

## **Microfinance for Decent Work in Africa**

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The ILO runs a global project called Microfinance for Decent Work. This project aims to determine whether microfinance can be a vehicle of improving the lives of clients. Particularly, it aims to determine whether and how microfinance contributes to Decent Work. The ILO defines Decent Work as: “*Opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity*”.

Decent Work means that:

- people are being paid a stable income;
- there is an increase in wage and self-employment (through access to financial services, skills development and training) (employment creation);
- there are policies to take children out of child labour and into school and to end forced labour (child labour);
- there is an end to discrimination against the poor, especially girls and women, who are most vulnerable and least protected (vulnerability: risk management and debt status);
- workplaces are healthier and safer (working conditions).
- people can stand up for their rights, and raise their voice by organising and mobilising themselves (formalization and association of entrepreneurs);
- there is social protection, including for those working in the informal economy (formalization and association of entrepreneurs);

The project focuses on addressing Decent Work challenges, which means that microfinance partners launch initiatives to tackle these work-related challenges. The ILO will monitor and examine to what extent the expected improvements have actually occurred. If microfinance can indeed contribute to addressing these challenges, the ILO will spread the word.

The ILO believes that microfinance institutions are well-placed to look after the social needs of their clients. Many of these organisations are member-owned. Members of these associations or cooperatives have a say in strategic management decisions. This means that members can influence the social mission of the organisation, for their mutual benefit. Other forms of microfinance institutions, which are not member-owned, also are well-placed to balance financial and social goals. Their mission is typically social, yet they also try to recover costs from their operations, to become financially sustainable organisations and assure long-term availability of their services to their clients.

### *Project examples*

In Nigeria, we asked one of our project partners what challenge they want to address. They found that child labour among their clients is quite widespread. So they will introduce an awareness campaign, to highlight the negative long-term consequences of child labour for the children and their families. They will also create incentives for clients to send their children back to school, for example by offering loans at attractive interest rates, to cover school costs.

In Burkina Faso, our project partner wants to improve the sustainability of clients, by encouraging them to formalise their businesses. Businesses in the informal sector are often

subject to harassment by government officials. In some cases, these businesses can even be closed down if the entrepreneur has not obtained the necessary government documents. This of course has negative consequences for the entrepreneur and the microfinance institution. Therefore, the institution will introduce a sensitisation campaign and training for its clients, to encourage them to register their business with the government authorities. It will also provide a lower interest rate to formalised entrepreneurs, to further stimulate the formalisation process. Once the business is formalised and registered, the entrepreneurs are also encouraged to make sure their employees can access social security services.

Our microfinance partner in Uganda found that many of its clients are vulnerable, as they have trouble managing risks. They also tend to take on too many loans, without having proper collateral. If they can not repay the loans, they will become indebted to the lender. The microfinance partner therefore introduced a leasing product. This product will give its clients access to assets that can boost their business. Through the leasing construction, the institution also makes sure that clients don't need to pay for the assets all at once. This will reduce the drain on their businesses working capital. Finally, by providing assets, the institution will also have collateral for the loan. So in case of non-repayment of the loan, the institution will seize the asset, which means that the client will not remain with a debt.

Some initiatives are related to working conditions: one microfinance institution will train its clients (which are mainly micro-entrepreneurs in the informal economy) to encourage them to learn from each other on how to improve the occupational safety and health in the workplace.

These examples show that microfinance institutions try to improve the well-being of their clients, while also striving to remain financially sound organisations. They look as much as possible for win-win situations. This means that their clients should benefit from these initiatives, yet that it also creates advantages for the institution itself.

In Burkina Faso, for example, clients will benefit from formalising their business in the sense that they are less vulnerable and less at risk of having their business closed down. The microfinance institution will also benefit from this, as they will not be able to recover their loans if informal businesses are being closed down. The institution uses incentives to encourage clients to formalise their businesses: it offers formalised entrepreneurs a lower interest rate.

In Nigeria, clients will benefit from sending their children to school in the sense that their children will be educated. This should have a positive impact on the lives of their children. The microfinance institution encourages its clients to send children to school, by offering them a school fees loan at a low interest rate, on the condition that they commit themselves to end child labour, and send their children to school. The microfinance institution will benefit by selling new loans, and by strengthening its social image.

These examples show two things: firstly that it is possible to create win-win situations for microfinance institutions and their clients. And secondly that the microfinance institution can use some incentives and conditions to encourage clients to make some important changes in the way they organise their businesses and their lives. Both institutions also offer awareness campaigns to their clients, to make them conscious of the risks they currently face (by working in the informal sector and by employing their children, respectively). We feel that it is important to focus on these win-win situations. This will keep all parties satisfied, and contributes to long-term effects for both the clients and the microfinance institutions.