



**BANCO COMPARTAMOS, S.A., INSTITUCION DE BANCA MULTIPLE (MEXICO):**

A microfinance company enjoying rapid growth by meeting the microlending needs of small businesses run by women in rural areas.



**BANCA COMERCIALA ROMANA S.A. (ROMANIA):**

A bank showing how a financial institution can transform corporate governance and social and environmental risk management into competitive advantage.



**HIPOTECARIA SU CASITA, S.A. DE C.V.-SOFOL (MEXICO):**

A housing finance company that uses innovative financing techniques to broaden home ownership among the low- and middle-income population.



**ENTERPRISE LIFE ASSURANCE COMPANY LTD. (ELAC) (GHANA):**

An insurance company using innovative products to revitalize a declining life insurance sector.



## Financial Markets

In 2005, net private medium/long-term capital flows to the private sector in developing countries reached a record estimated \$375 billion. Yet inadequate access to finance remains a major impediment to investment and growth in many countries, particularly in frontier markets and more challenging sectors. Strengthening local financial markets, both bank and nonbank sectors, is strongly associated with improving growth and enhancing poverty reduction. From a development perspective, SME finance, microfinance, housing finance, and securities market development can be particularly important.

IFC supports the development of local financial markets by helping to build the capacity of local financial institutions through investment and technical assistance; helping to build the necessary financial infrastructure for such institutions to operate effectively; and working alongside the World Bank to create supportive policy, legal, and regulatory frameworks.

Strategic areas of focus are microfinance, SME finance, housing finance, trade finance, local currency finance, structured finance, and sustainability finance.

# Banco Compartamos, S.A., Institucion de Banca Multiple

**With its focus on rural women microentrepreneurs, Compartamos developed a market-shaping approach to finance and exceeded its own growth projections.**

## MODEL COMPANY

As the leading microfinance company in Mexico, Banco Compartamos, S.A., Institución de Banca Multiple (Compartamos) plays a significant developmental role by providing microloans to small businesses run by women in rural areas. Its high level of professionalism, successful lending methodology, and solid financial results make Compartamos a worldwide role model for microfinance companies.

From a client base of 15,500 in 1995, it has grown to serve more than 453,000 active borrowers today. The company has a strong loan portfolio and a very low delinquency ratio. The average loan to its clients is about \$410.

Compartamos began in 1992 as a microfinance NGO working in rural areas of Chiapas and Oaxaca. In 2001, it transformed itself into a private commercial company structured as a SOFOL, a non-deposit-taking financial-services company.

The company's current transformation into a commercial bank will enable it to offer a wide range of financial products to its target market.

## MISSION AND CULTURE

The company's mission statement reads, "Compartamos is a social company committed to the people. We generate development opportunities within the lowest economic segment, based on innovative and efficient models on a wide scale as well as transcending values that create external and internal culture, fulfilling permanent trusting relationships and contributing to a better world."

The story of Emma Acosta Salazar illustrates the importance of the Compartamos mission and culture. Because Emma needed a stable job and wanted to keep her husband from having to emigrate to the United States, she bought a machine and began producing and selling straw hats. As she made money, she bought more machines. Emma has been a Compartamos client for two years now, using her loans to purchase materials and produce and sell more hats. She is teaching the trade to her children while making enough money for them to continue their studies and one day go to college.

Like Emma, a large segment of Mexico's population is self-employed. Compartamos works with women microentrepreneurs who, in many cases, are the main source of income for their families.

## LENDING METHODOLOGY

Compartamos provides microloans through three products: village banking, solidarity group loans, and individual loans. The company's success is due primarily to its unique expertise in developing the village banking model, in which the company offers individual loans to women who belong to a group of 15–30 women. The group then guarantees the members' repayment, approves their participation, and manages collections. In many cases these loans are the only funding source for Compartamos clients, who are too poor or too remote to be served by banks.

Demand for Compartamos services is high, and the company has a growing network of 145 branches in 27 states in Mexico. It also works to build a credit culture among its clients (that is, the culture of repaying on time) and to empower women to be more actively involved in income-generating activities.

About 99 percent of the company's borrowers are women, and about 94 percent live in rural areas.



Like Emma Acosta Salazar, the majority of Compartamos borrowers live in rural communities with limited access to education and financial services, but in recent years the company has expanded its services to include microentrepreneurs in Mexico City.

