Social Enterprise ASSOCIATES

Financial Performance Social Impact Environmental Sustainability

Emerging Topics Paper Series

Working Paper # 12

Seeking to Serve Millions, Not Hundreds

Helping US Microfinance Institutions Go Beyond What They Know

March, 2009

Authors

Drew Tulchin

Landon Loomis

Samit Shah

Social Enterprise Associates

info@socialenterprise.net

www.socialenterprise.net

About the Authors

Andrew 'Drew' Tulchin, Managing Partner of Social Enterprise Associates, brings more than a dozen years experience overcoming "the Doubting Thomases" to build lasting triple bottom line organizations in the US and abroad. Microfinance consulting has taken him throughout the U.S. and to 25 countries. He was a Program Officer for Grameen Foundation in Washington DC. He directed a U.S. MFI founded by African immigrants. He began his career in National Community Service, as a VISTA (US equivalent of Peace Corps). Drew completed his MBA from University of Washington in Seattle. He finished his BA, Cum Laude, from Washington University in St. Louis. In his free time, Drew plays ultimate Frisbee anywhere he can, hikes to get lost, eats food he doesn't recognize, and enjoys bad puns more than he should.

Landon Loomis earned his MA with Academic Distinction from the Johns Hopkins School of Advanced International Studies (SAIS) and has more than seven years professional experience in international development. Prior to joining SAIS, Landon was Regional Program Director for Caribbean Central American Action (CCAA), a DC-based non-profit, where he implemented a multi-million dollar development program in preparation for the CAFTA trade deal. Landon also served as a Peace Corps Volunteer in El Salvador. Landon speaks Mandarin Chinese and Spanish; enjoys hiking, climbing and mountain biking; and currently lives and works in Beijing.

Samit Shah is a Master's student at the School of Advanced International Studies (SAIS) Johns Hopkins University concentrating in International Finance and South Asia Studies. He spent a summer working for the ECDC Enterprise Development Group, an Arlington, VA-based microfinance institution, where he helped track the status of existing loans as well as helped complete a cost-benefit analysis project on the effectiveness of loan-repayment products. In his free time, Samit enjoys digital video-editing, reading books on financial history, cooking Indian food, and playing the bassoon.

About the Company

Social Enterprise Associates is a consulting firm specializing in triple bottom line enterprises. The company offers clients business acumen, managerial experience, practical research, and affordable services. The company fosters 'triple bottom line' solutions supporting entrepreneurs, their organizations, and the industries in which they operate. Specializations include New Ventures, Socially Responsible Business, Microfinance, and Non-Profit Earned Income Strategies. More information and client list is online, www.socialenterprise.net.

About the Emerging Topic Paper Series

The Social Enterprise Associates Emerging Topic Paper Series provides explorations of emerging topics of importance in the social enterprise and economic development field. The goal is to explore an issue, challenge new ideas, and suggest action items rather than providing an academic exploration with a definitive conclusion. Working paper topics, as well as submissions are welcome. An introductory e-mail should be sent to info@socialenterprise.net.

Table of Contents

Abstract

Despite the reputation U.S. financial markets have for innovative and extensive reach, an estimated 1 in 4 people in American is considered un-banked or under-banked. The U.S. microfinance market aspires to assist low income people and those with poor or no credit. However, the market demand, estimated to be 37.3 million people and growing 2.2% a year, far exceeds the current supply, 250,000 clients as of 2006. Millions need to be served, not thousands.

U.S. microfinance institutions (MFIs) must examine how they operate in order to address their shortfalls. There is a tremendous opportunity for institutions to isolate constraints and generate new strategies to achieve scale. Honing target markets, building linkages with regulated financial institutions, and designing applicable products are starting points to advance the industry. Successful institutions establish new visions of success, respond to client demands, leverage their capital, and implement new solutions rapidly.

MFIs need to be part of a solution at sufficient size to matter in positively impacting the lives of people in need. Action is needed now to build a healthier financial future for Americans.

I. The Problem

Banks are a tool for creating both wealth and asset development. Muhammad Yunus and the Grameen Bank identify credit as a fundamental building block for development. This is not only the case in developing countries but also the developed. Currently, in the United States, people with high average credit scores have higher home ownership rates than those who have lower credit scores. [1] This is to be expected. However, when looking at the reverse, a grave scenario is presented – people with low credit scores are unable to own a home and increase their assets as a result. When it is believed that "empowering people to develop more assets of all types is the key to empowering them to move out of poverty," this presents a major problem for our country.[2] To move people out of poverty, we must give them the opportunity and means to increase their assets. The goal of micocredit and microfinance-related efforts are to produce this exact result.

