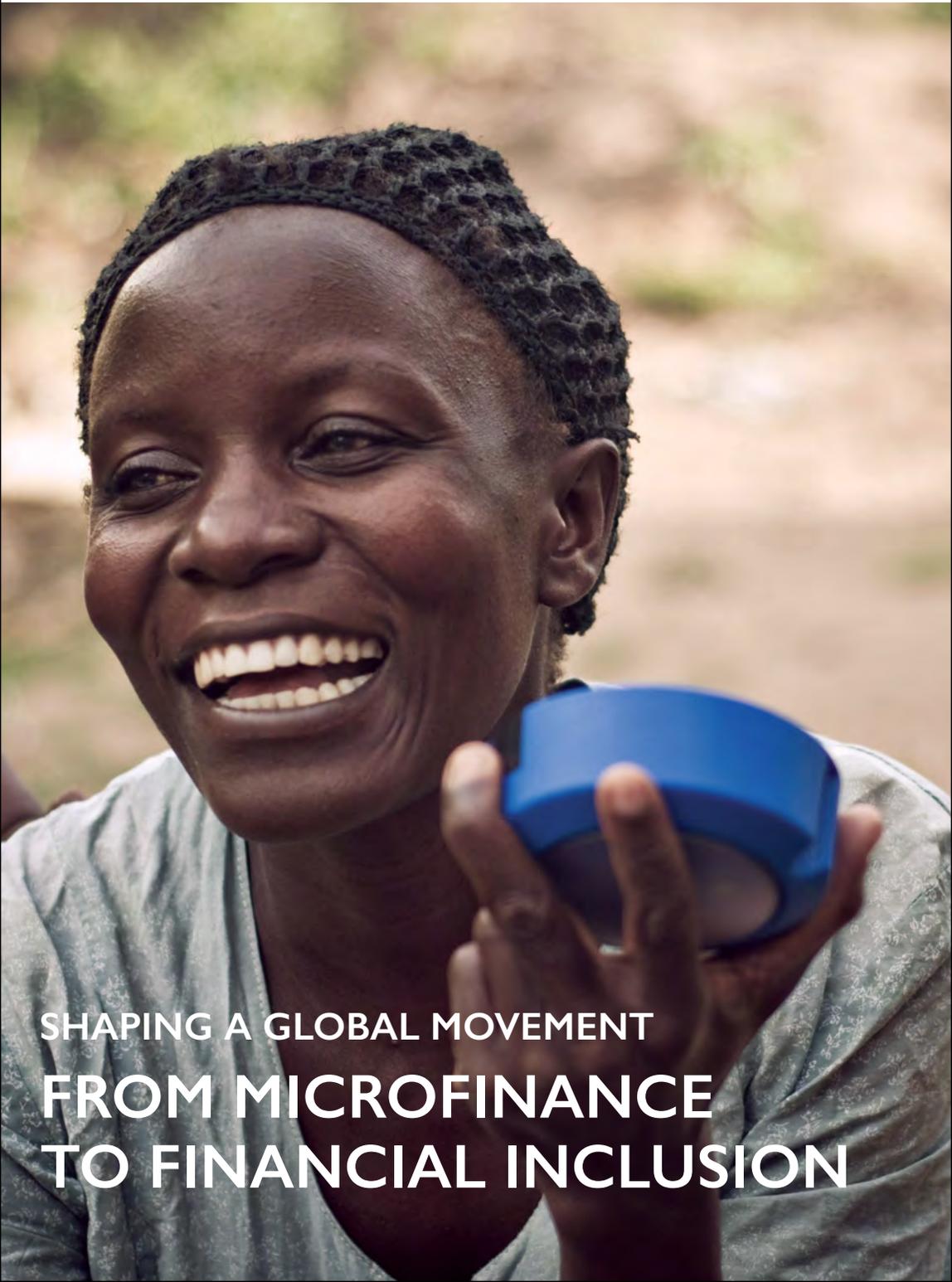




USAID
FROM THE AMERICAN PEOPLE



SHAPING A GLOBAL MOVEMENT
**FROM MICROFINANCE
TO FINANCIAL INCLUSION**



We partner to end extreme poverty and promote resilient, democratic societies while advancing our security and prosperity.

