

Poverty Reduction

Supporting the Development of the 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 47% in 1990 to 20.6% in 2010 due in part to economic development in Asia. Nonetheless, nearly half of the population in Sub-Saharan Africa still suffers from 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 has identified "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 the 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 \$1.25 per person per day, is estimated at about 1.2 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, it is not easy to escape from this cycle. This is sometimes referred to as the "deprivation trap," and it has become an urgent issue in tackling poverty reduction. Neglecting poverty and vulnerability may widen the gap between rich and poor and intensify competition over resources, causing

instability in society.

In recent years, the notion has developed that poverty is the state in which the following five capabilities are severely lacking: the ability to ensure a stable and sustainable livelihood, or (1) economic capability; the ability to be healthy, receive basic education, and live in a sanitary environment, or (2) human capability; the ability to cope with various "threats" to peoples' lives, or (3) protective capability; and the ability to participate in a society in which people's dignity as human beings and their culture and customs are respected, or (4) political capability; and (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



Survey on the livelihoods of households receiving conditional cash transfers in Honduras

poverty to escape by reinforcing these 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 creative approaches into projects in order to improve the circumstances of the poor by ensuring the project’s benefits to the poor in various fields of projects. 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 is implementing projects and training programs. The goal is to enable the poor, who are living on unstable incomes, to make stable expenditures every month for items such as health care, education, and food. These approaches cover methods 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 **Survey on Microfinance Component Projects**

For Effective Incorporation of Microfinance into Technical Cooperation

Among JICA’s microfinance-related Technical Cooperation projects, cases that incorporate microfinance into their activities — those with microfinance components — account for the largest number of projects overall. JICA conducted a field survey in order to enhance the effectiveness of microfinance components.

Microfinance Components

JICA is working on microfinance through technical and financial assistance in order to contribute to poverty reduction by improving access to finances. One of these efforts is the microfinance component.

In many examples of livelihood improvement projects or agricultural production projects in rural areas and urban slums, revolving funding in which beneficiaries participate has been adopted as a method to achieve the goal of the projects. This funding system is intended to lend and collect funds within a beneficiary

group by utilizing some earnings of projects or contributions and savings of beneficiaries as financial resources. These activities are part of “mutual aid activities” that can often be found in traditional communities, and are also regarded as a significant first step for the poor, including the poorest, to access financial services in order to stabilize and improve their livelihood and incomes.

The introduction of such microfinance has been provided by the government in developing countries or by donors. However, only a limited number of examples have produced concrete

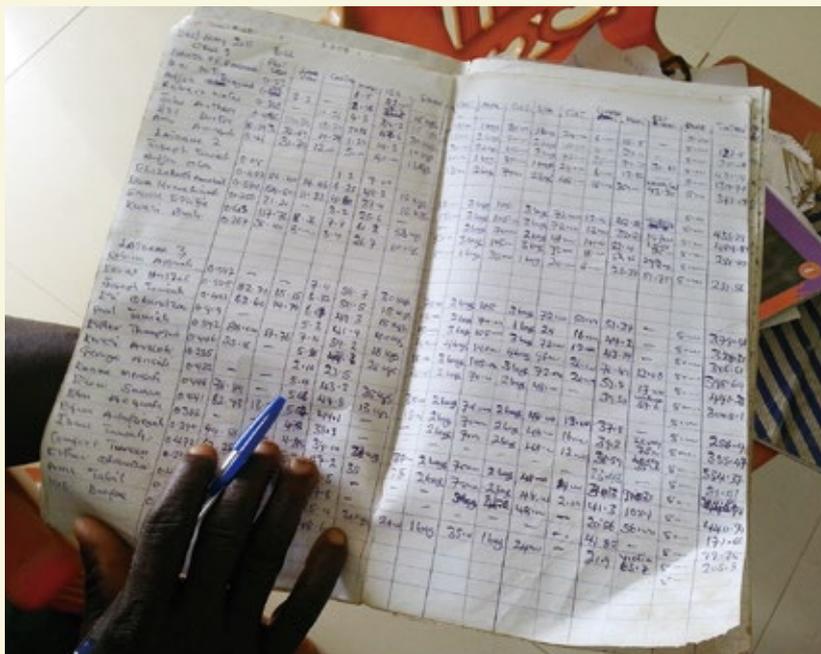
results, and low sustainability and repayment rates have been also pointed out as issues. On the other hand, the importance of microfinance and access to formal financial services has been reaffirmed in recent trends in international development. In these circumstances, there is a growing need for the effective utilization of microfinance in Technical Cooperation projects.

Sorting Out the Lessons Learned

In response to this, JICA conducted a project survey in order to ascertain the current situation, effects, and issues of microfinance components, and to incorporate microfinance activities into other projects more effectively. The survey selected seven Technical Cooperation projects in Asia and Africa, which include projects related to agricultural development, conservation of the natural environment, reconstruction, and community development.

The survey shows that receiving loans enables the beneficiaries to diversify and expand income sources by making investments in business; additionally, on the other hand, saving allows the beneficiaries to cope with unstable earnings or sudden expenditures. In this survey, it was affirmed that microfinance activities successfully boosted the achievement of the goals of Technical Cooperation projects, such as improvement of farmer’s livelihoods, promotion of forest preservation, and reconstruction of communities.

On the other hand, some issues have also been revealed from the viewpoint of sustainability and financial management systems. Consequently, the survey revealed some lessons learned, including the necessity of collaborating with existing microfinance institutions and the importance of savings prior to loans. Utilizing these lessons learned, JICA will implement more effective microfinance components.



A ledger used in microfinance activities by a beneficiary group in Ghana.