With that said, given the depth and breadth of the financial institutions in the United States, it is surprising that the current market continues to inefficiently serve a significant and growing segment of the population. The U.S. microfinance market aspires to assist low income people and those with poor or no credit. However, the market demand, estimated to be 37.3 million people and growing 2.2% a year, far exceeds the current supply, 250,000 clients as of 2006. Millions need to be served, not thousands.[3]

A. The Barriers are Large…

The US is one of the world's wealthiest nations with the largest financial marketplace. Nonetheless, sizeable numbers remain poor with limited access to capital. There are an estimated 36.5 million Americans living in poverty. And, approximately 1 in 4 people is excluded from regular involvement in the financial mainstream. The current marketplace is uneven. The regulated financial sector, i.e. banks, has the most capital, lowest cost structure, and sophisticated marketing. But, it shies away from low income and weak credit segments. This formal financial sector has not shown adeptness in devising entry level products to bring people in or raise people up.

Check cashers and pay day lenders are well represented in low income communities: offering service, convenience, and market knowledge. However, their costly 'predatory' activities and practices are well documented. Pay day lenders charge high fees that can exceed 400% APR, sometimes without the clients' understanding.[4] Despite this, the check cashing market is a booming industry, processing more than 180 million checks annually, worth over $60 billion, and generating $1.5 billion in fee revenues. In the last six years, it is estimated that the industry has more than doubled in size in the U.S., expanding presence to more than 6,000 neighborhoods.[5]

Microfinance Institutions (MFIs) were created to fill the niche to provide affordable, fair services and move people into the financial mainstream. In theory, they understand this market while providing good pricing. With extensive

[1] Fellowes, Matt. "Credit Scores, Reports, and Getting Ahead in America." The Brookings Institution. May 2006. Available atwww.brookings.edu/reports/2006/05childrenfamilies_fellowes.aspx
[2] Turcotte, Kerry. "Poverty Reduction Through Asset Development." The Poverty Project. December 10, 2008. Available at http://poverty.thespec.com/2008/12/poverty-reduction-through-asset-development.html .
[3] Catholic Charities USA. "The Facts, Poverty in the United States: National Data." Available at www.catholiccharitiesusa.org/NetCommunity/Page.aspx?pid=1149.
Kirchhoff, Sue. "Microlending offers hand up asset." USA Today. February 12, 2006. Available at www.usatoday.com/money/perfi/general/2006-02-12-microlending-usat_x.htm.
[4] Rooney, Maureen. "Legal Loan Sharks." Credit InfoCenter. Available at http://www.creditinfocenter.com/loans/payday/payday-loans.shtml.
[5] Lopez-Brito, Julio. "Check Cashers: Strategic Customers and Partners to NuAmerica Bank." February 26, 2007. Available atwww.aba.com/NR/rdonlyres/987CB735-1434-4823-97DF-43BD83FBA71B/50074/LopezBrito2007Capstone.pdf.

growth in the U.S. from the 1980s, today there are more than 500 registered MFIs.[6] A sample report of Community Development Financial Institution (CDFI) results counted 150,000 new accounts to unbanked customers, $4.3 billion in outstanding loans to more than 9,000 small and medium sized businesses (creating or maintaining 40,000 jobs). While important contributions have benefited poor communities, these numbers are a proverbial 'drop in the bucket' to the need in the marketplace.

B. … But The Opportunity Is Extensive

The un- and under-banked represent a major commercial opportunity. This population consumes $100 billion in products and services each year. They currently expend $8 billion in total financing costs. Twenty-two million people used check cashers in the "unbanked" sector and, just last year, took out more than $45 billion in loans. There is a large, lucrative market. Studies confirm there is enormous potential to increase wealth for low income people – and to earn a profit for businesses – incorporating the excluded into the broader financial system.[7]

