IFC’s Advisory Services have become a substantial part of IFC’s business and a critical tool for extending our reach and expanding our impact. Access to Finance is one of four advisory services business lines that correspond to IFC’s operational strategy.

Support for IFC’s advisory services is strong and includes partners and donor governments, multilateral institutions, and private donors such as foundations.

Access to Finance appreciates our donors and partners that include: African Development Fund, Australia, Austria, Bank of Israel, Belgium, Bill and Melinda Gates Foundation, Canada, Denmark, European Union, Finland, France, Inter-American Development Bank, Ireland, Islamic Development Bank, Italy, Japan, KfW Entwicklungsbank, Kuwait, Luxembourg, Millennium Foundation, the Netherlands, New Zealand, Norway, OMIDYAR Network Fund, INC., Saxony (Germany), Spain, Sweden, Switzerland, United Kingdom, United States, and Visa International

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Foreword

We are pleased to present this report, which highlights IFC’s progress in Access to Finance advisory services.

Financial inclusion has emerged as a prominent topic on the international development agenda. Widely recognized as much more than credit, financial inclusion means that a range of financial products and services are accessible for everyone needing them, in a fair, transparent, and cost-effective manner by a diversity of sound and sustainable institutions.

IFC’s Access to Finance Advisory focuses on increasing and improving financial access, by targeting both financial institutions and the broader financial infrastructure. Over the past year, IFC helped support and shape the G20 global financial inclusion agenda that calls for the promotion of a range of financial services beyond credit—including payments, savings, remittances, and insurance.

Our advice helps financial institutions reach micro, small, and medium enterprises and helps develop financial infrastructure such as credit bureaus, payment systems, and collateral registries. At the end of FY10, we had an active portfolio of 238 projects in 68 countries, valued at almost $290 million. Our projects help people in some of the world’s poorest markets including those affected by conflict. In FY10 our project expenditures totaled over $50 million, of which 50 percent were in International Development Association (IDA) countries and 14 percent in fragile and conflict-affected countries.

These projects address some of the most essential challenges to sustainable development—supporting micro, small, and medium enterprises to hire more workers, access equipment, and be more productive; allowing poor and disadvantaged people to keep more money for uses like paying for education; and building institutions and legal environments where people and businesses can access financial services affordably and transparently.

Our services are delivered on the ground through regional offices with more than 130 dedicated staff. We also coordinate our work with the World Bank to deliver policy advice and joint interventions.

Development impact and results are fundamental to our mission and the success of Access to Finance advisory services. In FY10, IFC’s Development Goals (IDGs) were launched to help refine IFC’s business and strategy and to create a framework with core metrics to better guide shared goals across IFC products in investment and advisory services. We developed targets for our investment and advisory services and have committed to achieve by 2013 greater financial inclusion by providing more diversified financial services and by deepening outreach to micro clients and small and medium enterprises.

More than half of our projects are directly linked to IFC investments and over 70 percent serve micro, small, and medium enterprises. Figures for the reach of our work in 2009 include*:

- IFC’s advisory SME banking clients provided $44 billion in financing and helped improve access to finance for 771,071 small and medium enterprises.
- IFC’s advisory microfinance clients provided $3.5 billion in financing to about 3.8 million micro enterprises.
- IFC’s advisory leasing clients provided $202 million in lease financing for 3,589 micro, small, and medium enterprises.
- IFC’s advisory housing finance clients provided $5.3 billion in housing finance loans to 115,376 homeowners.
- IFC’s trade finance clients benefiting from advisory services originated over $3.2 billion in trade for 83 issuing banks in 48 countries.
- IFC’s credit bureau clients helped generate an estimated $8 billion in financing to about 8 million microclients in 13 countries.
- IFC helped to establish the first collateral registry in China and provided significant financing secured with moveable property to small and medium enterprises.

The report also highlights knowledge sharing initiatives. Through this knowledge, Access to Finance provides diagnostics, training, best practice, and capacity building. Facilitating the increase and quality of knowledge that is shared with IFC’s clients is at the core of developing and supporting our work in access to finance globally.

In FY10, best practice initiatives included:

- SME Banking Knowledge Guide - to provide banks with leading practices, market trends, opportunities, challenges, and success factors for profitable SME Banking operations.
- Global Leasing Toolkit - to provide financial institutions and leasing entities with guidance and resources to set up or improve equipment leasing.

Our donors play a critical role in supporting and partnering on our projects. Government, institutional, and multilateral donors contribute to our program as a whole, and to specific projects around the world. They have helped IFC reach millions of people and we thank them for their continued commitment to our mission to alleviate poverty and improve people’s lives.

Peer Stein
Global Business Line Leader

James Scriven
Deputy Business Line Leader

*The results stated here represent the portfolio outstanding for calendar year 2009. Portfolio outstanding is reported by Advisory Services clients. For complete outreach figures of IFC MSME clients see IFC Micro, Small, and Medium Enterprise (MSME) Finance Factsheets at http://www.ifc.org/accessofinance
Overview

More than 2.7 billion people in developing countries still lack access to basic formal financial services, such as savings or checking accounts. IFC’s Access to Finance Advisory helps increase the availability and affordability of financial services, focusing particularly on micro, small, and medium enterprises. Our priorities are to build bank and nonbank financial institutions, develop financial infrastructure, and improve the legal and regulatory framework.

At the end of FY10, we had an active portfolio of 238 projects in 68 countries, valued at almost $290 million. Our FY10 project expenditures totaled about $50 million, of which 50 percent were in International Development Association (IDA) countries and 14 percent in fragile and conflict-affected countries.

WE FOCUS ON:

Building bank and nonbank financial institutions, with emphasis on banks that serve small and medium enterprises or provide microfinance, agriculture finance, housing finance, leasing, trade finance, insurance, and sustainable-energy finance.

Improving financial infrastructure such as credit bureaus, securities markets, collateral registries, payment systems, and remittances.

Improving the legal and regulatory framework to help develop and improve the enabling environment for increasing access to finance.

IFC delivers advice on access to finance mainly through our regional offices, with more than 130 dedicated staff members. We also coordinate these services with the World Bank to deliver policy advice and joint interventions.
Building Financial Institutions

IFC’s Access to Finance Advisory works with financial institutions and regulators to strengthen the financial sector, deepen financial intermediation and outreach to increase access to financial services. We focus on building bank and nonbank financial institutions with emphasis on banks that serve small and medium enterprises or provide microfinance, agriculture finance, housing finance, leasing, trade finance, and sustainable energy finance.

Agrifinance Advisory

In emerging markets today, agribusiness constitutes a large market with a large financing gap. The lack of broad access to financial services limits opportunities for agribusiness enterprises and small holders to adopt efficient technologies and efficient resource allocation. The objective of the new Agrifinance Advisory is to foster a measurable increase in the availability of agriculture finance in IFC clients’ portfolio globally, by promoting appropriate risk mitigation products and building of necessary skills. The Program is working in close cooperation with IFC’s existing pipeline of strategic agribusiness initiatives and it supports the food security effort.

As part of pre-implementation activities, a needs assessment has been conducted across regions to identify support needs which will lead to the development of a set of products, tools, institution building services, and senior expertise support to enable financial institutions to efficiently expand lending to the agricultural sector, benefiting in particular SME agribusinesses and farmers/farmer organizations. Several IFC regions such as Europe and Central Asia, Sub-Saharan Africa, South Asia, and East Asia and the Pacific are currently rolling-out a set of replicable agrifinance pilot models, often combining IFC advisory and investment. Pilots consist of specific products, toolkits or approaches to be tested in a number of client financial institutions. Most client financial institutions are requesting risk management support for their agriculture loan portfolio and new products for agri-lending. Access to Finance Advisory is also working with its clients on feasibility studies for specific commodities and supply chains in order to understand their economics (cash flows, profitability) and systemic risks. Such studies are currently being conducted in Cambodia, India, Indonesia, Ukraine, and West Africa. Most agrifinance projects are likely to be joint ventures with IFC’s Sustainable Business Advisory combining work with real sector clients and financial institutions.

In parallel to the scoping of regional needs, IFC’s Access to Finance Advisory has completed a stock-taking and mapping exercise of past and current IFC agrifinance advisory projects at the global level. It identifies key lessons in providing agrifinance advisory services and replicable products and approaches. Most importantly, the mapping lays out potential added value
roles for IFC Advisory Services in the agrifinance space. On the investment side, collaboration opportunities are being explored with IFC’s Financial Markets investments for risk sharing facilities and lines of credit with client financial institutions.

The program is now finalizing its global knowledge management agenda which will support IFC Advisory Services in regions and their client financial institutions with agrifinance tools and expertise, with a focus on three main work areas:

• Building capacity of client financial institutions in agrifinance: diagnostics, improving risk management systems and processes, new product design;

• Linking financial institutions to sustainable supply chains: promoting access to finance for stakeholders along sustainable supply chains; and

• Linking insurance to agrifinance: bringing insurance products to address production/revenue risks, weather insurance index (synergies with Global Index Insurance Facility).

Key to this collaborative effort is the recent formation of the Agrifinance Practice Group, cross-cutting IFC Advisory Services Business Lines (Sustainable Business Advisory, Investment Climate), IFC’s regional offices, investment departments (financial markets, manufacturing and services) and the World Bank (agriculture and rural development), including a subgroup on agri-insurance. An integrated collaborative platform – AgriNet – will facilitate knowledge sharing and provide a platform to pro-actively seek collaboration opportunities to increase the impact of World Bank Group agribusiness interventions.

**Housing and Property Finance**

Shelter is a fundamental human need and the largest purchase most families will make in their lifetime. However, the dream of owning an affordable shelter is beyond the means of most emerging market populations. As such access to finance is an important element in alleviating poverty and building stable communities. IFC is a global leader in both advisory services and investment for housing finance.

In 2010, IFC completed projects to study and develop affordable housing solutions to the middle and lower income population segments in countries such as India and Uganda. In India, the result of our advisory services projects has lead to investment in housing finance institutions specifically targeting workers in states without adequate access to finance.

IFC works in close cooperation with the World Bank to bring advisory solutions that complement and complete the development cycle in some of the world’s poorest markets including conflict-affected countries. For example, IFC developed training and support services to introduce housing microfinance products that would enable people to upgrade substandard homes or build new ones. The First MicroFinance Bank-Afghanistan (FMFB), founded in 2004 with IFC support, created a program that has made over 2,000 home improvement loans since 2009. These small loans, averaging $1,200 each, have made it possible for Afghan families living in poverty to improve their housing conditions.

During 2007-2009 the focus of the Housing Finance practice at IFC was to support our clients in mitigating the effects of the global financial crisis on their business and portfolios. Our efforts centered on advising lenders and borrowers on issues of nonperforming loans, delinquency, and foreclosure. IFC also worked closely with market regulators and legislators in learning the lessons from the crisis and adapting relevant enabling environment accordingly.

As of June 30, 2010, IFC has committed more than $1.7 billion in mortgage and housing finance, with an outstanding portfolio of nearly $1 billion. 20 Advisory Services projects are active globally, with particular focus in Eastern Europe, Central Asia, Africa, and South Asia. 75 percent of direct client projects are in IDA countries.

Our priorities include support for increased access to housing solutions among lower income social groups, promoting responsible finance, and further development of housing finance in least developed markets, such as Africa, South and Central Asia; and Latin America – often together with the World Bank.
Other IFC housing initiatives target climate change and work to make mortgages more widely available. In both Central Asia and Southern Europe, for example, through IFC housing advisory services, we are developing financing products and providing training and advice to regulators on critical housing issues such as residential energy efficiency loans to upgrade standard housing units and reduce energy consumption.

Insurance

A key benefit of insurance is its transfer of everyday risks, like the loss of capacity to generate income due to sickness or accident, the loss of property, or the extra cost of living to recover from a natural catastrophe. However, throughout the emerging markets large populations do not have access to such products, either because the distribution channels are missing, or because products are unknown, or because they are too expensive or targeted to middle- to high-income individuals. Much remains to be done to create insurance awareness, strengthen regulatory systems, and promote good insurance products.

IFC has worked throughout the year to help new and existing insurance companies build the skills and tools, such as mortality tables (e.g. in the Ukraine and Africa) develop new products (e.g., in the agricultural and health sectors) and support distribution channels (e.g., microinsurance).

IFC is partnering with our colleagues from the World Bank, including those in the Sub-Saharan Africa and Caribbean regions and in Cambodia, to work with regulators and governmental agencies to create insurance-friendly environments that at the same time protect consumers. One key activity has been the creation of sustainable, local capacity for index-based weather and catastrophic insurance products, strongly supported by donor funding from the European Union (EU) and the Dutch Ministry of Foreign Affairs. The availability of such insurance will encourage banks to extend credit to the agricultural sector and farmers to commit more of their resources to cultivate higher-yield crops and bigger outputs, both of which will significantly improve food security.

Leasing

Leasing is an effective mechanism for addressing the barriers that often prevent micro, small, and medium enterprises from accessing financing, and it continues to play an important role in IFC’s strategy to increase access to financial services. IFC’s donors have continued to support its leasing market development programs in the regions of East Asia and the Pacific, Latin America and the Caribbean, the Middle East and North Africa, and Sub-Saharan Africa. In FY 2010, IFC’s strategy and focus were shaped by changes in the financial market landscape and by the lessons it learned from experience. Generally, it aimed to increase opportunities for micro, small, and medium enterprises through value creation. Specifically, it continued to maintain its focus on IDA, frontier and post-conflict markets with outreach to underserved SMEs, including rural markets. IFC continues to build on its extensive legal, regulatory, and policy work to strengthen institutions, while supporting our stakeholders’ priorities with new products.

Leasing programs have continued in frontier and post-conflict markets, particularly in the Middle East and North Africa Sub-Saharan Africa regions, including Afghanistan, Democratic Republic of Congo, Liberia, Rwanda, Sierra Leone, and West Bank and Gaza. For example, during 2010 the Rwanda leasing program ended with strong growth in the leasing sector and expanded access to finance by micro, small, and medium enterprises. In Afghanistan, the new government’s first income tax law and tax tables were adopted by both houses of Parliament and enacted.