— USAID MISSION STATEMENT

Microfinance is considered one of the great game changers in the developing world. Today millions of poor households have access to finance, and most urban centers have microfinance institutions or commercial banks that offer microloans. The industry increasingly attracts private capital, with less reliance on donor support. Microentrepreneurs, who were once locked out of the financial system due to their small size and lack of collateral, now have access to finance at reasonable rates.

USAID played a pivotal role in shaping the industry's transition toward a market-driven model that can reach most of the developing world. USAID's early investments in experimentation and learning helped to prove that poor people are "bankable" and led to a global dialogue about best strategies, lending methodologies, and delivery channels for reaching the poor. In the 1990s, USAID supported the transition



of microfinance institutions such as BancoSol in Bolivia and K-REP in Kenya, as they became more established commercial banks. These institutions created sustainable and scalable solutions for reaching low-income households.

As the microfinance sector matured and competition increased, USAID brought attention to the demand for microfinance by supporting new financial products and services beyond credit, such as housing loans, health insurance, and the use of mobile phones to transfer funds.

USAID shaped a global movement for financial inclusion, helping to build the microfinance industry of today. The global microfinance industry now conducts nearly \$1 trillion a year in transactions and services as a prime example of how USAID can partner with the private sector to find market-driven solutions to end extreme poverty.

COVER: USAID's partnership with Angaza, an East African technology company that offers solutions to pay-as-you go financing, allows individuals like Benedetha to afford solar energy and reduce the need for costly and dirty kerosene. © ANGAZA **THIS PAGE:** In Rwanda, 83 percent of the population lives without grid electricity. The pay-as-you go approach used by Azuri Technologies, which connects people to finance through mobile phones, allows users to purchase new, clean energy at affordable prices. © AZURI TECHNOLOGIES **BACK COVER:** USAID's Tanzania Agriculture Productivity Program not only transfers good agricultural practices to smallholder farmers, but also shares vital market information on price trends to help farmers know when to sell for competitive prices. © FINTRAC INC.

PRIOR TO 1970s

Microentrepreneurs have limited access to financial systems due to their small size and lack of collateral. Few microfinance institutions exist. The formal financial sector does not see microlending as a viable business model.

1975

Partnering with Michigan State University, USAID begins researching rural, non-farm employment, leading to greater understanding of the role of microenterprises. This research accompanied a major shift in development focus from large-scale industry support to small-scale enterprise development.

1978

USAID begins investments in experimentation and learning, leading to dialogue and debate about best strategies, lending methodologies, and delivery channels for reaching the poor. Research and field testing with ACCION, Partnership for Productivity, and others helped to show that poor people were “bankable.”

1970s



Support Experimentation and Learning

1974

1975

1976

1978

1980



“USAID changed forever the field of development with its intensive efforts on small and microenterprise development. ... The field would not have advanced without the long-term investment in research, people, and institutions by USAID.”

— JAMES BOOMGARD,
FORMER CHIEF OF PARTY,
USAID'S GEMINI PROJECT

1974–1976

Early pioneers in microfinance, including Sewa in India and Grameen Bank in Bangladesh, begin to demonstrate the nascent potential of microfinance while bringing greater attention to issues of financial inclusion for the poor.



Training women farmers on climate-smart innovations in Nyando, Kenya. © V. ATAKOS/CCAFA

Project Spotlight: The K-REP Experience

From a USAID-Funded Project to Africa's First Microfinance Bank
The Kenya Rural Enterprise Program



Caroline Agbasonu, caterer and restaurant owner, client of Accion Microfinance Bank in Lagos, Nigeria. © JOHN RAE FOR ACCION

1995

USAID partners with other donors to establish the Consultative Group to Assist the Poor (CGAP), which develops innovative solutions for poverty reduction through practical research and active engagement with financial service providers, policymakers, and donor organizations.

USAID launches Innovation Grant Program (IGP), which awards 80 grants over the next 15 years to promising microfinance approaches, such as village saving models, attracting private sector capital. Notable recipients include XacBank in Mongolia, CRECER in Bolivia, and Compartamos Banco in Mexico—all leading microfinance institutions today.

1984

1990

1994

Build Local Capacity

1984–1990

USAID focuses on building the institutional capacity of international and local organizations engaged in small-scale, rural business and lending. Projects such as the Kenya Rural Enterprise Program (K-REP) (see example below) and PRODEM/BancoSol would go on to play transformational roles in their regions, paving the way for others.

