

## **IFC and Microfinance**

IFC has been working to expand microfinance into the mainstream of the financial services industry, helping reduce poverty and improve lives. To promote the industry globally, we have invested more than \$627 million in 140 projects in 45 developing countries and provided advisory services to help financial institutions improve lending technologies, corporate governance, risk management, and other operational priorities.

IFC has also supported more than 90 individual microfinance institutions and invested in several funds and holding companies that have attracted significant private capital into the sector. In 2006, our direct microfinance investee clients disbursed 7 million loans totaling \$8.2 billion. This does not include outreach figures from our investments in funds and holding companies such as ProCredit Holding, which would result in an outreach of 9 million loans for a total of \$10.6 billion.

IFC supports microfinance by:

- Engaging in partnerships and collective investment vehicles
- Supporting commercial banks to extend their operations to the sector
- Providing innovative solutions to microfinance institutions, including local currency loans
- Helping transform nonprofit and nongovernmental organizations into for-profit financial intermediaries
- Offering targeted advisory services

### **Partnerships and Collective Investment Vehicles**

IFC works with global and regional microfinance networks that have proven experience in the field. For example, the ProCredit Group, in which IFC has a 11.6 percent stake, expects to be present in 25 countries in Africa, Latin America and the Caribbean, and Eastern Europe) by end-2009. Since 1995, IFC has arranged various projects, with an outstanding portfolio of \$90 million in both equity and loans to the holding company and its network banks in Africa.

In India, IFC is investing risk capital to promote the growth of commercial microfinance. We invested \$1.6 million in Aavishkaar Microfinance, a firm that will invest in 35 to 40 start-up microfinance institutions and promote their growth through an innovative franchise model. We have also taken a \$5 million equity stake in Financial Information Network and Operations, a start-up technology service provider that helps banks reach rural markets.

With KfW, we launched the Microfinance Initiative for Asia, which builds on our successful partnership in Africa and Eastern Europe and aims to commit \$1 million in support of microfinance over the next three years.

IFC is also partnering with the World Bank on policy issues affecting the sector and with CGAP (the Consultative Group to Assist the Poor).

### **Investments in Commercial Banks**

IFC is very active in helping commercial banks enter the microfinance business by encouraging them to increase financing to the sector, either directly or through specialized vehicles. With their large branch networks, these banks can make a significant development impact by reaching more clients through a wider range of financial products and services.

In Egypt, we worked with Banque Misr to build a \$7 million microcredit portfolio in less than a year, which now contributes to the profitability and outreach of the bank. And in Nigeria, an IFC loan helped Access Bank lend \$10.8 million to 103 women-owned businesses and a microfinance institution that reaches 1,500 women.

### **Providing Innovative Solutions to Microfinance Institutions**

IFC is finalizing a partial credit guarantee of \$18 million to back a local currency loan by Citibank Dhaka to BRAC, one of the largest microfinance institutions in Bangladesh. BRAC provides services to all of the country's 64 districts. As of 2006, it had made about \$350 million in loans to 4.55 million borrowers, and its member savings totaled \$155 million.

In 2004 and 2005, IFC-guaranteed bonds allowed Compartamos, a leading microfinance bank in Mexico, to raise peso-denominated long-term funds from the local capital market. IFC's involvement enhanced the credit-risk rating of the bonds from A to AA (local scale), allowing institutional investors to acquire the securities. The access to a new market under better conditions allowed the bank to grow into a publicly traded commercial bank, with 700,000 clients in the poorest rural and semi-rural regions of the country.

### **Helping Transform NGOs**

IFC now holds 7.9 percent of Compartamos' capital. IFC has been investing in the bank since 2001, when our financing and equity helped it transform from a nongovernmental organization to a commercially viable entity.

In Cambodia, IFC's \$1.6 million investment and advisory services to ACLEDA Bank Plc also helped transform the bank from an NGO that specialized in rural development into a first-tier commercial bank. Today, ACLEDA is one of the country's largest banks, serving 181,000 people, many of them small-scale entrepreneurs, women, or residents in remote areas of the country.

## **Providing Targeted Advisory Services**

Our advisory work is helping microfinance institutions improve the efficiency, scale, and transparency of their financial and operational management systems. We also support mobile banking solutions that enable banks, including microfinance institutions, to provide cost-effective services and generate employment.

As part of its growth strategy, IFC plans to double its total commitments in the microfinance sector to reach \$1.2 billion over the next few years. This will improve access to finance for entrepreneurs in developing countries, helping create jobs and raise incomes. IFC's support will allow its microfinance institution clients to provide \$30 billion in business loans to over 25 million people, boosting lending and promoting sustainable development in many developing countries.

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