Our high-end institution building work aims to develop the capacity of institutions to better respond to the needs of SMEs in East Asia and the Pacific, Latin America and the Caribbean, and Sub-Saharan Africa. For example, in Mongolia, IFC continued to provide high-end capacity building to help expand lease financing. The Rwanda program supported microfinance institutions so they could provide micro-leasing facilities. In the Middle East and North Africa, Jordan and Yemen both witnessed strong growth in the SME lease market as a result of the capacity-building program. In China, IFC continues to support rural leasing to give MSMEs in rural areas greater access to lease financing, particularly in the agribusiness sector.
IFC continues to contribute to global knowledge in leasing by consolidating and disseminating experience and best practices, and by developing tools and manuals. Japan has supported the development of a Global Leasing Toolkit that aims to guide financial institutions in providing lease financing to SMEs. In line with IFC’s strategy, the Toolkit is designed as an interactive Web-based tool, with three focused toolkits that address agricultural equipment, sustainable energy, and Islamic leasing and a fourth focused toolkit on the variations among legal systems and regulatory and supervisory regimes. The Toolkit will aid the development of strong financial institutions well equipped to sustain lease market growth and increased MSME access to leasing and, thereby, to help bridge the access-to-finance gap.

Finally, Sustainable Energy Finance has emerged as a key area of attention, part of IFC’s efforts to address global climate change. The aim is to make use of leasing to counter the lack of access to the capital needed for purchasing sustainable energy equipment, such as equipment needed for energy efficiency, renewable energy, and cleaner production. A lease/ESCO project is currently ongoing in Thailand.

Microfinance

An industry leader in microfinance, IFC works with more than 100 institutions in over 60 countries. Since its first microfinance investment in 1995, IFC has supported the industry through investments and advisory services to microfinance institutions, including small-business banks, nonbank financial institutions, and nongovernmental organizations. IFC has been a catalyst in the growth of international microfinance network banks and collective investment vehicles.

As of June 30, 2010, IFC had committed more than $1.2 billion in microfinance, with an outstanding portfolio of $750 million. Grants from IFC Microfinance Advisory Services totaled $61 million, representing 72 microfinance projects, of which about 50 are investees. As of December 31, 2009, IFC’s investee clients had an outstanding portfolio of nearly 8.5 million microloans, worth nearly $11 billion. Microfinance Advisory Services’ flagship initiatives have a variety of purposes, including these: transforming NGOs/institutions, enhancing risk management frameworks for portfolio clients, significantly expanding small-scale deposit mobilization, and supporting technological innovations in microfinance.

Risk Management And NonPerforming Loans Advisory Programs

The recent financial crisis highlighted some structural failures in banks: over the past few years, markets witnessed an aggressive credit expansion in sectors with little credit history; weak risk management practices and structures, and volatile funding. Within IFC’s Access to Finance Advisory Financial Crisis Response and Recovery initiative, Risk Management and NonPerforming Loan Advisory programs are working to strengthen financial institutions’ risk management capacity and frameworks loan portfolio monitoring, nonperforming loan management and workouts capacity; and supporting the development of emerging distressed assets markets.

Risk Management and NonPerforming Loan Advisory are designed around a global knowledge management agenda and senior expertise supporting the regional implementation efforts, with the regional advisory teams focusing on both sector work and financial institution-specific work. At the sector level, a sustained dissemination effort was launched across all regions. 67 risk management/non-performing loan banking sector workshops and conferences were held in 35 countries. A wide institution-building effort engaging 74 financial institutions across all
regions is ongoing, through diagnostics and improvement of risk management practices, loan portfolio monitoring systems, and nonperforming loan management capabilities. Diagnostic tools were developed in record time, allowing identification of problem portfolios and capacity building support for client financial institutions. Key tools include: Risk Assessment Framework; Deep Dive Banking NPL Diagnostic Toolkit; Risk Management - NPL Quick Questionnaire; Risk Reporting Templates, Standards and Guidelines; Risk Management training course for IFC investment officers; Bank Risk Management Training; Manual for Corporate - SME Workouts; and a series of presentations on Credit Risk Management, Treasury Risk Management, Risk Appetite Determination; and Options and Best Practices in NPL sales.

For strengthening risk management capacity and practices, the program takes a comprehensive approach by focusing on all aspects of sound risk management including risk governance, market risk, liquidity risk, credit risk, operational risk, asset-liability management, and capital adequacy. A lesson from the crisis is that all these risk areas are interconnected and one type of risk often can change into another. Critical components of work in this area include raising sector wide awareness of risk issues as well as helping individual institutions build strong internal risk management frameworks and a firm-wide risk culture. This is accomplished through dissemination of best practices, tools and training.

The program works across all risk functions to achieve maximum impact and maintains sufficient flexibility to adapt to local circumstances/ institution-specific needs.

Through a close working relationship with IFC’s Global Financial Markets Debt and Asset Recovery Program (DARP), Access to Finance is also supporting the development of emerging distressed assets markets, especially in Europe and Central Asia. This work is part of a wider sector-level distressed asset resolution initiative closely coordinated with the World Bank and International Monetary Fund. Furthermore, under DARP, Access to Finance is working to influence emerging markets towards the increasing adoption of best practices in responsible and ethical collections for servicing companies and banks’ collection departments. This effort is closely coordinated with the ongoing responsible finance work led by IFC and the World Bank.

Two years after the crisis started, IFC acknowledges that signs of recovery are present in many countries; however the risk of reversal or a delayed recovery for low-income countries remains considerable. Furthermore as poor risk management practices lead eventually to portfolio problems, Access to Finance is increasingly working with client financial institutions to address risk management and nonperforming loan issues in an integrated manner. Advisory services are packaged through a comprehensive approach that focuses on the whole financial sector and wider issues of risk management practices and loan origination as well as problem loan management.

Going forward, the program is also engaging with client financial institutions to show them that their future growth critically depends on strong risk and bad debt management. It becomes more and more critical to position financial institutions for resilience in turbulent markets, by (1) improving their risk management frameworks in all risk areas by strengthening identification, quantification and management of the risks and enhancing risk governance and risk culture and (2) improving nonperforming loan management by helping institutions shift their emphasis from rapid loan growth to sustainable loan growth by better controlling risks, improving the management and monitoring of loan portfolios, minimizing nonperforming loan ratios, and improving the efficiency of collections.

Securities Markets

Properly functioning securities markets are an integral part of the financial framework and play a vital role in facilitating access to finance in developing countries. IFC provides advisory services to help countries develop their securities markets, including bond, securitization, and equity markets. In addition to providing long-term capital for priority growth sectors such as housing, infrastructure, and SME finance, deepening and broadening the securities markets also helps to expand the range of investment opportunities available to pension funds, life insurance companies, and other social safety-net investors in developing countries.

The IFC/World Bank Securities Markets Group has two main programs—the Global Emerging Markets Local Currency Bond (Gemloc) program and the Efficient Securities Market
Institutional Development (ESMID) program—under which most of its advisory services and knowledge management products are designed and implemented. The Gemloc and ESMID programs are highly complementary, since they focus on the development of government and nongovernment local currency bond markets, respectively. Both programs are able to operate in countries simultaneously, leveraging one another.

Gemloc country-specific advisory projects are currently operating in Costa Rica, Egypt, and Nigeria, with projects in Morocco and Uruguay in the pipeline. Separate but linked government bond market development work is also underway in Vietnam. With its Peer Group Dialogue initiative, Gemloc is presently working with 18 emerging market countries and has so far sponsored four high-level discussions on key bond market issues. ESMID is currently operating in East Africa (Kenya, Nigeria, Rwanda, Tanzania, and Uganda) and Nigeria, and it is expanding into Latin America (Colombia and Peru). By improving local bond markets and providing long-term local currency financing and investment vehicles, both the Gemloc and ESMID programs help to reduce financial sector risk, improve financial sector diversification, and keep funds flowing, particularly during periods of financial stress when bank lending may be under pressure or when other forms of credit may not be appropriate or available for financing or investment.

The Gemloc program is a World Bank Group initiative that supports development of local currency bond markets in emerging market economies to increase their investment-worthiness and attract new domestic and international investment. Its primary aim is to develop government bond markets to improve the stability of the financial sector as well as the implementation of monetary policy, pricing benchmarks, and yield curves. Gemloc has three separate but complementary pillars: a private investment manager, PIMCO, which develops and manages investment strategies to promote institutional investment in emerging market local currency bonds; a global emerging markets local currency index, which weights emerging market economies based on their market size and investment-worthiness; and advisory services provided by the World Bank to strengthen local bond markets through country-specific programs, peer group dialogues, and relevant research.1

The ESMID program works to develop nongovernment bond markets to help finance sectors that have high developmental impact, such as infrastructure, housing, and microfinance. It also aims to widen the range of opportunities available to domestic institutional investors, such as pension funds and insurance companies. ESMID’s initial pilot program was funded by a $5 million grant from the Swedish International Development Cooperation Agency to help build securities markets in Sub-Saharan Africa (Kenya, Nigeria, Rwanda, Tanzania, and Uganda) and to help finance housing and infrastructure development. With additional funding from the Swiss State Secretariat for Economic Affairs (SECO), ESMID has recently launched operations in Latin America (Colombia and Peru). ESMID employs an innovative approach to bond market development, linking efforts to strengthen the enabling environment (regulatory framework, market infrastructure, market participants, and regional integration) with proactive support for ‘demonstration’ bond transactions, which will help pave the way for more issues to come to market.2

SME Banking

Over the past decade, IFC has played a critical role in helping small and medium enterprises worldwide gain greater access to financing. It has achieved this both through its investment portfolio and through its advisory services, which focus on building banks’ capacity to serve the SME market. IFC’s advisory services has been leading financial institutions to recognize and seize the untapped and profitable opportunities that the SME segment represents through building capacity of partner financial institutions committed to expanding financial services to SMEs and underserved market segments. This includes strategy design, market segmentation, product development, streamlining credit risk management processes, and leveraging technology to reduce cost-to-serve. In this field IFC remains a knowledge leader, developing industry benchmarks, creating and disseminating tools and publications, supporting networks, and showcasing best practices to efficiently target the SME segment globally.

1. For more information, visit the program’s website at www.gemloc.org.
2. For more information, see the program’s web page at www.ifc.org/esmid.
In 2010, IFC’s Global SME Banking Advisory Services Program comprised 61 projects totaling $81.9 million. The program issued its signature publication, SME Banking Knowledge Guide, which synthesizes IFC’s lessons learned and explores the factors that make for profitable SME banking. A newly developed SME Banking training program, meanwhile, began training midlevel bank managers in best practices through case studies and practical examples culled from emerging and developed markets.

The Global SME Banking program organized several events and workshops during the year, including a February meeting co-organized with international development organizations in Frankfurt that brought together these organizations’ representatives and revived the DFI SME Finance Working Group as a forum for knowledge exchange and coordination among development agencies. It is envisioned that the DFI SME Finance Working Group Meeting will be held annually. An SME Finance Data Working Group was launched and met in The Hague in March and in Washington DC in September to establish a framework for harmonizing data collection and monitoring progress in that space.

IFC’s Global SME Banking Program engaged two leading consulting firms in carrying out two projects, one to assess and map the global SME finance gap and generate a reliable estimate, by region, of the size in volume and value of the global population of SMEs access to finance, and the other to design a methodology for establishing an SME finance gap abatement curve, a diagnostic tool for prioritizing policy interventions in the SME finance space in a given country or region.

**Sustainable Energy Finance**

IFC’s integrated advisory and investment services enable partner financial institutions to build a sustainable energy finance business. The market for sustainable energy finance projects in the developing world, including cleaner production, energy efficiency, and renewable energy, is estimated to be $100 billion per year. Financial institutions can use sustainable energy finance to differentiate, increase lending, and add value to client businesses, and IFC is providing the necessary training, tools, and informational support to help institutions get this finance product off the ground.

In 2010, the number of IFC sustainable energy finance programs doubled, growing from 8 to 16, with new initiatives in Sub-Saharan Africa, Europe and Central Asia, the Middle East, and Latin America. To date, 62 financial institutions have been advised. Through IFC’s work, residential energy efficiency, trade-finance, carbon aggregation, renewable energy, and related microfinance are all currently being brought on line or further developed and adapted for local markets. Given the rapid growth in this area, IFC’s knowledge management, product development, and investment support are crucial to serving client needs and making an impact.

**Trade Finance**

IFC’s $3 billion Global Trade Finance Program offers confirming banks partial or full guarantees to cover payment in the emerging markets for trade-related transactions. IFC’s trade advisory program is an integral component of this larger program and is designed to help local banks build their trade finance capacity. The advisory program provides these institutions with training and support in order to upgrade their skills in structuring basic and complex trade finance transactions, improve their techniques for mitigating trade finance risk, upgrade the operational and technical skills of their trade finance back offices, and transfer current international best practices in trade finance to local markets.

On a selective basis, IFC places experienced trade finance experts with issuing banks to help the banks develop trade finance skills. In addition, in close collaboration with the International Chamber of Commerce, IFC has developed a trade finance certification program that makes use of e-learning. IFC also organizes workshops for SME exporters and importers around the world. IFC’s Trade Finance Advisory program is supported by IFC and various donor countries. Since June 2006, more than 2,800 participants from more than 50 countries have benefited from 137 training and advisory services programs.
Financial Infrastructure

Financial Infrastructure broadly defined comprises the underlying foundation for a country’s financial system including all institutions, information, technologies and rules and standards which enable financial intermediation.

