

**The State of Global Microfinance:
How Public and Private Funds Can Effectively Promote Financial Inclusion
for All**

**Testimony of
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Microfinance is one of the great success stories of U.S. foreign aid. Current estimates suggest that over 150 million poor people are being reached by microcredit. I personally became passionate about microfinance years ago when I worked in El Salvador as a loan officer to poor women. One of my favorite clients was Rosa Maria Rivera, who invested a loan of \$100 in a tiny business making paper bags, and then was able to send her children to school, hook up electricity to her home for the first time, and eventually move from a dirt floor, scrap metal shack into a solid concrete block home with running water. She was also able to buy her mother dentures, but that's another story.

Yet Rosa is no longer the predominant face of microfinance. As we do a better job of listening to our clients, and as our methodologies and technologies have developed, the microfinance industry has gone on to develop a full range of products and services for the poor and very poor.

Beyond Enterprise Credit

Credit services are no longer focused exclusively on enterprise credit, but have expanded to include housing, education, transportation and consumer finance. As an example, Opportunity International provides loans to educational entrepreneurs who run small private affordable schools in poor neighborhoods. Today, Opportunity has 330 outstanding loans to school proprietors in four countries. In just a couple of years, an estimated 87,000 children have received higher quality education as a result.

VisionFund of World Vision is providing micro-loans in Africa that allow clients to buy long-lasting, durable bikes that can carry up to 100 kilograms. Thousands of entrepreneurs in Zambia and Tanzania are now able to get to market faster. Microfinance models are also being piloted to address services and public goods for poor people such as pharmacies, clinics, and water and sanitation.

As commercial funds come into the market, the typical microfinance client is changing. Some microfinance providers such as Grameen and CARE are pushing the envelope to reach those who are poorer. Others are moving upmarket to address the gap of SME's—small and medium enterprises whose proprietors may not be among the poor, but who nevertheless lack capital and other financial services to start or expand businesses. Microfinance is also making a contribution to food security and nutrition through its current focus on agriculture and agribusiness including new approaches to agricultural credit linked to market access, as well as innovations in crop insurance.

Microinsurance

A decade ago, microinsurance was virtually unknown, but it has grown exponentially in the past few years. In November, 2009 the International Labor Organization presented the Landscape Study of Microinsurance in Africa, which found that 14.7 million people living on less than USD 2 per day are covered by microinsurance in 32 African countries. This represents an 80 percent increase since 2005.

MicroEnsure, a wholly-owned subsidiary of Opportunity International, provides health, life, property, and weather-indexed crop insurance to over 3.5 million poor clients. One of MicroEnsure's innovations is a health insurance policy in India that is cashless at point of service, covers the borrower as well as spouse and children, has minimal exclusions and covers maternity and pre-existing conditions from day one of the policy...all for US\$8 per year.

Grace Chiwaya, a poor farmer in Malawi, literally took her weather-indexed crop insurance policy to the bank. With her proof of insurance, she was able to take out a loan with Opportunity's bank in Malawi that enabled her to buy higher quality hybrid seed and fertilizer. The result was an increase in yield from six to ten ox carts per hectare in her next growing season.

Savings

A poor woman who lives on \$1 a day does not receive that dollar in a steady income stream. She needs a safe place to save her money so she can feed her children on days when she has no income, as well as to plan for big ticket events such as her children's education and to deal with

shocks. As a result, poor people, and especially poor women, value savings even more than a loan. In response, many microfinance networks have now built regulated deposit-taking banks for the poor; Opportunity's bank in Malawi has a ratio of 6 depositors for every loan client. In recent years, the provision of deposit services has increased to 58 million in just the 100 top microfinance institutions alone.

Others, such as CARE, have innovated in a different direction by focusing on even more informal markets and savings-led approaches at a grassroots level through Village Savings & Loan Associations (VSLAs). Within 10 years, CARE plans to reach 30 million of Africa's poorest people, mostly women, with this model. VSLAs provide poor women with a way to capture and revolve their own savings on an informal basis, and CARE is working to link them to more formal microfinance and commercial banks as the VSLAs mature.

Save the Children is piloting savings products for young people in developing countries, enabling them to build up resources for their future, acquire positive, lifelong attitudes and financial habits, pay educational fees, obtain access to healthcare services and start or run income-earning activities.

