# **CFGS** Policy Brief

# The Need for A Global Microfinance Facility

#### Introduction

rategy to eradicate poverty, the in ility of basic financial services in bal Microfinance Facility. The Fa reach, and financial sustainability ggressive program of marketing a e new private sector investment a governance structure emphasizing vould facilitate linkages to the con rd of institutional transparency an

### **Microfinance and Poverty Eradication**

rovision of small loans and other f otherwise excluded from convent with significant potential for pove hirty years of experience behind in odels for providing quality saving st isolated rural settings. Over tin and the Philippines, among others, are reliable borrowers and a safe of overished people — and women in e savings, and secure necessities I onesia, which has the largest finan microfinance inititiatives are recoping poverty rate from 40% of the mmunity should act untries through the aim to substantially ce institutions evelopment, the nitments to the MFI ociety and private ing sector, while ty.

### ces to poor services — is a and economic has spawned a /ices to the poor in programs in hat the poor, ey have enabled to establish small ater, food, shelter, taining microfinance ng played a key role the mid 1970s, to

The Gap in Capacity



Failed microfinance experiments are common, reinforcing investors' aversion to supporting new or innovative ventures.

If significant new support is provided to institutions that follow generally accepted best practices, expanding global outreach to 100 million families through a diverse network of

#### Capital Mobilization

Currently, contributions from bilateral and multilateral organizations purportedly totaling approximately US\$500-600 million over the past ten years comprise the main source of funding to MFIs. This estimate represents about 5% of total ODA. Most of this is funneled to local institutions through large NGO intermediaries like ACCION International, Grameen, and Women's World Banking. However, with a first step toward world wide unmet demand for microfinance requiring between US\$2 and \$4 billion in new investment to meet the needs of 100 million poor households, it is clear that dramatic steps are needed for the leveraging of new resources.

A focal point is needed to engage commercial banks and private investors. Historically, commercial banks have avoided targeting poor people and the vast informal economies they support oveig100 m

nonprofit, and civil society organizations should be charged to organize, house, and manage the new Facility. Canada could initiate the process by providing core funding for the consortium and championing the concept.

The initiative need not be a traditional bricks-and-mortar approach. A virtual configuration could be effected, enabling the best aspects of a centralized coordination function to coexist with the evolution of strong and autonomous regional decision-points. Alternative voting methods, and an innovative joint arrangement emphasizing NGOs and traditional finance interests, will enable a much quicker and more equitable response to the demands of this growing industry than the conventional donor-driven system.

## **Global Security for All**

Amid all of the drama of current world events, the industrialized nations must not lose sight of the opportunity at hand for challenging the widening gap between rich and poor. Undoubtedly, the best prospect for decreasing the gap will lie in the ability of the west to act definitively and in good faith toward a restructuring of the global economic regimes that enable the impoverishment of millions of people in the less developed countries. Bold strategies and strong multilateral commitments are needed for tackling poverty. The Global Microfinance Facility would represent a substantive contribution toward the goal of greater global justice and security for all.

Centre for Global Studies Victoria, British Columbia January, 2002