Poor financial infrastructure in many developing countries poses a considerable constraint upon financial institutions to significantly expand their offering of financial services – credit, savings and payment services – to underserved segments of the population and the economy. It further creates risks for the financial system as a whole, as poor payment and settlement systems may exacerbate financial crises, while the absence of credit bureaus in conjunction with strong credit growth may lead to one. Key elements of the financial infrastructure that every developed market can rely on – credit bureaus, enforcement of collateral and functioning payment and remittance systems – often do not exist or are less advanced in developing markets. Properly functioning collateral laws and registries enable lending to SMEs, while credit bureaus are vital to enable the expansion of credit markets to retail and SME segments in a safe and responsible manner. Likewise, payment systems are critical for the effective functioning of financial systems and the economy for the availability and affordability of basic financial services, like remittances and domestic money transfer services. An efficient, and reliable payment system reduces the cost of exchanging goods and services, expands access to finance, and enhances the overall stability of the financial sector.

IFC’s Access to Finance Advisory Services works on expanding access to financial services by creating and improving financial infrastructure.

Collateral Registries and Secured Transactions

Many firms in emerging markets, especially SMEs, cannot access credit due to inadequate collateral frameworks. IFC provides advisory services to support the development of well-functioning secured lending frameworks by focusing on modernizing secured transactions laws, building electronic collateral registries, and training financial and non-bank financial institutions in asset-based lending. IFC’s advice is provided jointly with the World Bank through the Bank’s investment climate advisory services to foster the use of movable assets such as equipment, accounts receivable, inventory, and crops as collateral in exchange for loans.

Today, IFC is providing secured transactions advice to 17 client countries and one regional organization, Organization for Harmonization of Business Law in Africa (OHADA) and has organized a number of learning events. The 17 countries are Afghanistan, Azerbaijan, Bangladesh, Belarus, China, Ghana, India, Indonesia, Jordan, Lao PDR, Malawi, Mongolia, Nepal, Rwanda, Vietnam, West Bank and Gaza, and Yemen. Meanwhile, demand in this area is increasing: projects in the pipeline include work in Colombia, Dominican Republic, Egypt, Guyana, Lebanon, Moldova, the Philippines, Southern Sudan, Sri Lanka, and Uganda.
Four major accomplishments stand out from the last year: (i) the enactment of new laws/regulations in Afghanistan, China, Vietnam, and West Bank and Gaza; (ii) the drafting of laws/regulations in Azerbaijan, Lao PDR, Jordan, and Yemen, as well as the OHADA Uniform Act on Secured Transactions; (iii) support for the creation of an electronic collateral registry in Ghana, Rwanda, Vietnam, and Yemen; and (iv) on the knowledge management front, the publication of the Secured Transactions Toolkit and the completion of the collateral registries survey for 33 countries.

Credit Bureaus

Credit bureaus help consumers and small businesses obtain financing. They offer timely, credible, and objective information on individual and micro borrowers and small and medium enterprises, allowing financial institutions to reduce loan processing time and costs by 25 percent or more and to cut default rates by 40 to 80 percent. These savings can mean lower interest rates, making credit more affordable and available to those in need. Credit bureaus are also critical to avoid over-indebtedness and support responsible lending practices.

Since 2001, IFC has become an international leader in credit bureau development, providing support in over 60 emerging market countries worldwide. Recent successes include Egypt, Morocco, and Nigeria. IFC is managing a regional credit bureau project in the English-speaking Caribbean and is exploring the potential for credit reporting in Haiti. In 2010, credit reporting laws were passed in Guyana, Jamaica, and Jordan, thanks to the Global Credit Bureau Program’s efforts. In Vietnam, following five years of IFC engagement, a credit information decree was signed into law and the country’s first private credit bureau was launched. Similarly, Tajikistan launched its first private credit bureau in April 2010. The program is piloting its first-ever microfinance credit reporting project in India and plans to launch similar projects in Egypt and Pakistan in 2011. In 2009, the World Bank, in collaboration with the Bank for International Settlements, launched a standards setting initiative for credit reporting, since no worldwide standards yet exist in this field. IFC is actively participating in the Task Force for the Standards Setting Initiative.

Depending on specific country contexts and needs, IFC’s interventions in credit reporting vary. They include legal and regulatory support to develop an enabling environment for credit information sharing (in collaboration with the World Bank); outreach and awareness-raising on the benefits of credit information sharing; advisory support for the development of new credit information sharing systems, with emphasis on SME credit reporting; and support for the development of value-added services in markets with more mature credit information sharing systems.

As the current crisis evolves, with the expectation that liquidity margins will continue to be squeezed, IFC’s program is supporting the development of more inclusive credit reporting systems (for SMEs and microfinance), building capacity for prudential supervisors to better utilize credit information data, and supporting the promotion of financial education and literacy on credit and credit reporting, targeting supervisors, regulators, lenders, and (indirectly) end-users or borrowers. The activities of IFC’s Global Credit Bureau Program, including our regional offices, are funded by several donors, including Australia, Canada, Italy, Luxembourg, Norway, New Zealand, the Netherlands, Switzerland, Visa international, and Omidyar Network Fund, Inc.

Payment Systems and International Remittances

Payment, remittance, and securities settlement systems are critical to the effective functioning of financial systems worldwide. The safe and efficient use of money as a medium of exchange is essential to the stability of the currency and a foundation of the trust people have in it. A fair and open retail payment system has important social implications when it is able to reach the underserved segments of the population and provide them with affordable payment and remittance services.

The World Bank, through its Payment Systems Development Group, is at the center of an international network of central banks, standard-setting bodies, payment systems operators, international payment networks, and academia whose main objective is supporting countries to reform payment, remittance, and securities settlement systems. To date, the World Bank has supported such reforms in more than 120 countries, and it is currently active in more than 60.

During FY 2010, the World Bank scaled up its operations in the retail payments area by initiating a retail payments strategy according to which it analyzes the obstacles and constraints that inhibit countries from promoting and adopting electronic retail payments and provides a basic framework for addressing them. In the area of international remittances, the enhanced World Bank-IFC Remittance Prices Worldwide database, which now covers 178 country corridors, has been the reference point for monitoring progress toward achieving the G-8 “5x5” cost reduction target—a target to reduce costs by five percentage points over five years. The World Bank is also supporting the collection of data at both national and regional levels through the certification of national remittance price-comparison databases. Finally, the World Bank continues to coordinate the Global Remittances Working Group, the most important forum to catalyze global action in the field.
Improving payments services is one pathway to increase the World Bank Group’s reach to the poor, with payments being a financial system point of entry for the poor.

- Government to person (G2P) payments reach 170 million poor people in 40 countries globally. 25 percent of payments land in an account that is accessible in terms of cost and distance and that enable the recipient to store money.

- Person to person (P2P) payments include remittances (cross-border) and transfers. While there is little data on the global volume of transfers, data on remittances suggests that immigrants from poor countries remit at least $300-$350 billion USD per year.

Savings entail a sequence of related open-ended transactions; there is an a priori undefined pattern of deposits and withdrawals, each of these transactions constituting a payment.

Using new technology to reduce costs of payments services is key to reaching rural areas and to poorer areas in general, which tend to have little presence of bricks-and-mortar banking services. Once poor people have the capability to easily pay and receive money to and from anyone, their range of financial possibilities expands. They can use this capability to put money in a savings account, receive loan disbursements, repay loans conveniently and pay monthly insurance premiums. Supporting growth of innovative payment services has enormous potential for extending the reach of financial services to the poor.

Retail payments is an integral part of IFC’s and the World Bank’s product offering with the World Bank Group pursuing a holistic, integrated approach to develop retail payment systems utilizing technology as appropriate to expand the reach of payment services. The World Bank’s Payments Systems Development Group heads the global payment system agenda and policy and public sector work. Upon this work IFC supports private sector retail payment service providers in line with respective national payment system strategies that the World Bank Group supports, the global remittances initiative led by the World Bank, and the G8 commitment to reduce the cost of remittances 5 percent in 5 years.

**Payment and Remittances Services: IFC’s role**

Relationships and access to industry players in the financial industry, IT and telecom enterprises as well as regulators enable IFC to facilitate partnerships and effective dialogue between regulators and market participants. IFC uses a combination of investment and advisory services to develop service providers and strives to:

- Promote market need based development of payment systems.
- Achieve an appropriate balance between cooperation and competition.
- Ensure central banks and government authorities are at the centre of the dialogue.

IFC’s expertise and its deep relationships across public and private organizations are complemented by extensive tools IFC has developed, such as the Mobile Money Toolkit. This tool can be leveraged to help m-banking providers determine customer value propositions, build agent networks, establish call centers, and provide training to internal staff, agents, and customers.

IFC adds value by: 1) developing greenfield payment services providers - similar to IFC’s support of microfinance in the early 1990s; 2) supporting recently launched ventures to reach viable scale; and 3) supporting more established e-banking service providers to extend reach and expand product range.
Access To Finance

The Financial Inclusion Challenge

The global gap in access and use of financial services remains a challenge. An estimated 2.7 billion working-age adults still lack access to basic formal financial services, such as savings or checking accounts. The largest share of the unbanked live in Sub-Saharan Africa (12 percent banked) and South Asia (22 percent banked). East Asia and the Pacific, Middle East and North Africa, Latin America, and Eastern Europe and Central Asia are also low-access regions with 50 percent or less of their population banked. Among the unbanked a large proportion lives on less than $5 dollars a day.

Recent survey data shows that the number of deposit accounts globally expanded by ten percent from 2008 to 2009, despite the global financial crisis, but that the deposit volume declined significantly. Credit use, measured by number of loans, remained broadly constant between 2008 and 2009, but the value of those loans, as a percentage of GDP, declined from 74 percent to 65 percent. The increase in the number of accounts over the two crisis years indicates that access to basic payments and savings services is a fundamental need and that the demand for these critical services is inelastic with respect to macroeconomic turbulences.

The finance gap is equally critical for small and medium enterprises (SMEs), which are the main driver of job creation in emerging markets. The constraint to finance is consistently ranked as one of the most important obstacles to business and growth of SMEs. An estimated 70 percent of all SMEs (45–55 percent of formal SMEs) in developing countries are unserved and need credit. SMEs represent a key target segment for financial inclusion as they are one of the largest employers in emerging markets (contributing to GDP growth) and they are employing a growing share of women (25–40 percent worldwide), who rank high among the financially disadvantaged groups.

Physical outreach of the financial systems, measured by branch networks, automated teller machines (ATMs), and point of sale terminals, expanded in 2009. Successes of technology-enabled (e.g. mobile banking) innovations and innovative delivery business models are promising strides towards moving the financial access frontier forward. However, much remains to be done, especially at the global level and in advancing financial inclusion in a responsible manner, through consumer protection regulations, industry practices, and financial capability training. Recognizing the importance of this challenge, over the past year many economies have incorporated financial inclusion in government mandates and the global development community has accelerated momentum in advancing the financial inclusion agenda.

G20 Commits To Improving Financial Access

In September 2009, G20 Leaders in Pittsburgh committed “to improving access to financial services for the poor.” To advance this goal, the Leaders launched a Financial Inclusion Experts Group (FIEG) tasked with supporting innovative modes of financial service delivery capable of reaching the poor and scaling up models of small and medium enterprise (SME) financing. The momentum since heightened with the G20 Toronto Summit announcing the financial inclusion deliverables and with the Presidential Committee for the G20 Korea Summit placing financial inclusion high on the G20 development agenda (see Box 2).

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4. Ibid.
5. Ibid.

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<th>Supporting and Advancing the Global Financial Inclusion Agenda</th>
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**INCREASING MOMENTUM**

IFC’s Access To Finance Advisory and the Global Financial Inclusion Agenda

IFC’s Access to Finance Advisory focuses on increasing and improving financial access, by targeting both financial institutions and the broader financial infrastructure. Leveraging its core expertise, over the past year, IFC played a critical role in supporting and shaping the G20 global financial inclusion initiative. IFC’s active and ongoing support includes advising and leading analytical efforts to define and advance progress on the SME finance agenda, and analysis and presentations at high-level conferences on the broader financial inclusion agenda that calls for the promotion of a range of financial services beyond credit – including payments, savings, remittances, and insurance.8

IFC’s fast response to the G20 Pittsburgh Summit and in advance to the G20 Seoul Summit is wide-ranging and encompasses IFC’s expertise and track record in access to finance. IFC’s ongoing advisory programs, such as SME banking, microfinance,
financial infrastructure, and agrifinance focus precisely on building inclusive financial systems by targeting a specific dimension or target market for improving the responsible delivery of financial services and products to the underserved and unserved. New initiatives are also focused on leveraging client countries’ commitment towards financial inclusion and partnerships across IFC and World Bank related programs. For example, IFC’s Performance Based Grant Initiative (PBGI) Program’s recent responsible financial inclusion initiative focuses on India where government measures have signaled their commitment to financial inclusion (see Box 3). The PBGI program has also tailored recent approaches such as: low income housing in Maldives; microfinance institutions in Tajikistan, Sri Lanka and Pacific Islands; index-based insurance in Africa; and warehouse receipt financing in Ethiopia. Financial Infrastructure programs are also scaling up to increase focus and interventions on building inclusive credit information systems and on advancing global innovative retail payment systems. In this way, IFC’s core expertise both at the program level and at the policy level is complementary and maximizes IFC’s contribution to the global financial inclusion agenda.
Box 3. Joint Initiative to Advance Responsible Financial Inclusion in India

India's mandate to achieve greater financial inclusion is supported with financing from the World Bank:
• Adopting improved governance practices, transparency and reporting using a common information platform
• Initiating a Code of Conduct assessment and improving accounting practices
• Establishing a Lenders' Forum to promote cooperation among major lenders to achieve responsible financial inclusion

IFC's responsible financial inclusion initiatives are being piloted among clients supported through PBGI by:
• Convening a workshop with India's leading public and private sector stakeholders towards transparent reporting on responsible financial inclusion
• Aligning clients' responsible financial inclusion practices to global industry standards and local market demands, including key social performance metrics
• Partnering with clients to harness best practices and develop operational tools critical to advancing financial inclusion

SME Finance and Scaleable Solutions for the Missing Middle

Access to financial services remains a key constraint to SME development in developing countries. Small firms are most disadvantaged. Small firms rely on internal financing much more than large firms do, and the likelihood of a small firm having access to a bank loan in low-income countries is about a third of what it is for a medium-sized firm, and less than half of what it is for a larger firm. Many questions that can help address this challenge still remain unanswered. What scaleable solutions exist to target the “missing middle” tier of firms? How to improve the quality of data and measurement of SME Finance? What effective public-private partnership can catalyze finance for innovative SME business models?

