

Issue Brief: Microfinance Enhancement Facility

February 2009

AT-A-GLANCE:

- The global financial crisis presents particular challenges for the microfinance industry. The poor are the most vulnerable in an economic downturn and an estimated 20 million more people could fall into poverty with each one-percentage-point reduction in growth. Enabling poor people to gain access to the financial services they need to fulfill their business potential and to build a better life becomes ever more critical at this time.
- However, in the current global credit crunch, microfinance institutions are encountering difficulties in securing refinancing and in sustaining normal growth despite continued strong performance sound fundamentals. As a result, even the strongest microfinance banks are now unable to tap previously available sources of funding.
- In response to this situation, IFC, a member of the World Bank Group, and KfW will launch a Microfinance Enhancement Facility designed to support sound microfinance institutions worldwide that are facing funding shortfalls.
- The Microfinance Enhancement Facility will be a short-to-medium term facility of up to \$500 million with initial contributions of \$150 million from IFC and \$130 million from KfW.
- The facility is expected to provide funding to up to 200 microfinance institutions in up to 40 countries, including 20 of the world's poorest countries.
- IFC and its partners will execute the facility through Blue Orchard Finance, ResponsAbility, and Cyrano Management, three of the industry's leading fund managers, in order to provide a rapid and flexible response to market needs, achieve maximum possible outreach, and ensure efficiency.

KEY FACTS

- IFC is the one of the largest international investors in terms of outreach to microfinance institutions (117+ MFIs), operating in over 60 countries, including in 14 Sub-Saharan African countries.
- IFC's total committed investment portfolio in microfinance is \$1.02 billion with \$315 million alone invested in the financial year ending June 30, 2008.
- IFC has directly financed more than 100 microfinance institutions worldwide which last year provided access to finance to 13 million borrowers (60 percent women) for a total of \$17 billion.
- IFC is working to ensure that microfinance reaches the people and places where it is most needed including post-conflict countries, IDA countries and across Asia.

BACKGROUND

- Microfinance has proven a critical tool in the fight against poverty. Access to a range of microfinance services—savings, loans, and money transfers—enables poor families to invest in enterprise and in better nutrition, improved living conditions, and the health and education of their children.
- In the three decades since Muhammed Yunus founded Grameen Bank the industry has grown rapidly to serve about 80 million people in developing countries. However, the majority of people in developing countries are ‘unbanked’ – they have no access to formal financial services.
- Much more private investment is needed to expand the reach of microfinance. IFC’s focus is on creating and supporting commercially viable microfinance institutions that can attract the private capital needed. IFC plays a catalytic role by demonstrating the business case for commercial microfinance, enhancing the sector with innovative financial products, and promoting it as an asset class.
- IFC is moving ahead with an initiative for responsible microfinance. In conjunction with other development finance institutions, banks, microfinance networks, and others IFC aims to build support for a set of responsible microfinance practices. The practices, or principles, would cover: 1) a list of prohibited practices 2) standards for consumer education, and 3) standards on disclosure/transparency.

CURRENT ACHIEVEMENTS

- Since pioneering commercial microfinance in the early 1990s, IFC has continued to lead innovation in microfinance, using developments in technology, financial products, and policy to help financial institutions reach more people more cost-effectively.
- IFC provides Advisory Services and direct and indirect Investment Services to the microfinance sector.
- IFC’s advisory services portfolio of over 40 projects spans the globe and is active in frontier countries from Afghanistan to Sierra Leone. Microfinance is viewed as a key first intervention in frontier and post conflict countries, providing support to micro and small enterprises, which serve as the engines of growth after a conflict. IFC supported microfinance projects have facilitated access to finance for 2.3 million micro entrepreneurs.
- IFC draws on its structured finance expertise to promote cutting-edge solutions in microfinance. IFC structures funds, holding companies, and investment vehicles that mobilize private capital and create opportunities for investors and commercial banks to engage in the microfinance sector.

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