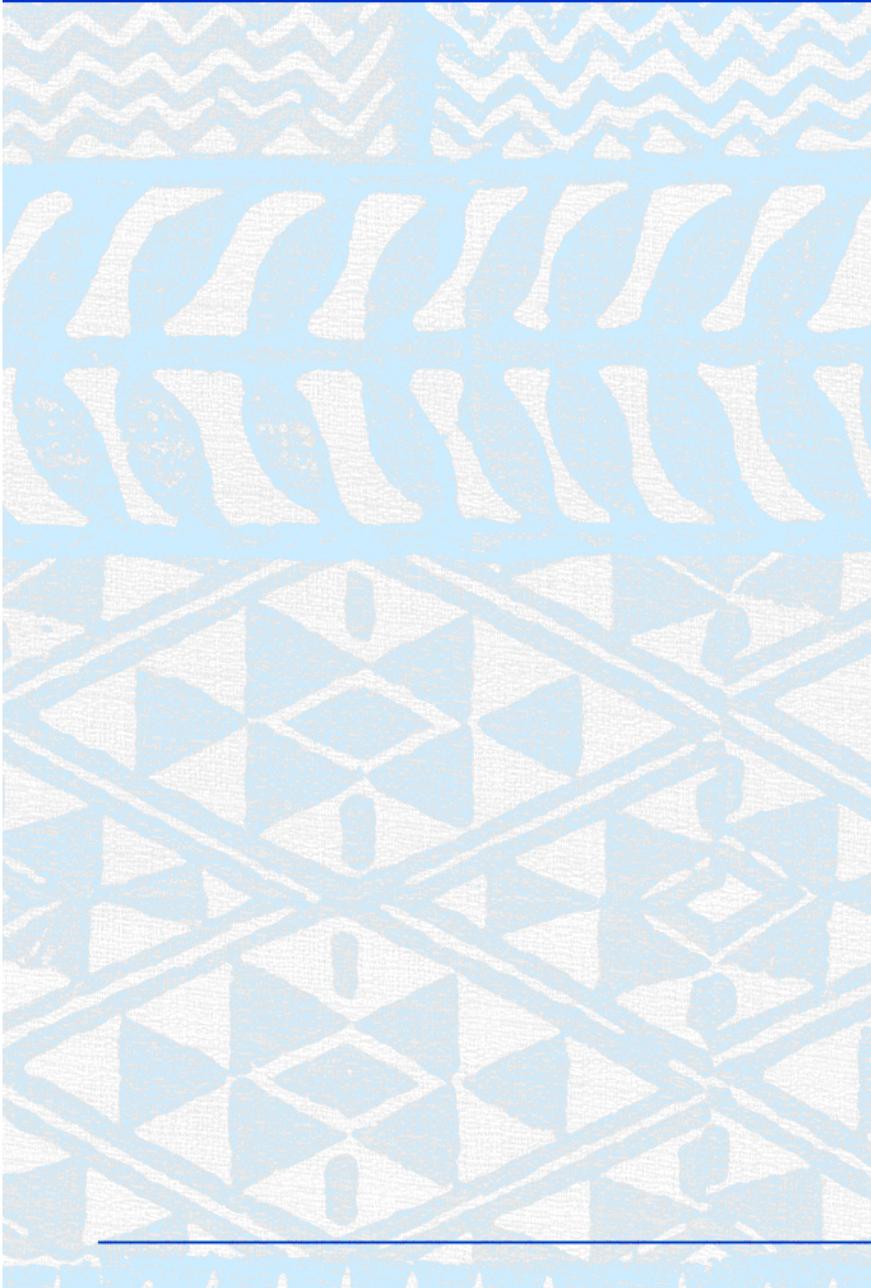


*ACCION's
Model for Social Change*



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developed with the assistance of
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ACCION'S *Model for Social Change* seeks to explain what we do, why we do it, and why our approach is unique. Step by step, it bridges from the broad aspirations set forth in our mission statement to the specific objectives and metrics of the new strategic plan for 2008–2011.

ACCION's Mission

ACCION International is a private, nonprofit organization with the mission of giving people the financial tools they need to work their way out of poverty. By providing 'micro' loans, business training and other financial services to poor men and women who start their own businesses, ACCION helps people to work their way up the economic ladder, with dignity and pride.

