption rises by 18 taka. Other researchers have found that income smoothing, which is the result of lessened vulnerability, also leads to consumption smoothing. These are both important effects for people who typically live on the edge of disaster. Even small increases in consumption and increased regularity in consumption can lead to better health and nutrition, and enhance the ability to make long range plans for the family. Combined with the investment possibilities opened up via additional loans from the micro-credit programme, such stability can have far reaching positive effects on participating households.

III. Reduced Income Poverty

Micro-credit programmes also reduce income poverty. That is, borrowers actually tend to make more money over time. Once the cycle of poverty has been arrested and some stability provided, many borrowers go on to make profitable investments and even lift themselves out of poverty all together. Members of the Bangladesh Rural Advancement Committee (BRAC) can expect to see their poverty fall by an average of 15% after three years of participation. The so-called "ultra-poor" experience poverty reductions of 25%. 21% of the members of the Grameen Bank (GB) micro-credit programme lift themselves from poverty within four years of joining the programme. About 5 % of the GB's members rise from poverty each year. Although there is a great deal of variability among micro-credit programmes, these results are not unusual.

Micro-clusters

Finally, there is the question of micro-enterprise clusters. The main selling point for clustering is the "collective efficiency" which it produces. Micro-credit funded business ventures are frequently plagued by the problems of small size and isolation. It is not worth the time of itinerant traders to work with such ventures. Consequently, the ventures can only rely on local patronage, which may or may not be enough to support long term growth. With micro-credit clusters, however, these problems are partly overcome. Traders are attracted by the possibility of making cheap, bulk purchases. Vendors of raw materials are also attracted by the possibility of making bulk sales. The close proximity of a number of businesses in the same line of work also allows for labour sharing, order sharing, and subcontracting within a cluster. Successful clustered enterprises may also go on to specialize, with the resulting benefits that come from division of labour. It should also be noted that micro-enterprise clusters still tend to be more successful when they are located near roads or crossroads, even given the increased attraction associated with clustering.

Supporters also point to the ease of sharing information and technological innovation within clusters as another major advantage. Finally, rural micro-enterprise clusters have been found to have certain competitive advantages over more centrally located industries that do not have the benefit of clustering. Rural clusters usually have flexible to nonexistent rules for land use and environmental impact. Labour is also cheap, flexible, and unregulated. Finally, certain raw materials such as wood or bamboo are also frequently available either for extremely low prices or for free.

The Drawbacks

There are a variety of problems and shortcomings associated with the micro-credit and micro-enterprise cluster models of poverty alleviation. One is the problem of using the loans effectively. A second problem is that micro-credit loans do not reach the poorest of the poor. Instead they tend to reach the moderately poor members of the society. A third problem is the danger of borrowers becoming dependent on micro-credit, rather than using it as a means of escaping poverty. Fourth, success in poverty reduction may not hold up over time.

Clustering brings with it a different set of problems. The inability of some clusters to progress beyond a very rudimentary stage and the related problem of the development of a parochial world view inside clusters will be looked at. The significant issue of negative externalities will also be reviewed.

I. Problems of Micro-credit

a) Turning Profit into Loan

One of the most fundamental problems with micro-credit programmes is the difficulty involved in actually turning a profit on the loans. In the first place, borrowers must bear not just the cost of the loan and interest payments. They must invest a significant part of their time in group activities mandated by their programmes. In addition, women in many traditional societies must bear the stigma of being under the authority of a male (the loan officer) who is not family member, and of engaging in work outside the home. Also, the loans usually finance some type of "women's work" which is not seen as fit for men to do. This leads women to rely on their female children for supplemental labour, and thus female children are under increased pressure to stay out of school so that they can help contribute to the family income.

Investments may not turn to profit. In this event the money to repay the loan must come from reduced consumption or borrowing from some other source, usually on worse terms. Another problem is capture of the loans by male relatives. In some cases, male relatives use female borrowers as fronts to get relatively low interest loans. These loans may or may not be used to benefit the family, and the female borrowers rarely see any benefit at all. And yet, the women are still held responsible for repayment of the loans.