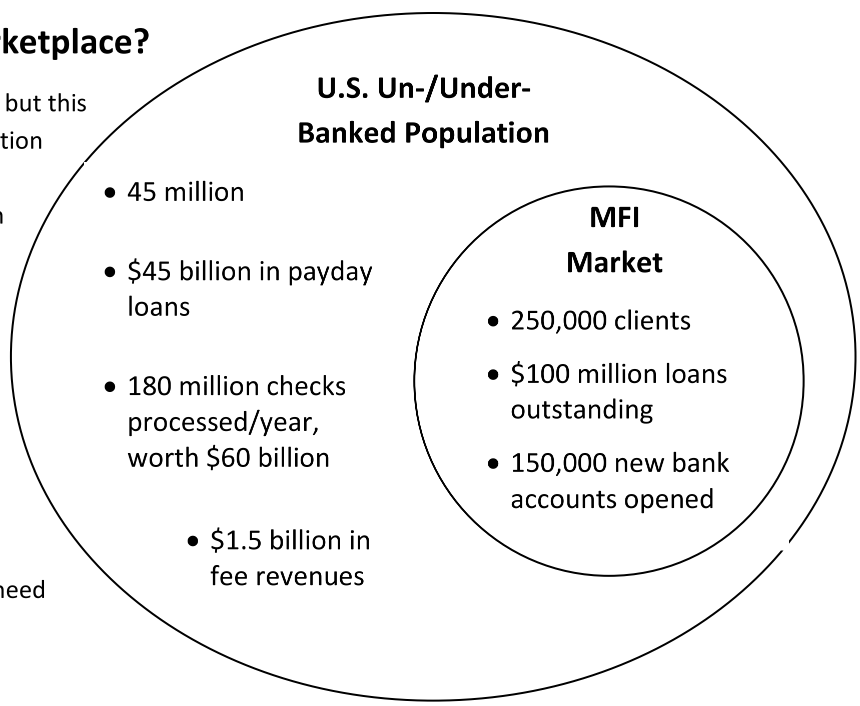
The Un-/Under-Served Financial Market in Annual Numbers

- **28 million people**
- **Earn > $510 billion a year**
- **$100 billion financial market**
- **Pay $8 billion in financing costs**
- **> 180 million transactions**

One concrete improvement, and potential opportunity, of the un- and under-banked is in creating and improving credit scores. Credit scores are key financial access and pricing drivers from the cost of loans, insurance and rent to the ability to secure employment. The current financial upheaval in the US further raises the premium on higher credit scores, and illustrates how vulnerable many low-income lenders are to financial volatility. Given current circumstances, it is important for micro-lending institutions to build better partnerships, expand market via new potential client groups and design innovative products that address the needs of those outside the system.

II. What's Happening in the Marketplace?

MFIs are trying their best to meet market demand, but this has proven to not be enough. The median organization size of microfinance institutions providing loans is only 180 clients with average loan size of $8,500. In 2005, 122 organizations made more than $100 million in loans to nearly 12,000 customers. Despite industry growth – between 2000 and 2005 assets grew by 10% and outstanding financing by 17% [8] – the problem dwarves the response. At current trajectory, it will take centuries for growth to satisfy need, not to mention the millions new un-/under-banked who join the ranks each year. To be meaningful contributors to impact the problem at hand, MFIs need to dramatically ramp up to reach scale.



---

[6] Edgcomb, Elaine. "Microfinance in the United States." FIELD Microenterprise Fund For Innovation, Effectiveness, Learning and Dissemination, The Aspen Institute. November 2007.

[7] Ibid.

[8] CDFI Data Project 2005

III. Defining Success

MFIs must re-shape their service delivery, changing the way they do business, to reach scale and impact poverty in the US. To achieve this new direction requires a new vision. To chart this course, it is helpful to identify goals. That enables progress to be measured at the national level. Key indicators already exist illuminating path to progress.

Impact Indicator	Where We Are Today	Where We Want to Be Tomorrow
Poverty & Financial Coverage	15% poverty rate 25% of Americans un-/under-banked	Half these rates by 2015 in line with U.N. Millennium Development Goals
Activity & Responsiveness	MFIs focus on small business lending and training to generic markets, One-to-one service model Have same products for decades	Focus on consumer products tailored to niche markets One to many service model Innovate new products with customer responsive services
Efficiency & Size	MFI median is 180 clients. Clients don't know about MFIs Cost/client more than $6,000	Partnerships, outreach and enhanced design increase awareness and coverage. Industry converges; lower cost per client
Market Incentives & Sustainability	< 20% of revenue is program generated Philanthropic behavior reduces incentives for market efficiency	> 80% of revenue is program generated. Donors use transparent market criteria to distribute funding. Donor $ leverages private capital

IV. Moving Microfinance in the U.S. Forward

Taking into consideration the challenges faced by MFI's in the United States, there are several suggestions for industry advancement. Suggestions include catering to niche target markets, entering into synergistic partnerships with regulated institutions, and designing innovative new customer oriented products and services.