1. The Problem of Poverty. Half the world – nearly 3 billion people – lives on less than \$2 per day. Many methods address poverty, among them donor or government-provided health, infrastructure, education, or agriculture programs, as well as public and private efforts to stimulate economic growth or engender political reform. But no one has yet developed a long-term, universal solution for alleviating poverty – while generations pass, and families continue to struggle. We recognize that no single answer exists. Indeed, modern economic and social dynamics have actually increased the number of individuals classified as poverty-stricken. Population growth, social exclusion, corrupt governmental policies, war, civil unrest, economic change, climate change and environmental degradation all bring more people into poverty.

Social scientists define and measure poverty along several interlinked dimensions. Most common are the income/consumption approach, which defines poverty in terms of spending power, and the quality of life approach, which defines poverty through specific deprivations such as poor health, malnutrition, or substandard housing.

ACCION's understanding of poverty adds two more dimensions. The first is *vulnerability*. The poor have few or no safeguards in place to protect them from catastrophic events. Risk and vulnerability are ever-present: months of prudent savings can disappear in a single day through accident, illness, or theft.

Second, it is often forgotten that low-income people can be – and strive to be -- agents of their own progress. For human dignity and social justice to flourish, individuals must have a hand in their personal development, as opposed to having development 'done' to them or for them. In a word, we believe in *self-help*.

2. Why Financial Services? ACCION has chosen to focus its work on widening access to financial services because financial services, while they address all the dimensions of poverty, are especially focused on mitigating risk and fostering self-help.

Of course, efforts to offer health, education and a growing economy are necessary to eradicate poverty. Financial services are not 'the' answer; rather, they assist people to take advantage of whatever their society has to offer and make their own contributions to economic growth.

How Financial Services Assist People in Making Their Way out of Poverty

Managing their economic lives more smoothly

- Moving money efficiently and safely; for example, when distant workers want to send money home
- Smoothing consumption; for example, making it through the yearly hungry season
- Buying inventory for a microbusiness on favorable terms when the opportunity arises

Building a better life

- Investing in productive assets such as tools and premises to grow a business
- Investing in the future by sending children to school
- Financing purchases that improve quality of life – often this means improving housing quality
- Accumulating assets for major life events

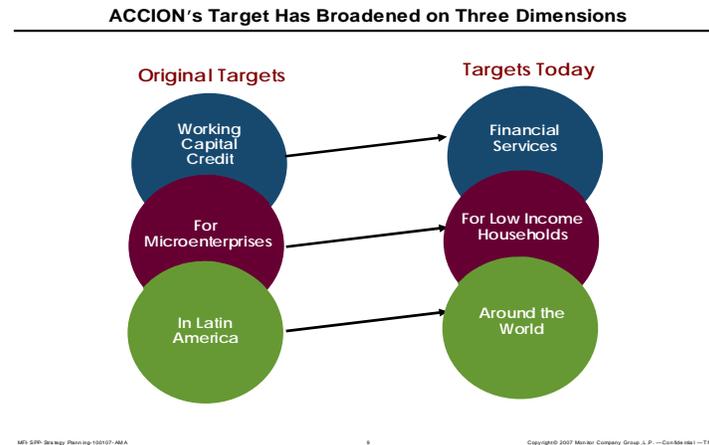
Protecting against loss or crisis

- Avoiding theft or loss that comes with carrying or storing cash
- Paying for medical care and emergencies
- Rebuilding after a natural disaster
- To have money saved or to be able to borrow when bad times come

Financial services address the dimensions of poverty outlined above, and when used for these purposes, can reduce vulnerability and significantly aid in poverty alleviation.

3. Broadening Our Targets. An understanding of the many ways in which low-income people can benefit from financial services suggests a broader span of concern than ACCION first targeted. ACCION initially began providing microfinance to informal-sector microentrepreneurs in urban Latin America. Recognizing that all kinds of low-income people need financial services, we have since expanded our target population to include low-income families, urban and rural, while retaining a focus on families in the informal sector, as the ACCION mission highlights. We have also recognized that even low-income people can benefit from a full range of financial services – savings, money transfers and insurance – in addition to credit. This change coincides with our move to broaden our geographic coverage and work at a global level.

ACCION's goal is for the broadest segment of the low-income population to gain access to a full range of financial products and services, beginning with basic savings and credit, but also including remittances, insurance, housing loans, and more. Our philosophy of respect for clients also drives our concern for the quality of those services, which should be affordable, convenient, transparent, and tailored to the needs of the clients.



