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# THE VALLADOLID SUMMIT'S CONTRIBUTION TO PUBLIC AWARENESS

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On November 14-17, 2011 more than 2,000 delegates from over 100 countries will gather in Valladolid, Spain for the Global Microcredit<sup>1</sup> Summit, an event that is held once every five years. The Valladolid Summit comes 14 years after the first Global Microcredit Summit held in Washington, D.C., and it comes at a very different time for the field.

The original Summit had its roots in a paper delivered by John Hatch at the 1994 RESULTS International Conference. Mr. Hatch is the founder of the global microfinance network FINCA, father of the village banking model, and was a member of the RESULTS Board. His paper called for a Microcredit Summit and a campaign to reach millions of the world's poorest families. This idea was aligned with RESULTS main objective of creating the political will to end hunger and the worst aspects of poverty. I founded RESULTS in 1980 and by 1985 we connected with the work of Muhammad Yunus and the Grameen Bank.

A Microcredit Summit Campaign survey found that by 1997, micro-loans had reached 13 million people globally, 7.6 million of whom were among the very poor when they received their first loan. So, a campaign to reach 100 million of the world's poorest families with credit for self-employment and other financial and business services was stunning in its audacity.

As none of the important UN Summits of the 1990s had emerged with a compelling goal for microfinance, we began to lobby to have the 100 million poorest goal adopted by the 1995 United Nations Social Summit that was to

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1. For the purpose of this paper and the Microcredit Summit's 19 year fulfillment campaign, any mention of "microcredit" refers to programs that provide credit for self-employment and other financial and business services (including savings and technical assistance) to very poor persons.

be held in Copenhagen, Denmark. Our main goal was to increase public and political awareness about Microfinance and its capacity to fight poverty and to encourage the expansion of groups that would reach the very poor. However, our proposal was not accepted as the Social Summit decided to take no new goals. It was clear that if we were to see a compelling, measurable goal for microfinance, we would have to establish it ourselves.

After several years of commitment and hard work, the first Microcredit Summit was held in 1997 as a project of RESULTS Educational Fund. At that point it was considered the largest civil society-organized Summit ever held. At the Summit we launched the goal to reach 100 million poorest families over a nine years period<sup>2</sup>. This goal was surpassed in 2007, only two years after the intended target date.

The delivery of the hundred millionth microloan in 2007 was not televised, but those who have experienced the beauty and achievement of just one very poor client receiving a microloan and the expanded possibilities that flow from that moment can begin to grasp what that might mean for the 100 millionth client and her nearly 100 million brothers and sisters around the world.

In 1997 few people in the world had heard of microfinance and many insiders would agree that the field was still in its infancy. The 1997 Microcredit Summit and the campaign that followed were responsible for several of the field's public awareness milestones. The Summit itself was the largest microfinance event ever and was the reason the United Nations voted the following year to declare 2005 as the Year of Microcredit. In addition, it was the Microcredit Summit Campaign that led an effort for Muhammad Yunus to receive the Nobel Peace Prize. The Summit, the Year of Microcredit, and the Nobel Peace Prize were all pivotal events for the field and landmarks in the effort to build public awareness.

## **A new time and new challenges**

However, the Valladolid Summit finds the field at a very different point in time. Microfinance is no longer an unknown field still in its infancy. It is more like an adolescent going through the growing pains of that period in life with a portion of the field seeming to have forgotten its roots in knowing its clients and poverty reduction.

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2. Those 100 million families would include half a billion family members.

## A survey of microfinance clients and poverty

In 2011 the Microcredit Summit Campaign announced the results of an important study. The survey of more than 4,000 Bangladeshi households, led by Sajjad Zohir of the Dhaka-based Economic Research Group<sup>3</sup>, found that a dramatic number of families moved out of poverty between 1990 and 1997, but that a massive flood in 1998 and the food and fuel crisis of 2008 were the likely cause for millions of families to fall below the \$1.25 a day threshold during that later period. Even with these setbacks, on net nearly 10 million people rose above poverty.

The report closely mirrors the findings of official country-level research in Bangladesh with the national Household Income and Expenditure Survey (HIES) estimating that 10.62 million Bangladeshis left hardcore poverty between 1990 and 2005. Zohir, the report's author writes: "Our estimate seems quite in line with the national level poverty findings."<sup>4</sup>

While the Bangladesh survey was not designed to assign causality, it is very significant that the number of microfinance clients who left poverty closely mirrors the national data on poverty reduction. The majority of those living in poverty in Bangladesh live in rural areas and so do the majority of microfinance clients.

This news, however, came at a difficult time for the microfinance sector. In recent years, microfinance programs have seen growing questions about their effectiveness. Several randomized controlled trials (RCTs) matched microfinance clients with control groups and showed no movement out of poverty in the group receiving the microloans. But these studies, touted for their rigor, have been met with questions of their own.

Two of the problems some see with the RCTs that have been done to date are that 1) they typically cover a 12- to 18-month period, which is too short a time for real change to take place and 2) they haven't studied programs that are known for their deep commitment to ending poverty. It is important to remember that not all microfinance programs are the same. This new study from Bangladesh includes a large number of clients from BRAC and Grameen Bank, two Bangladeshi institutions known for their groundbreaking efforts to end rural poverty.

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3. ZOHIR, Sajjad. "Number of Microcredit Clients Crossing the US \$1.25 a day Threshold during 1990-2008. Estimates from a nationwide survey in Bangladesh", Economic Research Group, Dhaka, March 2010.

4. *Ibid.*, pp. 20.

Another setback for microfinance came in the wake of a tremendously successful initial public offering (IPO) in 2010 by SKS, an Indian microfinance program based in the state of Andhra Pradesh. Soon after the IPO's success, serious charges began to emerge in the state about microfinance borrowers taking on multiple loans and too much debt, coercive collection practices by microfinance staff and even suicides spurred by these challenges.

The Valladolid Summit is more likely to be known for being a critical moment in the maturing of the field. It is also likely to be known for the launch of the *Seal of Excellence for Poverty Outreach and Transformation in Microfinance* and for a wider discussion of other initiatives devoted to client protection and social performance. This Summit will be an opportunity for the field to both embrace innovation and return to its roots.

## **The dream is realized**

Those roots and the initial vision for microfinance can be found in this reflection by Muhammad Yunus on the 1997 Microcredit Summit in his book *Banker to the Poor*:

*In teaching economics I learned about money and now as head of a bank I lend money, and the success of our venture lies in how many crumpled bank bills our once starving members now have in their hands. But the microcredit movement, which is built around, and for, and with money, ironically, is at its heart, at its deepest root not about money at all. It is about helping each person to achieve his or her fullest potential. It is not about cash capital, it is about human capital. Money is merely a tool that unlocks human dreams and helps even the poorest and most unfortunate people on this planet achieve dignity, respect, and meaning in their lives.*