



## On Death Row? Microfinance Programming by Canada and the World Bank

**COVID-19 Update** : The coronavirus crisis has had a devastating effect on microfinance : micro-enterprises funded by tiny loans have struggled to maintain their customer base and to maintain reliable supply lines, while trying to keep their employees safe. Yet, access to finance is more important than ever, when hunger and survival are at stake. The following article shows the reliance and creativity of the microfinance sector:

<https://www.proparco.fr/en/actualites/covid-19-microfinance-institutions-front-line>

### **Background: two biggest channels for Canadian Official Development: Global Affairs and the WB**

Canadians contribute to the social and economic welfare of the developing world by sharing their wealth in two key ways: through private donations (typically to registered charities) and through their government. This latter contribution is called Official Development Assistance (ODA).

Official Development Assistance is provided by the Canadian Government through several channels, but the most important ones are Global Affairs Canada (GAC) and the World Bank (WB). GAC and the World Bank have followed two differing tracks when it comes to microfinance. GAC has historically supported microfinance and has supported initiatives like the Microcredit Summit as a member of its Executive Committee. When in December 2011, the House of Commons Foreign Affairs Committee recommended that CIDA increase its funding for poverty targeted microfinance, the government accepted the recommendation. The World Bank, on the contrary, was initially a bit more reluctant to get involved in microfinance, because its mandate, and its funding instruments did not allow it to support microfinance intermediaries directly, and because the amounts were often too small to be considered in the same category as say infrastructure projects. The World Bank has gradually changed its position and in 2014 it started tracking two indicators of access to microfinance, one specifically looking at women's access, to assess its own performance in the fight against poverty.

This report will look at the funding provided by both institutions and see how the rhetoric has stood the test of time.

For the two institutions, we will look at both expenditures and commitments. Commitments represent the total sum that an organization pledges to dedicate to particular project, over various years.





Cst US\$M	<u>94.864</u>	<u>106.463</u>	<u>73.868</u>	<u>127.799</u>	<u>63.059</u>	<u>62.715</u>	<u>33.505</u>	<u>50.27</u>	<u>15.041</u>	<u>61.149</u>
% of Total IDA	1.1%	1.0%	0.8%	1.3%	0.7%	0.6%	0.3%	0.4%	0.1%	0.4%

The amounts in the table are somewhat irregular but they do point to a downward trend. While the magnitude of the funds involved is greater, their relative importance, when compared to all of the organization's disbursements, is negligible and reminds one of the findings for GAC.

Another way of looking at the data may shine a more positive light on the World Bank's portfolio: the Bank publishes its approvals relating to support for "non-bank financial institutions". While these institutions can capture more than microfinance, they are generally focused on a relevant challenge -- financial inclusion -- and target poorer households. As alluded to above, approvals, or total project commitments, tend to be more "lumpy" and offer a more irregular pattern. As Table 5 show, there is still a disappointing downward trend, but the amounts involved are much more significant, corresponding, in particular, to over 10% of IDA in 2014 and 2015 (note that most of the projects approved in these bumper years are still active).

*Table 5- World Bank Approvals, Support for Non-Bank Financial Institutions in Millions of US Dollars*

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
US\$M	8161	9336	1732	3204	1756	2217	5437	4680	2259	1249
% of all approvals	17.4%	15.9%	4.0%	9.1%	5.6%	5.4%	12.9%	10.2%	5.4%	2.7%

Source: World Bank, project data,

[http://projects.worldbank.org/search?lang=en&searchTerm=&sectorcode\\_exact=FL](http://projects.worldbank.org/search?lang=en&searchTerm=&sectorcode_exact=FL)

## CONCLUSION:

The quantitative analysis shows a somewhat different picture in GAC compared to the World Bank. Clearly the figures at GAC and the World Bank are very low, and in GAC's case, the future is bleak unless the downward trend is reversed. The World Bank picture is more rosy because of its focus on, and massive investment in, financial inclusion. Such focus might also be building up at GAC, but there is no evidence of it in the data. The World Bank picture is not worrying in the short term, but does show vulnerability in future years, as disbursements resulting from the high approval levels in 2014 and 2015 start to wane in 2021.

The situation warrants close monitoring, including to make sure that the financial inclusion programs do reach the very poor and do lead to access to microfinance or equivalent services, and not just, say, mobile phone deposit accounts. The situation also requires a more holistic perspective to determine whether other economic development programs that serve very poor households, like **graduation programs**, are also at risk of being underfunded.