4. Why the Poor Lack Access. The financial systems of the world have historically ignored the poor, though thanks to the work of ACCION and others in microfinance, this is beginning to change. Banks and other financial institutions have not been interested in serving the poor, and as a result do not know how to serve them. They view the poor as bad credit risks, too costly to serve, and undesirable as clients. Prejudice and social stigma have played a role, but so has the unpromising arithmetic of making a profit from many tiny transactions. We seek to change this so that the financial systems that control resource allocation are open to all. We pursue a solution based on widening economic opportunity and supporting private enterprise.

Low-income people face barriers of their own. They may be illiterate, and therefore unaware of the services available. They may be fearful of approaching institutions from which they have typically been excluded or rejected. Instead, they turn to informal providers, which is sometimes a good solution but just as often is inadequate or even harmful. In some countries, debt servitude to the local moneylender is a way of life.

ACCION's agenda – and that of the microfinance community – has been to overcome these challenges through sustained effort. Experimentation and innovation must occur at the ground level to develop new ways to reach people, and systemic change must take place in financial institutions and the broader society.

5. ACCION and Commercial Microfinance. Our vision is for high-quality financial services to be available to all low-income people around the world. What will it take to reach the estimated 750 million to one billion poor households whom we believe could benefit from access to

financial services? How can ACCION contribute to achieving that goal? We seek access to finance on a sustainable global basis.

This challenge is massive. We cannot do it by ourselves. We will only succeed if we catalyze actions by others. The recognition of this fact is what led ACCION to commercial microfinance.

ACCION was an early champion of commercial microfinance. We recognized that this goal requires the migration of financial services for the poor out of a narrow donor-supported community and into the mainstream financial sector. The focus on commercial microfinance derives directly from this goal of making financial services available to everyone. We have focused on creating the building blocks for microfinance to transition to the mainstream. We have worked to build MFIs to become sustainable and achieve scale. We have aimed to attract the entry of commercial players into microfinance as both service providers and sources of finance. At this stage, much has been accomplished, and the commercial model is widely accepted. The private sector is increasingly engaged. However, the vision we seek is far from realized, as broad-based scale of access to quality services has not yet been attained.

6. Strategies for Massive Change. Our goal is audacious, and we must seek the greatest leverage possible. We use three main strategies to catalyze change.

1. Build demonstration models. To date, our main vehicle for pursuing systemic social change has been through long-term partner MFIs. We promote, launch, provide technical assistance, invest in and govern microfinance institutions. We assist those institutions in reaching more people with more products. Our aim is to see these institutions become models that are copied by others, or competitors who drive higher performance by everyone in a given market. In most countries in which we work, ACCION partners are the leading or among the top few MFIs, and a core group of our partners in Latin America and one in Africa are among the leading MFIs in the world.

2. Innovate to solve key industry challenges. We have seen that when we develop a new breakthrough it is widely adopted by others. This has been our history and our role within the industry. Most of our innovations have involved the building blocks of commercial microfinance. Some innovations have involved bringing tested concepts to new geographies. Others have involved new business models and/or new products. For example, when it became clear that, as NGOs, microfinance institutions were unable to access the volume of capital they needed to grow, ACCION led the transformation of BancoSol from an NGO to a commercial bank. After transformation, BancoSol was able to access commercial capital, accept savings, and greatly expand its outreach. Today, dozens of NGOs worldwide, including almost all of ACCION's Network NGOs, have followed BancoSol's example and transformed.

ACCION has also led the way in the solidarity group lending methodology, loan guarantees for MFIs, equity investment in microfinance, and downscaling of commercial banks into microfinance. ACCION will continue to innovate in order to take microfinance to another level of magnitude.

3. *Use our voice to lead the industry.* ACCION has long had a commitment to engage with a wide range of stakeholders in the industry: microfinance organizations, funders, policy makers, and the private sector. We seek opportunities to work collaboratively to solve problems, and we actively share our knowledge through a wide range of media.

For the first time in its history, ACCION has the resources to significantly advance its model and to develop initiatives previously outside its financial reach. ACCION today is far better positioned to catalyze change in the microfinance industry and thereby expand access to financial services by significant numbers of low-income households. The new strategic plan proposes initiatives that expand ACCION's own vision, and that also galvanize others to work toward financial inclusion.

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