#### EMPLOYMENT PRACTICES

Compartamos hires and trains local employees, creating a pool of highly trained professional staff in the microfinance industry. The company further develops human capital by creating an excellent working atmosphere in which all employees are involved in the implementation of the Compartamos strategy and mission. The company also established an internal code of conduct and a hotline to report and resolve staff grievances.

#### GROWTH STRATEGY

As a SOFOL, Compartamos was not authorized to take deposits. Company management determined that

the best and most sustainable way of funding the company's growth and expansion strategy was to issue bonds and attract local-currency financing from local capital market investors.

In 2002, Compartamos successfully issued its first bond of \$18 million to domestic private investors. Then it issued a second bond of \$45 million in two tranches in 2004 and 2005. The bond received a national scale rating of AA by both Standard & Poor's and FitchRatings, two notches above the company's stand-alone rating of A+.

Since managed pension funds, with \$63 billion in assets, are the major sources of domestic capital in Mexico, Compartamos structured its bond issues to attract Mexican institutional investors. This allowed the company to meet its financing objectives, diversify its investor base, and achieve a competitive borrowing cost.

Compartamos is one of a handful of microfinance organizations worldwide that has driven real market change. Its structured bond was the first ever issued by a microfinance company in Mexico, successfully introducing microfinance as a new asset class in the Mexican capital market.

The company's success demonstrated to the Mexican financial market that a commercial and professional approach to micro-lending can be profitable.

Compartamos is using the proceeds from the bond to finance its growth plans, including an expansion of its customer base to 1 million women entrepreneurs by 2008.

#### IFC Involvement

- A loan of \$1 million and equity investment of \$660,000 in 2001 to support the transition from NGO to commercially viable private financial institution, thus facilitating access to market-based funding and the expansion of lending services.
- A partial-credit guarantee of 34 percent of the bond program of \$45 million. The bond was issued in two tranches, \$17 million in July 2004 and \$28 million in September 2005. The guarantee enhanced the rating of the bond from mxA+ to mxAA, enabled access to institutional (local currency) investors, and ensured longer maturity (five years). The second tranche was oversubscribed more than threefold.

# Banca Comerciala Romana S.A.

**BCR's preprivatization strategy—with sweeping structural and operational reform—shows how financial institutions can transform corporate governance and social and environmental risk management into a competitive advantage.**

## PREPRIVATIZATION STRATEGY

In 1989, Romania began a process of banking-system reform—a transition from a centralized, one-tier system to a decentralized, segmented banking system. Key to the effort was the spinoff of Banca Comerciala Romana (BCR) from the National Bank of Romania.

Incorporation of BCR in 1990 gave it license to conduct all commercial banking activities, with the government of Romania maintaining a 69.88 percent stake after 2000. By the end of 2002, BCR was Romania's largest bank, with more than 270 domestic branches and approximately one-third of the country's total banking assets. The bank fell short of full privatization, however, owing to two unsuccessful attempts of the government to sell its majority stake in BCR. Privatization efforts also suffered from the global economic downturn in 2002.

## INSTITUTION-BUILDING PLAN

In January 2003, the government initiated a strategy aimed at full privatization of BCR by the end of 2006. Initial efforts focused on enhancing the bank's operational efficiency and strengthening its corporate governance framework. An institution-building plan was designed covering such areas as corporate governance, strategy review and organizational restructuring, business development and human resources, operations review (IT, accounting, and MIS), and risk management.

The plan established key objectives for each business area. It also allowed for performance incentives for senior management, linked to the achievement of predetermined financial targets, thereby aligning the interests of management and shareholders. The bank designated a special unit to monitor the plan's implementation.

## REVISED CHARTER

To achieve governance objectives, the bank's major stakeholders drafted a revised charter, establishing committees for audit and compliance and for compensation, and separating the roles of CEO and chairman. Other measures included the introduction of a two-tiered board structure (supervisory versus management roles) and nomination of independent board members.

A technical-assistance program strengthened such areas as risk management, insurance, corporate governance, and internal audit—including appointment of a senior resident adviser to BCR's internal-audit unit and a resident adviser to facilitate improvements to the risk-management framework.

### IFC Transactions

- With EBRD, instrumental in formulating an improved corporate governance framework and institution-building plan for the bank
- A \$75 million seven-year loan in 2002
- A \$111 million investment in 2004 for 12.5 percent, plus one share in BCR (*pari passu* with EBRD)
- Training support to BCR's EHS unit
- A €75 million loan in 2005

## EHS AS A DRIVER OF CHANGE

A compelling feature of BCR's reform arose from its attention to social and environmental risk assessment. The bank established an Environmental Health and Safety unit, which became proficient at evaluating non-credit risks linked to prospective loans. This capacity-building function paved the way to broader institutional learning among the bank's 650 loan officers.