IFC focused on addressing these types of questions as the lead technical advisor and coordinator for the G20 SME Finance FIEG Sub-Group. To contribute to the G20 SME finance global initiative, IFC was active in leading a global stocktaking exercise and report, launching a global competition for the best models worldwide for public-private partnerships that catalyze finance for SMEs and stepping-up efforts on data and measurement of SME finance. In response to increasing interest and demand for more and better quality financial inclusion data, IFC led the creation of the SME Finance Data Working group with HRH Princess Máxima of the Netherlands, (UN Secretary General's Special Advocate for Inclusive Finance for Development) to ensure the establishment of a comprehensive, consistent, and scaleable framework and mechanism to measure and track the progress over time of SME access to financial services in the developing world.

A Continuous, Multi-Year Effort

In order to maximize the impact of the various on-going global financial inclusion efforts, monitor progress over time, and ensure continuity in global discussions, an effective coordination mechanism is needed.

The Korean Presidential Committee for the G20 Summit has recognized this need. This mechanism would ensure that the global financial inclusion agenda is driven as a continuous multi-year effort with progress measured over time. IFC’s Access to Finance Advisory continues to support the global financial inclusion initiative by focusing on building inclusive financial systems through IFC’s programs and maximizing IFC’s expertise to support the multiple dimensions of this global initiative.

At the end of FY10, IFC’s Access to Finance Advisory program had an active portfolio of 238 projects in 68 countries, valued at almost $290 million.

Our FY10 project expenditures totaled about $50 million, of which 50 percent were in IDA countries and 14 percent in fragile and conflict-affected countries.

**Portfolio Data & Trends**

IFC’s committed portfolio in financial institutions that serve MSMEs has grown dramatically over the five years-by 231 percent-with a committed portfolio of $8.5 billion in FY10.

As of December 2009, IFC’s financial institution clients that received Access to Finance advisory services held about 4.6 million MSME loans worth more than $47.7 billion in a range of countries, including Afghanistan, Bosnia and Herzegovina, China, Honduras, Madagascar, Malawi, Peru, and Tajikistan.

Despite the effects of the financial crisis, financial institutions that received Access to Finance advisory services reported an increase of 1 percent in the number of MSME loans outstanding while volume increased by 4 percent.
DEVELOPMENT RESULTS

IFC’s Access to Finance Advisory Services has continued to deliver strong results. Key figures that illustrate the reach of this work through financial institutions and financial infrastructure include:

- IFC’s advisory SME banking clients provided $44 billion in financing and helped improve access to finance for 771,071 small and medium enterprises.
- IFC’s advisory microfinance clients provided $3.5 billion in financing to about 3.8 million micro enterprises.
- IFC’s advisory leasing clients provided $202 million in lease financing for 3,589 micro, small, and medium enterprises.
- IFC’s advisory housing finance clients provided $5.3 billion in housing finance loans to 115,376 homeowners.
- IFC’s trade finance clients benefitting from advisory services originated over $3.2 billion in trade for 83 issuing banks in 48 countries.
- IFC’s credit bureau clients helped generate an estimated $8 billion in financing to about 8 million microclients in 13 countries.
- IFC helped to establish the first collateral registry in China and provided significant financing secured with moveable property to small and medium enterprises.

Monitoring and evaluation remains critical to assessing the development effectiveness of IFC’s Access to Finance work. Monitoring helps keep projects on track and serves as an early warning system for projects well underway. Evaluations (see Box 4) help fine-tune both new and existing Access to Finance products to guide strategic goals to increase access to finance in underserved markets.

During FY08-FY10, IFC’s Access to Finance business line maintained a 3-year average development effectiveness rating of 64 percent—higher than that of IFC overall and the highest among IFC’s Advisory Service business lines.

IFC’S DEVELOPMENT GOALS FOR ACCESS TO FINANCE

In FY10, IFC’s Development Goals (IDGs) were launched to help refine IFC’s business and strategy and to create a framework with core metrics to better guide shared goals across IFC products in investment and advisory services. As an initial step toward meeting the IDGs, Access to Finance developed targets for its investment and advisory services work through financial institutions (micro and SME finance) and financial infrastructure (credit bureaus, secured transactions/collateral registries). Access to Finance has committed to achieve by 2013 greater financial inclusion by providing more diversified financial services and by deepening outreach to micro clients and small and medium enterprises.

10. The results stated here represent the portfolio outstanding reported for calendar year 2009. Portfolio outstanding reported by Advisory Service clients. For complete outreach figures of IFC MSME clients see IFC MSME Fact Sheet at ifc.org/access2finance. Results of financing provided to micro clients through credit bureaus assume that an estimated 20 percent of individual inquiries received loans. Results of financing provided through secured transactions in China are being validated prior to release of actual figures.
Box 4. Evaluating IFC’s Development Impact in China

One of IFC’s strategic goals in A2F is to scale up its energy efficiency business. In 2010, an evaluation\textsuperscript{11} was conducted by the Independent Evaluation Group (IEG) to look at the experience of the IFC’s China Utility-Based Energy Efficiency Finance Program (CHUEE). The program was launched in 2006, with the objective of stimulating energy efficiency investments in China through: (1) bank guarantees for energy efficiency loans; and (2) technical assistance to market players, such as utilities, equipment vendors, and energy service companies. The evaluation assessed the results of the program across three levels, namely: (1) among partner banks expanding their business in energy efficiency lending; (2) among energy management companies providing advisory services to improve program participants’ access to finance; and (3) among end-users of energy efficiency investments to achieve reductions in greenhouse gas emissions.

Results to date have shown the social benefits exceed costs by a significant margin. As of June 2009, participating banks under CHUEE provided loans worth $512 million ($3.5 billion yuan). These loans financed 98 energy efficiency projects—such as heat and gas recovery power generation and the introduction of efficient production systems. IEG’s study estimates that investments predominantly in steel, chemical and cement industries helped reduce greenhouse (GHG) emissions by 14 million CO\textsubscript{2} tons per year.

Key lessons so far include:

- Careful selection of private sector partners is needed to meet strategic program objectives.
- Flexibility is needed in program design to respond to unexpected challenges and opportunities.
- Government policies and market readiness are important factors in determining program design and success.
- The combination of private and public benefits in energy efficiency projects suggests the need for a more discriminate and dynamic approach to subsidies in the energy efficiency business.
- Caution is needed in applying a utility-based energy efficiency model in emerging markets.
- An exit plan is critical.

Areas for improvement highlighted the following:

More strategic focus on working with small and medium enterprises, residential housing and commercial buildings—rather than extending the program to existing types of activities currently supporting larger companies.

Enhance CO\textsubscript{2} emission reduction impacts of projects financed through the program by moving into areas identified as having high potential, but not yet currently addressed by market participants.

Reorient subsidies to areas with a market failure and to increase IFC’s involvement in first loss guarantee.

Approaches Towards Financial Inclusion

Balancing IFC clients’ portfolios growth, together with the development and social goals related to financial inclusion will be a new challenge going forward. One approach, through IFC’s Performance Based Grant Initiative program, is to integrate social performance indicators into clients’ systems and operational processes, so the indicators can be analyzed alongside clients’ financial performance indicators (Box 5).

In FY10, the Performance Based Grant Initiative supported 14 clients in China, India, Maldives, South Pacific, Sri Lanka, and Tajikistan, among other places, to launch approaches towards increasing financial inclusion—and in a responsible and sustainable way. Starting with the use of relevant performance metrics, these pilot projects are laying the building blocks of learning so clients’ businesses can grow through improved systems and processes. These improvements may further support new products being developed—such as deposits, insurance, mobile banking, and payment transfer systems, among others—and support better tailored products to ultimately reach underserved rural populations, including those in smaller market economies.

Box 5. Development And Financial Goals: Synergies Or Trade-Offs?

The microfinance industry has long debated the potential trade-offs between financial goals and development goals. In the midst of pursuing rapid growth, serving more clients, improving portfolio quality, and reaching commercial sustainability, microfinance institutions (MFIs) have had to balance their financial goals with their development goals—such as women’s empowerment, outreach to rural/poor segments, and social responsibility to clients. Development goals are believed to put pressure on financial returns and have commonly been perceived to be harmful to operational efficiency, portfolio quality, or productivity.

Despite the commonly perceived risks in striving to achieve both development (or social) and financial performance goals, the microfinance industry today continues to play a prominent role in promoting avoidance of over-indebtedness, in maintaining better human resource policies, and implementing proper staff training and other incentive schemes that may further improve financial performance. But can the potential synergies between development goals and financial performance indeed compensate for the trade-offs that come with pursuing a “double bottom line”?

Some of the main findings were as follows:
- Social performance training and social responsibility through investments in human resource policies promote higher productivity and better portfolio quality.
- Productivity and efficiency synergies exist when clients are retained through improved financial performance.

Targeting and serving the very poor comes at a cost in terms of efficiency but not in terms of risk or productivity, even after considering differences in loan sizes; exclusive targeting of very poor and poor borrowers increases the average cost of loans and, hence, of the interest rate borrowers must pay.

Other findings contradicted some common beliefs:
- Rural microfinance is more productive and efficient than urban microfinance; one explanation is that rural MFIs do not necessarily operate in more dispersed areas where distances and travel times usually reduce productivity.
- Relative loan sizes and targeting policies appear to be complementary variables in explaining differences in productivity and efficiency among MFIs. Differences in loan size explain process differences related to the evaluation of larger loans versus smaller loans, while targeting policies appear to create extra costs related to more restrictions on acceptable borrowers, as MFIs typically reject more potential borrowers because they do not fit the targeting profile.

A recent study12 by Adrian Gonzalez of the Microfinance Information Exchange (MIX) analyzed these synergies and trade-offs at microfinance institutions. Using social performance data reported by over 200 microfinance institutions, the study measured the synergies and trade-offs in terms of productivity, efficiency, and portfolio quality.

Evidence of the importance of modern collateral regimes in credit markets is growing, including IFC’s recent work showing the impact collateral registry reforms have had in different jurisdictions. IFC’s recent survey of 33 countries worldwide (both those with modern collateral regimes and those with unreformed regimes) provides important insights into how the modernization of collateral registries can expand firms’ access to credit. Here are the main survey highlights:

Modern registries help increase the volume of credit to firms. Countries that accept a broad variety of movable assets to be registered as collateral, have a unified electronic database, do not require submission of loan documents, and have low registration fees are the ones that present the largest numbers of registered security interests, searches, amendments, and terminations. This translates into a higher lending volume, since each registration represents a loan secured with movable property. A group of selected countries with reformed secured transaction systems with electronic registries averaged 158,736 loans secured with movable property per year (2000-2009), while a selected group of countries with non-electronic registries averaged just 3,106 such loans per year (2000-2009). (See figures page 23).

The dynamism of the different registries should be attributed not only to the functioning of the registries but also to the existence of a comprehensive secured transactions legal framework. One of the main advantages of reformed systems and registries in Canada, New Zealand, Romania, and the United States is that a functional approach was taken when establishing the legal framework. This means that the law covers all types of security agreements that use property, regardless of the actual name of the legal mechanism (e.g., pledges, loans, assignment of receivables, retention of titles, financial leases, or trusts). In the cases of Ireland, Hong Kong SAR, China, Malaysia, and Singapore, a fragmented approach to secured transactions still exists. This means that different laws apply to incorporated entities, farmers, and banks, and different laws exist depending on the legal mechanism used for securing a loan with movable property. A fragmented approach will increase the risks of conflict between the different laws regarding priority rules for secured creditors. Fragmentation also creates incentives for the creation of different registries, multiplying the registrations of security interests in different places, which in turn increases lenders’ risk and reduces the final number of loans granted and collateral filings.
Developing Mortgage Finance Markets In Africa – Ghana Tackles Systemic Challenges

IFC launched its first housing finance advisory program in sub-Saharan Africa in 2006 in Ghana. This West African nation was a perfect choice for a housing program. It is one of Africa’s fastest growing economies, with stable macroeconomic fundamentals, a small but growing middle-class, and a sound financial system with the potential to grow a mortgage market.

However, as in many other African countries, the mortgage market in Ghana was severely underdeveloped. There was only one active mortgage lender in the country, HFC Bank, which enjoyed an unfair advantage over other banks in the country with regard to foreclosure. HFC was the only financial institution in Ghana that was allowed to foreclose on property via an extra-judicial process, a factor that discouraged other banks from getting into the mortgage lending business because, in the event of default, they would be subject to a lengthy and costly process involving the courts. In addition, there was a dearth of long-term, local currency funding, and interest rates were high. These issues would have to be addressed if Ghana was to develop a successful mortgage finance market.

Source: IFC Collateral Registry Survey, 2010. Modern registries can represent one of the major sources of information for lenders when a reform is done properly: 87.5 percent of the countries surveyed experienced a significant increase in the volume of searches from 2000 to 2009.
The Government of Ghana approached IFC and requested assistance in rewriting its legal framework for realizing security on immovable properties. It wanted a law that would create a level playing field for mortgage lenders. IFC designed a broader program, spanning both its investment and its advisory services, to address some of the systemic challenges, giving birth to the Ghana Primary Mortgage Market Initiative.

Launched in 2006 in partnership with SECO, this Ghana initiative began as a three-year, sector-wide, comprehensive advisory program. Its primary objectives were to:

- Launch modern mortgage lending operations within the financial institutions participating in the program
- Develop and strengthen institutions and processes that support mortgage finance, such as real estate agents and valuers
- Improve the legal, tax, and regulatory frameworks for mortgage lending.