A. ***Leverage Partnerships.*** Establish partnerships with private, public, and other NGO/MFI players to benefit from shared networks, resources, and strategies.
B. ***Expand Markets.*** Assess new target markets and provide more people affordable financial services.
C. ***Design Innovative Products and Services.*** Create products and services that respond to client current and future demands.

A. Leverage Partnerships

MFIs in the U.S. typically are small, local NGOs with limited reach into their community. Investing or spending money on marketing, product development, and client education are necessary expenses to capture sales, which should ideally generate additional revenue. To reach larger numbers of clients efficiently and effectively requires MFIs going beyond their current pool of clients and their usual outlets for information. They must magnify limited time, people, and capital by leveraging others' strengths and resources – through partnerships.

Some MFIs have little incentive to seek out such directions. Despite a mission driven purpose operating in a financial market to support communities in need, U.S. MFIs have very low cost recovery, i.e. they are not sustainable and operate at a loss. The capital they need to keep their doors open comes from the public sector and philanthropy. These funders ask for modest results and may stipulate minimum performance benchmarks. Complacent funding does not often lead to over-achievement of goals. Some MFIs' motivations are directed to just satisfy funder requisites. There are not immediate rewards for serving people in a new way or 'to think outside of the box'.

MFIs can leverage their efforts via other organizations, even if they don't 'own' the client, and thereby provide more people access to affordable financial services more cheaply. Partnerships are most effective when both sides are motivated and gain value. NGOs and MFIs must approach potential partners appealing to the partners' interests, not vice-versa. Below are partnership maximization examples.

A.1 Increase Private Financial Institution Involvement

Commercial banks have capital and want to find successful places to 'sell' their money. Over 20% of MFI capital now comes from banks.[9] There is a "fortune at the bottom of the pyramid", and MFIs can help banks to make money in this market, while also mitigating some risk factors which poise barriers to service now.

A referral model or success fee for linking clients to bank and helping them stay in banks is one possibility. Revenues generated from commissions for successfully signing up clients and bringing in accounts can help MFIs increase their income. This can be done through simple measures such as MFIs referring clients who are bank ready to partner financial institutions in exchange for financial consideration. There could be a partnership whereby the MFI provides client financial education, monitoring, and other services to reduce risk, while the bank, which has much more capital, provides financing. Philanthropic support could focus on a loan loss reserve to buffer risk. This is a leveraging effort to motivate market capital to address this population, rather than just donations. By partnering together, both banks and MFIs can increase the access and quantity of credit to the market for underserved people while positively impacting their own bottom-lines. Each entity can specialize with what they are good in and draw upon their strengths, which is a more efficient use of resources.

A.2 Magnify Philanthropic Support

Philanthropic support currently fuels MFI budgets. The majority of this money is spent once and is gone. This capital needs to have a ripple effect like a rock on a calm lake. Each donated dollar should refract and generate multiples of additional capital investment. Imagine financing requirements under Basel II for banks, where the equity / debt ratio is 1:12. Even with more conservative 1:8 or 1:5, every $1 in philanthropic funding should serve to bring in other capital. This does not have to be direct balance sheet financing. It can include off balance sheet activity, such as guarantees for bank loans, co-investment, or capital market transactions, just as is done with formal financial institutions (not-withstanding improprieties that causes the financial crisis).

Donors should be more engaged in industry effort to seek the best and highest uses for their limited capital. First, they should only offer continuing support to MFIs that meet certain industry benchmarks for best practice and performance targets in their operations. This should include financial self-sufficiency targets, which is common practice in international microfinance. Continuing to support weak institutions accomplishes little. Priorities should be established, both for individual institutions, by the donor community for its own actions, and in joint effort for the industry as a whole. It isn't that large a universe. For example, a few institutions hold a substantial portion of field assets. In a CDFI data project, the largest five control 28%, the top 25 hold 56% of total assets[10]. Therefore, it is realistic to bring the biggest players around the table to address a course of action.

[9] CDFI Data Project. FY05. p 9.
[10] Ibid, p.7.