Technology

Technology is dramatically changing the landscape of financial inclusion. Branchless banking has potential to change the way financial services are used and delivered—and especially to serve rural areas sustainably and at scale. Innovations such as mobile automated teller machines and delivery channels using mobile phones are emerging as cost-effective ways for institutions to broaden their outreach, especially in rural areas. CGAP, the microfinance resource center of the World Bank, has launched a campaign to bring mobile banking services to 25 million low-income people by 2012. This will likely include point-of-sale devices installed at retail agents (e.g., local stores) who can accept deposits or payments, as well as withdrawals; and banking via mobile handsets, enabling customers to transfer funds electronically. Innovations such as the use of biometric identifiers on Smart Cards have not only allowed poor, illiterate people access to financial services, but have also provided them with financial identity for the first time in their lives.

The Bill & Melinda Gates Foundation is providing as much as \$38 million in grants to help microfinance institutions provide 11 million of the unbanked with savings accounts using emerging channels such as mobile phones to circumvent brick and mortar costs.

For example, Women's World Banking will deploy online kiosks in Kashf Foundation branches in Pakistan so women can access savings accounts for the first time. World Vision plans to dispatch savings officers on motorbikes with personal digital assistants (PDAs) throughout Ethiopia to deliver financial services, providing more than 250,000 rural farmers and hardworking poor with their first savings accounts. The PDAs will allow the officers to record client transactions and print receipts in communities surrounding the branch office. As the project expands, mobile banking units carrying laptop computers, PDAs, a teller, and a savings officer will visit small towns and villages on market days to expand the transactions that can be done within a 50 mile radius of branch offices.

The Role of Public versus Private Funding

Just as the range of services has been transformed, so too has the landscape of funders and of service providers. In recent years, microfinance has matured from a development program largely funded by the USG and by major donors, into an industry funded through investment capital, private donations from individuals, corporations and foundations, and peer-to-peer lending, as well as USG grants, investments and guarantees. In addition to traditional microfinance institutions, other providers have also entered this market, including mainstream commercial banks.

Yet there are still gaps in the availability of microfinance funding, and much of the gap is due to lack of capacity to run microfinance programs. The Microfinance Capacity Building Act of 2009, H.R. 1987, focuses on building capacity with public funds in order to leverage significant private capital for the poor. I would like to offer my sincere appreciation to Chairman Meeks for his leadership in co-sponsoring H.R. 1987 along with Mr. Boozman of Arkansas.

The entry of significant investment capital into the market begs the question of whether or not USG funding is still needed, and, if so, what the appropriate use of those funds is, including how USG funds can most effectively leverage private capital. What you want to hear is that the USG has done its job and the private sector can take it from here. I believe that will largely be the case at some point in the future, but we are not there yet.

The real question is who is still excluded from microfinance programs. Most investment funds reach clients who are not as poor. The hardest to reach—those who are most marginalized and in remote areas—remain without access to services. Further, the percentage of women clients has gone down as the industry has commercialized. A snapshot of microfinance providers shows that smaller NGOs on average have a higher percentage of women clients than larger regulated financial institutions.

I would argue that here is where the USG should step into the gap. Yet according to the FY08 Microenterprise Results and Reporting report, 62 percent of microfinance and 36 percent of microenterprise clients are women, a level of outreach that is lower than current NGO averages. The same report states that only 26.9 percent of USAID microenterprise and microfinance funds benefited the very poor, despite The Microenterprise Results and Accountability Act of 2004 (PL108-484) which requires that 50 percent of overall USAID microenterprise development assistance reach the very poor.

The Need in Africa

The lack of access to microfinance is particularly severe in sub-Saharan Africa (SSA), where over 75% of the population lives on less than \$2 a day. According to a 2007 study by the World Bank, more than 80% of the population in most of sub-Saharan Africa is shut out of the banking sector because they cannot afford the fees, they lack required documentation or they live too far from the nearest bank. (See World Bank: “Making Finance Work in Africa, November 2006). In many of the poorest countries in SSA, less than 10 percent of the population has an account with a financial institution (World Bank. “Getting Finance” data set. July 25, 2008).

Africa receives only six percent of private foreign investment in microfinance (CGAP. Focus Note No. 44. *Foreign Capital Investment in Microfinance: Balancing Social and Financial Returns*. Feb. 2008.) This seems like another prime example of where public funds should fill the gap. Yet the share of funds in the Africa Bureau at USAID has always been small relative to the need. Data accumulated between 1997–2008 show that the Africa Bureau received 12 percent of all USAID funds and 20 percent of funding by geographic destination. In 2008, for example, 20 percent of the Office of Microenterprise Development funding went to *microfinance* and 80 percent to *microenterprise* in Africa.

