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Foreword

IFC’s A2F advisory services continue to grow, with over 230 projects and programs worth nearly $310 million in funding commitments at the end of FY08. They are present in over 90 countries and regions – 64 percent and 14 percent – respectively, are in IDA and conflict-affected countries.

We are pleased to present this report, which highlights IFC’s progress in access to finance (A2F) advisory services. A2F advisory services work is a driving force in establishing local financial institutions. We deliver our services mainly through our advisory facilities located in the regions with about 150 dedicated staff. We also coordinate our services with the World Bank to deliver policy advice and joint interventions.

Development impact and results are core to IFC’s mission and success of A2F advisory services. More than half of IFC’s A2F advisory services activities are directly linked to investments and over 70 percent of our advisory services serve micro, small, and medium enterprises (MSMEs). Some estimates this year include:

- SME banking projects have generated $24.6 billion in financing and helped improved access to finance for 175,221 small and medium enterprises;
- Microfinance projects have extended over $1.6 billion in financing to about 2.1 million micro enterprises;
- Leasing projects provided lease financing to 19,715 micro, small and medium enterprises worth $1.7 billion;
- Housing finance activities financed 69,558 homeowners with more than $2.5 billion in mortgage loans;
- Credit bureau work resulted in 34.7 million credit bureau inquiries and helped generate about $17 billion in new financing for the 10 countries where IFC helped create or improve create bureaus.

The report also highlights knowledge sharing initiatives that are underway. Through knowledge and products, A2F 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 FY08, best practice initiatives included:

- SME Banking Benchmarking Web Survey – to provide participating banks with the ability to benchmark themselves against the SME banking practices of their peers.
- Mortgage Toolkit – to provide financial institutions with guidance and resources to set up or improve existing mortgage lending programs.

Going forward, there are a number of initiatives which are at the early stages of development, including creating efficient microfinance credit reporting systems globally and the Global Index Reinsurance Facility. New initiatives in climate change mitigation and agribusiness finance will be an increased focus of our work.

IFC’s A2F business line would like to recognize and thank our donor partners for their ongoing support and partnership. Achieving the same development impact would not be possible without their continued assistance and commitment to our mission.

Peer Stein

Access to Finance
Business Line Leader

Flavio Guimaraes

Access to Finance
Deputy Business Line Leader
Today, advisory services is a core component of IFC’s value addition to clients and stakeholders. In addition to its traditional investment products, IFC offers advisory services to government bodies, its investment clients, and other private and public sector enterprises. Access to Finance (A2F) is the name used as an umbrella for IFC’s advisory services work which aims to create a broader, deeper, and more inclusive financial system for the underserved in emerging economies.

Overview

Over three billion people in developing countries have little or no access to financial services.1 IFC’s access to finance advisory work helps increase the availability and affordability of financial services, focusing particularly on households, micro, small, and medium enterprise clients.

Expanding Access to Finance

Access to finance is the result of a complex interplay of different financial intermediaries, the right financial infrastructure, and a sound regulatory framework. IFC’s A2F advisory services work to improve the institutions and processes needed to expand the availability of financial services at the bottom of the pyramid and contribute to sustainable economic growth. IFC’s A2F advisory services are provided at two levels, namely, building bank and non-bank financial institutions, and improving financial infrastructure such as credit bureaus and payment systems.

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**Building Financial Institutions**

IFC’s A2F advisory services for building financial institutions include the following:

**SME BANKING**

Strengthening banks and helping them move from the corporate segment down market has the greatest impact in numbers and volume in providing access to financial services to the under served. A2F advisory services in SME banking focuses on strengthening banks’ small business or middle market servicing capacities. Advisory services cover operating efficiency, asset quality, and increasing revenues, as well as governance, strategy, products and services, and risk management.