Within the first two years of the program, IFC worked with government authorities, financial institutions, and the judiciary to help draft the Home Mortgage Finance Act, which was enacted by Parliament in 2008. This is considered one of the biggest achievements of the program as it creates a level playing field for the banking sector. The Act facilitated the speed with which banks can gain control of collateral on defaulted loans by avoiding lengthy judicial proceedings, a privilege previously only enjoyed by HFC Bank.

As a result, several banks have since established mortgage lending operations. By June 2009, Ghana had four mortgage lenders, including HFC. The four institutions – Ecobank, Fidelity Bank, Ghana Home Loans, and HFC – had a combined portfolio of about 2,091 mortgages worth $83.9 million in 2009, compared with 2,000 mortgages worth $28.4 million in 2006. One of the institutions, Ghana Home Loans, was a greenfield institution dedicated to providing mortgage finance. IFC has a 13 percent equity stake in Ghana Home Loans and recently disbursed a $10 million line of credit to support the growth of its mortgage portfolio.

IFC has provided capacity building to these financial institutions, training staff in various areas such as underwriting, product development, asset-liability management, and marketing. IFC has also worked with the banks’ staff to develop mortgage operations manuals, processes, and forms to support their mortgage operations. Capacity building training was provided to real estate agents and property appraisers. Unfortunately, Ghana has not been spared the effects of the global credit crunch, and the mortgage market has taken a knock from the crisis. The cedi, Ghana’s local currency, has depreciated by about 50 percent, while interest rates have climbed to over 30 percent (from 23 percent) bringing lending in local currency to a halt.

However, IFC is confident that a strong foundation has been laid due to the solid advisory work with the financial institutions and critical industry stakeholders. As the market begins to recover, IFC is now considering a second phase of the Ghana program following the successful implementation of the Ghana Primary Mortgage Market Initiative. An independent evaluation of the initiative found that there was a need for a follow-on program that would focus on addressing constraints to the supply of housing and housing affordability and support the development of affordable housing finance products. IFC has teamed up with the World Bank and, in the second half of 2010, will develop a program proposal that will address the above issues. SECO is expected to support the second phase.

**Ethiopia Warehouse Receipts – Access To Finance For Farmers And Producers**

Ethiopia’s economy is heavily based on agriculture, which accounts for almost 50 percent of its GDP, 90 percent of its exports, and 80 percent of its employment. However, farmers and SMEs have limited access to finance. According to current statistics, the local financial sector’s exposure to agriculture is around 5 percent of its outstanding portfolio, despite the relevance of the industry. In June 2009, IFC signed the Cooperation Agreement with the Ethiopia Commodity Exchange (ECX) to support the country’s agriculture commodities industry by increasing access to finance through warehouse receipts-based financing for producers and assisting the move toward a more efficient and transparent agriculture market system for both domestic and export markets.

Agricultural commodities are stored in warehouses before shipment. In most cases, farmers need to sell their product earlier than they would prefer in order to meet their financial needs, or else they are forced to arrange financing through overdraft or short-term credit lines with local banks using fixed assets as collateral. Warehouse financing is a lending technique that allows farmers access to finance secured by commodities that are deposited in warehouses. Warehouse receipts are issued by the warehouse operator when the commodities are stored and become an instrument that can be used as a form of portable collateral to request a loan from a bank. This approach is especially beneficial to farmers and SMEs, which are often unable to secure their borrowing requirements owing to lack of sufficient conventional loan collateral. It allows banks to shift their risk from the borrowers’ fixed assets to commodities that farmers produce. Warehouse financing can also allow farmers more flexibility in the timing of their sales to protect themselves from price seasonality, thereby enhancing their incomes.
Since its establishment in 2007, the Ethiopia Commodity Exchange has been taking the initiative to improve the status of warehouse receipts by providing market integrity, guaranteeing the product grade and quantity, and maintaining a central registry of receipts. Agriculture commodities are graded, weighed, and certified by one of the warehouses operated by the Ethiopia Commodity Exchange, and thus, all stakeholders can rely on the transparency. Although the Ethiopia Commodity Exchange started its warehouse receipts issuance in January 2009 as the legal basis for its trading, the receipts have yet to be used as collateral by local banks.

In April 2009, IFC launched the Ethiopia Warehouse Receipts Program Advisory Services Initiative to promote access to finance for farmers by leveraging their own production. The aim of the initiative is threefold: (i) to assist local banks in developing their warehouse receipts-based lending skills; (ii) to assess and strengthen the performance of the Ethiopia Commodity Exchange and its warehouse operations; and (iii) to raise public awareness of warehouse receipts in the markets. The government of the Netherlands, Spain, Belgium, and Japan have committed the funding. The program has also received funding from IFC’s Performance Based Grant Initiative. IFC facilitated an inception forum for stakeholders in September 2009, which was attended by 120 participants, to discuss the result of a feasibility study and the plan to launch the warehouse receipts financing system. IFC proposed that the Ethiopia Commodity Exchange establish an indemnity fund, and currently the exchange is preparing to set up a performance guarantee mechanism using the existing funding for the settlement guarantee fund. A technical workshop for bankers was facilitated in November 2009, and 26 bankers have learned the product definition of warehouse receipts, credit policy and procedure, risk management, pricing methodology, operational procedures, process design, MIS, and documentation. Since January 2010, IFC has been implementing the operational design of a warehouse receipts system including the development of an IT system that links the Ethiopia Commodity Exchange and local banks. This warehouse receipts financing system will be ready by the end of first quarter in FY11. IFC plans to publish a Warehouse Receipts Financing Toolkit and Borrowers’ Guidebook in September 2011.

Growing The Leasing Industry In China

Financial leasing is a form of financing independent from the usual borrowing-lending relationship. This type of financing has special significance for SMEs and farmers, which often cannot obtain medium-term capital investment funding from commercial banks. In China, the annual leasing transaction volume in 2004 was around RMB 30 billion Yuan (USD $4.5 billion) with about 50 leasing companies. The volume of transactions is now about 370 billion Yuan (USD $55.2 billion) per year, with over 160 leasing companies. Indeed, the Chinese leasing industry has grown rapidly over the past five years or so. The industry has reached a new level of development, becoming an important source of financing in the country. With its China leasing project, launched in 2004, IFC has been a significant contributor to this industry.

In December 2007, the China Leasing Business Association gave a special award to IFC at its annual conference. Since 2004, IFC has helped China to:

• Prepare a draft leasing law
• Disseminate best practice leasing knowledge
• Advocate for sector reforms, and
• Create a lease registry.

Although the leasing law was not passed due to the change of the parliament, the legislative process effectively raised the awareness of decision-makers and industry operators and helped to push the two related ministries to issue more open regulations. These have improved the overall enabling environment for leasing development in China. Bank leasing was formally opened up in March 2007. To date, eight bank leasing companies have been set up in the country. They are among the best capitalized lessors, with positive implications for the sustainable development of the industry.

Over the past six years, IFC organized or contributed substantially to 15 leasing conferences and workshops in China. These have proved to be good forums for deliberations on policy and regulatory reform and good instruments for transferring best practice knowledge to the Chinese market. IFC has published five books on leasing in Chinese and distributed a Leasing Manual in the local language as well. The publishing house that rolled out these IFC books has subsequently published other leasing books in a series and has established a name in the leasing industry. It is much appreciated that SECO financially supported these activities implemented by IFC.

Furthermore, IFC has assisted the People’s Bank of China (the country’s central bank) in setting up a lease registry as part of an existing security interest filing system. The registration enables potential creditors to be aware of the prior interest on leased assets and establishes lessors’ priority over other claimants. This Internet-based registry was put into operation in July 2009 and had recorded more than 9,000 leasing transactions by the end of July 2010. Of that number, 66 percent of the lessees are classified as SMEs. This is the first operational lease registry in the world that IFC has helped to create.
IFC has been advocating for the promotion of SME and agriculture/rural leasing in China. Major progress was achieved recently when the concepts of both SME leasing and lease registries were explicitly written into a new SME finance policy issued by the Chinese government on June 21, 2010. On the investment front, IFC has invested in a leading SME leasing company in the country. Two potential deals for agriculture/rural leasing are also being explored. In the future, SME and agriculture/rural leasing will continue to be the main focus of IFC’s advisory and investment operations in the leasing industry. IFC is also looking for opportunities to support the climate change agenda in China through leasing.

Global Index Insurance Facility

The Global Index Insurance Facility is an innovative IFC-led program that is expanding access to insurance against weather risks and other natural disasters in developing countries.

Insurance providers in Africa and other developing regions rarely offer the hazard insurance customary in industrialized countries. Earthquake, flood, and hurricane victims often lose their homes in an instant, recovering none of their investment unless they are fortunate enough to be part of a donor-funded disaster relief program. Likewise, droughts can wipe out the crops that farmers rely on for income. IFC, together with the World Bank, has established the Global Index Insurance Facility (GIIF) to address this problem. GIIF aims to expand access to insurance products in developing countries, particularly to farmers and other people in agrarian communities.

In index-based insurance, insurance benefits are paid out on the basis of a parameter or a pre-assigned value for losses resulting from weather and catastrophic events. When one of those events is triggered, the insured party receives an insurance payment according to the pre-defined payment formula (parameter or index). For example, insurance will be paid out in the event of drought, defined as a result of less than an anticipated amount of rain, or in the event of a wind storm, defined by category, or in the event of an earthquake that registers a certain measure on the Richter scale and occurs within a fixed distance from a location.

This innovative approach to insurance provision means that policyholders qualify for pay-outs as soon as the statistical indexes are triggered, without having to wait for claims to be settled in the traditional way. Insurance will also pay out if the index is triggered irrespective of the actual loss.

Index-based insurance reduces moral hazard and adverse selection, ensures timely payout, reduces administrative costs, and provides a standardized and transparent structure. The product is also versatile and can be combined with other financial products, such as loans. This index-based approach to insurance was successfully piloted by a number of World Bank projects preceding this project, including initiatives in India, Malawi, and Mongolia.

Working with GIIF

As an open, multidonor funded trust fund, GIIF has received numerous applications for support, ranging from requests for premium subsidies to a regional regulatory and policy approach that will allow many countries in Western Africa to develop such innovative insurance products. The regional request would have a strong focus on projects that address the whole value-chain of the agricultural sector including lending activities of banks. GIIF’s sponsors include large retail organizations, NGOs, local insurance associations and supervisors, banks, and insurance companies.

GIIF is working with projects in Burkina Faso, Kenya, Mali, Mozambique, and Rwanda, and it has recently been approached for projects in the Caribbean. It is offering financing in the form of development grants to generate the following specific outcomes:

- Support the local capacity-building component
- Work with and support participating financial institutions, such as reinsurance companies
- Work with local regulators on legal and regulatory policies in collaboration with the World Bank, and
- Facilitate the introduction of market solutions for indexed catastrophic-risk products for a limited period within pre-defined parameters.
The GIIF program has been actively supported by the European Commission, which has approved funding of €24.5 million over the life of the program as the first donor. The program received funding of $500,000 in FY09 from the Dutch Ministry of Foreign Affairs, and the Japanese government recently committed $2,000,000 to support GIIF activities for FY11.

Scaling Up Microfinance In China

With a population of 1.34 billion and at least 160 million formal and informal micro businesses in urban and rural areas, China is potentially a huge market for microfinance development. However, substantive microfinance activities did not really emerge in the country until recent years. Since 2004, IFC has been working with the Chinese government and stakeholders to help develop a commercially sustainable microfinance industry, together with the World Bank and a few other international donors. Two pilot initiatives were launched by the authorities in 2005-06 to develop microcredit companies and village and township banks targeted to micro and small clients. By the end of June 2010, about 1,700 microcredit companies (MCCs) and 230 village township banks (VTBs) had been created in China. Nevertheless, many of these newly-formed institutions are doing little real microfinance business due to lack of knowledge and other constraints.

Over the past several years, IFC has worked on a number of fronts in microfinance development in China:

Advocacy and knowledge dissemination: IFC organized or contributed substantively to 30 conferences and workshops related to microfinance.

Reform of the policy and regulatory framework: IFC provided *inter alia* international best practice knowledge on the non-deposit-taking lending industry, which helped to formalize the framework for microcredit operations in China.

Creation of pilot microfinance institutions (MFIs): IFC directly assisted the establishment of five greenfield MFIs in China. In particular, IFC helped to create and invest in the first foreign-invested microcredit companies and the first Sino-foreign joint venture village township bank in the country (MicroCred Nanchong and Renshou VTB).

Microfinance NGO transformation: IFC has successfully assisted and invested in the transformation of the country’s largest microfinance NGO, specifically the microfinance operations of the China Foundation for Poverty Alleviation (CFPA) which has become the CFPA Microfinance Company.

IFC Advisory Services is currently assisting five MFIs with a total of 74,000 active clients (as of June 2010). Of that number, about 53,000 are clients that arrived after IFC’s interventions, including assistance provided during the business development stages. To date, IFC has invested $8.5 million in these institutions. In addition, IFC is actively developing five other microfinance projects for potential investments. Four of these are operational, with a combined total of 6,500 active clients.

The advisory support provided by IFC to the ongoing clients or to the projects under development typically includes the following:

- Identification of the location for new MFIs and market studies
- Preparation of business plans and sourcing of investors
- Dialogs with government authorities and local partners
- Formation of the company and its staffing, and
- Medium-term technical assistance to the established institutions.

In carrying out these activities, IFC has collaborated with several international microfinance players active in China, such as KfW, Accion International, and PlanetFinance/MicroCred, among others.

Microfinance is a rather new industry in China. As an industry leader in the world, IFC is currently shaping a new strategy for its microfinance operations in the country, aiming to attain higher reach numbers. The strategy includes a greater focus on:

- Improving the regulatory environment
- Building long-term sector capacity through innovation and knowledge transfer
- Promoting national and regional microfinance network players
- Piloting wholesale solutions to assist multiple MFIs, and
- Supporting downscaling by the committed banking and non-banking institutions.
IFC Helps Create Financial Infrastructure in Afghanistan

Poverty is widespread and deeply entrenched in Afghanistan after decades of war and lack of investment. Afghanistan experienced robust economic growth over the last few years, but it was reduced significantly with the economic slowdown in 2009. The challenge of establishing an economy that welcomes investment, generates sustainable employment, and expands markets has become even more pressing. While a dynamic private sector will be essential for Afghanistan to achieve robust and sustainable economic growth, a weak financial sector still remains one of the major constraints to private sector development.

