

IFC's Work with Financial Intermediaries
IFC FACT SHEET – April 2015

In the developing world 2.5 billion adults don't have a bank account and 200 million businesses lack access to credit. IFC and other multilateral institutions work through financial institutions to provide much-needed access to finance for millions of individuals and micro, small, and medium enterprises that we would never be able to reach directly. Our work with private equity funds brings both capital and expertise to fast-growing companies, and mobilizes money for renewable energy, infrastructure and other projects in some of the world's poorest countries. This is an important part of the World Bank Group strategy to end extreme poverty and build shared prosperity.

Why do you work with FIs?

- Working with local financial intermediaries (FIs) allows IFC to support far more micro, small, and medium enterprises than we would be able to on our own. In FY13, IFC clients, directly or indirectly, were able to provide 5.4 million loans to small businesses worth a total \$275 billion and 29 million microloans to individuals, worth \$28 billion.
- IFC works with about 700 financial institutions and 220 private equity funds around the world – with products including investment and advisory support for microfinance, insurance, loans to SMEs and low and medium income mortgages.
- Our work with financial intermediaries in more than 120 countries has helped strengthen financial institutions and overall financial systems, reinforcing responsible finance, enabling them to play a constructive role in economic growth and introducing environmental and social standards in many clients for the first time.
- IFC believes that sound, inclusive, and sustainable financial markets are essential to building shared prosperity and eradicating poverty.

How do you work with FIs?

- IFC provides capital and expertise to our FI clients. That capital is leveraged to allow individuals and businesses access to the finance they need to grow and create jobs. We work with a network of nearly 1000 FIs in more than 120 countries – to increase the availability and affordability of financial services, supporting far more individuals and small businesses than we would be able to on our own.
- Our expertise and advice helps our clients to address systemic issues such as risk management, corporate governance and the introduction of environmental and social (E&S) standards. We also work with FIs to become more involved in strategic sectors that are important to the development agenda, including women-owned businesses, climate change and agri-finance, and underserved regions such as fragile and conflict-affected states.

Where does the money go?

- From FY2010-FY2013, **\$15.5 Billion** of IFC's investments were channeled through FIs. This \$15.5 billion of long-term financing was distributed as follows:
 - \$7 billion for SME related investments through banks to target MSMEs;
 - \$1.4 billion for microfinance related investments through microfinance institutions;
 - \$1 billion of insurance investments;

- \$3.5 Billion for housing finance, capital markets, financial technologies, climate smart projects, distressed assets relief programs and others through banks and non-banking financial intermediaries; and
- \$2.6 Billion in private equity funds.
- During the same period, IFC supported an average outstanding balance of about \$2.3bn in short-term trade finance guarantees. Our trade program facilitates imports and exports of goods, equipment and commodities for companies in developing countries, including medical supplies, energy, building materials, agricultural commodities, etc.
- IFC's FI clients report annually regarding the disbursements they make with IFC's money. Each private equity sub-investment is disclosed and most of this money reaches manufacturing, services and agricultural enterprises.

Why do you work with Private Equity Funds?

- IFC works with private equity funds in emerging markets because they can have a significant impact on company growth and job creation. Our work with private equity funds has brought both capital and expertise to fast-growing companies, and mobilized money for renewable energy, infrastructure and other projects in some of the world's poorest countries.
- From 2000-2011, we estimate that our investments through private equity funds created about 300,000 new jobs.

How do you work with FIs on environmental and social issues?

- IFC focuses on helping our FI clients improve their capacity to assess and manage the environmental and social (E&S) risks inherent in their own financing activities—in line with IFC's Sustainability Framework.
- High risk FI and private equity clients must agree to adopt IFC's Performance Standards. IFC provides support for the implementation of these standards and monitors compliance.
- Our investment agreements include covenants on adherence to the applicable Performance Standards.
- If the client is unwilling to fulfill its commitments, we may use various types of leverage contained in our investment agreements to obtain a remedy. In worst case situations, we may consider exiting our investment.
- We are continually improving our approach to supervision and providing assistance and advice to clients to enhance their E&S management systems, and will continue to do so.
- We are committed to continuing our dialogue with Oxfam and other CSOs in the spirit of continual improvement.

What actions has IFC taken to improve E&S performance with FIs?

