

# HIGH-IMPACT Giving Opportunities

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THAT MAKES  
A DIFFERENCE

## Global Development: Combating Poverty by Closing the Microcredit Gap

**FACT:** *In Bangladesh, 48 percent of the poorest households with access to microcredit loans escaped poverty.<sup>1</sup>*

### THE PROBLEM

Expanding access to credit is widely recognized as an important tool for improving lives in the world's poorest countries, as illustrated by the award of the 2006 Nobel Peace Prize to Bangladeshi microcredit pioneer Muhammad Yunus. Thousands of microfinance institutions (MFIs) provide loans, insurance, savings, and related services to help people – especially women – overcome lack of access to commercial banks. Microcredit programs already provide working capital to millions of entrepreneurs through small loans, but they do not provide larger loans for entrepreneurs who want to grow businesses beyond the micro level.

Commercial banks are starting to see the potential to profitably fill this gap. The major challenge for microcredit supporters is to continue the trend toward commercializing the sector while filling the gap in the short-term between traditional microcredit loans of \$50 to \$200 and commercial loans that typically start in the tens of thousands of dollars. Strategic giving can help bridge this divide, which otherwise means the loss of potential to produce real economic growth and alleviate poverty.

### THE URGENCY

*Unless small businesses have the resources to grow, opportunities to create jobs will be lost in the places that need them the most.* When entrepreneurs expand their businesses, they employ new people, leading to more stable communities and healthier families.

*The global capital market is largely closed to millions of people experiencing poverty.* By encouraging commercial lenders to make smaller loans, we can exponentially increase the amount of capital working to produce growth and reduce poverty in developing countries.

### THE OPPORTUNITY

Donors have a role to play in both temporarily filling the divide between small microcredit loans and commercial finance and in eliminating the gap altogether in the long term.

- **Support programs that attract commercial lenders to the microfinance sector.** Donors can help reduce the gap between MFIs and commercial lenders by supporting ratings agencies that promote professionalism among microcredit providers and reduce the uncertainty facing commercial banks in an unfamiliar market. Helping banks assess MFIs makes it easier for them to invest in microcredit.
- **Invest in guarantee funds to reduce lenders' risk.** Programs backed by foundations, international charities, and official aid agencies provide partial collateral for commercial loans – thereby reducing risk to the lending institution.
- **Support collaborations between MFIs and commercial banks seeking to enter the field.** When private banks invest in microcredit, they often partner with non-profit MFIs. Supporting initiatives that bring them together can help bridge the gap.

Many great sources of information have appeared in recent years. Two of the best are:

- The **Microfinance Gateway** is a comprehensive resource on all aspects of microcredit and related topics ([www.microfinancegateway.com/section/faq](http://www.microfinancegateway.com/section/faq)).
- The **SEEP Network** is an international network of 67 non-profit organizations with microcredit programs around the world ([www.seepnetwork.org](http://www.seepnetwork.org)).

1. United Nations, "Microfinance and the Millennium Development Goals," Fact sheet published for International Year of Microcredit, 2005, [http://www.yearofmicrocredit.org/docs/MF\\_MDGs.pdf](http://www.yearofmicrocredit.org/docs/MF_MDGs.pdf).