In 2008, SME banking advisory services comprised 86 projects totaling $115 million. The program has developed the SME Banking CHECK toolkit, which allows IFC to conduct a comprehensive assessment of financial institutions’ performance in more than 100 competencies and the SME Banking Benchmarking Web Survey², which provides participating banks with the ability to benchmark themselves against the SME banking practices of their peers. A newly designed SME Banking web site will be launched soon and will provide reference information for SME banking tools, research and publications, case studies, events and announcements.

**MICROFINANCE**

Developing commercially viable microfinance operations is one of the primary ways to support income-generating activities at the bottom of the pyramid. Microfinance advisory services focus on three areas of intervention: institution building for greenfield microfinance operations; bank downscaling; and more recently, the transformation of NGOs into licensed microfinance institutions. In FY08 IFC’s microfinance operations supported 17 projects, including India, China, and the Africa region – mainly in IDA countries and frontier regions. A new global initiative was also launched to facilitate the creation of effective and efficient microfinance credit reporting systems.

**HOUSING & PROPERTY FINANCE**

Affordable housing is a key to improving people’s lives: IFC continues to invest more and expand our advisory services in housing finance, while developing innovative financial products. We are helping establish a company that will offer affordable home loans to low- and middle-income people in the West Bank and Gaza. We have also developed Shariah-compliant housing finance and pioneered housing microfinance in Afghanistan and Tunisia. We provided housing finance training in Pakistan and have efforts underway in Egypt, Iraq, and the West Bank and Gaza. In Ghana, IFC worked with four banks as part of a larger program to boost the country’s residential mortgage lending. The banks are using the IFC Mortgage Toolkit, which offers guidance on introducing mortgage products (see page 23).

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**Access to Finance**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Estimated Coverage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance</td>
<td>21%</td>
</tr>
<tr>
<td>SME Banking</td>
<td>27%</td>
</tr>
<tr>
<td>Housing Finance</td>
<td>15%</td>
</tr>
<tr>
<td>Sustainability &amp; Climate Change</td>
<td>6%</td>
</tr>
<tr>
<td>Leasing &amp; Non-bank Financial Institutions</td>
<td>6%</td>
</tr>
<tr>
<td>Financial Infrastructure</td>
<td>9%</td>
</tr>
<tr>
<td>Other</td>
<td>3%</td>
</tr>
<tr>
<td>Insurance</td>
<td>2%</td>
</tr>
<tr>
<td>Trade Finance</td>
<td>6%</td>
</tr>
<tr>
<td>Securities Markets</td>
<td>4%</td>
</tr>
</tbody>
</table>

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² IFC conducted a benchmarking study survey of 40 of its 150 clients in FY07.

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3

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21%

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27%
LEASING

In developing economies, the existence of a vibrant leasing industry is critical to small and medium enterprises (SMEs) that typically have difficulties accessing bank term loans due to lack of collateral. In FY08, IFC and its donor countries have continued playing an active role in the development of the leasing industry. IFC’s advisory services focus on establishing basic building blocks from leasing laws and regulations to raising market awareness, investment promotion, and capacity-building. A stronger focus has been put in frontier countries in MENA and Sub-Saharan Africa, with the ongoing implementation of successful activities in Afghanistan, Yemen, and East Africa, and the establishment of new programs in West Africa.

IFC’s leasing work, supported by SECO (Switzerland), led to the enactment in April of the new Financial Leasing Act in Tanzania. In Ukraine, the existing IFC leasing program, supported by the Netherlands, completed its work, after having achieved strong results over its three year life-span.

To follow up on the successful market development efforts undertaken so far in these countries, IFC advisory teams are increasingly shifting towards institution building activities to help set up and expand strong leasing players. Finally, an increased knowledge management effort is underway, supported by Japan, to help synthesize and disseminate lessons learned in more than 30 years of IFC’s work to develop leasing in emerging markets.