Funding priority suggestions that enable the marketplace and leverage philanthropic support include:

- Support demand side market research to help assess the quantitative and qualitative characteristics of potential clients residing in specific geographic regions[11].
- Fund supply side research to identify opportunities for partnerships with other endowments and banks.
- Target investments in technology are important to develop a supportive informational and operational infrastructure for the organization.
- Highlight innovative research in product design, marketing, and policy issues for MFI's to learn from one another and reduce staff expenditures that 're-invent the wheel'.

A.3 Work Together

The MFI market is relatively collegial and highly fragmented. The industry should consider trends in the corporate sector. Mergers are common occurrences. Although negative examples exist, when done well, they result in greater operational efficiencies and more client services. Consolidation is a regular feature in maturing industries. The American desktop computer industry went from 100s of companies in the 1970s to a dozen 20 years later that offer a superior product for half the price. This even happens in community minded sectors, like managed health care and hospitals. With more than 500 MFIs nation-wide today, there are more than 500 director and accountant salaries. And, with each serving only an average of 180, the cost structure is against financial success. There is room for improvement and financial savings.

The fragmented marketplace is another inefficiency. The franchise structure is a high growth model well practiced in the private sector but rarely seen for NGOs. It allows motivated entrepreneurs an out of the box start in a community. Such a method offers better chances for scale and growth. This also begins to establish a name brand, which check cashers and banks seem to have but is rare among MFIs.

MFIs can work together on a network of resources and vendors across the country. There are similar needs and expenses, so group purchases or coordinated use of resources is logical. Collection companies rarely want to work for 10 accounts but they may be more interested at better rates for 1,000. This is already being done for credit reporting by Credit Builder's Alliance.[12]

Joint ventures are another business vehicle. MFIs could be natural linkers; they can offer their services to clients of social service NGOs who have overlapping client population. By doing so, NGOs and MFIs can share resource costs to reach the same clientele and achieve the mission goals of both organizations to serve their communities. MFIs can further benefit from connecting with NGOs that have reputable and respected relationships with their clients, thereby overcome a trust challenge in recruiting new clients.

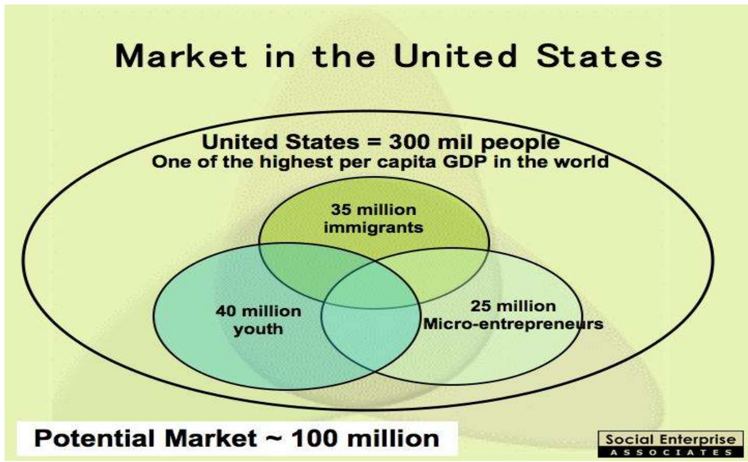
MFIs are not known in the marketplace. Enhancing brand and market position increases viability and, it is hoped, revenues. Goodwill is a national mark and a $7 billion institution that can be found in nearly every state. MFIs can learn from the proliferation of payday-lenders and check-cashers in low income neighborhoods. They are visible and known. They provide customers convenient access to financial services in location and time.

By fostering such efforts, MFIs stand a better chance of "honing" distribution systems and building capacity to serve a wider market place.

[11] Edgecomb, Elaine and Klein, Joyce. Opening Opportunities, Building Ownership. FIELD. 2005.
[12] Credit Builder's Alliance, www.creditbuildersalliance.org

B. Expand Markets

The goal of MFIs should be to "serve millions, not hundreds." As defined by the Milken Institute, MFIs should target their services to the "emerging domestic market." A major criticism of the current model is its reactive model in which institutions are focused on only providing business services to entrepreneurs and/or seeing who comes through the door and/or whose clients already have poor credit.



