At our 2013 Microcredit Summit in the Philippines, we focused on the partnerships required to deliver financial services to those living in poverty. At our 2014 Summit in Mexico, we focused on innovations in microfinance with a demonstrated capacity to reach those in extreme poverty. Since then, we have continued to research the products, services, delivery channels, partnerships, and alliances that will enable the financial services community to make financial inclusion a key pillar in the global movement to end extreme poverty. In this report, we present six "pathways" where financial services can support families in their journey out of extreme poverty.

Six Pathways

1 **Integrated health and microfinance:** Health shocks often trap families in poverty or pull them back into it. They can also cause loan defaults and account closures. Financial services providers can support growing livelihoods for their clients, and reduce risk in their portfolio, by providing health financing and health training, and by partnering with others to deliver health products and provide health services.

2 **Savings groups:** The global savings group movement led by international NGOs now reaches over 10 million clients worldwide,[4] most of whom live on less income than the typical microfinance client. In India the government promotes a similar program called Self Help Groups (SHGs). The National Bank for Agricultural Development links 50 million SHG members to financial services through its bank linkage program. Recent innovations with bank linkages, mobile delivery, and fee-for-service facilitation have expanded the range of services offered through these informal groups, while also increasing their viability.

3 **Graduation programs:** The ultra-poor graduation model developed by BRAC has proved effective in Bangladesh and many other countries at reaching those living in the direst poverty and helping them to develop livelihoods and financial capability. Linking these programs to financial institutions and government social-protection programs can allow these initiatives to reach scale.

4 **Agricultural value chains:** Most people living extreme poverty live in rural areas and earn most of their income from agricultural work. Expanding agricultural value chains to reach smallholder farmers, providing them with financing, risk mitigation tools, and access to the inputs and markets they need to expand production will increase income and employment opportunities.

5 **Conditional cash transfers:** Government social-protection programs provide cash transfers (both conditional and unconditional) to households living in extreme poverty, to the elderly, and to those with physical disabilities. Delivering these payments through accounts in financial institutions, combined with incentives for savings and education, help households build assets over time.

6 **Digital finance:** Digitizing financial transactions can greatly reduce costs, while increasing speed and accuracy, making it possible to profitably deliver transactions in small units and over great distances. The most popular financial service so far has been the ability to transfer payments over the phone. Recent innovations, such as getting mobile network providers to pay the cost of microinsurance as a lure to retain customers or mining transaction data to determine credit-worthiness, have expanded the range and value of services delivered digitally.

These six pathways represent key strategies to break out of the microfinance sector's current stall and greatly expand outreach to those living in extreme poverty. They have even more power, though, when they are combined: for example, digitally delivering CCTs into a savings account, mobilizing the CCT recipients into savings groups, and furthering their ability to earn a livelihood through graduation programs.

In this report, we look more closely at each of these pathways and the ways that financial service providers can work within them. We also focus on the key role of mapping, an often overlooked step, in identifying where people living in extreme poverty reside and congregate, and what channels and linkages can provide the best routes for serving them.

[5] The SEEP Network, 2015, "Savings Groups Global Outreach," on seepnetwork.org, http://www.seepnetwork.org/savings-groups-global-outreach-pages-20015.php.

MICROCREDIT SUMMIT CAMPAIGN
A Project of RESULTS Educational Fund

Mapping Pathways out of Poverty

THE STATE OF THE MICROCREDIT SUMMIT CAMPAIGN REPORT, 2015

Executive Summary

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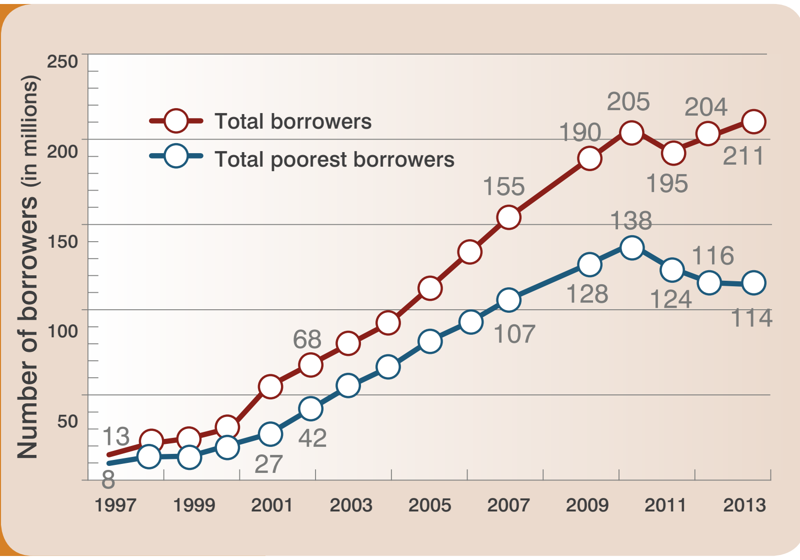
Executive Summary

The World Bank and the United Nations have both set their sights on ending extreme poverty by the year 2030. The Bank has also set a concomitant target of universal financial access by 2020 as a major contributor to ending extreme poverty. Our assessment, after reviewing the contributions that microfinance institutions and other financial providers have made toward these two goals, is this: if financial services are meant to play an important part in bringing an end to extreme poverty, we will not come close to reaching it. Microfinance has demonstrated the viability of providing financial services to people in poverty and technological advances have drastically reduced the cost of providing financial services. But, we still do not see widespread adoption of financial services among the largest groups of those that still need to be reached: those living in extreme poverty.