SUSTAINABILITY & CLIMATE CHANGE FINANCE

Sustainability and climate change mitigation finance helps drive IFC’s climate change mitigation strategy by supporting financial institutions with projects in Clean Production, Energy Efficiency, and Renewable Energy. Advisory services complement IFC’s investments in this area with capacity building and knowledge management initiatives. These include market analyses and training in pipeline development for our regional partners, and an online learning program that helps clients identify new investment opportunities and comply with environmental requirements. In 2008, IFC increasingly focused on A2F advisory services offerings that complemented its investments in energy efficiency finance, namely in Russia and China, with new initiatives planned in other regions.
INSURANCE

Insurance advisory services provide support for the development of new and existing insurance companies. Activities include preparing feasibility studies, product development, and risk management. IFC’s A2F advisory services in the insurance sector span a wide range of activities, from working with regulators and governmental agencies (Cambodia and Russia) to improving market segments and niches (agro-insurance in Ukraine and Indonesia), and hands-on training and development of required skills and resources (mortality tables in Africa). This is in line with the sector’s broad range of activities to promote insurance as a personal risk management tool and to contribute to as many fields as possible. IFC, jointly with the World Bank, is putting resources into developing index-based weather insurance with the support of the European Union. This will have a significant development impact on food security initiatives and help local farmers and businesses who depend on agricultural output.

Financial Infrastructure

IFC’s priority areas for building financial infrastructure include the following:

CREDIT BUREAUS

Credit bureaus help consumers and small businesses obtain financing. They offer timely, credible, and objective information on borrowers, allowing financial institutions to reduce loan processing time and costs by 25 percent or more and 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. The map below shows which countries have existing, developing, or no private consumer credit bureaus serving financial institutions and other lenders. IFC has promoted credit bureau development in over 45 emerging markets, providing legal and regulatory advice, feasibility studies, direct assistance to credit bureaus, research, public awareness projects, and long-term coaching and advice. In 2008, some achievements included the launch of the first bureaus score in Pakistan, the start-up of credit bureau operations in Egypt, and establishments of credit bureau companies in several countries (see page 19).
Box 1. The GEMLOC & ESMID Programs

The Global Emerging Markets Local Currency Bond (GEMLOC) Program, was launched in April 2008 by the World Bank Group to help develop local currency bond markets so that they can attract more local and global institutional investors. The program will help establish local currency debt markets in developing countries as a separate asset class. In cooperation with the data and index provider, Markit, IFC has developed a transparent index of emerging market local currency bonds to serve as a new benchmark for the asset class. The index presently offers investors transparent data on 20 countries, with more countries expected to be added.

The Efficient Securities Market Institution Development (ESMID) Program is a three year, $5 million program funded by the Swedish development agency (SIDA) to help build securities markets in Africa (Kenya, Nigeria, Rwanda, Tanzania, and Uganda) to help finance housing and infrastructure development. ESMID provides advisory services to create enabling legal and regulatory environments, build market infrastructure such as rating agencies, and strengthen the capacity of market participants such as securities firms.

SEcurities MARKETS

Properly functioning securities markets are a vital foundation for lending and credit activities in developing countries. IFC provides advisory services to help develop bond markets and securitization, and securities and equity markets. Developing securities markets as a corollary to housing finance, pension funds, and life insurance companies, helps create a range of asset classes in which to invest.

The launch of the Global Emerging Markets Local Currency Bond (GEMLOC) Program (see Box 1) in FY08 has been a key strategic development for the Global Securities Market Group. Another key development in FY08 was the implementation of the Efficient Securities Market Institution Development (ESMID) Program in Africa (see Box 1). Going forward, the ESMID Program is expected to expand into other regions. The GEMLOC and ESMID programs are highly complementary and will be the two main pillars on which much of the securities markets advisory services and knowledge management products will be designed and implemented.

