



Building Inclusive Financial Sectors to Achieve the
Millennium Development Goals

CONCEPT PAPER

"The International Year of Microcredit 2005 underscores the importance of microfinance as an integral part of our collective effort to meet the Millennium Development Goals. Sustainable access to microfinance 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. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives."

-- Secretary General Kofi Annan, 29 December 2003

Preface

In 1998, the United Nations General Assembly proclaimed 2005 the International Year of Microcredit to recognize microcredit's contribution to poverty alleviation. In December 2003, Member States approved the Secretary General's Draft Programme of Action [A/58/179] and invited the United Nations Capital Development Fund (UNCDF) and the United Nations Department of Economic and Social Affairs (UNDESA) to become joint coordinators for the Year. The resolution [A/58/488] expanded the mandate for the Year by "stressing that people living in poverty in rural and urban areas need access to microcredit and microfinance that enhance their ability to increase income, build assets and mitigate vulnerability in times of hardship" (see Appendix B). The resolution also invites "Member States, relevant organizations of the United Nations system, non-governmental organizations, the private sector and civil society to collaborate in the preparation and observance of the Year and to raise public awareness and knowledge about microcredit and microfinance."

To accomplish this, UNCDF and UNDESA established in January 2004, an equally represented Coordinating Committee chaired by UNCDF Managing Director Mark Malloch Brown and Co-Chaired by Under-Secretary General José Antonio Ocampo. The Coordinating Committee's mandate is to facilitate the observance of the Year, in accordance with the guidelines and policies of the United Nations and the wishes of United Nations Member States as synthesized in the Draft Action Plan of the Secretary General.

This Concept Paper illustrates the Year as an opportunity to combine the awareness-building focus of an International Year and the existing, substantive global commitment to building inclusive financial sectors. Microcredit and microfinance are already more advanced in application than many past international years' themes. The Year's observance should be viewed as *part of a continuing process to formulate effective approaches to sustainable microfinance*, not as an isolated event. Incorporating key lessons learned from previous UN international years and conferences, this concept paper details the objectives for the Year, which focus on significantly expanding microfinance's capacity and scope.

To further enhance the activities of microfinance partners and to bring in new actors, this Global Strategy for the Year Concept Paper includes guidelines and recommendations on how our partners can engage in a meaningful and productive manner. The paper builds on the strategy of the Coordinating Committee and provides a framework for Member States, UN Agencies and microfinance partners to establish action plans for the Year.

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VISION

2005, the Year of Microcredit, provides an opportunity for the international community to raise awareness about the importance of microfinance in eradicating poverty, and to enhance existing programmes that support sustainable, inclusive financial sectors worldwide.

Already, efforts to extend the provision of financial services to poor and low income people have already helped achieve the objectives of major microcredit and microfinance conferences and summits as well as the Millennium Development Goals—in particular the goal of cutting in half the number of people living in extreme poverty by 2015. Microfinance impact studies have demonstrated that:

- 1) Microfinance helps poor households meet basic needs and protect against risks;
- 2) The use of financial services by low-income households leads to improvements in household economic welfare and enterprise stability and growth;
- 3) By supporting women's economic participation, microfinance empowers women, thereby promoting gender-equity and improving household well-being; and
- 4) The level of impact relates to the length of time clients have had access to financial services.

With unmet demand for microcredit roughly estimated at 400 to 500 million poor and low-income people worldwide, the sector still has a long way to go to fulfil its potential. The encouraging news is that tens of millions of clients are currently being served. However, although the sector has grown and been commercialized significantly over the last thirty years, demand still far exceeds supply and capacity.

To guide awareness-building activities for the Year, and to ensure that the Year's activities go beyond promotion to producing substantive outcomes, a central question must be addressed:

What prudent actions can the global community undertake to increase access to financial services dramatically,, thereby ensuring that microcredit and microfinance can effectively contribute to the achievement of the Millennium Development Goals?

The Year of Microcredit 2005 provides a unique opportunity for the international community to address and answer this question, as well as strengthens its efforts and builds industry capacity to meet demand. Through the Year, we will advance private-public partnerships to promote inclusive financial systems, sustainable private sectors and self-determining communities. The Year offers a challenge to Member States, UN Agencies and major microfinance partners to work together to assess and promote the power of microfinance to change the lives of people living in poverty, and to contribute to the achievement of the Millennium Development Goals.

OBJECTIVES

The objectives of the Year of Microcredit 2005, as laid out in the Secretary General's report on the Implementation of the First United Nations Decade for the Eradication of Poverty, are as follows (priority outcomes are also listed):

▶ **A. Contribute to the Millennium Development Goals (MDGs)** by assessing and promoting the contribution of microcredit and microfinance towards achieving the goals outlined in the Millennium Declaration and the goals of major conferences and summits. We will achieve this through:

- Establishing an ongoing and systematic process to collect and report valid and reliable data on the people worldwide that have access to financial products at varying income levels.
- The preparation of three Global Reports – One will describe activities and lessons learned during the Year; and the second and third reports will synthesize recommendations on how financial sectors can include all people and achieve the MDG's. These reports will be submitted in June of 2004, 2005 and 2006 and will provide input to the Secretary General.

