

# Poverty Reduction

Supporting the Development of Essential Capabilities of the Poor



Of the eight Millennium Development Goals (MDGs), relevant goals are shown in color.

The proportion of the poor in developing countries as a whole has declined from 41.7% in 1990 to 24% in 2008 due in part to economic development in Asia. Nonetheless, nearly half of the population in Sub-Saharan Africa still suffers from extreme poverty. Moreover, recent increases in food prices and financial crises have led to fears that an increasing number of people will fall into poverty.

In order to promote JICA's vision of "inclusive and dynamic development," JICA identifies "reducing poverty through equitable growth" as one of its four strategies. JICA extends assistance for human resources development, capacity building, improvement of policies and institutions, and the development of social and economic infrastructure in developing countries.

## ● Overview of Issue

Poverty is an issue that cannot be ignored from the perspective of "human security," as outlined in the Japanese ODA Charter. The number of people living in poverty on less than US\$1.25 per person a day is estimated at over 1.4 billion worldwide.

In addition, natural disasters, environmental destruction and other factors make it difficult to continue traditional means of livelihood. This means some people are extremely vulnerable to poverty. Problems such as disease, unemployment, lack of education and social discrimination each impact the others. Once a person falls into this vicious cycle, the situation becomes even more serious. The original problems lead to other problems and a person cannot escape from this cycle easily. This is sometimes referred to as the "deprivation trap" and has become an urgent issue when tackling poverty reduction. Neglecting poverty and vulnerability may widen the gap between the rich and poor and intensify competition over resources, causing instability in society.

In recent years, the notion that poverty is the state in which the following five capabilities are severely lacking: Ability to ensure a stable and sustainable livelihood (1. economic capability); Ability to be healthy, receive basic education, and live in a sanitary environment (2. human capability); Ability to cope with various

"threats" which threaten peoples' lives (3. protective capability); and Ability to participate in a society in which people's dignity as humans and their culture and customs are respected (4. political capability, 5. socio-cultural capability).

## ● JICA Activities

In order to advance equitable growth and sustainable poverty reduction, JICA will strive to enable each and every person in poverty to escape by reinforcing the five capabilities and supporting the development of an environment in which these capabilities may be manifested. Specifically, JICA both: 1) carries out "poverty measures" to directly assist the poor as well as 2) makes "poverty considerations," by incorporating



Residents build a community road (Timor-Leste)

Building roads makes it easier for people to travel to clinics, schools, markets and other locations. Furthermore, participation by local residents in construction fosters a sense of ownership and helps improve highway maintenance.

creative approaches into projects in order to improve the circumstances of the poor by maximizing the project's benefits to the poor.

To this end, JICA gathers information on where and what kind of people suffer from poverty (targeting) and accumulates methods that are effective for poverty reduction. In addition, regarding methods that have been attracting attention in recent years, JICA furthers concerned-persons' understanding through training programs and study meetings. The goal is to enable the poor who are living on an unstable income to make stable

expenditures every month for items such as health care, education, and food. These meetings cover topics such as "microfinance," which provides savings services and very small loans; "conditional cash transfers (CCT)," in which a government redistributes income by directly providing cash or cash equivalents to individuals or households on the condition that they are qualified and fulfill certain obligations; and "labor-based technology (LBT)," which can generate short-term employment for the poor.

## Case Study Microfinance Initiatives

### An Alliance between Japan and CGAP for Financial Inclusion

**For the poor with unstable lives, access to microfinance and other formal financial services is vital to improving their lives. To contribute to reducing poverty by improving financial access for the poor, JICA supports microfinance with technical cooperation, loan aid and other measures. In order to perform these activities effectively, JICA is strengthening a relationship with Consultative Group to Assist the Poor (CGAP), an international organization for Financial Inclusion.**

Approximately 2.5 billion working-age people in the world are unable to access a bank or other formal financial services. Furthermore, 77% of the poor do not have access to financial services. This is a serious impediment to achieving sustainable economic growth and poverty reduction.

At international conferences like APEC and G20, there has been much debate in recent years about Financial Inclusion in order to enable everyone to use high-quality, convenient and affordable financial services. Microfinance is viewed as an effective tool for assisting the poor to become economically self-reliant by giving them access to financial services.

CGAP has played a leading role in the international debate about Financial Inclusion. CGAP is an international independent research and policy organization dedicated to expanding access to finance for the poor around the world. CGAP develops and shares best practices, sets standards and supplies technical tools to support the development of this field. Information about these activities is available on the CGAP website (<http://www.cgap.org/>).

More than 30 countries, development agencies and private foundations participate in CGAP. Japan has been a participant since 1997 and the Japanese Government through Japan's Ministry of Finance has made a contribution to CGAP every year since 2000. JICA serves as CGAP's focal point in Japan. In July 2012, Kazuto Tsuji, JICA Visiting Senior Advisor (and Professor of Saitama Univ.), was elected as a member of the CGAP Executive Committee and was subsequently appointed to chair the Executive Committee in July 2013.

In March 2013, the Ministry of Finance and JICA, with the support of the Ministry of Foreign Affairs, held a CGAP microfinance seminar

in Japan. Tilman Ehrbeck (CEO, CGAP) and Vijay Mahajan (the chair of the CGAP Executive Committee (at the time)), were invited to Japan. Mr. Mahajan is the founder and CEO of BASIS, a large microfinance institution in India. During the seminar, several points were discussed in the context of the current situation of developing countries. These points included recent developments involving microfinance, the potential of microfinance to alleviate poverty, several issues involving financial access to the poor, innovative efforts of CGAP to resolve these challenges, and cooperation between CGAP and Japan, including JICA. The lively discussion with more than 100 participants demonstrated the high public interest in financial inclusion and the event was covered by several reporters.

The microfinance seminar is just one

example of many forms of cooperation between CGAP and Japan, including JICA. Pioneering efforts of CGAP for microfinance and financial inclusion, such as research, policy recommendations and standards, are utilized effectively for the improvement of JICA's cooperation. JICA also shares with CGAP its basic-studies about financial needs of the poor and the results of projects to improve financial access for poor households and micro-small enterprises. In addition, JICA contributes actively to the discussions at CGAP about several themes associated with financial inclusion and policies formulation.

JICA and CGAP will continue to exchange and utilize the knowledge for promoting Financial Inclusion in developing countries.



CGAP CEO Tilman Ehrbeck (with Vijay Mahajan on the left)