

Microfinance and the United Nations Office on Drugs and Crime (UNODC)

Agricultural products instead of coca

Within the framework of promotion of small-sized agriculture in Bolivia, Colombia and Peru, the Vienna-based United Nations Office on Drugs and Crime (UNODC) helps former coca farmers to cultivate legal agricultural products. Seeds, fertilizers as well as agricultural tools are provided through revolving funds. The farmers pay back the received goods in the form of material assets or money after the harvest is over. Also, farmer organizations and cooperatives receive credit from UNODC in order to be able to buy the harvest from the farmers and to sell it on the world market with better conditions for the farmers.

Silk instead of opium

UNODC is supporting a microfinance project which helps to eliminate opium cultivation in Laos. In the past, villagers of the Laotian Houa Phan Province had to borrow money from private money lenders at a high rate of 5 per cent per month or 60 per cent per year. This was before the UNODC supported a savings and credit programme in this region, which helped a lot of families to find a new means of existence.

Ms. Chanthone of Nasala village, applied for a loan of 1 million kips (US\$ 100) to expand her family silk weaving business. Since then, the family business is able to produce several pieces of silk per day. The high quality products are well known because of their unique patterns. In six months, she was able to return the loan, including payment of interest.



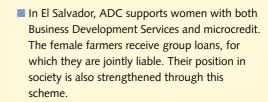




Microfinance within the Austrian Development Policy

The Austrian Development Cooperation and Cooperation with Eastern Europe (ADC) supports the alleviation of poverty in its partner countries in Africa, Asia, Central America and South-Eastern Europe. Within its focus on private sector and development, ADC emphasizes innovative financial services for small-scale enterprises.

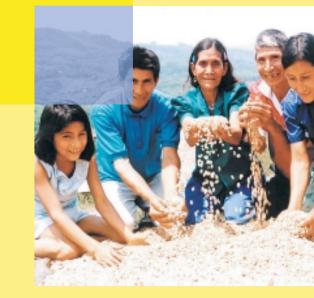
ADC supports the local microfinance union in establishing a flexible system in South-West Uganda. Additionally, the local NGO Microcare provides health insurance at two hospitals. The local population is now able to access medical care, deposit savings and microcredit.



- Since the early 1990s, ADC has contributed to the establishment of the microfinance system in Nicaragua. It was one of the first supporters of the Fundación para el Apoyo a la Microempresa (FAMA), the biggest microfinance institution in the country today (with some 32,000 clients).
- In the context of the European Fund for Bosnia and Herzegovina (EFBiH), which is financially supported by the European Union, Austria, Germany and Switzerland, loans are currently distributed to small and micro-businesses in Bosnia and Herzegovina. Austria provided € 2.5 million euros. EFBiH will be transformed into an investment fund under Luxemburg law, which is also available for commercial investors and keeps the development mandate very clear.







Microcredit

A Tool for Development



Microfinance: a Chance for the Poor

Microfinance is needed in all countries: to enable credit, insurance, saving accounts or the possibility to transfer money to relatives abroad.

Such financial services are a precondition for business activities and the establishment of a secure existence. Although microfinance aims at individual households, it increases the possibility of creating a well-functioning society as a whole.

Microcredit – one aspect of microfinance – improves the living conditions of millions of people. Just US\$ 100 could help to overcome the daily struggle to survive, to plan the future and to invest in better nutrition, health and education. Over the past three decades, such credit has been used both to create small enterprises as well as jobs and also to contribute to the stabilization of national economies. Even the poorest people who have taken loans on microcredit have proved that they can be relied upon to repay them.

Microcredit is characterized by:

- low amount of loans
- short-term lending periods
- many small instalments for the payment of interests and amortisation
- in-depth client relations
- provision of credit despite lack of traditional collateral

The International Year of Microcredit

In order to emphasize the significance of microfinance in the global fight against poverty, the United Nations General Assembly declared the year 2005 the "International Year of Microcredit". The UN wants to promote global financial partnerships in order to improve the situation of the poorest.