COLLATERAL REGISTRIES & SECURED LENDING

In emerging markets, many companies, especially SMEs, cannot access credit due to inadequate collateral frameworks. IFC provides advisory services to support the development of a well-functioning secured lending framework through a delivery model that focuses on harmonizing laws, building electronic registries, streamlining registration processes, and eliminating unnecessary paperwork. IFC’s advice is provided jointly with the World Bank – through Foreign
Investment Advisory Services (FIAS) and Business Advisory Services – to foster the use of movable assets such as livestock, cash flow, and equipment as collateral in exchange for loans.

In FY08, IFC achieved significant results in China, Nepal, and Vietnam (see page 19) and initiated projects in Azerbaijan, Ghana, the Lao People’s Democratic Republic, Senegal, and the Republic of Yemen. IFC is also developing a toolkit for project managers and reform implementers (to be published in FY09) that compiles international best practices in handling secured transactions.

**PAYMENT & REMITTANCE SYSTEMS**

Efficient, secure, and reliable payment and securities settlement systems reduce the cost of exchanging goods and services and enhance the stability of the financial sector. A well-functioning payment system is crucial infrastructure enabling the provision of safe and cost-effective remittance services. The World Bank Group has been active in over 100 countries supporting regional, multi, or single country initiatives, and providing technical advice on a broad range of topics. In 2008, the World Bank Group launched the first Global Payment System Survey and the first Price Database for International Remittance Services. It furthered its position as an authority in this field through the General Principles for International Remittance Services (see Box 2). IFC is also engaged on the mobile banking payments side with a pilot project underway in Cambodia.

**Box 2. Payment & Remittance Systems Initiatives**

The **Global Payment System Survey**. Central banks from 142 countries participated in the first ever Global Payment Systems Survey designed to assess the status of national payment and securities settlement systems worldwide. The survey gathered information on countries’ financial infrastructure supporting electronic transfers of monetary value among financial institutions, an activity estimated to be worth $2.16 trillion worldwide in 2006.

The **Price Database for International Remittance Services**, a tool released by the World Bank Group in September 2008, will promote international transparency in remittance services by tracking the evolution of the business environment for remittances worldwide, in particular in the area of transaction costs. The database covers initially 114 corridors from 14 send markets, representing over 50 percent of global remittances. It will be updated biannually.

The **General Principles for International Remittance Services** is one of the most important initiatives in the area of remittances worldwide. To implement the principles, a Private-Public Sector Partnership on remittances, under the World Bank Group’s leadership, was formally launched during the World Bank Global Payments Week in Vienna, Austria, on September 12, 2008.

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5 The database is online at remittanceprices.worldbank.org

In the last five years, IFC’s access to finance (A2F) advisory services activities have grown significantly, from nearly 90 projects and programs worth over $40 million in funding commitments in FY04, to more than 230 projects and programs worth almost $310 million in funding commitments in FY08. These projects and programs were active in more than 90 countries and regions, of which 64 percent and 14 percent respectively, are in IDA and conflict-affected countries. A2F advisory services is among the most active of IFC’s business lines, representing 25 percent or over 37 million of IFC’s total spending in FY08.

**Growth of Access to Finance**

IFC’s work in A2F has been a driving force in establishing local financial institutions through a combination of investment and advisory services. A2F advisory services is among the most active of IFC’s business lines, representing 25 percent or over 37 million of IFC’s total spending in FY08.

**Increasing Outreach through Investment and Advisory Services**

IFC’s work in A2F has been a driving force in establishing local financial institutions through a combination of investment and advisory services. About half of IFC’s A2F advisory services projects and programs are directly linked to IFC investments. More than 35 percent of our investments through financial institutions are helping to expand access to finance for MSMEs.
IFC’s A2F investments through financial institutions that serve micro, small, and medium enterprises (MSMEs) have grown dramatically over the last five years – by 344 percent – with commitments of $2.3 billion in FY08 alone. At the same time, over 70 percent of A2F advisory services focus on MSME clients.