Indeed chances of a female-headed enterprise succeeding at all are often rather small. The experience of micro-entrepreneurs in Botswana is illustrative. Seventy-five percent of the people engaged in informal sector business activities are women. A majority of their micro-enterprises never grow.

They either fail completely or remain at the initial stage of street vending. For example in Botswana, Kenya, Malawi, Swaziland, and Zimbabwe most enterprises that started with 1-4 workers never expanded.

Women are legally perceived as minors. They are not allowed to take out ordinary bank loans without the signature of absent, migrant labourer husbands. And even when women do manage to start small businesses they must continually fight against a repressive patriarchal social structure and make do with what little schooling they may have received before going into business.

One final obstacle to turning a profit is the fact that as micro-credit programmes become more successful and hand out more loans, more people enter the local marketplace as micro-entrepreneurs.

The cumulative effect of rising costs, declining demand, and competition from both cheap imports and increased entrants into the sector leads to shrinking profits in informal-sector trade. In Zimbabwe for example, women traders in the informal sector experienced significant declines in income following the implementation of structural adjustment, and new entrants into the sector reported earning less than they had previously earned in their formal sector jobs.

In other words, the initial successes of micro-enterprises can lead to subsequent over-competition problems, especially when international trade liberalization is factored into the equation. A few micro-entrepreneurs in a given area may be able to turn a profit. A large number probably can not.

b) Inability to reach the poorest of the poor

A second important drawback to micro-credit programmes is that they do not reach the poorest members of the society. To quote "Assessing the Poverty and Vulnerability Impact of Micro-credit in

Bangladesh”, “the poorest have a number of constraints (fewer income sources, worse health and education, etc.) which prevent them from investing the loan in high return activity” The same report also writes that “there appears to be a growing consensus that moderate-poor micro-credit borrowers benefit more than extremely poor borrowers.” The reasons for this are clear. The poorest need tiny loans which are not cost effective even for micro-credit training programmes, which makes the cost of lending even higher. As micro-credit programmes are pressured to become more self-sufficient, the incentive to lend to such desperately poor borrowers evaporates.

This is a major problem for micro-credit programmes. Although they are raising some people out of poverty and keeping some people from further poverty, they do not appear to be reaching the people who need assistance the most.

c) Micro-credit dependency

Another possible failure of micro-credit programmes lies behind seemingly benign statistics. Some researchers have proposed the idea that the high repayment rates, repeated borrowing, and low drop-out rates indicate a dependency on micro-credit programmes rather than an attraction to successful micro-credit programmes on the part of poor borrowers. Many borrowers have no alternative to borrowing from micro-credit programmes on the part of poor borrowers. Many borrowers have no alternative to borrowing from micro-credit programmes, and consequently can not afford to default. Neither can they afford to stop borrowing or dropout of the programmes. There is nowhere else for them to go. In order to stay in good standing with the micro-credit programme, borrowers may even be forced to resort to pawnbroker or other alternate sources of funding. Furthermore, unless borrowers can increase their incomes they may become permanently dependent on micro-credit lending. This is a very real possibility as was noted above.

d) Durability of poverty reduction

A related problem is the durability of poverty reduction. Infusions of cash in almost any amount are bound to have some effect on the poverty stricken borrowers. But this does not necessarily mean that the effect will be permanent. The poverty reductions may be rolled back in two ways. First of all, borrowers may use loans for consumption purposes which result in a momentary increase in living standards, but which must be paid for by cuts in future consumption. Secondly, borrowers must make a net profit on their investments. Otherwise, as noted above, they may become dependent on the creditor programmes. Even if they do not become dependent on micro-credit lenders, they will still have failed to improve their economic position.