New corporate governance and EHS frameworks built investor confidence in BCR, supporting its transition to full privatization.

Challenges to an effective social and environmental risk-management framework included deep-rooted beliefs of employees and clients, and skepticism about the bank's ability to retain customers when using heightened risk-management guidelines. From a client perspective, the new EHS policies represented an additional layer of bureaucracy not found in other areas of Romania's banking system, and many clients believed that financing and environmental performance were mutually exclusive.

To defuse employees' doubts, the EHS unit sponsored a series of training sessions, explaining new risk-management policies and providing tools for their implementation. Case studies, role-play exercises, and virtual site visits offered a safe environment for trainees to apply what they were learning. By the end of the workshops, loan officers practiced EHS due diligence in six business scenarios and learned to construct loan conditions accordingly.

Today, employees offer favorable comments on the company's EHS policies. Credit officers report improvement in their basic environmental awareness, and they observe that their due-diligence efforts foster better understanding of customers' business activities. Some employees express satisfaction with their ability to have a positive influence on clients' social and environmental performance.

#### EHS AS A COMPETITIVE ADVANTAGE

BCR's attention to client relationships proved critical during its implementation of formal EHS policies. The bank mentored its customers, explaining current and post-2007 regulatory obligations. Clients noted BCR's flexibility in continuing to provide financing during their pursuit of social and environmental compliance. BCR reports no client losses arising from its EHS policies.

The benefits of BCR's pre-privatization strategy became evident in December 2005, when Erste Bank of Austria signed an agreement to acquire 61.88 percent of the bank's shares. At a price of \$4.4 billion, the transaction represented a landmark deal for an eastern European bank. The timing of the privatization, as well as the bank's operational improvement, EHS efforts, and corporate governance reform, all enhanced BCR's appeal. Given Romania's scheduled accession into the European Union in 2007—bringing more stringent regulations—BCR's role as a change agent is timely.

In the short term, BCR reduced its risk profile by strengthening the integrity of its loan portfolio. From a long-range perspective, the program offered tremendous strategic value. By developing its reputation as a trusted adviser on social and environmental issues, BCR distinguished itself as the bank of choice for this specialized class of investments. This sentiment is echoed in a series of October 2005 interviews, during which customers and authorities described BCR as "leading Romania's banking sector into a more environmentally conscious European Union."

Through its internal capacity building and keen attention to relationship management, BCR parlayed its environmental and social risk management program into a distinct competitive advantage.

# Hipotecaria Su Casita, S.A. de C.V.-SOFOL

**Working with investors to access local financing through mortgage-backed securities, Hipotecaria Su Casita helps expand home ownership, deepen financial markets in Mexico, and pioneer a private housing finance model that Peru, Turkey, Russia, and others seek to emulate.**

## HOUSING DEFICIT

With a deficit of 4 million housing units in Mexico, many people have difficulty accessing home financing. In the mid-1990s the government created specialized financial intermediaries known as SOFOLs, of which the housing SOFOLs extend mortgage loans to low- and middle-income buyers and provide construction financing to developers of public housing projects. Prices of homes in this segment typically range from \$15,000 to \$34,500.

The Mexican population is characterized by steady growth, high family formation, and youth (half of the population is younger than 22 years old)—increasing the need for housing. Individuals address the housing deficit in part by building their own homes (the informal market) or by having extended families living together in cramped quarters.

## CHANGING SOFOLS

As non-deposit-taking institutions, housing SOFOLs have depended largely on funding from the federal government, but now the government promotes the private sector as the dominant player in mortgage financing.

The government will gradually phase out public financing of SOFOLs by 2009 and transform itself from lender to loan guarantor. All SOFOLs in Mexico must find alternative funding sources.

## THE COMPANY'S LENDING SUCCESS

Hipotecaria Su Casita began operations in 1994 in Mexico City and has grown at a rapid rate in recent years in response to the demand for low-income

housing. Now Mexico's largest housing SOFOL, the company has a network of 128 branches around Mexico, servicing an on- and off-balance mortgage portfolio of approximately \$2.9 billion. As of December 2005 it had total assets of \$2.4 billion and a net worth of \$182 million.

The company has 21 percent of the assets in the SOFOL sector. Its success in lending to low-income households made it an attractive candidate for Caja Madrid, a savings bank that became a partner in February 2005.<sup>1</sup>

Because a major challenge for any institution lending to the low-income market segment is the risk of default, Hipotecaria Su Casita's employees stay in close touch with borrowers and closely monitor repayments.