▶ **B. Increase the public's awareness** and understanding of microcredit and microfinance, and help define the public's role in poverty eradication and achieving the Millennium Development Goals. We will achieve this through

- Having at least 100 schools and universities identify academic focal points and engage in research on the constraints to microfinance and how to leverage financial systems to better contribute to the achievement of the MDGs
- Having at least 100 non-governmental organizations worldwide develop action plans and engage in activities for the Year of Microcredit
- Develop an official website for the Year, which we expect will receive more than 40,000 hits per month.

▶ **C. Promote inclusive financial systems** by identifying critical action steps for governments to take to stimulate sustainable, inclusive financial sectors, and build collective strategies that position microcredit and microfinance as integral parts of a country's financial system. We will do this through:

- Having more than 20 Member State governments establish strategies, programmes, policies and regulations that catalyze sustainable and inclusive financial sectors in their countries as well as align their financial systems towards achieving the MDGs
- Having more than 60 countries organize public events on microfinance and engage their policy-makers so they better understand critical microfinance issues
- Launch six large-scale, high-level global conferences or summits that will include "building inclusive financial sectors" as a priority theme

▶ **D. Support sustainable access** by increasing the capacity of microcredit and microfinance service providers, enabling them to be more effective and efficient at addressing the needs of poor people; and by strengthening the capacity of donors

and Governments to support those institutions by following sound microcredit and microfinance principles and practices. We will do this through:

- Having more than 100 institutions that provide microfinance devise and agree to adhere to transparency and sustainability-based performance measures
- Having more than 20 bilateral and multilateral donors devise and adhere to best practice principles

▶ **E. Encourage innovation and partnerships** by promoting, supporting and brokering innovation and strategic partnerships between governments, United Nations system organizations, private and public sectors, civil society, non-governmental organizations and other microcredit and microfinance partners as a way to build and expand the outreach and success of microcredit and microfinance. We will do this through:

- Having more than 100 institutions that provide microfinance modify their operational policies and add new products and innovations to improve performance and reflect best-practices
- Having more than 100 Member State governments establish National Committees (per Article 5 of GA Resolution A/58/488) comprising a wide range of actors in advance of the Year to promote and plan activities that address key themes and objectives
- Form more than 25 global, multi-stakeholder, high-impact strategic alliances, demonstrating that the international community can work together to fulfil the objectives of the Year and produce concrete commitments as recommended in the 58th session of the General Assembly.

KEY MESSAGES OF THE YEAR OF MICROCREDIT 2005:

- ▶ Sustainable microfinance ensures greater outreach to the economically disenfranchised and a lasting impact the reduction of poverty and the social and human development process.
- ▶ Microfinance is an integral part of a well-functioning financial sector.
- ▶ Nearly half the people in the world do not have access to basic financial services – not because they can't afford them but because they are not available to them.
- ▶ Microfinance positively affects individuals and households and strengthens economies by investing in the productive capacity of local communities.
- ▶ Microfinance facilitates the inclusion of poor people in economic flows, supporting the growth of local markets and extending economic opportunities through new jobs, investments and infrastructure.
- ▶ Microfinance helps empower the economically disenfranchised by increasing their options and building their self-confidence through the greater economic participation.

SUGGESTED CONSTITUENT INVOLVEMENT

The objective is for UN General Assembly Resolution A/58/488 invited Member States, UN Agencies and Donors, and Microfinance Partners to build strategies and work collaboratively to achieve the Year's objectives. The following are a few suggestions on becoming involved, suggestions that are by no means prescriptive, mandatory or comprehensive.

1. Member States

The General Assembly has invited Member States to establish National Committees (or focal points) responsible for promoting activities related to the preparation and observance of the Year (see paragraph 6 of GA Resolution). The formation and participation of strong National Committees are central to the success of the Year. These Committees should include a broad range of country-level actors, including local governments, Central Banks, UN Country Teams, private sector leaders, the NGO community and microfinance clients. The wide national constituency for microfinance should be represented in the composition of Committees, and in the planning and observances for the Year. Committees are encouraged to develop inclusive strategies and implement a diverse set of activities that may include:

- hosting meetings, conferences and special events
- establishing national committee websites that link to the official website of the Year
- engaging the private sector in initiatives that recognize the connectivity between private sector development and microfinance
- working to establish microfinance supervision and regulation training and tools
- exploring the hindrances for rural and agricultural microfinance; engaging education and school-based programs
- establishing systems for aggregating data and information on the national microfinance landscape of the Member State
- examining property rights and contract enforcement issues
- organizing national awards for microentrepreneurs and innovative microfinance providers
- reporting on activities to the Year of Microcredit Coordinating Committee
- undertaking a "made by entrepreneur" program
- promoting the Year through newsletters or other existing publicity vehicles
- undertaking a general promotional and public awareness program
- reaching out to local media, encouraging educational and promotional coverage
- organizing microentrepreneur of the Year awards

LAUNCH DATE:
18 NOVEMBER 2004

Join the world in launching the Year of Microcredit by having the stock market exchange in your country opened by a microentrepreneur. For more details contact Bhakti Mirchandani at: bmirchandani@mba2005.hbs.edu.