1980

Demonstration projects with USAID Missions test various lending and technical assistance methodologies. Evaluations highlight the dual nature of programs with business and financial as well as social and humanitarian objectives, a debate that leads to the establishment of the Small Enterprise Evaluation Project (SEEP).

1994

USAID establishes the Office of Microenterprise Development, highlighting the increased focus on microfinance both within the Agency and throughout the donor community. Focus shifts to reaching scale by building sustainable microfinance providers and an enabling environment to support them.



Support Experimentation and Learning

1984 – USAID/Kenya established the Kenya Rural Enterprise Program (K-REP) to support small-scale business development and microlending.



Build Local Capacity

1987 – With USAID support, K-REP was incorporated as a local NGO in Kenya.



Mobile phone banking in the Philippines.
 © MICROENTERPRISE ACCESS TO BANKING SERVICES
 (MABS) PROJECT, CHEMONICS INTERNATIONAL

“Across the developing world, technology is providing us with new opportunities to create financial inclusion and drive broad-based economic growth. By empowering aspiring business owners—particularly women—to harness innovation, technology, and partnerships, we can make strides toward ending extreme poverty.”

— DR. RAJIV SHAH, USAID ADMINISTRATOR

1999

USAID begins making partial loan guarantees through the Development Credit Authority (DCA), increasing the availability of funding for lending to microfinance institutions and microenterprises.

1995



Create Sustainable Institutions

1999



Scale-up Proven Models

2004



Sales clerks Hiwot Tefera and Beyenech Gossaye stand ready to welcome customers at the newly opened Bishoftu Farm Service Center, a one-stop shop for smallholder farmers in Ethiopia. © CNFA ETHIOPIA COMMERCIAL FARM SERVICE PROGRAM (CFSP)

2004

USAID begins early digital finance efforts. In the Philippines, efforts help rural banks establish mobile phone banking. By 2012, USAID/Philippines had assisted 77 rural banks with more than 1,100 branches and banking offices to register more than 390,000 mobile phone banking clients.



Create Sustainable Institutions

1989 – Building upon USAID’s global learning programs, K-REP begins its microcredit programs.



Scale-up Proven Models

1999 – K-REP becomes a regulated microfinance institution, known as K-Rep Bank.

2010–2013

USAID teams up with the Bill & Melinda Gates Foundation to create the Haiti Mobile Money Initiative in the wake of the devastating earthquake, which left a third of bank infrastructure in shambles. Simultaneously, USAID invests in regulatory and policy reform in Colombia, Afghanistan, Liberia, the Philippines, and elsewhere to create the enabling environments for lower-cost, technology-enabled delivery methods.

2013

Once a USAID project, the Small Enterprise Education and Promotion (SEEP) Network now serves as a global network of over 124 organizations engaged in participatory research, applied learning, documentation, and training on microenterprise development and microfinance.

2014

Since inception, DCA loan guarantees have unlocked \$839 million for lending to microenterprises, enabling 125,536 microentrepreneurs to obtain financing, with a default rate of only 2 percent.

TODAY

The global private sector microfinance industry has 94 million active borrowers with a loan portfolio of \$94 billion serviced by 1,160 formal microfinance institutions that employ thousands.

2010



Achieve Transformative Results

2013

2014



Pioneer Breakthrough Solutions

INCLUSIVE FINANCE

USAID renews its focus on ending extreme poverty. With the increased reach of profit-oriented microfinance providers, client-focused themes like client protection (financial literacy, protecting client data) will be increasingly important for reaching and serving the extreme poor.

MOBILIZING PRIVATE CAPITAL

USAID-supported loan guarantees and new financial products will help to establish business models that reach the extreme poor and allow them to benefit from connections to the global economy.

DIGITAL FINANCIAL SERVICES

New technologies are unlocking opportunities to expand access to affordable financial products and services, including remittance services, agriculture and value chain finance, and streamlined payment mechanisms. New and existing digital delivery channels will be leveraged and scaled to provide digital access for other goods and services.

Achieve Transformative Results

2012 – K-Rep Bank's microlending portfolio exceeds \$87 million and reaches more than 23,010 borrowers and more than 185,000 depositors. Many services now can be accessed through digital platforms.





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