- In 2012, IFC updated the Performance Standards to better signal and address E&S risk management for FI clients.
- Also, in response to a 2013 Audit by IFC's Compliance Advisor/Ombudsman, IFC developed an Action Plan to improve E&S performance among FI clients, including enhancing advisory support to FI clients, greater scrutiny and review of high risk transactions, adding additional FI-focused E&S capacity within IFC, and continued stakeholder engagement.
- Specific actions of that plan include:

- Increased annual supervision requirements to cover high and medium-risk clients;
 - A formal assessment of the potential client's E&S commitment and capacity at appraisal;
 - A review of the top exposures of the FI's portfolio; and
 - Expanded supervision to include a sample review of FI sub-clients.
- We are on track with all of these commitments.
- In addition to that Action Plan, we have taken steps to improve protocols and information flow within IFC to better address E&S risks.
- Also, with input from CSOs and other stakeholders, we have improved transparency by now disclosing all private equity fund sub-projects.

How Our Work with Financial Intermediaries is Helping Fight Poverty

Microfinance – Finca

- Access to finance remains essential for business growth in fragile and conflict-affected economies. IFC’s client FINCA provides financial services to the world’s lowest-income entrepreneurs so that they can create jobs, build assets, and improve their living standards. Its programs reach more than a million people, including small business owners in Afghanistan, Democratic Republic of Congo, Haiti, Kosovo, and Malawi. Sixty percent of its customers are women.
- IFC is now helping FINCA expand to reach more customers than ever. We led like-minded investors in creating a new \$74 million capital structure for the organization, including our own \$35 million equity investment. This investment, together with IFC’s active guidance, is enabling FINCA to transform from a not-for-profit organization into a network of deposit-taking institutions with even greater reach, service offerings, and financial sustainability.



- Baba Sahib lost his right leg in a bomb blast shortly after he joined the police in Kabul. He returned to his hometown, in a rural area of Afghanistan, and tried to make a living selling candy and cold drinks from his home. But the income wasn’t enough to send his six children to school.
- He needed capital to get his business off the ground. Yet he had never had a bank account. He didn’t even know how to apply for a loan—until IFC client, Finca, came to his assistance, giving him a loan that enabled him to quickly build a profitable grocery-store business and better educate his children.

SME and Gender Finance

- Through our Banking on Women program, IFC has invested in 29 projects since its inception, in 2010—in nearly 20 countries and with commitments totaling about \$800 million.



- Banking on Women is benefitting women entrepreneurs in the Democratic Republic of Congo, which has one of the world’s lowest rates of access to finance. A combined program of investment and advisory services to Rawbank helped it boost not only lending to women entrepreneurs but also the provision of legal advice and business training.
- Rawbank customer Jacqueline Mavinga was able to get a \$6,000 loan to open a clothing shop, as well as receive training on how to create a business plan and keep accounts. “People take you much more seriously when you are backed up by a bank,” Mavinga says.

Private Equity – IFC SME Ventures Fund

- IFC’s SME Ventures program provides innovative solutions to challenges in fragile and conflict affected states. It has invested in four risk capital funds in six fragile states: Bangladesh, the Central African Republic, DRC, Liberia, Nepal, and Sierra Leone.



- Through its West Africa Venture Fund, it has invested \$362,000 in the country’s first commercial egg producer, helping to develop the local agribusiness sector after years of conflict and devastation. Until 2012, all commercial eggs and chicken—for Sierra Leone’s 6 million people --were imported from Lebanon, half a world away. IFC’s investment in Sierra Akker Farms now supplies day-old chicks for 200 out-growers, employing dozens of people and providing cheaper, locally sourced eggs and chickens for buyers.

- Additional funding, with investment from Cordaid Netherlands, was channeled to SME Ventures during the Ebola Emergency. This meant that at the peak of the Ebola crisis, another Fund investee, logistics firm GLS Liberia was able to handle incoming airfreight and transported medical supplies from the airport, despite long distances and difficult roads

Insurance

- When people lack insurance, accidents, disasters, and death can bring financial devastation. And in the developing world, most people lack insurance. When tragedy strikes, those in low- and middle-income groups often lose their earning power and face immediate hardship, plunging back into poverty.



- IFC made \$2.2 million combined debt and equity investment in Microensure. An outside-the-box insurance broker, MicroEnsure targets the base-of-the-pyramid market, including insurance in mobile phone top ups and microfinance loans. In Ghana, where 95 percent of the population lives without insurance, it now insures more than 1 million people—up from just 40,000 in 2010.

- Constance Adae’s small shop burned to the ground in Accra. Seeing her business wiped out overnight, she feared the worst—not knowing how to recover its lost income, or repay its loans. But, Constance had insurance built into her shop’s microfinance loan. MicroEnsure’s innovative business model enabled Ghana’s Vanguard Assurance to send Constance rapid settlements and she was able to get back on her feet quickly.