2. UN Agencies and Donors

UN agencies and donors hold a pivotal position in the development of prudent and sustainable microfinance. The contributions of these groups can significantly sway the long-term impact of financial sector development. UN agencies and donors should work closely with the Consultative Group for the Poor (CGAP) and other donor consortiums that focus on building best practice standards and donor transparency. The Coordinating Committee will invite UN agencies and donors to draft short vision statements about their purposes and comparative advantages in supporting microfinance and post them on their own websites and the official UN website for the Year. In addition, UN agencies and donors may contribute to the Year by:

- researching the links between microfinance and the MDGs
- providing financial and technical support for endorsed Year of Microcredit activities
- harmonizing reporting requirements for microfinance funding recipients
- providing training and capacity building opportunities
- partnering with Member States and providing support to National Committee strategies
- designing new financial tools, distribution systems and think tanks on specific topics and mentoring
- establishing working groups on cross-cutting themes such as rural microfinance, gender barriers, post-conflict issues, technology
- devising and agreeing to donor best practices
- grafting the theme of “building inclusive financial sectors” onto major conferences, events and meetings
- partnering with the private sector to energize efforts and discuss barriers to microfinance.

3. Microfinance Partners

We define Microfinance Partners broadly to include microfinance providers, private sector (financial and corporate), academia, civil society and NGOs focused on poverty alleviation, microfinance and the objectives for the Year. Although microfinance partners will primarily be engaged through National Committees, the Coordinating Committee will encourage actors to enhance efforts to build inclusive financial sectors worldwide. Suggested activities for engagement are described below.

Microfinance Providers and their Clients: At the heart of the Year are the institutions that provide microfinance - commercial and state banks, credit unions, insurance

companies, post-office saving banks, NGOs, cooperatives and, most importantly, the millions of poor and low-income clients they serve. The expertise and experience built over the past three decades provide a powerful base for moving forward. The objectives of all constituents for the Year should focus on placing the men and women to whom this Year is dedicated, centre stage. Activities for microfinance providers and their clients may include:

- hosting open houses
- establishing “made by microentrepreneur” product labelling
- conducting and documenting client research and success stories to post on the official UN website for the Year and on the websites for National Committees and other institutions
- organizing collaborative efforts with sales outlets and national airports to host “Year of Microcredit” kiosks to sell microentrepreneurs’ products
- designing creative initiatives to share expertise and experience, and building industry capacity at the client and institutional levels
- promoting the Year through newsletters, brochures or other existing publicity vehicles

Private Sector: The private sector and microfinance are inextricably linked. As such, particular efforts will be made on behalf of the Coordinating Committee to engage and highlight private sector partnerships and the links between microfinance and private sector development. These activities will involve private companies in building the expertise, technology, distribution and capacity of the microfinance sector. Activities might include:

- organizing training programs, research and development initiatives
- grafting the theme of “building inclusive financial sectors” onto major conferences, events and meetings
- designing new financial tools, distribution systems and think tanks on specific topics and mentoring
- disseminating information on the Year through corporate distribution systems
- supporting microentrepreneurs by buying their products
- participating in National Committees for the Year
- conducting research to better understand the critical links between access to microfinance and local private sector development

Academia: Special attention will be given to the next generation of microfinance practitioners. Leading universities worldwide will be asked to engage their students and other youth in learning about the sector. The result will be a network of schools undertaking a range of activities to promote microfinance to students with careful thought on how to reach and engage students and youth in developing countries. Activities might include:

- organizing international exchange programmes
- establishing new curriculum, research and lecture series
- incorporating microfinance into annual undertakings such as social venture competitions
- having journalism schools and departments write and report on local and global microfinance initiatives
- launching focal point programmes where select students are responsible for creatively communicating the microfinance goals to their respective schools and alumni

NGOs and Civil Society: NGOs and civil societies that provide social services and advocacy services for microfinance clients and support the development of inclusive financial sectors have the potential to support the Year through their close ties with local communities. Potential activities include:

- strengthening existing networks and regional efforts to improve communication channels
- organizing or hosting field visits and media trips to MFIs
- promoting microbusinesses, local markets and other points of sale
- promoting exchanges and open-houses amongst microfinance institutions
- volunteering expertise and time to the Year and National Committees

organizing meetings and conferences around the guiding theme, “Building Inclusive Financial Sectors for Poor and Low Income People”

ORGANIZATIONAL STRUCTURE

The following Year organizational structure is intended to encourage, promote and lend support to the activities of National Committees and regional and international partners. The structure also is designed to build public awareness of the objectives of the Year and the contribution of microcredit to the achievement of the Millennium Development Goals. The activities undertaken by the coordinating committee and outlined in this section underscore areas where the Year of Microcredit Coordinating Committee will interact with Member States, Microfinance Partners, UN agencies and donors in accordance with the guidelines and policies of the United Nations as described in 6.2, and as synthesized in the Draft Action Plan of the Secretary General (A/58/179).