The company's low delinquency rate—combined with experienced management, an efficient cost-income structure, and extensive reach through its network of branches—earns Hipotecaria Su Casita high credit ratings and an "excellent" servicer ranking, the highest among Mexican SOFOLs.

## MORTGAGE-BACKED SECURITIES

With the withdrawal of public funding, Hipotecaria Su Casita and other SOFOLs adopted a strategy of issuing mortgage-backed securities (MBSs) to obtain financing and to fund their continued growth. Institutional investors, particularly pension funds, are keenly interested in different asset classes that match their investment horizon and their return requirements. Such long-term-capital market instruments as MBSs are a good fit for these objectives.

1. Caja Madrid acquired a 25 percent stake in Hipotecaria Su Casita in 2005 and increased its participation to 40 percent in 2006.



Since SOFOLs are non-deposit-taking financial institutions, without access to relatively inexpensive deposits, securitization gives them an important tool for accessing affordable financing.

#### TRANSITION STRUCTURE

As the first step in the transition from public funding to MBSs, Hipotecaria Su Casita and its lenders, including IFC, structured warehouse financing lines of credit in local currency backed by mortgages that meet specific quality criteria. This structure created an origination pipeline to back the company's future mortgage securitization program. Signed in June 2005, \$30 million worth of mortgages warehoused by the IFC line (\$50 million) were securitized in April 2006, when Su Casita issued its first peso-denominated fixed rate MBS (\$47.5 million). IFC also provided a credit enhancement for this transaction, using the GMAC credit-enhancement facility. As of today, Su Casita's funding structure has changed dramatically. Construction bridge loans are fully funded from private sources

(capital markets and banks), and 40 percent funding of mortgages comes from capital markets.

#### INCREASING DEVELOPMENT

Housing SOFOLs have had a significant catalytic effect in the market. Mexican mainstream banks are becoming increasingly interested in the MBS market, seeing it as a good opportunity, now that it has been validated and demonstrated.

With access to financing from capital markets through securitization, Hipotecaria Su Casita and other Mexican housing SOFOLs increase their impact on development in a number of ways, including the following:

- **Extending mortgage financing to previously underserved groups.** SOFOLs can address Mexico's housing deficit by enabling home buyers, especially low-income families, to afford to purchase their own property, thus helping to improve living standards and contributing to social and economic stability.
- **Developing the local capital market through securitization programs.** By structuring the terms of the underlying mortgage loans to create suitable assets for eventual securitization, SOFOLs facilitate the development of a new risk-asset class that fits well with the investment needs and objectives of Mexican institutional investors.
- **Enabling a shift from public to private funding.** As public funding from the Mexican government is phased out, the leadership demonstrated by Hipotecaria Su Casita and other SOFOLs helps stimulate the secondary-mortgage market by accessing a much-needed alternative source of funds.

#### IFC Investment

- More than \$300 million to support the mortgage market in Mexico by providing financing to major originators in the sector, including SOFOLs Hipotecaria Su Casita, Hipotecaria Nacional, and Hipotecaria Crédito y Casa
- This investment includes \$230 million invested in warehouse credit lines for SOFOLs to support mortgage-securitization programs, including \$50 million equivalent for Su Casita
- Supported more than \$200 million equivalent in local-currency mortgage-backed securities issued by SOFOLs in Mexico through credit enhancement of more than \$20 million

# Enterprise Life Assurance Company Ltd.

**ELAC revitalized a declining life insurance sector through effective partnership and innovative products—meeting local needs and setting a positive example for industry peers.**

## EFFECTIVE PARTNERSHIP

In 2000, Ghana's Enterprise Insurance Company (EIC) partnered with South Africa's African Life Assurance Company (AFLIFE) and IFC to create a life insurance company, Enterprise Life Assurance Company (ELAC). The venture became an incorporated subsidiary of EIC, Ghana's oldest and largest private insurance company, which specializes in fire, marine, motor, and general accident insurance. Century-old AFLIFE, with its partnership interest in six insurance companies across Africa, also brought to the collaboration a solid knowledge base.

## RAPID SUCCESS

The new company began operations on September 15, 2001, with initial capitalization of \$1 million. Far exceeding the performance expectations of traditional start-ups, ELAC cornered almost 20 percent of Ghana's life insurance market by 2005, outpacing its targeted growth rate of 45 percent over 10 years.