As of December 2007, IFC’s financial institution clients that received A2F advisory services held about 2.3 million MSME loans worth over $28 billion in countries such as Afghanistan, Bangladesh, Mongolia, Nigeria, Tajikistan, and Tanzania.7

Over the last year, financial institutions that received A2F advisory services reported an increase of 33 percent in number of MSME loans outstanding, while volume increased by 46 percent.

7 Estimated data at end-December 2007, based on survey data collected and analyzed from IFC’s micro, small, and medium enterprise (MSME) financial institution clients that received A2F advisory services with IFC’s investment, and stand-alone A2F advisory services.
IFC’s combined investment and advisory services offering has continued to deliver strong results. Recent estimates for calendar year 2007 are as follows:

- Our banking projects have helped our clients generate $24.6 billion in financing and helped to improve access to finance for an estimated 175,221 small and medium enterprises (SMEs).
- Our microfinance projects helped our clients extend over $1.6 billion in financing to about 2.1 million micro enterprises.
- Our leasing projects helped our clients provide lease financing to 19,715 micro, small, and medium enterprises (MSMEs) worth a total of $1.7 billion.
- Our housing finance activities helped our clients finance 69,558 homeowners with more than $2.5 billion in mortgage loans.
- Our credit bureau work resulted in 34.7 million credit bureau inquiries and helped generate around $17 billion in new financing for the 10 countries in which IFC previously helped create or improve credit bureaus.

Measuring Results

Monitoring and evaluation is at the core of every A2F advisory services project cycle: each project must specify indicators, set baselines and targets, and actual results are monitored during project implementation until its completion. Impact evaluations strengthen the results of our project activities and are critical to improving our ongoing and future work in A2F advisory services.
Evaluating Impact

Evaluations are critical to improving the design and implementation of our ongoing and future A2F advisory services projects and programs. Evaluating impact requires innovative approaches to measuring results beyond those achieved by the financial institutions. To this end, IFC has continued to undertake in-depth evaluations to assess the impact of IFC’s work in A2F advisory services.

Randomized experiments have been initiated for 12 A2F advisory services projects to date, with new evaluations launched in 2008 for the Latin America and Caribbean region’s MSME program, mobile banking in Cambodia, a housing finance program in Mexico, and a comprehensive leasing development program in Ukraine. Another 10 external reviews have been launched, including in-depth evaluations for the First Microfinance Bank of Afghanistan and the Nigeria MSME Program.

In 2002, after more than 23 years of conflict and the collapse of the Taliban regime, IFC approved a comprehensive investment and advisory services package to help establish the First Microfinance Bank of Afghanistan (FMBA). The project was expected to achieve high development impact by: providing access to finance for micro and small businesses; improving peoples’ livelihoods; strengthening the competitiveness of micro and small businesses critical to private sector led growth in Afghanistan; and promoting outreach to women, who remained underserved given their position in Afghan society.

In 2008, an independent, in-depth evaluation of the project was undertaken. The evaluation included an assessment of the project’s impact at the household and enterprise level and benchmarked FMBA’s performance against similar institutions operating in conflict-affected countries. A quantitative survey of FMBA clients and non-clients was conducted, combined with in-depth interviews and focus group discussions with key stakeholders. Some of the results of the evaluation include the following:

**Outcomes:** FMBA as an institution showed strong performance, with sound ownership, governance, management, credit and financial risk management systems. Actual loans and savings targets were exceeded, and increased outreach to women entrepreneurs was achieved. Results also exceeded those at similarly-aged microfinance institutions in Afghanistan and in other conflict-affected countries.

**Impacts:** FMBA’s micro and small business clients demonstrated positive changes, including: higher monthly business revenues; higher business profits and reinvestments; and increased employment levels compared to non-clients. Household client results showed increased incomes, and expenditures at the household level demonstrating more resilience and better coping strategies than those of non-clients, who experienced declines in basic household expenditures.

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9 Represents cumulative results as of fiscal year ended at June 30, 2008.