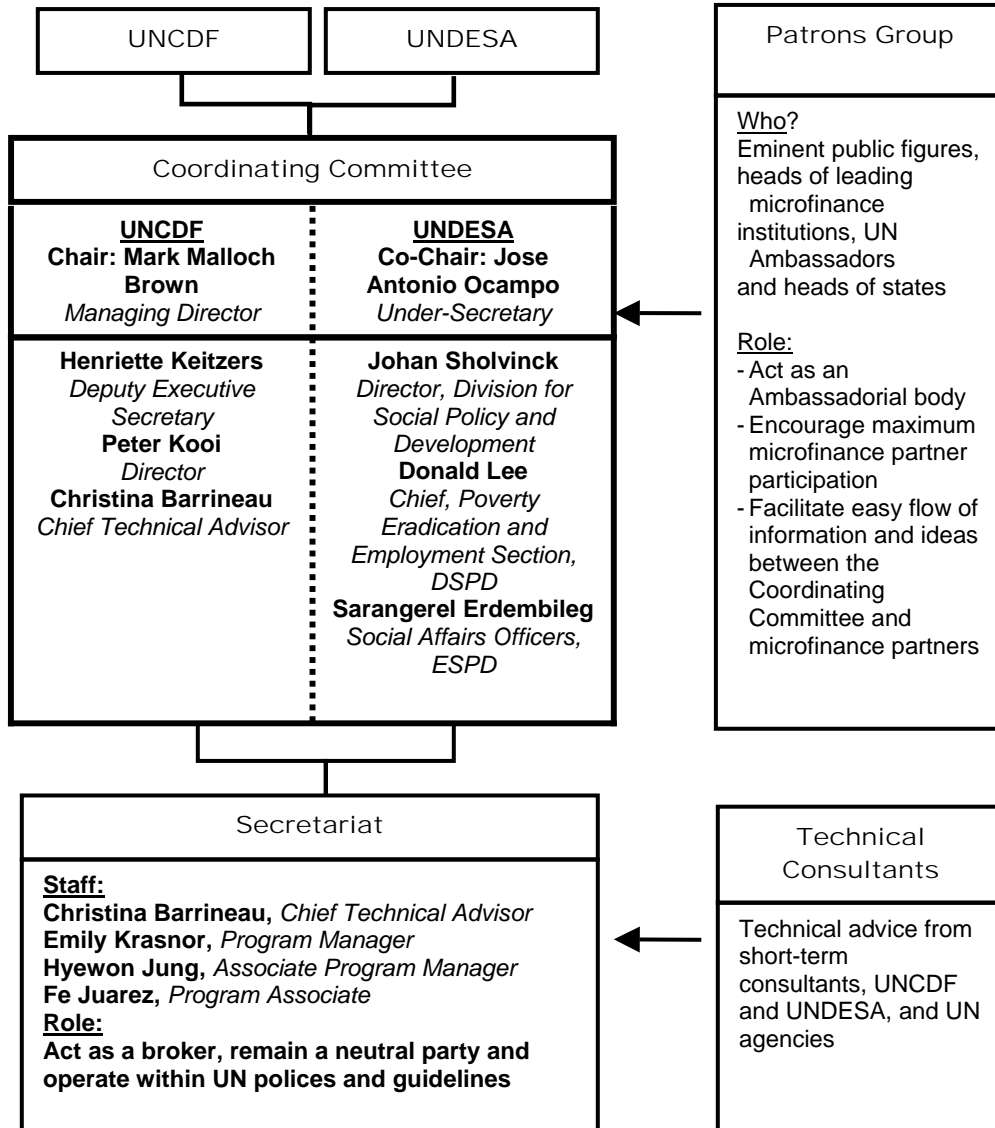
COORDINATING COMMITTEE

The Year of Microcredit Coordinating Committee comprises eight members equally representing UNCDF and UNDESA. The Committee will undertake communication activities focused on promoting the Year's theme and objectives. In addition, the Coordinating Committee is intended to encourage, promote and lend support to the activities of National Committees and regional and international partners.

The policies of the Coordinating Committee in relation to Year activities will be to:

- ▶ **Act as a broker by actively promoting, supporting, communicating and advancing the objectives of the Year; facilitating collaborations and linking supply and demand microfinance partners; and encouraging practical actions, activities and knowledge sharing.**
- ▶ **Remain a neutral party to give equal opportunity to different geographical, philosophical and methodological perspectives on microcredit & microfinance.**
- ▶ **Endorse the use of the Year's logo by national committees and strategic partners when their activities are in support of the objectives and outcomes of the Year.**
- ▶ **Operate within UN policies and guidelines for International Years by ensuring that:**
 - **national committees are formed and report on their actions for the Year;**
 - **international and national level actions are complementary and support development in practical ways;**
 - **the UN system works collaboratively and avoids duplication;**
 - **the Year is evaluated on the practical achievement of its objectives.**
- ▶ **Work closely with National Committees and strategic partners to ensure that the activities and outcomes of the Year build upon the existing foundation of good work and do not duplicate efforts.**

UNCDF will host a small secretariat to serve the Coordinating Committee. The Secretariat will include a core team of four full-time staff and will be supported by technical advice from short-term consultants for specialized assignments and the group of Patrons (see below). The Secretariat will be responsible for the operational management of coordinating the Year.