To better scale up, MFIs should consider expanding into new markets, motivating to reach out to new target markets, and working with those with no credit. Two examples are youth and immigrants. Both populations are large, growing, and have continuous new clients. They are in dire need of appropriate and affordable financial services. However, they are inexperienced and can get into trouble. Their greater need is financial education and consumer credit, rather than small business loans and training. Such assistance by MFIs to this population early on can enable potential entrepreneurs to be able to access banks later. Advancements here require a market based approach on the customer and what he/she wants, which has not been a strong suit for MFIs. In addition, it will be necessary to develop tailored products to the target markets, have a strategy to reach them, and be able to assess risk in serving them.

B.1 Deepen Financial Services to Microentrepreneurs

MFIs currently serve its customer base. CDFIs and other institutions have combined total clients of more than 250,000. These people know and trust the institution. This provides a cross selling opportunity to deepen the relationship by offering more financial and other services. For example, many low income business entrepreneurs also lack insurance, retirement, and other financial products critical to building and maintaining wealth. Such a need also is a linkage opportunity between MFIs and formal financial institutions. Additional MFI services might attract more of the 25 million micro-entrepreneurs in the U.S.[13], thus adding more clients for MFIs.

B.2 Motivate Younger Clients

There are 40 million young adults aged 18 and 28 in the U.S. today. Many are entering higher education and beginning to manage their personal finances. This provides a real need in the marketplace to get these young consumers on the right track. A goal is to prevent in the first place some of the problems MFIs see with older clients. There is an active market opportunity to work with institutions where this population frequents, high schools, community colleges, and other educational venues to increase financial literacy levels. Through such education (which ideally will occur even earlier in their education) this generation has a better chance to more

[13] Ibid. p 15

responsibly manage their money, accumulate wealth, and build credit scores for the future. 'Capturing' these clients and improving their financial capabilities provides an opportunity to continue to serve them in the future. It also creates a client that is more valuable to formal financial institutions.

One concrete improvement for the un-/under-banked would be creating and improving credit scores. They impact everything from the prices of loans, insurance and rent to the ability to secure employment. The current financial upheaval in the US further raises the premium on higher credit scores, and illustrates how vulnerable many low-income lenders are to financial volatility. Under these circumstances, it is vital that micro-lending institutions build better partnerships, expand the market by identifying new potential client groups and design innovative products that address the needs of those locked out of the system.

B.3 Welcome Immigrants

Another major market for MFIs is immigrant communities.[14] Newcomers to the United States often arrive with no credit history and limited access to formal institutions. The immigrant community, both legal and illegal, is highly motivated to succeed. 2000 census figures count 32 million legal immigrants.[15] Growth has been projected in double digits. Strong NGOs and MFIs have developed trust with many communities, which can be built upon to offer better-priced services than predatory alternatives.

It is often necessary to establish tailored strategies for specific populations and have specialized employees with access to them. Strategies used to target these customers include training in the language and culture of the immigrant at places of worship, resettlement centers, establishing relationships with related NGOs, and visiting neighborhoods where immigrants reside. Appropriate products are needed that successfully address capital constraints, such as credit-builder loans and savings matched with education (like IDAs, detailed below).

C. Design Innovative Products and Services

The greatest challenge to microfinance institutions is designing financial products and training services that effectively and affordably target client needs. In order to do this, the industry needs to consider innovations and alternatives to the old stand-bys. Targeted service delivery addresses individual consumer's needs while, at the same time, is provided in a cost effective manner to enhance revenue generation.

Brokering existing services, rather than creating services themselves, is more efficient. Helping people access banks, credit counseling, loan consolidation services, and insurance are just a few of many ways MFIs can help clients (and earn revenue, thereby helping themselves). There is a huge need for these products and services among people at the "bottom of the pyramid"; MFIs are well positioned to provide them. However, the likely revenue model for such activities is performance based, and few institutions are used to this compensation structure. Therefore, changing product offering models will also have other institutional impacts.

C.1 Increase Use of Innovative Efforts

There are a number of valuable products for these populations already in the marketplace, whose utilization rates could increase.