IFC’s Advisory Services in Middle East and North Africa provides support to Afghanistan’s Central Bank in order to increase the private sector’s access to finance. Working in partnership with the World Bank’s Financial Sector Strengthening Project, IFC is providing advisory services to the Central Bank in order to establish two basic financial sector infrastructures in the country: (i) credit information sharing systems that will provide lenders with information for efficient risk assessment on borrowers and (ii) a secured lending framework that will include a collateral registry for movable property to enable lenders to effectively use borrowers’ property as collateral.

IFC achieved significant progress on these initiatives with the enactment of all the key legislative acts that were drafted with the support of IFC’s experts and based on international best practice. In July 2009, the Law on Secured Transactions was fully enacted, and in November 2009, the Central Bank of Afghanistan enacted Regulations on Collateral Registry, which created complete legal framework for secured lending. Enactment of this legislation helped increase Afghanistan’s Doing Business Getting Credit ranking by more than 50 points.

In June 2010, the Central Bank enacted Regulations on Credit Information Sharing, which became another significant step toward creating a financial infrastructure in Afghanistan. These new regulations will greatly support the establishment of effective credit information sharing systems in the country. Having ensured that a complete legal framework for secured lending and credit information sharing is in place, IFC continues to work with the Central Bank on developing the collateral and credit registries.

Finally, success was also achieved by the IFC Leasing Project, which created an appropriate legal framework for leasing. Adoption of the best practice Leasing Law by the Afghanistan Parliament in June 2010 and enactment of the new Income Tax Manual, which creates a tax level playing field for leasing, are expected to provide significant stimulus to the country’s nascent leasing market.

These reforms can have an immediate, positive, and far-reaching impact on increasing domestic investment flows and thus improve access to private credit for MSMEs in Afghanistan. At a more general level, the financial markets reform, once fully completed, will prove an effective means for reducing poverty, creating jobs, and improving the lives of the poorer segments of society, thus contributing to the overall goal of rebuilding Afghanistan.

Europe And Central Asia Crisis Fighters Take Advantage of IFC’s Global-Local Design

In 2008–2009, the Europe and Central Asia region was heavily affected by the global financial crisis and the subsequent economic slowdown. During the first months of activities, it became quickly clear that, due to the extent of the crisis impact in Europe and Central Asia, this region would have a critical mass of advisory needs, requiring the rollout of country programs covering several financial institutions at a time.

First, IFC’s Europe and Central Asia team redirected existing Access to Finance Advisory resources to address the most pressing needs, such as “wake-up” seminars and stress testing of IFC’s financial markets investment client portfolios. In parallel, the global Nonperforming Loan team partnered with the regional Europe and Central Asia Access to Finance team to assist with the design of a region-wide crisis and recovery program focused on risk management and nonperforming loan advisory services that included both sector work and financial institution-specific work.

The program’s early success in Europe and Central Asia hinged on the quick deployment of a dedicated crisis response team in the region and the seamless working relationship between the headquarters-based global NonPerforming Loan team and the crisis response team in Europe and Central Asia. The ability to call upon the global team early on to support client diagnostics, tools, and speakers for sector awareness events was critical to the fast rollout. To date, Europe and Central Asia has launched 12 country programs with related crisis response and recovery activities. Through this joint effort, at the client level IFC’s Access to Finance Advisory delivered 18 risk management/nonperforming loan diagnostics, with an additional eight banks in the pipeline, that resulted in targeted risk management/nonperforming loan institution-building work.

The Europe and Central Asia team also launched a wide regional risk management/nonperforming loan outreach campaign (crisis awareness and sector-level work). In its first year of activities, the team delivered 26 workshops and seminars throughout the region to a total of 928 participants on various topics related to risk management, debt workout, and distressed assets resolution and servicing.

A joint team of Advisory staff across IFC’s business lines and the World Bank analyzed the legislative framework on insolvency and distressed asset transfer across nine countries. The team then mobilized a working group with stakeholders for fostering an environment conducive for distressed asset transfers in Ukraine and Russia. They also participated in similar initiatives in Azerbaijan and Georgia. This ongoing legal work on asset transfers may ultimately show the most impact and has significantly raised IFC’s profile as a crisis fighter in the sector.

From the outset, a close collaboration with the IFC’s financial markets investment team was crucial to identify high-priority financial institutions clients that needed assistance with nonperforming loans and risk management issues. The Access to Finance team also joined forces with IFC’s Distressed Asset Resolution Program team in identifying pipeline candidates. Experts from this program also participated as keynote speakers in advisory services awareness raising workshops. Overall, this program has shown that IFC can react quickly to a crisis.

**Ingredients For A Successful SME Banking Program In Nigeria**

Diamond Bank Plc, or DBN, was incorporated in Nigeria as a private limited liability company on December 1990 and formally commenced business on March 1991. In February 2001, the bank’s commercial banking license was upgraded to a universal banking license by Nigeria’s Central Bank. As a universal bank, DBN offers a full range of products and services in retail, commercial, corporate, and investment banking, including advisory, investment, debt, equity, lending, and transactional services. Since 2000, IFC and Diamond Bank Plc have built a strong relationship. In 2007, IFC provided Diamond Bank with a $20 million loan coupled with the IFC Africa Micro, Small, and Medium Enterprise Program’s advisory services package.

As a consequence of the financial crisis, DBN, along with the other Nigerian banks, have begun operating in slow motion, and there was a halt in overall lending. Only the loans made under IFC’s advisory services program were extended to customers, albeit up to a certain limit.

DBN has applied key ingredients in order boost its MSME business and operations. Despite the lending freeze, MSMEs remain a crucial segment for the bank, and with IFC’s advisory services, DBN increased its MSME operations and businesses. Within DBN’s retail strategy, the MSME proposition is a segmented approach to the SME market, with accounts for micro (start-ups), small (growing) and medium (established) enterprises.

“Diamond bank is Nigeria’s leading SME bank and the on-going partnership with IFC reinforces this position.”

— Emeka Onwuka, Group Managing Director, CEO

With a robust structure, skilled staff, and new financial product offerings to small businesses, DBN has established itself as the bank of choice for SMEs in Nigeria. It reinforced its SME unit by recruiting the head of the MSME proposition, who led the implementation of the new strategy. In addition, the bank’s structure for MSMEs was strengthened by the establishment of a loan factory, which processes financing requests efficiently and in a timely manner. New products for MSMEs, such as revolving credit and installment loan products were developed and have responded to MSMEs’ financing needs.

In addition to new products and services, DBN staff benefited from training sessions on SME banking best practices, new products and processes, credit risk management, client relationships, and marketing. More than 300 staff were trained and coached under the advisory services program. The credit training sessions emphasized, among other things, the ability to conduct cash-flow analyses by loan officers in bank branches and credit risk analyses in the head office. Furthermore, the training courses focused on the “how-to” and motivated participants to make behavioral changes in their workplace. In order to achieve self-sustainability, the IFC training program is now a permanent fixture in DBN’s annual training plan.

DBN recognized the need to assist its SME clients through MSME educational events, known as “SME biz seminars.” These events consist of marketing strategy workshops organized jointly by DBN and local consultants, with successful entrepreneurs appearing as guest stars. During the event, the bank proposes a discount rate, offers assistance for website development, and issues the DBN “entrepreneur handbooks” (which include an SME Toolkit CD).
While the MSME proposition was being implemented, the information technology and credit risk departments, together with the MSME department, managed to establish an MIS system and a CRM system to ensure an accurate monitoring of the MSME portfolio.

Even though the entire Nigerian banking environment was in recovery mode following the financial crisis, DBN provided financing to MSMEs and established itself as the “bank of choice for MSMEs.”

DBN has established the appropriate foundation for operating a successful SME banking business through a strong MSME strategy, a solid SME unit, trained and skilled staff, innovative products, and services dedicated to SMEs. The bank’s market share is now estimated to be between 12 and 15 percent.

One DBN client said, she “moved to Diamond because they offered much more” (Bele Uvietesievi, Shepherd Hill Schools, Nigeria).

Sustainable Energy Trade Finance in Europe & Central Asia

In the face of the economic crisis and rapidly declining loan volumes, IFC investment and advisory teams in Russia partnered to offer financial institutions a financial product that would help to sustain both business and the environment: sustainable energy trade finance. The new product provides access to finance for firms that want to import energy-efficient equipment, thereby reducing their energy costs, freeing up scarce financial resources that can help them weather the economic downturn. By decreasing their energy usage, these firms also cut back their greenhouse gas emissions, thereby contributing to the larger climate change agenda.

IFC Advisory Services has a number of projects in Europe and Central Asia working with financial institutions to promote sustainable energy finance, which is especially helpful to small and medium enterprises that need to pay for equipment upgrades and next-generation technologies.

The economic crisis hit Russia in 2009 and severely impacted the market. Trade finance, the financing of import and export goods, suffered drastically as international banks sought to decrease their exposure to emerging markets, which included Russian banks. IFC investment services had an active trade finance program with Russian banks, some of which now sought to limit their exposure to firms as well amidst capital and liquidity concerns. As part of its crisis response initiative, IFC sought to increase its trade finance commitment so that trade crucial to the economy did not dry up. Facing these challenges, a combined team of IFC investment and advisory staff worked together to develop a trade finance product that would allow firms to pay for energy-efficiency equipment imports. A major obstacle was the fact that trade finance is typically used to fund short-term (90 day) consumer imports, whereas energy efficiency investments require long-term loans over multiple years. The two teams worked together to convince banks to consider the seemingly risky proposition of utilizing trade finance to fund large capital expenditures.

The new approach was piloted by MDM Bank in Moscow, the second largest private bank in Russia and an IFC investee. IFC advisory services worked with bank staff to train them in evaluating energy efficiency loans, calculating energy savings and greenhouse gas reductions, and marketing the program to potential clients. The IFC investment team provided the bank with a trade finance guarantee that would allow it to issue longer-term letters of credit to potential clients for payment of equipment upgrades. This dual approach allowed MDM Bank to become the first bank in Russia to utilize trade finance to fund the import of environmentally friendly technologies.

Sustainable energy trade finance is now a standard element within the IFC joint investment/advisory package. As of July 2010, IFC has booked more than $38 million of such deals in Europe and Central Asia, saving firms more than $6 million in energy costs and preventing the release of more than 1,000,000 tons of greenhouse gases per year. The new product is now well established as one of IFC’s financial services and is contributing to the important climate change agenda in Europe and Central Asia.

Credit Bureau in Bangladesh

The Credit Information Bureau (CIB) is fully owned and operated by Bangladesh Bank, the central bank of Bangladesh. The CIB was created in 1992 to collect credit related information on individual borrowers and enterprise owners. The CIB, the participating banks, and other financial institutions faced many challenges:
• The whole process (both submission and inquiry) was at a breaking point and could not be efficiently sustained.
• Given the manual procedures, errors occurred when matching borrowers (no unique ID existed) and reports had long turnaround times, reducing the usefulness of the CIB report.
• From the user’s perspective, banks spent enormous time manually preparing data for submission, yet high thresholds applied for loan submissions. For example, only loans above BDT 50,0000 (USD $708) must be reported.
• The credit information displayed on a credit profile report by CIB was a “snapshot” of a borrower’s total exposure; no historical payment record was displayed.

Given these challenges, the central bank, participating financial institutions, and IFC all agreed that the CIB system and fulfillment process required a thorough and comprehensive overhaul.

Therefore, to improve the capacity and efficiency of its service delivery, Bangladesh Bank undertook the process of upgrading the CIB system and introducing an online system capability. IFC’s Access to Finance Advisory in South Asia in collaboration with the United Kingdom’s Department for International Development (DFID), has worked with Bangladesh Bank in tendering, assessing bidders, and in the final selection of the winning bidder, an internationally renowned technical partner named CRIF. CRIF signed the contract on the March 30, 2009, to develop a turn-key solution for the CIB as well as provide end-user training to CIB staff to operate and support the system software and hardware. In parallel to this, IFC was appointed by DFID as the project management unit for the duration of the development and implementation, to manage the operational aspects of the project by being the coordinator between all stakeholders, and to play the role of independent technical advisor throughout the development.

In the initial stages, it was very difficult to align the understanding and expectations of Bangladesh Bank with the design and functions of the new system and its impact on CIB’s current operations. However, by encouraging and facilitating continuous dialogue between CIB and the vendor, as well as running several awareness-raising programs on international best practices in credit reporting, Bangladesh Bank became more pragmatic about its expectations and became more adaptable to the new CIB solution and the resultant changes in business processes. IFC was also actively involved in the review of all the project documentation, coordinating the acceptance and approval of all project deliverables. Project milestones were closely monitored by the IFC team, based on which payments were made to the vendor.

In addition to the project management, IFC has also been involved in organizing awareness-raising programs for both central and commercial bankers with regard to international best practices of CIB. To build the capacity of the central bank, workshops were organized with CIB, Bangladesh Bank, and the CIB project team involved in the credit bureau modernization project.

Bangladesh Bank is now in the last stages of finalizing the CIB software, including acceptance, testing, and delivery. It is scheduled for a parallel test to be run with the old system on October 17, 2010. The solution is scheduled to be handed over completely to Bangladesh Bank on January 16, 2011. New functions and features of the new system include, among many other things, an online system that will provide responses within seconds, complete historical payment information (both positive and negative), and automatic matching.

The implementation of this improved system will not only lower information asymmetry but also allow financial institutions to make better informed decisions when extending credit facilities to customers. The upgraded credit bureau will also contribute greatly to enhancing the risk management practices of financial institutions by providing updated and instant credit information, and will contributing to lowering the number of nonperforming loan while maintaining better quality loan portfolios and increasing access to finance.