PATRONS' GROUP

This small group will represent a wide range of actors with a strong commitment to poverty alleviation, the ideals and principles of the United Nations and the potential of microfinance to build assets and foster social and economic opportunity. The overarching purpose of Patrons of the Year of Microcredit will be to encourage maximum stakeholder participation, advocate goals and objectives of the Year, and facilitate the easy flow of information and ideas between the Coordinating Committee and stakeholders. Patrons will principally assume an ambassadorial function to:

- Provide guidance and support to the Coordinating Committee
- Encourage meaningful Member State participation
- Encourage the private and public sectors to contribute resources
- Promote and assume an ambassadorial role

ACTIVITIES OF THE COORDINATING COMMITTEE

The Coordinating Committee will be active in four major areas. The first involves communication activities to build broad public awareness for the Year. The second centres on special events. The third will work to ensure maximum microfinance partner engagement in the Year. The fourth addresses the Committee's responsibility to produce substantive outcomes for the Year and provide recommendations on how to move microfinance forward to 2015. The Coordinating Committee will engage partners to encourage their participation in the larger initiatives, such as the launch event, research and other outreach activities.

Activities undertaken at the international level should complement and reinforce those activities undertaken at the local and national levels, and vice versa, per the guidelines for international years in the box below.

Guidelines for International Years -- Excerpts from ECOSOC Resolution 1980/67

Selected procedures for organizing the celebration of international years:

- **Years having economic or social themes should primarily be directed towards promoting international development in practical ways.**
- **Measures and activities carried out at the international level should complement and support measures and activities at the national level.**
- **There should be national committees or other mechanisms for preparing for, conducting and following up the international year on the national level.**
- **There should be effective coordination of the activities of the United Nations organizations and bodies concerned so as to avoid duplication of activities.**

Most of the activities for the Year will fall into the following four categories: (this list is not exhaustive and should not preclude innovation or creativity.)

1. COMMUNICATION:

▶ Logo and Branding

A logo and key messages will enhance the ability of the Year of Microcredit to reach and affect the broadest possible global audience. The design of a simple, easily replicated logo will be on the website and all collateral materials. Core documentation will outline the Year's objectives and key messages. The Coordinating Committee will make the international logo for the Year available for use by National Committees and UN agencies, along with guidelines for inserting the country and/or agency name so that the logo can also refer to the specific sponsoring entity.

▶ Communication Tools

Several items will be produced to assist communication among the Coordinating Committee, patrons group, UN agencies, Member States, microfinance partners and National Committees. All will be invited to distribute promotional materials through their respective distribution channels. Printed materials will include letterhead, brochure, press kit, folders, stickers and signage. A lightweight, easily updated and mobile modular exhibition on the Year will be designed. A web-based image bank will contain photographs related to microcredit and microfinance for use by Microfinance Partners and journalists. The Coordinating Committee will distribute a limited quantity of materials to National Committees and UN agencies along with templates that allow them to adapt and translate these items for broader distribution.

▶ Official UN Year of Microcredit Website

The official website for the Year of Microcredit will include extensive information on the Year, its objectives and activities, contact information for National Committees and a calendar of national, regional and international activities. The site will use a range of simple interactive tools and forums that will invite feedback and inspire lively debate and will incorporate information ranging from quotable facts to more comprehensive distance learning excerpts. The site will provide information on institutions that offer funding and those that seek funding. A media section will provide a full press kit and list opportunities for the National Committees to provide information to the media on accomplishments. The site will offer access to and guidelines for using the Year logo and branding. All National Committees and microfinance partners will be asked to promote the site and link to it on their own websites. In turn, the site will promote and link to the websites of National Committees and microfinance partners. The official website will launch by late Spring 2004 and expand its content over the course of 2004 and 2005.

▶ **Media Outreach**

All engaged parties, including National Committees, should conduct outreach to their local and national media around their key activities. This will encourage media coverage at the international, national, and local levels. Activities can include:

- 1) The production of a press kit for international outreach that also will be made available for use by National Committees;
- 2) Press releases and press conferences arranged around key events, such as regional launches and the launch of the report and the long-term strategy recommendations;
- 3) Proactive story development centred on local success stories and financial expansion; and,
- 4) Media training for those members of the Patrons Group who will speak on behalf of the Year.

The secretariat will produce a public service announcement (PSA) to be broadcast on international networks. The PSA will define microfinance for the general public and invite viewers to visit the official Year website. National committees can encourage state television stations to air the PSA.

▶ **Newsletter**

UNCDF published the inaugural issue of a regular newsletter in December 2003 to communicate with the Member States, National Committees, UN agencies, and microfinance partners. The newsletter includes interviews with key figures in the microfinance field, input from regional experts, profiles of microfinance clients and guest editorials from influential international figures. The newsletter is distributed via e-mail to a database of public and private sector microfinance partners worldwide and is posted on the UNCDF website. During the Year, the official website will feature the current edition of the newsletter for public access, a complete archive of all previous editions and a sign-up mechanism. The newsletter will be bi-monthly until late 2004, and then monthly through the end of 2005. All partners are encouraged to contribute to the publication, which is currently available at:

<http://www.uncdf.org/english/microfinance/newsletter/>.

▶ **Public Figures**

Prominent people will be invited to lend their name to the Year by being actively involved in promoting the Year and taking part in major special events. Up to 25 well-known public figures will be invited to be members of the Patron Group, with the understanding that they have a special role as spokespersons for the Year. These individuals will come from each region and will be drawn from the microcredit, microfinance and development, and entertainment fields. Microfinance partners are encouraged to work with these individuals to build awareness and promote the key messages of the Year.