IDAs (Individual Development Accounts) help low-income individuals and families build savings by matching savings contributions from public and private sources. The typical match is 2:1, but higher matches have been used by some programs. Many IDA programs end up giving money back that goes unused, because they cannot

[14] Funder Field Guide. Aspen Institute, GuideField US. Issue 8, April 2007.
[15] American Friend Service Committee. "Immigrant or Refugee." Available at www.afsc.org/immigrants-rights/learn/in-us.htm.

find enough clients. While sometimes this is due to cumbersome regulations and oversight, every poor person who qualifies seeking to buy a house, start a business, or attend higher education should benefit from this program. The money is essentially free. MFIs should improve the delivery mechanism for such programs by partnering with places clients frequent to better position services. For example, Habitat for Humanity clients are highly likely to qualify. Agencies working with public housing populations are another potential match

EITCs are Earned Income Tax Credits. Like IDAs, everyone who qualifies should get it. And, yet, millions of dollars are left 'on the table' each year. EITC is a federal tax rebate for low-income working families who qualify, up to thousands of dollars. It can be used in conjunction with IDAs, above, to go even further. More inventive programs are needed to ensure these funds reach bank accounts. This cash injection around tax time can be a valuable leveraging asset to increase wealth.

Check Cashing and Remittances are frequently used financial products used by low-income people. Convenient locations and quick, easy, and useful services lead to high customer usage. MFIs should find ways to emulate such services and support clients with lower cost alternatives. One option is to tap into credit unions that already offer a low cost remittance product. MFIs could offer remittances through a good partnership for its clients. This would ideally lower costs for clients and generate revenue for the MFI.

C.2 Grow Consumer Credit Products

To reach millions, MFIs must market products of interest to potential clients, like consumer credit. It is more prevalent and demand is higher than tailored small business loans. Extending credit to low-income individuals has become particularly problematic in 'indebted America' because of lack of financial understanding of people when they take on this debt, bad budgeting, high interest rates, and misleading conditions in the terms of credit repayment. One of the major benefits of having MFIs originate this type of product is that the provision of loans must meet certain ethical and moral lending standards. In addition, MFIs are in an excellent position to provide auxiliary services, like financial education, or make these conditions for the loans. In addition, institutions that know their clients through the provision of other services reduce their risk with loans. It must be noted that consumer credit is a different market than small business lending, so MFIs cannot just turn the switch to get into this market. However, it is instructive to consider the market size and opportunity in terms of service provision.

C.3 Embrace New Technologies

Mobile Phones are revolutionizing financial markets internationally particularly for payments systems in Asia. Similar efforts can be explored for MFIs to increase client service, as it is nearly ubiquitous in the U.S. Mobile phone banking can provide a range of services including remittances, allow the MFI enabling it to offer lower interest rates and service charges to clients, and provide efficient services for clients. While cell phone usage for payments appears to lag here behind other parts of the world, U.S. MFIs should engage in the cutting edge adoption of this trend, as such services are geared towards MFI profile customers.

Cards like credit cards and ATMs, such as Stored Value Cards (SVC's), Prepaid Cards (PC's), and other re-loadable cards are gaining traction in this country. Inexpensive, durable, and versatile, the cards are convenient, lower financial costs, and improve service quality. They are often useable at partner locations, such as banks, retail establishments, etc. They are highly adapted for use where poor people live and make purchases, like grocery stores and convenience stores. As such, their utilization greatly increases MFI reach into low income communities.

The internet offers numerous product innovation opportunities for MFIs. Virtual training is one arena, which some MFIs have explored. WORC in Pennsylvania has an excellent financial education offering useable anywhere at any time. Web based online features, including loan applications, can increase operational efficiency and offer customers' convenience. The online payments can be both convenient and cost effective both clients and MFIs. This reduces transaction costs – transportation time/effort for clients and processing for MFI staff. It also reduces distances between MFIs and their clients.

Management Information Systems (MIS). It is important to use technology that is readily available. Information technology (IT), even something as simple as the accounting software QuickBooks, can be an effective tool if used correctly. In addition to time saving and accounting reports, it also provides managers data to inform decision-making. It can also be valuable for assessing risk. However, it requires a systemic approach: data has to be inputted, it has to be correct, and managers have to look at it.

Most U.S. MFIs have weak internal systems, if they have operational structure at all. A typical rationalization is high cost and lack of resources. Also, staff capacity and familiarity with such tools may be low. Technology, tools, and assets are investments to a 'business' (or NGO) to help it run better. A cost benefit analysis and appropriate choices need to be made to use precious dollars efficiently, but having such systems is imperative to developing good organizations and successfully navigating growth. Instead of conceiving that the organization cannot afford something, managers need to reserve that to consider can they afford NOT to have good MIS.

