

Press release 26 February 2010



**Munich Re
Foundation**
From Knowledge
to Action

Microfinance: A crucial weapon against poverty in the developing world

Microloans help people in developing countries lead more independent lives. Despite the relatively high interest rates, according to Dr. Bernd Balkenhol, Head of Social Finance at the International Labour Organization (ILO), this form of financing is indispensable for tackling poverty in the long term.

Sources variously estimate that microloans are granted by some 10,000 microfinance institutions to over 100 million borrowers in the developing world. Speaking at an event held on Thursday evening by the Munich Re Foundation, Balkenhol acknowledged: "Spectacular successes may not be the rule but many people are able to better manage their personal circumstances thanks to microloans." Moreover, the 98% repayment rate shows that the tool is working well.

Balkenhol: "Microfinance alone will not alter the fundamental balance of power in the developing countries but, combined with other tools, it can have a liberating effect." The ILO expert illustrated the point by describing how landowners in remote parts of Nepal and Pakistan often subject people to a form of debt bondage. Microloans, legal advice and local self-help groups have gone some way towards solving, if not yet eradicating, the problem. Balkenhol continued: "I can't think of any way apart from microfinance of tackling poverty in the long term."

Nevertheless, only about 50% of microfinance institutions are able to survive without subsidies because the costs of providing microloans are high and cannot always be covered, despite average interest rates of 24%. Although high interest rates prevent the widespread use of this financial tool, there is no shortage of profitable projects. For instance, one lady, who used to sew clothes by hand, has now boosted her output by acquiring a sewing machine. Whilst she is still far from rich and continues to live in very modest circumstances, the loan she used to pay for the sewing machine has brought enormous returns.

Balkenhol was guest speaker at a dialogue forum organised by the Munich Re Foundation. The fifth and current series of forums, "The world in flux – The forgotten billions", focuses on future prospects for international development policy and the fight against climate change. The series is aimed at laypersons interested in entering into dialogue with experts. The next forum, entitled "Consuming at the expense of others – Growth at any cost?", will take place on 18 March 2010. Application forms and further information can be found at www.munichre-foundation.org.

Munich, 26.02.2010

Munich Re Foundation
Königinstraße 107
80802 München, Germany

Telephone +49 (0)89 / 38 91-88 88
Fax +49 (0)89 / 38 91-7 88 88
info@munichre-foundation.org
www.munichre-foundation.org

Letters: 80791 München, Germany

Chairman of the Board of Trustees:
Dr. Hans-Jürgen Schinzler
Chairman of the Foundation:
Thomas Loster

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Please address your enquiries to:

Martina Mayerhofer

Project Manager

Tel.: 089/38 91-28 34

mamayerhofer@munichre-foundation.org

Christian Barthelt

Project manager

Tel.: 089/38 91-42 29

cbarthelt@munichre-foundation.org

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80802 München, Germany

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