II. Problems of Micro-enterprise Clusters

a) Cluster stagnation

One of the biggest problems in micro-enterprise clusters is the inability to progress. It is relatively easy to begin a cluster. Typically, a group of craftspeople will simply set up shop near each other, with each handling the entire manufacturing process for the goods being produced. And, the goods will usually be fairly simple- textiles, baskets, roofing tiles, etc. This is enough to draw in suppliers and buyers. The problem is that many clusters do not progress beyond this stage. Ideally, clustered producers should specialize over time, but this does not always happen. Speaking of the situation in Africa Dorothy McCornmack writes that “clustered producers can only advance when there is both a demand for higher quality goods and the availability of the technology to produce such goods.”

b) Parochialism

Another problem is parochialism within the clusters. Clusters tend to centre on interactions within the clusters at the expense of outside interactions. So for example, businesses in a cluster may monitor one another and adopt new techniques developed within the cluster. It is less common for clustered businesses to follow the same process when it comes to outside innovations. Even when outside innovations are introduced into a cluster they may be met with suspicion. This can become a fatal flaw when clusters are forced into competition with more advanced foreign producers. Researchers in India found that clustered firms which did not step up cooperation with outside entities (such as retailers) in the face of increased foreign exposure did not fare as well as those that did.

c) Negative externalities

A final drawback of clustering micro-enterprises is the concentration of negative externalities. One African study, the effect of clustering of labour supply and wages was extremely negative. So many unskilled workers were drawn to the cluster that labour competition became intense and wages were severely depressed. Another example of negative externalities was identified in a collection of Indian leather tanners in cluster. The concentration of enterprises led to unacceptably high pollution levels and entire clusters were shut down based on the aggregate pollution levels of each one.

Sources and links for further research

An Examination of the Micro-credit Movement, by Jason Mead, 15 January 2001
<http://www.geocities.com/jasonmeade3000/Microcredit.html?200523>

Basic facts about Micro-financing
<http://www.uncdf.org/english/microfinance/facts.php>

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<http://en.wikipedia.org/wiki/Microfinance>

Micro-finance and the global development challenge
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"Recognizing the Contribution of Sustainable Micro-finance for the Very Poor to Achieving the Millennium Development Goals"

The availability of financial services for poor households is a critical contextual factor with strong impact on the achievement of the Millennium Development Goals. Micro-finance **can** make an important contribution to the goals by raising incomes, decreasing vulnerability, and empowering women to choose when and how to access other development services such as health and education; also for long terms, if it is implemented in a sustainable way.

The **Year of Micro-credit 2005** calls for building inclusive financial sectors and strengthening the powerful, but often untapped, entrepreneurial spirit existing in impoverished communities. Among the goals of the Year are:

- I. To increase the public's awareness and understanding of micro-credit and micro-finance, and thus contribute to the alleviation of poverty – one of the UN's key Millennium Goals;
- II. To develop strategies to position micro-credit and micro-finance as an integral part of financial systems;
- III. To enable micro-credit and micro-finance organizations to become more effective providers to the poor and strengthen the capacity of donors and Governments to support these organizations;
- IV. To expand the reach of micro-credit and micro-finance organizations by encouraging partnerships among Governments, the United nations, the private and public sectors, and non-governmental institutions.

As we have seen, the "MDGs are very clear in what to achieve, but less clear about the means through which they will be achieved" – Sam Daley-Harris - Micro-financing /- credit, is one tool among many, to fight poverty, achieving the Millennium Development Goals, especially supported through the introduction of the goals above; but as stated by Sam Daley-Harris, Director of the Micro-credit Summit Campaign to the UN Social and Economic Council (ECOSOC):

"Micro-credit is not a panacea, but it is the most powerful intervention we have toward cutting absolute poverty in half by 2015. Said another way, the world is not very good at helping people who make 50 cents a day move above \$ 1 a day through wage employment. That is why self-employment and the impetus it is given through sustainable micro-finance for the very poor."

