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## FY 2014 REQUESTS FOR FOREIGN OPERATIONS SUBCOMMITTEE LEADERSHIP

### House

Rep. Kay Granger, Chair  
Rep. Nita Lowey, Ranking Member

### Senate

Sen. Patrick Leahy, Chair  
Sen. Lindsey Graham, Ranking Member

## Microfinance

### FY14 Request: Provide \$500 million for Microfinance and Microenterprise funding and language to direct funds to the very poor

#### Global Microfinance and Microenterprise Funding History

Fiscal Year	FY10	FY11	FY12	FY13 House	FY13 Senate	FY14 RESULTS' Request
<b>Funding Level</b>	\$265 million	\$265 million	\$265 million	\$265 million	\$265 million	\$500 million

#### Proposed language to be included in the Appropriations Committee bill:

**Microenterprise:** *The Committee recommends \$500,000,000 for microfinance and microenterprise development programs for the poor, especially women. Because the delivery of financial services is an especially important tool in enabling the poor to escape from poverty, the Committee encourages investment in a variety of financial services that allows the poor to save, borrow, and access insurance, remittances, and other key services. The Committee is concerned about the lack of funding for sub-Saharan Africa and directs increased investment in microfinance in sub-Saharan Africa within the USAID microfinance and microenterprise program. As required by section 251(c) of the Foreign Assistance Act of 1961, USAID is to target half of all microfinance and microenterprise funds to the very poor, defined as those living on less than \$1.25 a day. The Committee recommends that USAID modify and improve the poverty assessment tools so that the tools can assist partner organizations' management and outreach to the very poor.*

#### Financial Access for the Very Poor

According to the World Bank, an estimated 2.5 billion people around the world still lack access to safe, reliable, and well-priced financial services. Instead of using banks and insurance companies, the poor often have to rely on informal options that take advantage of their situation and take too much of their hard-earned income.

**Microfinance, which includes microcredit (loans) as well as other financial services such as insurance and a safe place to save money, provides financial opportunities for the very poor so they can work to pull themselves out of poverty.** Often averaging less than \$150, microloans allow people to start and expand tiny businesses without depending on moneylenders who demand exorbitant interest rates. Loans like these can also be used to finance health and education needs. Both borrowers and non-borrowers need a safe place to

save their incomes, and insurance programs are critical to helping protect the poor from falling further into poverty should an unforeseen event financially impact their lives.

Microfinance provides the poor with the tools they need to reap the benefits of their skills and hard work. It gives people the capacity to improve the quality of their lives and the futures of their children. Extra money earned is typically used by families to obtain better food, housing, and education. As a result, the returns increase the impact of other development programs and benefit the entire community:

- **Microfinance Increases Universal Access to Education:** Increased incomes, savings and education loan products provide poor people with the ability to invest in their children's future, particularly in their education. In poor households with access to financial services, evidence indicates that children are not only sent to school in larger numbers, but they also stay in school longer.
- **Microfinance Contributes to Gender Equality and Women's Empowerment:** Women represent 60 percent of the 1.4 billion people living on less than \$1.25 a day, but own only 1 percent of the world's wealth. Seventy-five percent of the world's women cannot get formal bank loans because they often lack permanent employment and capital and assets, such as land. But access to finance and the transfer of financial resources enables poor women to become economic agents of change by increasing their income and productivity, access to markets and information, and decision-making power.
- **Microfinance Improves Health Outcomes:** Access to microfinance can provide income that helps caretakers deal with the financial impacts of HIV/AIDS on their families and communities. For example, an estimated 80 percent of borrowers of the FINCA program in Uganda are caring for AIDS orphans. Beyond HIV/AIDS, many microfinance institutions actively promote health education. These activities take the form of simple, preventative health care messages on immunization, safe drinking water, and pre-natal and post-natal care – education that is critical to the health of mothers and their young children. And some programs provide credit products for water and sanitation that directly improve clients' living conditions.<sup>i</sup>

#### What makes microfinance a smart investment?

- **High Repayment Rates:** Microfinance is an economically sustainable method of fighting poverty. In developing countries, the rate of repayment of well-established microfinance programs can be in the 90 percent range. Repayment rates are high because, through a system of peer support and pressure used in many microfinance models, borrowers are responsible for each other's success. They help ensure that every member of their group is able to pay back their loans.
- **Cost-Effectiveness and Financial Self-Sufficiency:** With support to grow and become self-sufficient, microfinance programs in developing countries need less grant money, can utilize loans and loan guarantees, and eventually link into the formal financial system. Many well-run microfinance organizations in developing countries are eventually able to sustain their operations through interest income.

**Public funding from the United States and other donors is critical to reaching the poorest and most marginalized because very little of the private foreign investment capital in microfinance and microenterprise goes to the countries with greatest need – especially in Africa – or to support the microfinance services that reach the most marginalized.** In sub-Saharan Africa, where the population includes the highest burden and percentage of people living in extreme poverty of any region, no financial institution – microfinance or otherwise – is reaching 80 percent of the 800 million people living there.<sup>ii</sup> USAID microenterprise funding plays a critical role in expanding financial opportunities for the underserved in these high-need countries.

#### For additional information, please contact:

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<sup>i</sup> All text in this section adapted from CGAP, What Do We Know About Microfinance?.

<sup>ii</sup> CARE. 2011 *Microfinance in Africa: State of the Sector Report: Closing the Gap*. Page 8. <http://www.care.org/getinvolved/advocacy/access-africa/pdf/CARE-Access-Africa-Closing-the-Gap-2011.pdf>.