USAID Grant Funds Provide Significant Leverage

It is estimated that of the MFIs USAID funded in the 1990s, at least 90% of them are still in existence and have grown their assets significantly beyond the initial grant funding from USAID. Opportunity's example is noteworthy.

Since 1993, USAID has provided \$77 million in grant funding to Opportunity International. These dollars have been multiplied and recycled many times over, resulting in 3 million loans valued at \$2.1 billion in just the 18 partners that received USAID funding. As of June 30, 2009, those institutions alone had \$335 million in assets, had mobilized \$56.7 million in deposits, and had an outstanding loan portfolio of \$239 million, with 1,017,739 deposits and loans. Combined, these institutions now operate at 104.7% sustainability. Should Opportunity International—or, for that matter, USAID—go out of business today, each of these microfinance institutions would continue operating.

The U.S. Government could be even more strategic by focusing more on leveraging public funds through public private partnerships, as well as in incentivizing matching funds for USAID awards. Matching funds are expressed as a Sense of Congress in PL 108-484, but in FY08, only \$21 million of USAID funding was matched by an additional \$9.5 million from sources outside the USG, resulting in only six percent of total funds matched.

OPIC and IFC

CHF International's experience shows the importance of OPIC and IFC, which are able to provide much longer term funding than most lenders, and are willing to invest in markets where most private sector partners are unwilling to go. OPIC and IFC have allowed CHF International to sustain its microfinance operations in tough times, build a home improvement / housing lending program with access to longer term funding, and start up operations in places with great need but difficult operating environments. When the financial crisis hit, two major private investors could not refinance loans to Express Finance MFI, CHF's partner in Romania, resulting in a huge bullet repayment and inability to keep lending. OPIC was the only institution willing to extend a larger, longer term loan to the MFI and keep operations afloat.

World Bank IDA Funding to Microfinance

Since 2003, the U.S. Congress has urged the World Bank to increase resources to support financial access for the very poor. In December 2008, Reps. Holt and Carter and Sens. Enzi and Brown initiated letters, signed by 93 representatives and 21 senators, to World Bank President Zoellick suggesting the following initiatives to increase financial access for the poor and marginalized:

- A flexible grant facility of \$200 million per year to build the capacity of microfinance service providers to reach the very poor.
- “Centers of Excellence” to encourage cross-learning and best practices dissemination on how to reach the very poor and with microfinance services.
- A sub-Saharan Africa funding mechanism to help enable microfinance service providers that focus on the very poor access capital.

In February and August 2009, the Bank responded to the December 2008 Senate and House letters. The Bank noted that it was seriously considering all of the proposals and was working to move forward on them by the end of the year, yet to-date progress has stalled. This is an initiative that deserves on-going conversation with the World Bank and with the Treasury Department.

Financial Inclusion for All

The Financial Access Initiative (FAI), a research consortium based at New York University, has identified that 2.5 billion adults worldwide do not have a savings or credit account with either a traditional or alternative financial institution. Nearly 90% of the financially un-served live in Asia, Africa, the Middle East and Latin America. The global data indicate that countries can improve levels of financial inclusion by creating effective policy and regulatory environments and enabling the actions of individual financial service providers. Further, the new focus on Social Performance Management (SPM) opens up effective ways to ensure that the social mission of microfinance is preserved in the midst of growth and commercialization. The USG should take the lead through an interagency policy on financial inclusion that identifies who is excluded and develops global, regional and subregional strategies for filling the gaps. More than 800 million of those using financial services live on less than US\$5 per day, so it is possible to provide these services to very low-income communities. We need a thoughtful strategy including both public and private sector players that brings all hands on deck, as there are still nearly 2 billion to reach.

ABOUT THE MICROENTERPRISE COALITION

The Microenterprise Coalition was started in 1992 by leading U.S.-based microfinance networks in order to ensure effective policies for reaching poor families through microfinance and to promote U.S. global leadership of microfinance programs. It is co-chaired by Grameen Foundation and Opportunity International. Members include ACCION International, CARE, CHF, FINCA International, Grameen Foundation, Microfinance Opportunities, Opportunity International, ProMujer, RESULTS, Save the Children, World Council of Credit Unions, World Relief, and World Vision, among others.

While Coalition members have contributed to this testimony, the views expressed are my own.