C.4 Adopt New Methods of Training

'One-to-many' form factor. Organizing classes 10 people attend is not cost-effective and will not reach the market. The industry needs a form factor that reaches millions. This includes a scale-able product with national reach. On-line tutorials, websites with streamed content, and other formats provide opportunities to develop product that can reach many people in differing formats. Products and services must continue to evolve to keep up with clients' attitudes and preferences. Understanding effective use of technology is a significant challenge. Leaders in the industry must take risks for innovation.

Adult Education is a lucrative and profitable market. University of Phoenix, Strayer University, and Devry University, among others, have extensive national reach and brand. They address demand for millions of Americans for convenient, affordable, and reliable access to higher education. MFIs should adopt these models and partner with them to increase training services. Plus, these student communities are in need of many MFI services.

Brokered Services. A more effective role for MFIs to serve more people may be as intermediaries. This is comment practice in financial services, particularly insurance and other services. Instead of managing small, inefficient loan funds, which can never be financial sustainable, it may be more logical to take that limited philanthropic capital and use it for guarantees on loans to banks in exchange for part of the lending revenue stream. Or, an MFI can serve as an educational center providing financial education as the gateway to other services. They can link clients to formal financial institutions. There are numerous revenue streams with these models. There is a market opportunity to develop replicable products that are applicable to wide numbers of people.

E-learning techniques such as online instruction and targeted information resources can effectively leverage the internet with little cost for a significant gain. For example, the Appleseed Network's program on Financial Access has financial education materials which immigrants can use to make better informed financial decisions. They also publish reports for financial institutions to improve lending access to immigrants. Southern New Hampshire University has online course offerings for microfinance practitioners to enhance their work experience.

V. Conclusion

The formal U.S. financial industry, as it operates today, excludes millions of low income citizens. Dr. Muhammad Yunus, Founder of the Grameen Bank and Nobel Prize winner, asserts access to affordable financial services is a 'foundational right', for which other human rights are built upon –in the developing and developed world. America, one of the most advanced countries in the world, has more than one quarter of its population marginalized in this way. This results in billions of dollars in additional costs each year and less access to wealth enhancing vehicles.

Microfinance institutions, and related efforts, fill a valuable gap in our society, providing safer and fairer services than alternatives like pay day lenders and check casher services. The 500 plus registered MFIs, providing more than $4.3 billion in capital and serving 250,000 people a year is an important start. However, it is not enough to address the market need. There remains a large under-served market of millions of people in need.

For this reason, MFIs need to consider new ways of doing business to meet real demand and need. Dynamic changes in the U.S. financial markets today lend greater urgency for innovative strategies in the microfinance industry right now. We need to work together to develop viable means to scaling up products and services to reach millions more. Only then can we hope to be relevant in contributing to increase wealth and income, making people's lives betters, and communities more sustainable. Much work remains to be done – a broader perspective is imperative for MFIs or they risk being irrelevant. Let us hope we see that day soon.

Sources & Citations

American Friend Service Committee. "Immigrant or Refugee." www.afsc.org/immigrants-rights/learn/in-us.htm.

Catholic Charities USA . "The Facts, Poverty in the United States: National Data." www.catholiccharitiesusa.org.

Community Development Financial Institutions (CDFI) Data Project. FY05.

Edgcomb, Elaine. "Microfinance in the United States." FIELD Microenterprise Fund For Innovation, Effectiveness, Learning and Dissemination, Aspen Institute. November 2007.

Edgecomb, Elaine and Klein, Joyce. Opening Opportunities, Building Ownership. FIELD. 2005.

Fellowes, Matt. "Credit Scores, Reports, and Getting Ahead in America." The Brookings Institute. May 2006.

Funder Field Guide. Aspen Institute, GuideField US. Issue 8, April 2007.

Kirchhoff, Sue. "Microlending offers hand up asset." USA Today. February 12, 2006.

Lopez-Brito, Julio. "Check Cashers: Strategic Customers and Partners to NuAmerica Bank." February 26, 2007.

Mabanta, Mia. "Banking on Wealth: America's New Retail Banking Infrastructure and Its Wealth-Building Potential." The Brookings Institute. January 2008.

Rooney, Maureen. "Legal Loan Sharks." Credit InfoCenter.

Turcotte, Kerry. "Poverty Reduction Through Asset Development." The Poverty Project. December 10, 2008.