Microfinance

FY15 Request: Include language to direct microfinance and microenterprise funds to the very poor

Proposed language to be included in the Appropriations Committee bill:

Microenterprise: 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 is concerned about the very low uptake of poverty measurement tools, which has resulted in insufficient evidence showing USAID’s fulfillment of the legal target to reach the very poor. The Committee recommends that USAID work with partner organizations to increase uptake of poverty measurement tools developed and/or approved by USAID.

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 directs increased investment in microfinance in sub-Saharan Africa within the USAID microfinance and microenterprise program to reach the poorest and most marginalized.

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 and stability 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 regularly 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, such as a health crisis in the family or a natural disaster, financially impact their lives.

Ensuring Microfinance Benefits the Very Poor

Public funds for microfinance play a vital role in helping microfinance and microenterprise organizations reach the very poor and most marginalized, who are excluded from the traditional financial sector. But even programs designed to reach the very poor oftentimes only reach their target of providing services for those most in need when the poverty levels of beneficiaries are actually measured by the
organizations trying to reach them. Congress and the Administration recognized this challenge in 2004 when the Microenterprise Results and Accountability Act became law.

P.L. 108-484 mandates that half of USAID microenterprise funds benefit the very poor and requires USAID to develop and implement at least two effective poverty measurement tools so that the agency knows that its microfinance and microenterprise programs are truly reaching the very poor who need these programs the most.

Despite this legal mandate, USAID’s use of poverty measurement tools has actually declined since the agency first started using them in 2007. That first year, 31 institutions used a poverty measurement tool; in 2012, the most recent year with available data, only four institutions reported. At the same time, while measurement is going down, USAID’s estimate of the percentage of microenterprise funds benefiting the very poor is going up (Chart 1). In 2012, for the first time, USAID reported that the percentage of funds benefiting the very poor was 56 percent — exceeding the target set by the 2004 law. In the same report, the agency recognized that the low percentage of reporting entities rendered this estimate nearly meaningless. Until USAID ensures its partner institutions use poverty measurement tools developed and/or approved by USAID to base their outreach in evidence, it will be impossible to determine the percentage of microenterprise funds benefiting the very poor.

How is USAID Using Microenterprise Funding?

Over the past decade, USAID microenterprise funding has slowly but nearly steadily increased, from $188 million in 2002 to $251.5 million in 2012, with funding peaking in 2011 at $286 million (Chart 2).

However, in the same time period, the numbers of borrowers has substantially decreased and, from the data available, so has the number of total beneficiaries (Chart 3). From 2007 to 2012, the number of microfinance borrowers decreased by nearly 75 percent and the number of savers decreased by 55 percent. From just 2011 to 2012, reported data indicates that total beneficiaries decreased by approximately 38 percent.

Congressional oversight is key to directing USAID microenterprise funding to effective, evidence-based programs that provide a variety of financial services and critical safety nets to the very poor and most vulnerable.

For Additional Information, Please Contact:
Crickett Nicovich
Senior Policy Associate
RESULTS
(202) 783-7100 x153 / cnicovich@results.org

1 In 2009, the 17 entities that reported made up 39 percent of microenterprise funds; by 2011, the 8 entities made up 5 percent of funds. This data is not available every year. All data is derived from the USAID Microenterprise Results Reporting (MRR) annual report to Congress for that fiscal year, available online at: http://www.mrreporting.org/Pub/AnnualReports/AnnualReports.aspx.
2 USAID Microenterprise Results Reporting: Annual Report to Congress, Fiscal Year 2012. Page 6
3 In the FY 2012 MRR, USAID adjusted the methodology of the report to use only a sampling of programs. The missions and offices included in the 2012 report account for 89 percent of USAID microenterprise funds, or $231 million of the $251.5 million total microenterprise funds. The figures in the charts shown here reflect the numbers of the sample only, as that is the data available. While these numbers illustrate the trends in the microenterprise programs, most direct year-to-year comparisons between 2012 and previous years are not possible.
4 Prior to the FY 2011 MRR, USAID reported numbers for three types of beneficiaries: borrowers, savers, and employees of microenterprises. The 2011 and 2012 reports include these three categories as well as “recipients of other services” and “total beneficiaries” that account for overlap in borrowers and savers, which was not provided in previous years’ reports.