We use this State of the Campaign Report to highlight the progress of the microfinance community toward two goals set at our 2006 Global Microcredit Summit: 1) reach 175 million of the world's poorest families with microfinance, and 2) help 100 million families lift themselves out of extreme poverty. This year, we report those numbers in the context of the larger movements to provide universal access to financial services and to end extreme poverty—and they show the challenge we are having in attaining our goals.

At the end of 2013, the microfinance community reached 211 million clients, 114 million of whom were living in extreme poverty.[1] While the microfinance community provided loans to the most clients in its history last year, the number of poorest clients fell for the third straight year. The growth in clients for microfinance has occurred primarily among those who live above US$1.90 a day.

The latest World Bank report on global poverty reports that, in 2012, 896 million people lived in extreme poverty.[2] The 2014 Global Findex reports that more than half of all adults in the poorest 40 percent of households in developing countries did not have access to formal financial services. (This is a 17 percent improvement over the 2011 Findex.[3]) That makes those living in poverty one of the largest and most difficult-to-reach population segments excluded from the financial system. The 2020 target of universal financial access compels us to reach everyone living in extreme poverty; yet, the part of the financial community that has done the most to expand financial access among the poor over the last few decades—microfinance providers—have stalled in their outreach to this segment.

A financial system that reaches and benefits everyone will need to provide financial services that people with the lowest income and with households in the most remote places find accessible and useful. This means we need to approach such a challenge with the end in mind—start from the end goal and work back to how we want to get there. In this way, we can design a system to sustainably reach clients in the most remote areas and who transact in the smallest sums. This design process must include the following steps:

Measure

In order to track our success with including those living in poverty, we must measure the income levels of the financially included, as well as the excluded. For this reason, we are greatly encouraged by the recent announcement from the World Bank that it will invest in conducting household surveys every three years in the 78 poorest countries—and making sure it happens.[4]

It also requires a good definition of success, that is, what it means to be included in the financial system. On the other hand, we believe the 2014 Findex's definition for "financial included" is too narrow. It counts a person as included if they have an account at a registered financial institution or with a mobile money provider. We find this definition inadequate for two reasons. First, it excludes people who maintain accounts with savings groups or other informal savings and credit associations, as well as people who have accounts with microfinance providers that are not licensed banks. Second, it includes people who have opened accounts, but do not use them in any meaningful way. For us, true inclusion means that a person not only has an account but has access to a full range of financial services that they can use in a way that benefits them.

Map

Reaching the excluded requires knowing where they are. Mapping the locations of these excluded people helps us place them in their geographical, cultural, and economic context. It helps us understand the sets of related factors that may contribute to their exclusion.

The Bolsa Família program started with a mapping exercise that identified the location of every household living in extreme poverty. They used this map to design their conditional cash-transfer (CCT) program and make connections with other challenges these households faced. The map on the right shows that Bolsa Família recipients are concentrated in the poorer northeast region of Brazil.

Understand

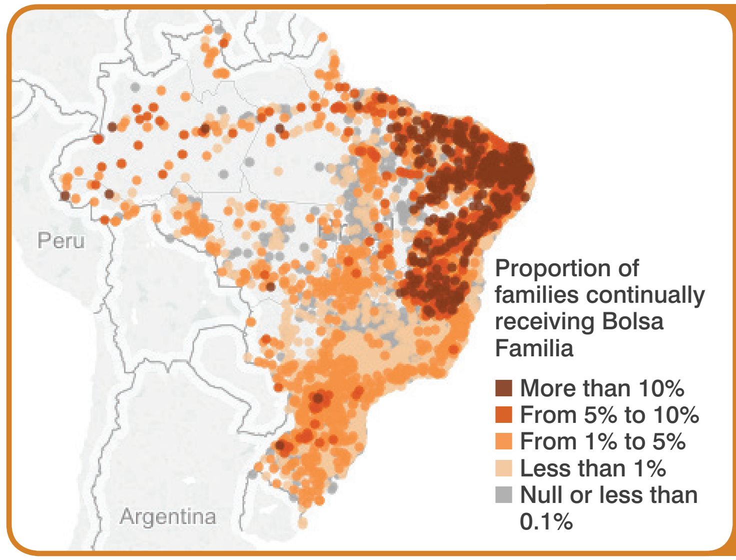
People living in poverty use financial services to accomplish their own objectives: to mitigate risks, take advantage of opportunities, build a better future for their children, celebrate joys, and mourn losses. Those who seek to provide financial services for this group need to understand the rhythms of their lives, their aspirations, their fears, and their cash flows.

Design

This understanding can help financial service providers design products and services that match the objectives and life cycles of their clients at price points that reflect what people living in poverty can afford and what they value.

Deliver

Delivering these products and services at scale will require alliances and partnerships that together can provide delivery channels and aggregators to reduce costs, hasten response time, and improve service. MFIs, banks, savings associations, telecommunication companies, governments, civil society organizations, and NGOs can all play a role in delivering a range of useful products and services to a widely dispersed population.



[1] We use the World Bank definition of "extreme poverty" to mean those living on less than US$1.90 per day PPP (the recently updated international poverty line). We use this interchangeably with "poorest" and "very poor." Where we mention the "ultra poor," we are referring to people living on less than $0.70–$0.80 per day. The World Bank has also adjusted the $2-a-day poverty line (the "poor") upward to $3.10 a day.

[2] World Bank, 2015, "Overview," *Topics:* "Poverty" on worldbank.org, http:/www.worldbank.org/en/topic/poverty/overview.

[3] Ibid., "Overview," *Global Findex* on worldbank.org, http://www.worldbank.org/en/programs/globalfindex/overview.

[4] Ibid., "World Bank's New End-Poverty Tool: Surveys in Poorest Countries," press release, 15 October 2015, http://www.worldbank.org/en/news/press-release/2015/10/15/world-bank-new-end-poverty-tool-surveys-in-poorest-countries.