Breaking the chains of poverty through microfinance

The ILO has found microfinance to be an invaluable tool within its programmes in helping to reduce poverty and eliminate child labour and debt bondage. The strategy is to offer financial services like savings and credit, insurance and remittance handling to low-income groups so they are empowered, have more options and do not need to rely on the moneylender any longer. The goal is financial security, a key aspect of decent work.

Juan Carlos spent most of his childhood as a quarry labourer in Guatemala, carrying heavy volcanic stones up from the river and crushing them using cumbersome, dangerous tools. Children working in the quarry near the foot of the Samala volcano face hazardous conditions, and are subject to frequent bruises, insect bites and even loss of vision due to the dust from the rocks. Juan Carlos, now 17, has been doing this since he was eight years old.

Thanks to a project of the ILO's International Programme for the Elimination of Child Labour (IPEC) and its NGO partner, CEIPPA, Juan Carlos is now back at school. The programme helped his mother get a loan to start a business selling food in the local market, and the extra family income meant that Juan Carlos could afford to work fewer hours at the quarry and go to school instead. His teachers say he is a promising student, and he plans to continue his studies, with the programme's support, at the Technical Institute for Training in Guatemala.

Juan Carlos's story is not unique. Microfinance – providing financial services such as savings and credit, insurance and remittance handling, usually to low-income groups – has become a key tool in poverty reduction, the elimination of child labour and freedom from debt bondage.

The ILO's role

The ILO's role in microfinance is not to provide money directly, says Mr. Bernd Balkenhol, head of the ILO's Social Finance Programme, but to advise ministries of Labour and the social partners on how to facilitate market access for the working poor and how to influence policy making to better allow poverty-oriented financial intermediaries to emerge. Hence the concept of social finance, which expresses the ILO's intention to examine and assess financial instruments and institutions from the point of view of their contribution to the goal of decent work.

Two major pathways are of particular interest to the ILO. Financial services can help to make investments that lead to jobs; this is the case with credit, guarantees and leasing. Also, financial services such as savings, insurance and emer- >>

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>> gency loans help to reduce vulnerability. They are an instrument that complements and adds value to a broad variety of projects and programmes.

"For example, an ILO programme together with UNHCR helped use microfinance techniques in conflict-affected countries to help refugees start income-generating activities," said Mr. Balkenhol. "Sometimes people are in refugee camps for years, and jobs are a good way for them to reintegrate. However, the common view had been that microfinance cannot help in these circumstances."

Other ILO projects have completed studies to judge the effectiveness and potential of microfinance in various countries and areas of application. A current project, for example, is exploring the potential of microfinance to improve the situation of vulnerable women in Viet Nam.

Stopping the cycle of child labour

As Juan Carlos's story illustrates, microfinance can address the problem of child labour by helping increase family income. For poor households, the urgency of putting food on the table may be the justification for sending children to work, or the cost of putting children through school may be too high to bear. However, there are other reasons for child labour that microfinance cannot tackle directly in this way, such as a lack of childcare facilities or a desire to maximize household income.

Child labour can be a crucial element in a self-perpetuating cycle of poverty. If children cannot go to school and gain an education or work skills, they may end up stuck in subsistence employment that keeps their family in poverty in future generations as well.


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In Ecuador, the IPEC programme seeks to eradicate child labour in the small-scale gold mines in Bella Rica, using microfinance to help families develop alternative sources of income. In the United Republic of Tanzania, the ILO worked with the Conservation, Hotels, Domestic and Allied Workers Union (CHODAWU) to address


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the problem of domestic child workers, applying microfinance and other tools. As a result, 200 poor households started alternative income-generating activities, such as gardening, mixed farming and raising poultry. A total of 784 children were withdrawn from domestic work and returned to school, and a further 725 were prevented from entering work.

Migrant workers' remittances

Some of the ILO's most active microfinance work is currently in the area of remittances by migrant workers, says Ms. Severine Deboos, ILO social finance expert in Budapest. "Remittances are now the most important source of external funds in many developing countries, totalling more than all official development assistance by donor governments. But it is important what is done with this money," she says. Often, it is just used for current consumption, or to buy homes or other major purchases – sometimes driving up local real estate prices to such an extent that most

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local people can no longer afford housing.

Rather than just spending remittances, the ILO is encouraging the involvement of microfinance institutions (MFIs) to help people use this money to create their own income- and employment-generating activities. Also, MFIs can provide suitable loan and savings products, such as education savings, pension plans or mortgage loans.

Microfinance against debt bondage

Debt bondage can develop in situations of abject poverty, low productivity and ignorance, often where the moneylender enjoys a quasi-monopoly in the financial market and at the same time is the single most important employer in the local labour market. The ILO has worked to develop microfinance techniques to assist in this difficult situation – obviously, loans are not a preferred solution in alleviating the problem of debt bondage, because they would put these vulnerable people further in debt. Rather, a package of contractual savings, financial education and counselling is preferred.

In Bangladesh, the ILO's work is addressed at more than 150,000 sex workers, whose situation is particularly poor. They are ostracized and generally secluded in separate neighbourhoods. Some women were attracted by middlemen with promises of marriage or jobs, others were sold by their families for money or debt repayment, and still others were born in the brothel and took over their mothers' work when they became undesirable. With greater financial independence, the situation of many women improved, and in other cases savings accumulated through microfinance programmes provide the hope that at least their daughters will have a better life.

In India, bonded labour is frequent in the local brick kilns and rice mills. Whole families live on factory premises in atrocious conditions, and if someone leaves the factory premises, a family member must stay behind as a human pledge. The ILO is working with partners in the Tamil Nadu region, the Integrated Rural Community Development Society (IRCDS) and the Madras Social Service Society (MSSS), to implement a bondage-free zone strategy, with a strong microfinance component combined with efforts to persuade employers to improve conditions and eliminate bondage, and legal enforcement.

Debt bondage is not limited to the world's poorest countries, Mr. Balkenhol points out. A recent ILO study on Roma indebtedness in Europe found situations resembling debt bondage among Roma communities in some countries. Local Roma leaders may provide loans at interest rates of several hundred or even a thousand per cent, effectively bringing the borrower into debt bondage.