**IFC Helps Haiti Rebuild With SME Finance**

Prior to the devastating earthquake that struck Port au Prince on January 12, 2010, IFC had begun working with Sogebank, a leading Haitian bank and IFC investee ($ 4 million equity participation), to help it develop an SME lending program. Before starting the project with IFC, Sogebank had had no significant experience in the SME market and, correspondingly, lacked well-trained SME loan officers. The bank had relied almost exclusively on asset-backed credits, putting many SMEs at a disadvantage since they didn’t have the required collateral or their property rights were not sufficiently documented.

Sogebank was making excellent progress on its SME program before the earthquake struck. After strengthening the SME department with the necessary risk controls and IT systems, as
well as fully training 10 new and 10 existing credit analysts, Sogebank had been on the verge of incorporating SME banking as part of its core business.

The earthquake that destroyed so much of Haiti's capital dealt a blow to Sogebank as well. The bank was forced to temporarily suspend its operations due to the widespread damage that its branch network and communication infrastructure suffered. IFC was in close contact with Sogebank following the earthquake and made a joint decision with the bank to put the SME program on hold so that the bank could focus on restoring basic operations. The SME loan officers dedicated themselves to the tasks of conducting a case by case review of the outstanding credit portfolio, appraising the extent of the damage, and determining the new financial needs of the clients. After three weeks, Sogebank was able to progressively restart its operations with the public.

In the aftermath of the quake, the consultant team and the loan officers conducted a market study to explore the effects of the quake on the financial needs and payment capacity of SMEs. The team also fine-tuned the SME credit policies to account for the higher risk profile of many borrowers, and looked for creative ways to get the SME program up and running. One such creative solution was the identification of a new location for the pilot program, as it was clear that no pilot program would be feasible in downtown Port au Prince in the near future. Petionville, the new center of economic activity and the least affected district, was chosen to be the new seat for the pilot.

In August 2010, two international consultants moved back to Haiti to spend two years there and begin the pilot program, granting the first loans under the new policies. The two international resident advisors and one local advisor will lead project implementation, offering training for new SME loan officers and on-the-job training for existing officers. After concluding the pilot in six months, the team will support Sogebank to roll out SME credit in the prioritized branches at the national level.

SME finance is of particular importance to Haiti as it struggles to recover from the quake, because small businesses are expected to play a crucial role in rebuilding the economy. However, without access to capital, they are limited in their ability to do so. The Sogebank project in particular intends to play an important role in providing SMEs with the capital they need: Sogebank aims to achieve an eight-fold increase in the size of its SME outstanding loan portfolio, growing to $30.9 million five years after the completion of the project, compared to a $3.8 million in FY 2008.

Ukraine Agri-Insurance for Access To Finance

Farmers from Eastern Europe to Central Africa do not have access to seeds and other inputs when their credit risk is judged to be too high by banks. Crop insurance reduces the banks’ risk and creates opportunities for farmers to receive loans for their production. Some suggest that such a strategy can provide an exit for many rural households from a continuous cycle of poverty.

The Ukraine Agri-Insurance Development Project is catalyzing the development of a public-private partnership in agricultural insurance. To enable this process requires the development of well designed, trusted, and sustainable insurance products. Banks must then link the crop insurance to their lending programs for producers.

The project initially surveyed banks and input suppliers to understand their current lending practices, their credit risks, collateral requirements, and staff capabilities. The survey established an opportunity for development. Introductory training identified training needs and established the credibility of the Advisory Services team and approach. In February 2010, a training program for banks was launched to help them understand the advantages of insurance as a risk management tool and to use it more efficiently when providing loans to agribusiness clients. The program included four banks, the current market leaders in rural lending, as well as four smaller banks seeking to increase their agri-lending market share. Between February and June, the project delivered 12 training events to women and men at the bank premises. The training events were well attended by senior staff from departments of risk management, SME lending, collateral, legal, and other departments actively dealing with agri-insurance.

When the bank staff better understood the potential value of crop insurance, interest to use crop insurance as a lending tool increased. Capitalizing on this interest, in May 2010 the project organized a seminar for banks active in agricultural lending and input suppliers that provide seasonal credits to agricultural producers. The participants discussed the development of insurance products to address the risks associated with lending to agricultural producers. A model of cooperation between insurance providers, banks, and input suppliers was presented as a tool for reducing the cost of credit and insurance and minimizing the credit risk. The seminar was followed up by the drafting of a concept for a credit-risk crop insurance product that will be developed by the project with the partnership stakeholders.
In June 2010, the project was contacted by the leading agri-finance provider in Ukraine to play a coordinating role in a bank-initiated project, known as “Insuring the Fields of Ukraine.” This bank pilot has, as one of its goals, the acceptance by the bank of crop insurance as collateral for farm lending. When this project is realized, the anticipated results will include lending to at least 150 farms in six different regions of Ukraine (90,000 hectares of production), amounting to $36 million in seasonal credits alone. Spin-offs from this program by the market leader will include other banks taking notice of the work and incorporating similar strategies for their lending programs.

**Access To Finance Microfinance Advisory Risk Management Program**

From 2004 to 2008, there was unprecedented growth in the microfinance industry and according to data from the Microfinance Information Exchange (MIX), the sector expanded globally by an annual average growth rate of 39 percent. Microfinance was assumed to be immune to the problems that beset traditional financial institutions. Strong growth rates over the years combined with very low default risk led investors to believe that microfinance borrowers were exemplary or had a different economic rationale.

The financial crisis demonstrated that the microfinance sector was not isolated from the financial turbulence in global financial markets and that there were high correlations between the health of the domestic economy vis-à-vis the financial performance of the MFI industry. In addition, given the deterioration of financial and labor markets it became evident that there were several structural problems in the industry, including unsustainable growth paths, lack of credit discipline, as well as inadequate risk structures and policies.

A flawed risk culture, that depended more on growth rather than quality lending also contributed to high and escalating portfolio-at-risk (PAR) >30 rates, which reached levels of 10-20 percent in some countries. As a result, over-indebtedness was uncovered in certain countries and has become an increasing problem for authorities and industry participants, especially in countries without well-functioning credit bureaus. The lack of payment capacity by borrowers who were losing their jobs or had difficulties keeping their small businesses sustainable as the financial deterioration in global financial markets escalated, have posed serious threats to the quality of credit portfolios. The industry has also endured severe problems with foreign exchange risk. Foreign lenders making hard currency loans to the industry, coupled with high levels of devaluation in the local currency, triggered severe institutional loan repayment defaults and created a need for debt restructuring in some countries, given the asset-liability mismatch in MFI portfolios.

As the industry consolidates and grows in the future, risk management will continue to be a key priority area to strengthen in the industry and an essential management and financial tool for maintaining the quality of portfolio and institutional profitability.

Microfinance institutions in all parts of the world experienced the effects of the crisis. In a non-representative survey during the 2009 annual conference of the Microfinance Center, MFIs from 15 out of 16 surveyed countries acknowledged a deterioration of the quality of the loan portfolio. A few countries experienced severe problems with delinquency management. These included Bosnia and Herzegovina, Morocco, Nicaragua, and Pakistan. According to CGAP, all four countries experienced a microfinance repayment crisis after a period of high growth due to core problems including: concentrated market competition and multiple borrowing, overstretched MFI systems and control mechanisms, and an erosion of MFI lending discipline.

To respond to the risk management challenges in the industry, IFC’s Access to Finance Microfinance Advisory began to develop in November, 2009 a Risk Management Program and Risk

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15. Survey conducted during the workshop “Strategic Options in the Times of Crisis” at the annual conference of the Microfinance Center (MFC), in Belgrade, Serbia, May 2009.
Management Toolkit (RM Toolkit) tailored to the microfinance industry. The program intends to increase capacity by reducing MFI’s vulnerabilities to international financial shocks, and create the proper risk structures and risk culture to significantly expand secure financial and saving services to the poor. The Microfinance Risk Management Toolkit is divided into several chapters. It begins by explaining the step by step needs to establish a functioning Risk Management Unit and the importance of instituting a disciplined risk culture (i.e. the ability of every employee and every stakeholder of an MFI to understand the main sources of risks and the consequences of decisions on the MFI’s risk profile) in the daily operations of the institution. It continues with a risk diagnosis section to identify the current risk structures and problems within the institution, and analyze every aspect of the risk management function.

This risk assessment section guides the risk expert consultant on how to best conduct a thorough diagnosis of the MFIs. The remaining chapters focus on results and suggestions, best practice guidelines, and quick fixes to tackle the risk management problems. Additionally, the Microfinance Risk Management Toolkit focuses on describing detailed policies and guidelines related to risk culture, risk policies and structures, which often need to be simplified and streamlined, and also contains a risk reporting handbook providing a guideline and structured approach to risk reporting in a clear and concise manner.

The Toolkit was prepared in close consultation with IFC’s Corporate Risk Management Department and goes beyond IFC’s tool for diagnosis and solutions for financial institutions. The Microfinance Risk Management Toolkit has been specifically tailored to the microfinance industry and provides policies and guidelines that address the intellectual and organizational capacity of the risk management function of MFIs. The Toolkit was tested during on site pilot projects in Cambodia and El Salvador (See Box 6), and introduced to the industry during two workshops organized in Kazakhstan and Pakistan. The findings were in line with the general vulnerabilities identified by the CGAP research presented above, but the advisory service missions and workshops provided additional insight to the risk management challenges that the MFI industry is facing. The advisory service experiences and discussions with industry stakeholders showed that there was a lack of qualifications, training, and experience on all levels of the MFIs. Moreover, inadequate risk assessment, complex risk management policies, and untested risk reporting contributed to the vulnerabilities that the sector experienced. More specific examples of our findings include:17 Loan Officers lacked the experience to deal with crisis situations. They were trimmed to fulfill volume targets, had a limited incentive to look after clients after disbursement, and were fearful to engage in the collection process.

Loans were sized and disbursed according to assumed repayment capacities rather than client needs, which were frequently much lower.

Currency risk was transferred to borrowers rather than eliminated through proper hedging mechanisms, when available, resulting in hidden foreign exchange risk.

Management information systems were not set up properly to provide the necessary quality data to assess the risk situation of the institutions. In some cases the field of “Client’s Profession” was filled in 78 percent of the cases as “other”, due to a combination of inexperience and lack of attention to precision, preventing a serious loan portfolio analysis.

Loan officers often did not identify the true sources of income. They were trained to fill in loan applications which asked for the client’s profession rather than the source of family income. The existing risk management policies found in several MFIs were a result of quick “copy and paste” exercises done by external consultants, rather than genuinely developed and adjusted to fit the institution’s needs, in order to fully conduct a proper risk assessment.

Access to Finance Microfinance Advisory launched two workshops during the second half of FY2010 in Kazakhstan and Pakistan to introduce the Microfinance Risk Management program, test industry demand for future technical assistance, and begin to build risk management capacity. The workshop in Astana targeted participants from Eastern Europe and Central Asia and was attended by approximately 35 participants, including MFIs and investors from Microfinance Investment Vehicles (MIVs). A credit risk management seminar was subsequently launched during the Microfinance Center (MFC) annual conference and there was a wide participation of approximately 140 attendees. The Pakistan workshop, which was attended by over 20 participants, targeted the domestic market and the credit risk management difficulties that institutions have been facing in recent times.

The Microfinance Risk Management Program was well received. Specifically, MFIs and industry players in Central Asia and South Asia expressed an interest to implement the program and to tailor the toolkit to their needs. Microfinance associations in Eastern Europe and Central Asia also expressed an interest to conduct similar workshops in the fall of 2010 to introduce.

17 The findings are summaries from the work conducted with MFIs in Cambodia and El Salvador in 2010 as well as shorter investigations into MFIs in other countries.
Although the Tajik civil code allowed for the exchange of credit risk, the credit was not conducive to private credit bureau operations. Prior to 2009, the Tajik legislative and regulatory environment did not support credit bureaus. This was the result of an enormous joint effort by IFC, the National Bank of Tajikistan, and leading Tajik financial institutions. In its efforts to mobilize major stakeholders from the public and private sectors in order to establish the first private credit bureau, the IFC’s Azerbaijan-Central Asia Financial Markets Infrastructure (ACAFI) advisory services project consulted and engaged with the relevant institutions, risk management will be a central theme for practitioners and regulators to meet the necessary conditions in order to offer savings and greater financial services. To make the transitions as efficient as possible and to bolster the capacity of the Microfinance institutions, IFC aims to use the Microfinance Risk Management Program to support its regional clients and network partners to successfully increase the volume of financial services to the global poor.

**Tajikistan’s First Credit Bureau**

The registration of Tajikistan’s first credit bureaus in April 2010 was the result of an enormous joint effort by IFC, the National Bank of Tajikistan, and leading Tajik financial institutions. Prior to 2009, the Tajik legislative and regulatory environment was not conducive to private credit bureau operations. Although the Tajik civil code allowed for the exchange of credit information with borrowers’ consent, this was only applicable to negative information sharing between financial institutions. Indeed, a few banks and microfinance organizations had developed a primitive negative-information sharing system between themselves with EBRD support. However, this model was not scalable, as it relied on an oversimplified technical platform and Excel spreadsheets, and only a limited number of financial institutions were participating in the exchange. There was clearly a need for a more technically sophisticated system, one that would include the whole financial sector.

In spite of this, not all financial institutions were convinced that establishing a private credit bureau would bring the promised benefits. Even with the National Bank of Tajikistan championing the initiative, some banks and microfinance institutions were not ready to trust each other and believed that credit information sharing could be used as a tool for client poaching. Others did not believe that the promised benefits would be worth the additional effort required to collect borrowers’ consent and connect their systems to the credit bureau. Still others had doubts about the security of the information stored by the credit bureau.

In its efforts to mobilize major stakeholders from the public and private sectors in order to establish the first private credit bureau, the IFC’s Azerbaijan-Central Asia Financial Markets Infrastructure (ACAFI) advisory services project consulted and engaged with the relevant institutions, risk management will be a central theme for practitioners and regulators to meet the necessary conditions in order to offer savings and greater financial services. To make the transitions as efficient as possible and to bolster the capacity of the Microfinance institutions, IFC aims to use the Microfinance Risk Management Program to support its regional clients and network partners to successfully increase the volume of financial services to the global poor.

**Box 6. Case Study: Piloting the Microfinance Risk Management Program in El Salvador**

IFC launched the second pilot of the Microfinance Risk Management Program in Latin America and the Caribbean, providing an excellent opportunity to test the Toolkit, and giving IFC additional insights with respect to the risk management challenges that MFIs are facing and to develop specific risk management solutions to quickly address the industry needs. The pilot is being conducted with Apoyo Integral, the leading MFI in El Salvador in terms of loan portfolio and market share. Created in 1992 as an NGO, Apoyo became a regulated finance company in 2009. Its primary credit methodology is individual lending, though it also conducts some solidarity group lending as well. Apoyo has a strong reach outside of San Salvador and among women, with 60 percent of its portfolio located in rural or semi-rural areas, and an impressive 69 percent of its clients being women.

The implementation of the Toolkit is particularly timely and relevant in El Salvador, as the aftermath of the international crisis continues to be severe in the impoverished nation; seventeen percent of El Salvador’s GDP depends upon remittances from the US. Apoyo has by no means been immune to the impact of the crisis, and has suffered from decreases in the size of its loan portfolio along with deterioration in the quality of its portfolio. Nevertheless, in 2010 the institution managed to contain the deterioration and has started to organically increase its loan portfolio. Growth is expected to continue in 2011.

Aside from the increased awareness of the importance of excellence in risk management that the crisis has instilled, Apoyo is eager to bolster its risk management practices also in part because it is considering initiating deposit mobilization efforts and rural expansion through correspondents. In an effort to assist Apoyo to grow and expand in a smart way, IFC is supplementing risk management assistance with assistance in reviewing Apoyo’s cost structure and conducting an ABC costing analysis. Upon completion of the risk management and costing analysis components of the project, a second phase may be initiated which would directly address Apoyo’s plans for deposit mobilization and the use of correspondents in rural expansion.

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educated 22 government officials and 76 financial institutions about credit information sharing practice. The project further facilitated 24 meetings, discussions, and trainings with 398 participants from the Tajik financial sector. At these events, the project emphasized the potential benefits of credit information sharing versus their costs and sought to mobilize stakeholders into becoming CIB Tajikistan shareholders.

In parallel to its efforts to establish CIB Tajikistan, the project worked on improving the legislative and regulatory environment to make it conducive to private credit bureau operations. With IFC support, the Law on Credit Histories was adopted in March 2009 and laid down the overall basis for private credit bureau operations in the country. To harmonize Tajik legislation with the newly adopted law, ACAFI further contributed to the drafting of necessary additional legislative and regulatory acts, as well as mobilizing major stakeholders in their respective working groups in order to lobby for the acts’ successful adoption. These efforts resulted in the successful enactment of the Amendment to the Law on Licensing in October 2009 and the Regulation on Credit Bureau Licensing in February 2010.

The break-through in mobilizing CIB Tajikistan’s shareholders occurred when all of the necessary improvements in the legislative and regulatory environment were on their way to becoming reality and the key financial market participants began speaking up and reiterating the same message that had been emphasized at IFC-led meetings and discussions. Specifically, Agroinvestbank, Fononbank, FINCA, OXUS MICROFINANCE, and AMFOT (Association of MicroFinance Organizations of Tajikistan) all played a leading role during these discussions and expressed their strong interest in becoming CIB Tajikistan’s shareholders. Their strong support and advocacy for the project eventually convinced the remaining doubters, and CIB Tajikistan was registered as a commercial entity on April 19, 2010. IFC facilitated $255,000 of start-up capital to fund the first private credit bureau in the country from 11 Tajik shareholders. The project is further assisting CIB Tajikistan to select its 12th shareholder and to hire a technical partner who will bring in the international know-how and systems to implement and launch credit information sharing in Tajikistan.

Bank Of Palestine, Working In Challenging Markets

In West Bank and Gaza, there are many challenges and opportunities. Throughout the past decade, GDP has declined steadily and unemployment has doubled, leaving a growing population with too few economic options. The Bank of Palestine is working closely with IFC in meeting several priority needs in the West Bank and Gaza, beginning with the offering of combined investment and advisory products.

Over the past year, IFC’s Advisory Services team in the Middle East and North Africa has been working hand-in-hand with the bank’s management to help it create a solid risk management system, an important ingredient in ensuring the sustainability of any bank. IFC advisors helped the bank, for the first time, define its near- and long-term strategic objectives, as well as its risk appetite, and create an effective board governance framework.

The 11-member board went through detailed discussions about strategic alternatives, target markets, product development, customer segments, risk metrics, and performance targets. Since IFC’s involvement, it has opened 10 new branches, giving thousands of people their first opportunity to save money safely, obtain small business loans, and afford higher education for their children.

IFC took on a significant role in the process, buying a 5 percent stake in the bank, and committed to develop new products that would be good for business as well as development. The investment was a vote of confidence that sent an important signal to others, and it has performed well since it was made.

“Our present focus within the financial sector in West Bank and Gaza is providing support to Palestinian banks to help foster lending by local banks, providing access to finance for SMEs – the backbone of any economy,” – Dimitris Tsitsiragos, IFC Director for Middle East, North Africa and southern Europe.

The Bank of Palestine was established more than 50 years ago. Despite the challenging situation, the bank managed to have the widest outreach in West Bank and Gaza, offering services that were not available to consumers.

Creating jobs and restoring access to basic services can promote stability in places such as West Bank and Gaza. IFC is expanding its investment and advisory services in fragile and conflict-affected states, a priority for the World Bank Group.
Benchmarking Best Practices in SME Banking

The SME Banking Benchmarking online survey has so far allowed 22 banks in emerging markets to self-assess and automatically benchmark themselves against the banking practices of their peers in credit risk management, market segmentation, business model, product offering and information technology/management information systems. Participating banks received a tailor-made report with valuable and unique information on how the bank compares to best practice banks and what key operational areas of improvement are to efficiently and effectively service SMEs.

SME Banking Knowledge Guide

IFC’s Global SME Banking Program published its SME Banking Knowledge Guide outlining leading practices, market trends, opportunities and challenges, and success factors for profitable SME Banking operations.

The SME Banking Knowledge Guide draws widely from existing research and literature and from numerous primary interviews with SME banking experts and practitioners worldwide. It is primarily a technical publication intended for bank directors, managers, and staff in developing economies, who see the untapped opportunity in their local markets but still have not reached the optimal way to approach the SME segment. It is also a useful tool for policy makers and other financial sector stakeholders who seek to better understand the essentials of SME finance.

SmartLessons

SmartLessons is an IFC-World Bank Group program to enable development practitioners to share lessons learned in advisory services, investment, and financial operations. SmartLessons are first-hand accounts of replicable lessons learned on development projects, written by professionals for professionals. Through the prism of their own experience, good and bad, our authors aim to capture practical lessons that can be useful for their colleagues working on similar projects or facing similar issues. SmartLessons are aimed at, and submitted by, a wide range of private sector development practitioners, donor organizations, and the clients themselves (including government reformers).

The SmartLessons interactive database can be searched for lessons by multiple criteria such as region, country, topic, and sector, among others. http://smartlessons.ifc.org

Global Leasing Toolkit

IFC developed the Global Leasing Toolkit to complement the institution building work of IFC Leasing teams globally, and to engage with management of leasing entities and other stakeholders. This comprehensive Toolkit aims to provide a practical guide to banks, other financial institutions and leasing entities on SME equipment leasing.

The Toolkit is organized into sections that address the need for increased SME finance, information on the benefits of leasing, and the need to respond to market opportunities and adapt to local conditions.

The Base Toolkit is presented, with leasing principles and best practices that are universally recognized. Accompanying the Base Toolkit are four Focused Toolkits on areas of stakeholders’ interest and areas that expected to account for a major portion of the future growth of the leasing industry:

• Islamic Finance
• Financing of agricultural equipment
• Financing of equipment designed to improve Energy Efficiency and reduce the production of greenhouse gases.
• Applying universally-recognized leasing principles and best practices in markets with different legal systems, regulatory and supervisory regimes.

The Global Leasing Toolkit follows the second edition of the policies and guidelines manual published last year. Both the
guidelines and this toolkit help disseminate IFC’s 36 years experience in lease market development to stakeholders and thereby increase SMEs access to lease finance.

The Toolkit is also available as an interactive web-enabled CD-Rom.

**Leasing Guidelines For Emerging Economies**

IFC’s Global Leasing Program developed leasing guidelines to share its lessons and experiences from 32 years of leasing market development activities. The guidelines were originally produced in 2005 and have been updated to reflect changes in the environment, and information and lessons learned since then. The guidelines identify the key policy issues on leasing development, examining the approach of current and past projects.

The Guidelines were primarily written for the benefit of policymakers and is intended as a reference manual for other stakeholders, including lessors, lessees/SMEs, investors, banks, international financial institutions, development partners, and legal and accounting firms. They highlight which elements to look for locally, why experiences may be different among countries, and what—based on IFC’s experiences—may be appropriate causes of action. The guidelines will help leasing development practitioners identify local characteristics, assess their potential impact, and thereby make informed development and implementation decisions.

**Secured Transactions Toolkit**

This Toolkit provides technical advice and guidance to World Bank Group staff, donor institutions, government officials and other practitioners on the implementation of secured transactions law and institutional reforms in emerging market countries.

The content of the Toolkit guides the reader through the various stages of the project cycle (identification, diagnostic, solution design, implementation, and monitoring and evaluation) involved in the introduction of secured transactions reforms.

The recommendations presented in the Toolkit are based on IFC’s experience in the secured transactions area, the contributions of a number of experts in this field, existing literature, and reform experience in a number of emerging market countries and the existing best practices in jurisdictions with advanced secured transactions systems. The Toolkit addresses the most important elements of reform.

**2010 Global Microscope**

The Global Microscope on Microfinance Business Environment outlines the findings of in-depth analysis of the microfinance business environment in 54 countries. The index that underlies this report allows countries and regions to be compared across three broad categories: regulatory framework, investment climate and institutional development. The study uses a methodology that has been employed for the last three years and this is the second global report prepared by Economist Intelligence Unit (EIU). The Multilateral Investment Fund (MIF), a member of the Inter-American Development Bank Group; CAF Development Bank of Latin America, and the Netherlands Technical Assistance Trust Fund at the International Finance Corporation (IFC) provided support for the study. http://www.ifc.org/microfinance

**Housing Microfinance Toolkit**

IFC’s new Housing Microfinance Toolkit: Guidelines for Product Development and Operations is targeted for use by financial institutions seeking to launch a housing microfinance product. While this Toolkit is primarily aimed at microfinance providers, it can also be used by other financial institutions including non-governmental organizations and commercial banks that have introduced or intend to introduce housing microfinance products. The Housing Microfinance Toolkit describes recommended housing microfinance products and parameters, operational procedures, and a set of tools and techniques for market surveys.

The Toolkit is divided into two parts and is targeted to managers and lending staff of financial institutions seeking to launch a housing microfinance product in their institution. Part I is designed to provide these institutions with guidance and resources to develop and implement a housing microfinance product, such as a home improvement loan product. The Toolkit also provides a step-by-step process for product development, which may also be adapted to other new housing microfinance products. Part II covers the loan process from loan application to delinquency management.
Financial Infrastructure Report

Financial Infrastructure: Building Access through Transparent and Stable Financial Systems, a report from the Financial Infrastructure group, maps financial intermediation systems and the size of the financial systems market. It provides an expanded data index for measuring financial infrastructure and identifies reforms. Financial institutions process payments, check potential borrowers’ past experiences with credit, and evaluate the suitability of proposed loan collateral. Consumers pay bills, buy houses, remit earnings, and save for retirement. All of these formal financial transactions rely on a foundation of institutions, information, technologies, and rules and standards—the infrastructure of financial intermediation. These underlying systems of financial infrastructure are analyzed in the report, drawing on efforts of the World Bank group in payment and securities settlement systems, remittances, credit reporting, and secured transactions and collateral registries. The report makes recommendations for reform to make the system more efficient and reliable, thereby reducing costs and increasing access to financial services. http://www.worldbank.org/financialinfrastructure

World Bank-IFC Remittance Prices Database

The World Bank-IFC Remittance Prices Worldwide Database was launched in September 2008 and provides data on the cost of sending and receiving remittances for 134 “country corridors” worldwide. In 2010, the total number of corridors surveyed increased to 200, including several south-south corridors representing more than 60 percent of total remittances to developing countries. In the context of the Global Remittances Working group, the Remittance Prices Worldwide Database provides for a reference for monitoring the progress on the G8 5x5 target—a target to reduce costs by five percentage points over five years. http://www.remittanceprices.org
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IFC’s Advisory Services have become a substantial part of IFC’s business and a critical tool for extending our reach and expanding our impact. Access to Finance is one of four advisory services business lines that correspond to IFC’s operational strategy.

Support for IFC’s advisory services is strong and includes partners and donor governments, multilateral institutions, and private donors such as foundations.

Access to Finance appreciates our donors and partners that include: African Development Fund, Australia, Austria, Bank of Israel, Belgium, Bill and Melinda Gates Foundation, Canada, Denmark, European Union, Finland, France, Inter-American Development Bank, Ireland, Islamic Development Bank, Italy, Japan, KfW Entwicklungsbank, Kuwait, Luxembourg, Millennium Foundation, the Netherlands, New Zealand, Norway, OMIDYAR Network Fund, INC., Saxony (Germany), Spain, Sweden, Switzerland, United Kingdom, United States, and Visa International.

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Design, Studio Grafik
Printing, AGS
Photography, IFC Photo Library
Access To Finance
Annual Review Report 2010