Year-over-year growth in return on average assets rose from 7.5 percent in 2003 to 9.85 percent in 2005, underscoring the venture's early success. The company recorded a similar trend in its return on average equity, which increased from 14.75 percent to 21.55 percent over the same period.

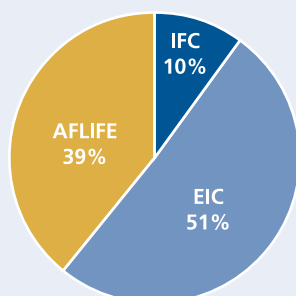
## OVERCOMING CHALLENGES THROUGH PARTNERSHIP

ELAC overcame weak industry fundamentals on the strength of its local and technical partners. It began at a time of low demand for insurance products in Ghana, due largely to limited product development and the inefficiencies of incumbent firms. Ghana's high inflationary trend also had taken its toll on the industry.

Despite this bleak outlook, ELAC's founders felt that a new entrant with strong capabilities would be of value to the sector and the country. They recognized the country's life insurance market potential—with GDP growth in excess of 4 percent, Ghana's growth rate was double that of the Sub-Saharan region as a whole. ELAC's founders also saw a broad consumer base with the means to afford suitable life insurance products; Ghana had an estimated 900,000 employed people, of whom about 300,000 were covered by life insurance products.

Apart from the traditional struggles of start-up ventures, ELAC faced the daunting task of achieving market acceptance in a declining industry, but the young company triumphed over weak industry fundamentals on the sheer strength of its sponsors.

### Shareholder Structure at Inception



### IFC Transactions

- Invested \$100,000 in 2001 for a 10 percent share in ELAC
- Played a catalytic role in bringing together local partner EIC with technical partner AFLIFE
- Extended a put option, likely to be exercised in 2006, to ELAC's co-sponsors on a pro rata basis (the put price to be the higher of net asset value or five times earnings per share)



With its experience in similar ventures in Namibia, Botswana, Lesotho, and Zambia, AFLIFE proved instrumental in navigating common risk factors. It also infused into the new entity the low-overhead philosophy of its other partnerships.

Likewise, EIC brought an intimate understanding of the local market, based on more than 75 years of operations in Ghana. EIC provided a vast knowledge base, plus financial strength, an extensive client base, and a reputation for excellent service. Both partners contributed commitment to strong corporate governance, lending credibility to the new venture and paving the way to rapid market acceptance.

**PRODUCT INNOVATION**

A key factor in ELAC’s success is product innovation, due in large part to AFLIFE’s identification of similarities between Ghanaian traditions and those of other markets it serves. For example, the tradition of paying rich and extended tributes to the deceased inspired customized insurance products for this purpose in Botswana, Lesotho, and Namibia. AFLIFE recognized an opportunity to tailor its existing product formula to a new client base in Ghana.

Service to this untapped market became ELAC’s breakthrough product: the Funeral Finance Plan, covering burial expenses and family benefits. Effective marketing and product affordability made the plan ELAC’s trademark and established the company as a market leader. During its first five years, ELAC made a positive mark on Ghana’s life insurance sector, introducing fresh ideas to a once-beleaguered industry.

Effective collaboration between ELAC’s strategic partners, coupled with the company’s innovative mindset and operational efficiency, sparked imitation by industry peers. This renewed competition fueled market growth,

**ELAC’s Development Impact**

- Introduced innovative products to stimulate consumer demand and enhanced the appeal of the life insurance sector to new and existing firms
- Created 270 employment opportunities on a commission basis
- Provided greater depth to Ghana’s financial sector
- Served as an agent in mobilizing savings and fostering economic growth in Ghana

leading to job creation and increased investor confidence. Steady share appreciation within the industry is a testament to this heightened investment interest.

**INDUSTRY MODEL**

ELAC established an effective model for the separation of life insurance from general insurance, causing the company to be cited as an example during the government’s introduction of new legislation for industry reform.

ELAC’s developmental impact extends beyond the life insurance industry. Through its outsourcing of asset-management functions, for example, the company contributed to the growth of a complementary sector. By providing an alternate channel for savings mobilization, it also became an important agent in the broader reform of Ghana’s financial sector. The redistribution of funds to long-term investments is of critical importance to Ghana’s economic growth.

With a focus on the social, cultural, and economic needs of its client base, the company revitalized Ghana’s life insurance industry and set a positive example for industry peers. Direct impacts of the venture include job creation, enhanced competition, and renewed public interest. Equally compelling is the company’s influence on other segments of the financial sector.