"Microfinance has proved its value, in many countries, as a weapon against poverty and hunger. It really can change peoples' lives for the better – especially the lives of those who need it most. Let us be clear: microfinance is not charity. It is a way to extend the same rights and services to low-income households that are available to everyone else. It is recognition that poor people are the solution, not the problem. It is a way to build on their ideas, energy, and vision. It is a way to grow productive enterprises, and so allow communities to prosper."

Kofi Annan, United Nations Secretary-General

The United Nations and its Member States, in strategic cooperation with the international finance sector, promote sustainable and inclusive financial markets, which are accessible to a greater number of people. Hence microcredit and microfinance play an important role in achieving the eight Millennium Development Goals (MDGs), which were agreed upon by world leaders at the UN Millennium Summit in September 2000. Sustainable development and poverty alleviation are also at the heart of the report "In Larger Freedom: Towards development, security and human rights for all", as presented by United Nations Secretary-General Kofi Annan in March 2005 to facilitate a fruitful discussion among Member States.

Eight Development Goals for the World

1. Eradicate extreme poverty and hunger

Microfinance contributes to an increase in income; poor families can save a small "fortune" and therefore are better prepared for crises

2. Achieve universal primary education

Households with access to microfinance invest more in the education of their children. There are also special education loans.

3. Promote gender equality and empower women

The majority of those applying for microfinance are women.

- 4. Reduce child mortality
- 5. Improve maternal health
- 6. Combat HIV/AIDS, malaria, and other diseases

Microfinance contributes to improvements in nutrition, housing conditions and health, especially among female applicants.

7. Ensure environmental sustainability

For example, at the initiative of the Green Belt Movement – founded by Nobel laureate Wangari Maathai – Kenyan women receive microcredit so that they can plant and rear seedlings, which promotes diversity of local species and prevents soil erosion.

8. Develop a global partnership for development

All States are encouraged to innovate and establish new partnerships in order to expand the extent and success of microcredit and microfinance.

Microfinance Institutions (MFIs)

Microfinance institutions provide

financial services

especially for the poor.

Although they differ in their mandates, targets and selection of clients, they have one thing in common: they provide financial services for people who have almost no access to formal banks because of lack of collateral.

The financial services include a range of options: educational loans, life insurance, health care insurance, leasing or pension funds. Many institutions also provide training programmes in children's education, health improvement and nutrition habits. Such projects contribute to the complete eradication of poverty and hunger.

International support is only a first step; alternative financial institutions have to work on a profit basis. The institutions have to adjust their products to the needs of the clients in order to establish a long-term partnership in the lifecycle of a business. In the future, MFIs will become actors on the international capital markets.

Microfinance Institutions (MFIs)

- Formal finance institutions like banks, which are e.g. working together with development cooperation agencies
- Semi-formal MFIs like cooperatives, NGOs
- Informal MFIs like savings or credit groups, money lenders

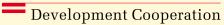
Contact

Austrian Development Cooperation Information Desk Austrian Development Agency (ADA)

Zelinkagasse 2 1010 Vienna, Austria

Phone: +43 1 90399-411 oeza.info@ada.gv.at www.ada.gv.at

Austrian



United Nations Information Service (UNIS) Vienna

P.O.Box 500 1400 Vienna, Austria

Phone: +43 1 26060-4666 unis@unvienna.org www.unis.vienna.org

Published in Vienna, May 2005



Proprietor: Austrian Development Agency (ADA), Zelinkagasse 2, 1010 Vienna, in cooperation with the United Nation Information Service (UNIS) Vienna Concept: ADA, UNIS Vienna. Photos: UNODC, Oliver Indra, TBW, ADA Layout: graficde'sign. Pürstinger, 5020 Salzburg Printed by: Druckerei Huttenegger, 5020 Salzburg

print: