

# Helping the Poor Manage Life's Risks and Take Advantage of Life's Opportunities

## Overview

People in developed countries have a relatively easy time accessing the financial services they need. They go to a bank to open a savings account, go online to transfer money, file paperwork to apply for a loan, or take out insurance for a range of risks with a simple phone call. In developing countries, these processes aren't just more complicated; they usually don't exist.

Fewer than 60 million poor households—only 10 percent of the world's poor\*—currently have access to even the most basic affordable, quality financial services like loans, home mortgages, savings accounts, money transfers, and insurance. Providing these tools can help people manage life's risks and take advantage of life's opportunities. Such services allow poor families to meet basic needs, from food to shelter to healthcare, and can provide an indispensable first step out of long-term poverty by giving them the ability to grow small businesses or generate additional income to send children to school.

In recent years, growing attention has focused on the enormous potential of microfinance—small-scale ways of borrowing, accumulating, or transferring money—and there have been many success stories. But despite this encouraging progress, the sector is still in the very early stages of growth relative to the scale of need. It lacks clear models on how to ensure long-term sustainability and dramatically expand services to reach the majority of people in the developing world.

## Our Approach

The Bill & Melinda Gates Foundation is working to make microfinance much more widely accessible to poor people throughout the developing world. The Financial Services for the Poor initiative reflects our belief that microfinance can empower impoverished people, giving them autonomy, dignity, and the ability to address their needs according to their own priorities.

Using new technologies and other tools, we work with partners to develop and employ innovative ways to bring a wide range of financial services to people living in poverty. We also aim to



identify and support microfinance institutions and products that are already successful, and to help bring these to scale to reach many more people. We are specifically concerned with the needs of women, who face the greatest challenges in accessing financial services but have the greatest potential to increase family income.

## What We Do

**New and improved products:** Even in the provision of micro-credit or small-scale loans, which is now the best established area of microfinance, there is significant need for improved products, from agricultural lending to small business support. And while loans are very important, particularly because many of the poor are self-employed, people need a diverse range of other financial services: savings accounts to accumulate wealth, safe ways to transfer money through remittances and other payments, and microinsurance products to help families weather health crises or assist small farmers dealing with droughts and floods. We work with our partners to develop and support many new products and services that the world's poor need and can use.

\* Defined as people living on less than \$2 a day.



**New business models:** We must think creatively about how to provide financial services to large numbers of the poor, many of whom are illiterate or live in remote, rural areas. We are supporting experimentation with new business models that utilize non-traditional delivery channels, such as mobile and satellite banks or commercial banks and credit unions that seek to meet the particular needs of the poor. We also look at how new technologies like cell phones, SMARTcards, and biometrics (scanning thumbprints or retinas) can guarantee safer, more reliable transactions.

**Sustainable capital:** Philanthropic funding has been critical in kick starting microfinance, but only an infusion of long-term capital from commercial and social investors seeking a return will sustain the sector and allow it to grow to scale. We work with microfinance providers to make them more transparent and attractive to investors. In addition, we partner with groups like commercial banks, which are relatively new sources of microfinance funding, to provide the sector with the steady, sizable flow of capital it requires.

One funding configuration we are testing is to supplement grants with program-related investments (PRIs), which are long-term, low-interest loans or equity investments for charitable purposes. PRIs can potentially help microfinance institutions grow to scale and become more appealing to private sector investors.

**Data, research, and policy analysis:** While many microfinance institutions conduct research on the individual populations they serve, there is a dearth of accurate information on results across the sector. This has led to confusion about microfinance's aggregate impact, where supply and demand currently stand, and what policies—from banking laws to regulatory practices—will allow the sector to thrive. We are seeking to help address this by supporting and sharing reliable, consistent research, data collection, policy analysis, and advocacy for the development of favorable legal and regulatory environments.

# Financial Services for the Poor Grants

Topic	Grantee*	Purpose	Location(s)
<b>New and Improved Products</b>			
Microinsurance	Aga Khan Foundation USA	To design, test, and roll out new and viable insurance products for the poor in Pakistan and Tanzania. These will help low-income families protect themselves from financial shocks such as the death of a breadwinner or loss of business or crops. (\$5.5 million over 5 years)	Pakistan, Tanzania
Housing insurance	Development Innovations Group*	Contract for services to develop housing finance products, such as mortgages and loans for home improvement that will assist the poor in obtaining and maintaining better housing. (\$7.8 million contract over 4 years)	Peru, South Africa, Lebanon, Morocco, India
<b>New Business Models</b>			
Using technology for better banking	Consultative Group to Assist the Poor (CGAP)	To test and promote the use of information and communication technologies—cell phones, SMARTcards, and credit scoring—to deliver microfinance products with lower transaction costs to more people. (\$24 million over 4 years)	Worldwide
Microfinance models	Accion	To introduce and test new microfinance models to reach many more poor people. This includes development of microfinance tools for urban areas of India and downscaling a large commercial bank to serve the poor of West Africa. (\$5.8 million over 4 years)	India, West Africa
Credit unions	World Council of Credit Unions Inc.	To increase access to financial services by downscaling credit unions in developing countries to serve the poor and double their memberships; to create incentives for international lenders to provide long-term capital to credit unions that are already serving these poor populations. (\$6.5 million over 3 years; \$2.0 million over 2 years)	Kenya, Rwanda, Colombia
<b>Sustainable Capital</b>			
Banking for the poor	Opportunity International Inc.	Grant and program-related investment (PRI) to develop and dramatically expand a network of commercial banks in some of the poorest parts of Africa. (\$5.5 million grant; \$10 million PRI loan over 3 years)	Africa
Banking for the poor	ProCredit Holding, A.G.	Grant and program-related investment (PRI) to increase access to banking services for microentrepreneurs, small businesses, and the poor in Africa. (\$9 million grant; \$20 million PRI over 4 years)	Africa

\* Certain organizations have contracts, as opposed to grants, with the foundation.

Topic	Grantee*	Purpose	Location(s)
<b>Data, Research, and Policy Analysis</b>			
Maximizing the impact of microfinance	New York University	To conduct research and collect reliable data on the impact of microfinance on the poor, client preferences and behavior, and which policy tools can improve—or hinder—poor people’s access to financial services. (\$5 million over 5 years)	Worldwide
Assessment of our grants	University Research Corporation International	To assess which approaches are most effective in helping the poor gain access to a range of financial services. This project will compare the actual impact of our grants against anticipated impact; we will gather and share lessons learned. (\$6.5 million over 5 ½ years)	Worldwide