▶ **Commemorative UN Stamp**

One or a series of commemorative stamps will be issued by the United Nations during the Year, depicting people whose lives have been positively changed by microcredit and microfinance.

2. SPECIAL EVENTS

▶ Global Launch of Year

Scheduled for 18 November 2004, the launch day plan is to have as many stock exchanges around the world as possible opened by microfinance recipients. Stock exchanges and regional bodies, such as the African Stock Exchanges Association will be invited to partake in coordinating this event. National Committees will be asked to help organize the participation of stock exchanges in their countries and to develop related activities at the national level to mark the occasion. The day also will be marked by a high-profile event at the United Nations headquarters. Director and Producer Sterling Van Wagenen will premier his documentary for PBS on the microenterprise movement, which highlights the impact of microfinance in promoting the social and economic welfare of low-income people. Afternoon roundtables will focus on identifying the constraints impeding the growth and sustainability of the microfinance sector and will discuss removing the barriers to building inclusive financial sectors. All Member State National Committees are strongly encouraged to arrange significant events to mark the occasion of the launch. Member States, UN Agencies and microfinance partners will be invited to actively participate in the design, implementation and celebration of this launch event.

▶ Photo Exhibition

A photo exhibition and a hard copy limited edition book will be developed in partnership with a major photo equipment company. The purpose will be to show images of microcredit and microfinance in operation and to give a human face on the impact of sustainable financial services for poor and low-income people. Following its first installation in the lobby of the UN, the exhibition will travel to other locations.

▶ Regional Workshop Series

The Coordinating Unit will plan a series of five regional workshops to elicit microfinance partner input on the following:

- constraints to inclusive financial sectors and
- effective strategies to develop inclusive, pro-poor financial sectors

Beginning in 2004, these workshops may be stand-alone or linked to already scheduled events. UN and Regional Commissions, regional development banks, microfinance networks, and microfinance partners will be invited to assume leadership roles in planning, supporting and implementing these workshops.

▶ Year Wrap-up Event at UN

The closing event for the Year will be an opportunity to share progress made during the Year. It will also reaffirm the commitments made regarding microcredit and microfinance and the contribution of microcredit and microfinance to the Millennium Development Goals. The event format may take the form of a General Assembly Plenary Meeting devoted to the Year; this would give a higher profile to the commitments being made by Member States.

▶ Outreach Events

To reach the broadest possible audience, microcredit and microfinance should be integral to the programmes of a wide range of high-level special events organized by

outside groups and other UN agencies. Business schools, banking industry organizations and NGOs may adopt a microfinance theme for annual events. The overarching aim is to have microfinance leaders play major roles in 15 key international events during 2004 and 2005, including the World Economic Forum in Davos and the World Social Forum in Porto Allegre.

3. BUILDING PARTNERSHIPS

▶ Strategic Partnerships

The Coordinating Committee will help guide the establishment of a limited number of high-level partnerships, and endorse a range of external initiatives that will contribute to the Year. Priority will be given to partnerships that are global in scope and significant in impact and include public and private microfinance partners drawn from Member States, UN agencies, NGOs and other civil society actors. These external activities may include special events, concerts and conferences; production of visual tools – film and television – on microfinance; innovative and broad-based initiatives focused on product development, technology advancement, distribution, and financing or training; stakeholder engagements with participatory appeal focused on broadening and deepening financial systems; empirical and substantive research on the constraints to growing microfinance and the strategies to overcome these roadblocks; and collaborative country-level initiative to build inclusive financial sectors. The partnerships should be related to the Year themes and complement the objectives of the Year.

▶ Partner Media Outreach and Support

All microfinance constituents should synchronize their major event media outreach with the Coordinating Committee. National Committees and partners will be alerted when the Coordinating Committee promotes a story at the international level so they can coordinate coverage. Observers of the Year, particularly those in countries that host major media outlets, will be encouraged to organize and promote “media trips” for locally-based national and international media to profile microfinance providers and clients. The Coordinating Committee will develop a press kit for media outreach available for use by National Committees.

▶ Partner Participation in Special Events

National and international organizations and agencies should organize and host events focused on microfinance and incorporate microfinance themes into their existing agendas.

4. GLOBAL REPORT ACTIVITIES

▶ Global Progress Report on the Activities of the Year

The Coordinating Committee will prepare a progress report on the Year that will be submitted to the 59th session of the General Assembly. The report, which will be published and distributed, will outline the actions undertaken by the Member State National Committees, UN Agencies and microfinance partners, highlight goals that need to be achieved and the practical steps needed to achieve those goals.

▶ Global Report on Constraints and Opportunities

The Coordinating Committee will work with key Partners to accumulate solid data that accurately charts the constraints or roadblocks to – and opportunities for – the development of inclusive financial systems. The selection of this theme specifically acknowledges that key roadblocks exist to the rapid expansion of the microfinance industry. It is globally agreed that if the microfinance sector is to expand significantly and play a major role in achieving the Millennium Development Goals, it is paramount that these constraints be identified, researched, and the opportunities be

debated and addressed. The inputs of Member States, UN Agencies and microfinance partners on major constraints for the development of pro-poor financial systems will be collected and synthesized. Appropriate institutions will be approached to ensure that the operation of this initiative protects the integrity, validity and reliability of the data. The sharing and consolidation of viewpoints will be encouraged further through Year's interactive website through which microfinance partners can provide input. Leading universities and other research centres will be invited to contribute to this effort. Particular emphasis will be placed on the aggregation of anecdotal and statistical information and the synthesis of comparable data and crosscutting themes. The report will be used as input for the report to the 60th session of the General Assembly