"If Micro-credit is to play this leadership role in cutting absolute poverty in half the Micro-credit practitioners will have to not only continue their progress in building financially sustainable institutions, but they will also have to improve their ability to cost-effectively reach families who live on less than \$ 1 a day and cost effectively combine micro-finance with education in areas such as child survival, reproductive health, and HIV/AIDS prevention."

"If Micro-credit is to play this leadership role in cutting absolute poverty in half then donor agencies such as the World Bank, UNDP, and the bilateral donor agencies must see to it that sustainable micro-finance for the very poor is more than just a footnote in their policies and practice toward cutting absolute poverty in half."

Distinguished reader, the following story was also told by Sam Daley-Harris, as you read the story we ask you to consider, how many Millennium Development Goals you can count being addressed: from reducing poverty and hunger and reducing illiteracy to empowering women and girls.

"When my children cried at night from hunger, I felt like killing myself," recalled Saraswathi Krishnan who lives in India. Saraswathi's husband, an unskilled wage labourer, earned very little and often squandered what little he made on alcohol. Eventually, when the roof of their tiny hut was about to collapse, having no jewellery or other assets to pledge for a loan to repair it, Saraswathi sold her seven-year-old daughter into bonded labour to a local merchant for 2,000 Indian rupees (about US\$40).

My little girl complained to me daily that the merchant abused her. His family would eat food in front of her and give her none," she remembered. Five years later Saraswathi Joined Working Women's Forum, a women's self-help and micro-credit programme based in Chennai, India. With her first loan she began a small vegetable selling business and paid off her debt to the merchant, freeing her daughter, who now attends school.

With a second loan she bought her sixteen-year-old son a loom. Previously he would bring home around \$5 per month doing odd jobs for wealthy families. With the loom, he can weave two saris per month, earning him \$25 per month.

Now Saraswathi's vegetable business is thriving as well, thanks to her hard work and the training she has received from the programme. She is glad to be able to give her children opportunities. With the family's new sources of income, Saraswathi has a sense of pride and security she never before experienced. "I will never mortgage my children again; they will be educated. Now I see to it that my husband is good and does not beat me anymore."

Sources and links for further research

The new frontier in the fight against poverty
http://www.unido.org/file-storage/download/?file_id=27081

Supporting International Year of Micro-credit
<http://topics.developmentgateway.org/microfinance/sdm/previewDocument.do~activeDocumentId=1001781>

Official homepage, International Year of Micro-credit
<http://www.yearofmicrocredit.org/>

Quotations

“One day our grandchildren will go to museums to see what poverty was like.”¹

Muhammad Yunus, Founder of the Grameen bank

„MDGs are very clear in what to achieve, but less clear about the means through which they will be achieved. In a sense, they are a critique of development institutions and development theory, because they are pointing to desired outcomes that more than 40 years of independence and international aid have failed to achieve and sustain. But they give little ideal insights of how international development assistance should change, except that more internal aid needs to be spent on interventions to support these goals”.

On the other hand, MDGs broadly point fingers to policy areas that require priority interventions without prescribing the details ... in many case left to individual countries to decide.²

Amon Manyama on the occasion of the launch of IDR 2004

"Sustainable access to micro-finance helps alleviate poverty by generating income, creating jobs, allowing children to go to school, enabling families to obtain health care, and empowering people to make the choices that best serve their needs. Together, we can and must build inclusive financial sectors that help people improve their lives."³

Kofi Annan, UN Secretary-General

"...micro-finance represents a participatory approach to development where people can take control of their lives and become self-sufficient... one does not need to be an individual of significant means to have creative business ideas, save according to one's own priorities, and ultimately to plan for the future."⁴

Joël Wassi Adechi, Ambassador of Benin to the United Nations

¹ <http://www.geocities.com/jasonmeade3000/Microcredit.html?200523>

² http://www.unido.org/file-storage/download/?file_id=27081

³ <http://www.unCDF.org/english/microfinance>

⁴ <http://www.unCDF.org/english/microfinance>