



Microfinance for decent work: Organization and responsibilities of the Social Finance Programme (SFP)

Rationale

At its 294th Session, the Governing Body adopted an ILO policy on microfinance for decent work. Microfinance is an effective strategy to help us advance on decent work goals in a variety of ways.

Microfinance is the provision of financial services to the poor on a sustainable basis. It means credit for income generation, for starting or expanding micro-enterprises; it also means savings, emergency loans, remittances, guarantees, payment services and insurance. Microfinance helps the working poor – employed or self-employed – in a variety of ways: to raise and diversify incomes, to package incomes around wage earnings, to manage risks, stabilize incomes and reduce vulnerability. Microfinance often uses trust and group pressure to replace the lack of physical collateral. Group-lending brings the poor together; gives them voice. In other words, social organization is the basis of contracts in microfinance. Microfinance thus is a vehicle for contributing in a coordinated manner to different ILO strategic objectives.

ILO work on microfinance reflects the recognition that decent work goals cannot be attained by way of labour market adjustments alone. Decent work depends to a large extent on changes in other markets and policy fields, notably the financial market. This is especially true for financial market failure which excludes all those that have only their labour as capital, the working poor. The ILO perspective on finance thus is distinctly focused on the distributional consequences of the failure of the financial market and policies. Ever since the Philadelphia Declaration, this social lens has shaped the ILO approach to financial systems. As constituents can influence policy, for better market access and a more equitable distribution of benefits, tripartism is an asset in promoting social benefits of finance.

With the adoption of this policy on social finance, the Governing Body has given a mandate to the Office. In response to the expressed demands by our constituents, the Office is expected to carry out innovative substantive work to help reduce decent work deficits through social finance. The concrete measures of implementation are guided by recommendations made by an Office task force that was set up in early 2004.

Focal point

The Social Finance Programme (SFP), as the focal point which interacts with the Sectors and regions via a network, the Inter-sectoral Working Group on Finance, will be strengthened to ensure coherence and impact of Office-wide work on and with microfinance. Located in the Employment Sector, the focal point will work across the Office promoting joint efforts to address practically key financial policy issues. SFP has to

¹ To each official. Broadcast by email.

report back to the Governing Body on progress made in the implementation of the policy. SFP represents the ILO at the Consultative Group to Assist the Poor (CGAP), the Microcredit Summit Campaign and similar global initiatives related to social finance.

To succeed in this effort will take team work and individual contributions from different units at headquarters and regions working together. The Executive Director for Employment will consult other members of the SMT on the necessary arrangements for developing this cross-cutting work.

Focal point functions

SFP is responsible for ensuring the generation and Office-wide dissemination of information about microfinance, its value added for ILO strategic and operational objectives, good and bad practices tested globally and policies that help to ensure access of the working poor to finance.

The focal point has the following functions:

- help desk and service function (advocacy internally and externally, referral services, coordination of Office-wide responses to global initiatives, tool development, guidance and advice in introducing or adapting financial services in programmes contributing to decent work, including youth, gender, poverty, informal economy, etc., guidelines on the design and management of fund instruments);
- innovation (action research on different aspects of the social dimension of finance, with particular regard to the distributional consequences of market failure, and to the costs and benefits of policies seeking to rectify market failure);
- knowledge management (database with regular reporting on poverty outreach, impact and institutional sustainability, develop indicators and targets to monitor performance of finance instruments that contribute to ILO programmes on poverty reduction, job creation, self-employment and the elimination of discrimination; impact assessments);
- staff training (briefs and training courses in the regions and Turin);
- quality monitoring (review of project proposals with financial components, identification of linkages between different intervention tools); and
- capacity building of constituents in the priority areas outlined by the Governing Body (GB.294/ESP/3).

Implementation

The Employment Sector and PARDEV will work on the mobilization of resources in support of the work of the Social Finance Programme, including the strengthening of the cross-cutting work by other Sectors as part of the Inter-Sectoral Group on Finance.

The Social Finance Programme will be located in the Employment Sector and will follow the substantive and reporting guidelines established by the Executive Director of the Employment Sector.

Juan Somavia,
Director-General.