

## Chapter 19

# Key Aspects to Develop Long-Term Microfinance and Financial Inclusion for Social Development

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### ABSTRACT

*This chapter presents the main guidelines for microfinance to be a successful financial model, mainly for who do not have any access to the traditional financial market. The model can be active for reaching one of its main objectives (to reach poverty eradication worldwide). This will be achieved only if the microcredit institutions do not consider the operating conditions that may oblige them to be part of the traditional financial system. Nowadays, governments, financial sectors, and multilateral agencies have focused their efforts on financial inclusion, as a first experience before using a broad portfolio of microcredit services.*

### INTRODUCTION

From its very beginning, microfinance has had as its main basis the fact of giving credit to those whose economic condition does not match with the traditional financial market requirements.

Despite the existence of multiple experiences that can be characterized as microfinance, such as the Montes de Pío in the Spanish middle age or the creation of cooperatives, it is only by the 1970's when the concept becomes stronger and the model has the first successful experiences throughout the placing of microcredits (Yunus, 1998).

Experiences such as the Grameen Bank in Bangladesh, International Action and FINCA in Latin America demonstrated the relevance of the model and its applicability in the poorest sectors of the population in these regions (Guillamón, 2002).

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### ***Key Aspects to Develop Long-Term Microfinance and Financial Inclusion for Social Development***

Global awareness of the benefits and scope of micro-finance is one of its key advantages as a development model to aid in eradicating poverty. Following the emergence of micro-finance in the 1970s, actors have appeared and relevant events occurred which have facilitated substantial worldwide growth of microcredit. These include consolidation of the Consultative Group to Assist the Poor, CGAP, as an entity that promotes strengthening microcredit, the statement by the Group of 8 recognizing microfinance as a key element for development of the poor, the declaration of 2005 as the International Year of Microcredit and the formulation of the United Nations Millennium Development Goals (Resolution 55/2 United Nations, 2000).

One of the most influential entities in developing microcredit at the global level is the Consultative Group to Assist the Poor, a consortium of 34 public and private financing or micro-financing organizations. These include bilateral and multilateral development agencies, private foundations and international finance institutions that work together to increase people's access to financial services and thereby improve the living conditions of the poorest populations. The group was created in 1995 by nine microfinance organizations to support development of the sector. It currently works to generate services provision solutions through research and advisory services in the global and regional microfinance field, to which a large number of people and entities have access through its global resource center (Consultative Group to Assist the Poor, 2015).

Consultative Group to Assist the Poor is important because its studies and statistics have become global reference points when undertaking microfinance initiatives and its consulting services are sought by organizations that implement this type of projects. It specializes in developing local microcredit initiatives around the world, focusing on knowledge of microfinance and its contexts and providing consulting services for already-established microfinance entities to enable them to become more efficient in their goals and sustainable over the long term.

Then there is the G8, consisting of the world's 8 most developed economies. In 2005, the International Year of Microcredit, the G8 at its annual meeting in Gleneagles, Scotland, received a report from the 'Advisors Group to the United Nations International Year of Microcredit'<sup>1</sup> stressing the importance to its leaders of access to financing for the world's poorest populations (United Nations, 2006). According to the report of United Nations High Commissioner for Refugees, the objective is "...to widen the scope of the financial information available to them for developing and incorporating indicators regarding access to and use of micro-financing...", (United Nations, 2007), with active participation by the World Bank, and the International Monetary Fund, Micro-Finance Institutions. As a result of such efforts, the final report by the G8 Summit included a reference to the importance of financing, micro-financing and remittances, placing emphasis on the situation of microfinance in Africa. The final document, in addition to supporting these three topics, stresses the need to work to improve financial inclusion levels (less than 10% in Africa, as of the date of the report), and that both the United Nations and World Bank must continue their commitment to work and develop indicators for access to financing and to support national governments in creating public policies to facilitate the use of financial services by the population (European Parliament, 2006).

The G8 thus helped to generate momentum for the subject of microfinance, recognizing it as a key element for development of the world's poorest populations while directly linking it as an agent that could help to achieve the Millennium Development Goals.

Even though this model has been consolidated and developed and has had great impact on the poorest populations, its sustainability and growth can only be maintained over the long term if the difference between microfinance institutions and traditional banks can be clearly established and conditions created

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