▶ **Global Report on Strategies**

The Coordinating Committee will engage industry partners in building a well-rounded profile of effective strategies to overcome constraints and advance microfinance. The identification of this theme seeks to bring to the forefront the different methodologies and approaches now used to provide financial services as a tool for poverty reduction. Importance will be placed on identifying sound microfinance principles and practices that apply across all methodologies. A global microfinance sector report on strategies will draw on input from the national, regional and international levels through collaborative discussions. The report will be synthesized, debated, published and made available via the Year's website, and promoted for use by all public and private microfinance partners. The report will be used as input for the report to the 60th session of the General Assembly.

▶ **Global Evaluation Report on the Success of the Year**

As the success of the Year will depend on Member States, the final Year report will include input from Member States, UN Agencies and Microfinance Partners on their activities, achievements and benchmarks reached. The report will assess the fulfilment of the objectives and stated outcomes for the Year and will be published and distributed to the core funding partners and through the Website of the Year to other Member States, UN Agencies and Microfinance Partners.

▶ **Global Report on Recommendation for 2006 to 2015**

The global microfinance strategies and constraints reports and evaluation will be synthesized in a report overseen by the Coordinating Committee to be submitted to the 61st session of the General Assembly. The report will present a general strategy to maintain the momentum created by the Year for the period of 2006 through 2015.

FUNDING

Paragraph 9 of the General Assembly resolution on the Year encourages “Member States, relevant organizations of the United Nations system, non-governmental organizations, the private sector and foundations to make voluntary contributions and/or to lend other forms of support to the Year.”

Member States and other donor organizations and foundations can voluntarily establish special funds to assist the national committees to implement their own Year plans. The Coordinating Committee will neither operate nor administer these funds, but will facilitate their establishment by sending a special letter to Member States and key microfinance partners (including the private sector and foundations), and also by providing guidance and support, including use of the Year’s logo (within the terms of written guidelines) and a dedicated section of the Year’s website that identifies Year activities in need of funding.

BEYOND 2005

The Year will be successful if 2005 is considered one pivotal chapter in the promotion and development of inclusive financial sectors. Considerable follow-up at all levels after the close of the Year will help sustain the momentum achieved by the Year observance. The 60th General Assembly will present a general strategy to maintain the momentum created by the Year for the 10-year period following its close. The report may identify a UN Agency to oversee and report on the implementation of the strategy and will assess the success of microfinance as a tool to contribute to the achievement of the Millennium Development Goals.

An annual day in honour of microcredit and microfinance will be designated during the course of the Year (possibly a date in November). The objective of the Day will be for National Committees to reconvene and assess the progress made on building inclusive financial sectors in their countries.

The Year website will continue in an as yet undecided format after the close of the observance. The site will serve as an ongoing service to perpetuate and reinforce the outcomes of the Year.

APPENDIX A

What is an inclusive financial sector? Simply put, an inclusive financial sector does not exclude poor and low-income people from accessing credit, insurance, remittances and savings products. In many countries, the financial sectors do not provide these services to the lower income segments of the market. In some countries, the sector offer savings to low-income clients but not insurance, while in other countries, credit may be available but not savings.

Microfinance encompasses the management of small amounts of money through a range of products, and a system of intermediary functions that circulates money in an economy. Microfinance is small in value amounts targeted at low incomes clients. It includes loans, savings, insurance, transfer services and other financial products and services. Providers of microfinance include non-government organizations (NGOs), self-help groups, cooperatives, credit unions, commercial and state banks, insurance and credit card companies, wire services, post offices, and other points of sale.

Microcredit is a small amount of money made available to a client by a bank or other institution. Good microcredit tailors the terms, pricing, criteria, evaluation and distribution to provide greater access to clients, mitigate risk and offer long-term services. Microcredit can be offered to an individual or through a group guarantee model. Often referred to as “the fuel of private sector development”, microcredit does not create economic potential; it does, however, give people the means to invest in their human and productive capital more profitably and according to their own priorities. Microcredit is a critical element of the broader range of financial tools for poor and low-income people, referred to as microfinance.

Microsavings are deposit services that allow one to store small amounts of money for future use.¹ Savings mechanisms allow households to store money when they have excess income to meet the consumption and emergency needs when they have too little income.² The poor save to: guard against shocks, such as illnesses and associated medical expenses, build an asset base, plan for future investments, prepare for old age, and accumulate predictable expenditures, such as school fees, a marriage or a birth.

Microinsurance is system by which people, businesses and other organizations make a financial payment to share risk. Types of insurance products include life insurance, property Insurance, health Insurance, and disability Insurance.

Remittances are transfers of funds from people in one place to people in another. Remittances represent the second largest source, behind foreign direct investment (FDI), of development financing and have exceeded official development assistance throughout the 1990s.³ Compared with other forms of capital flow, such as FDI that can fluctuate depending on the political or economic climate, remittances remain a relatively steady source of funds.

¹ Marguerite Robinson, “The Microfinance Revolution: Sustainable Finance for the Poor” The World Bank, 2001, pg. 38.

² “Use and Impact of Savings Services Among the Poor in Uganda” Research by Leonard Mutesasira, Henry Sempangi, David Hulme, Stuart Rutherford and Graham A.N. Wright, 21 June 1999. (http://www.undp.org/sum/MicroSave/studies_MicroSave.html)

³ Dilip Ratha, “Workers’ Remittances: An Important and Stable Source of External Development Finance,” *Global Development Finance 2003*, World Bank, 2003, p. 157.

APPENDIX B

Text of G.A. Resolution A/58/488 for the International Year of Microcredit 2005

The General Assembly,

Recalling its resolution 53/197 of 15 December 1998, in which it proclaimed 2005 the International Year of Microcredit and requested that the observance of the Year be a special occasion for giving impetus to microcredit programmes in all countries, particularly the developing countries,

Recalling also its resolution 52/194 of 18 December 1997, in which it emphasized the role of microcredit and microfinance as an important anti-poverty tool that promotes asset creation, employment and economic security and empowers people living in poverty, especially women,

Stressing that people, living in poverty in rural and urban areas, need access to microcredit and microfinance that enhance their ability to increase income, build assets and mitigate vulnerability in times of hardship,

Bearing in mind the importance of microfinance instruments such as credit, savings and related business services in providing access to capital for people living in poverty,

Recognizing the need to facilitate the access of people living in poverty to microcredit and microfinance to enable them to undertake microenterprises so as to generate self-employment and contribute to achieving empowerment, especially women,

1. *Takes note* of the report of the Secretary-General containing the draft programme of action for the International Year of Microcredit, 2005;
2. *Emphasizes* that the observance of the year 2005 as the International Year of Microcredit will provide a significant opportunity to raise awareness of the importance of microcredit and microfinance in the eradication of poverty, to share good practices and to enhance further financial sector developments that support sustainable pro-poor financial services in all countries;
3. *Invites* the Department of Economic and Social Affairs of the Secretariat and the United Nations Capital Development Fund jointly to coordinate the activities of the United Nations system regarding the preparation and observance of the Year;
4. *Recognizes* the importance of scaling up microcredit and microfinance services and of using the Year as a platform to find ways of enhancing the development impact and sustainability through sharing best practices and lessons learned;
5. *Invites* Member States to consider establishing national coordinating committees or focal points with responsibility for promoting the activities related to the preparation and observance of the Year;
6. *Also invites* Member States, relevant organizations of the United Nations system, non-governmental organizations, the private sector and civil society to collaborate in the preparation and observance of the Year and to raise public awareness and knowledge about microcredit and microfinance;
7. *Recognizes* that access to microcredit and microfinance can contribute to achieving the goals and targets of major United Nations conferences and summits, including those contained in the United Nations Millennium Declaration, particularly the targets relating to poverty eradication, gender equality and empowerment of women;
8. *Encourages* the holding of regional and subregional events on microcredit and microfinance and, among those, welcomes the holding of the Asia-Pacific Region Microcredit Summit Meeting of Councils, in Dhaka, in February 2004;
9. *Encourages* Member States, relevant organizations of the United Nations system, non-governmental organizations, the private sector and foundations to make voluntary contributions and/or to lend other forms of support to the Year, in accordance with the guidelines for international years;
10. *Requests* the Secretary-General to prepare a report on the preparation of the International Year of Microcredit, 2005, in consultation with Member States, relevant organizations of the United Nations system, non-governmental organizations, the private sector and civil society, and to submit it to the General Assembly at its fifty-ninth session under the item entitled "Implementation of the first United Nations Decade for the Eradication of Poverty (1997-2006)".

APPENDIX C

Success Stories

Microfinance programmes contribute to poverty alleviation worldwide:

- Research conducted by the Consultative Group for the Poor in Indonesia, found that microcredit borrowers increased their incomes by 12.9 percent compared to increases of 3 per cent in the incomes of control-groups.
- In another study conducted by Freedom from Hunger, clients in Ghana, were found to have increased their incomes by US \$36 per annum compared to US \$18 per annum for non-clients. Beneficiaries of microcredit not only were able to increase their earnings, but more importantly, were able to diversify their incomes. Eighty percent reported secondary sources of income versus 50 percent of non-clients.
- Another study of Bank Rakyat Indonesia borrowers on the island of Lombok reported that on average the incomes of clients had increased by 112 per cent and that 90 per cent of households had moved out of poverty.
- A study of SHARE clients in India found that three-quarters of clients who participated in the program for longer periods saw greater improvements to their wealth. They further found that cash flows were smoothed by diversification of earnings, increased employment of family members and reliance on small business.
- In Bolivia, the incomes of CRECER (Credito con Educacion Rural) clients increased by two-thirds after joining the program. Moreover, 80 per cent of clients said their savings had increased, whereas 78 per cent had not had any savings prior to program participation.
- In Honduras, a *Save the Children* study reports that clients participating in credit and savings programs increased their earnings, thereby allowing them to send many of their children to school and reduce student drop out rates.
- In Bangladesh, basic education competency among 11-14 year-old children in BRAC client households doubled to 24 per cent in three years, overtaking children in non-client households by 14 per cent.

APPENDIX D

Year of Microcredit Constellation