10 Banyan Global, Evaluation Report: First Microfinance Bank of Afghanistan, August 1, 2008 (Draft/Not for Distribution); the Final Report with detailed methodology and analysis of results is expected to be released in an upcoming IFCMonitor Note.
Improving Access to Finance Around the Globe

IFC delivers A2F advisory services mainly through Private Enterprise Partnership (PEP) programs or facilities located in the regions, with about 150 dedicated staff. IFC also coordinates these services with the World Bank to deliver policy advice and joint interventions.

Case Studies — Highlights

This section highlights just a few of the ways in which IFC, its partners, and clients are working together to improve access to finance for the under-served, and looks at some results achieved so far.

SME Banking Program Boosts SME Lending in Oman

Since 2006, IFC has partnered with Bank Muscat to support the bank’s significant geographical expansion and diversification of its product offerings, and to boost its lending to small and medium enterprises (SMEs). IFC has provided both investment and advisory services to Bank Muscat, Oman’s leading financial services institution and the largest bank in Oman by total assets and market capitalization.

Through its Banking Advisory Services (BAS) program, IFC has helped Bank Muscat build its SME operational capacity to address the financial needs of the SME sector in a more aggressive manner. The work was launched by a nationwide market study to assess the SME market size, potential, and SME needs of financial services in Oman. IFC provided advice on SME strategy and marketing and product development to help the client grow a profitable SME finance operation.
IFC’s advisory services work with Bank Muscat has realized significant results. In FY08, the bank had 1,918 SME banking clients, with loans worth $218.4 million. In the last six months as of FY08, the bank grew its SME portfolio, increasing the number of loans by 61 percent and growing volume by 200 percent. The BAS work led Bank Muscat to embark on IFC’s Business Edge (BE) program, another of IFC’s advisory services products.

Closing India’s Access to Finance Gap with Yes Bank

Despite strong economic growth in recent years, poverty remains widespread in India with more than 40 percent of the population living on less than $1 a day. A recent World Bank survey indicated that 87 percent of rural poor households do not have access to the financial sector, making it difficult for them to escape poverty. The potential need for microfinance is estimated to be up to $51 billion annually while supply in the form of total outstanding microfinance loans was estimated at just $4.3 billion or around eight percent of the total annual demand as of FY08. Microfinance has been identified as a key component of IFC’s financial markets strategy in India. The Indian microfinance market remains fragmented and characterized by relatively weak institutional delivery capacity and low levels of microfinance penetration – particularly in urban areas.

IFC’s work with Yes Bank in India is designed to support the sustainable and commercially viable expansion of microfinance services. The project was launched in early FY08 with Accion International, and involves assisting Yes Bank to downscale its operations over four years by developing products and services for microenterprises and low-income individuals, including credit, savings, and insurance. IFC’s advisory services have helped Yes Bank design its organizational structure, transfer best practice microfinance methodologies, and bring the bank’s operations to scale. IFC’s advisory services are also providing direct management support through the provision of two resident advisors who provide technical expertise in credit methodology, delivery channel development, systems, marketing, and training. At FY08, Yes Bank had already disbursed over 475 microfinance loans.

Establishing Microfinance in China

IFC’s work in the microfinance sector in China is designed to promote the development of China’s microfinance sector in two ways. First, to shape policy and advise relevant government agencies on microfinance regulations, to organize awareness raising and consensus-building activities, and to conduct training on microfinance best practices. Second, to build capacity through advisory services programs that pilot or help existing microfinance institutions (MFIs) establish themselves as role models for the industry.

Micro and small business financing was severely underdeveloped in China. Before 2005 there were no real commercial MFIs in China mainly because China’s Central Bank – the People’s Bank of China (PBOC) – imposed a very low interest rate cap for the financial sector, which made it impossible for micro and small business financing to be profitable. Because only financial institutions were allowed to engage in lending, any lending activities by non-financial institutions, including MFIs, were regarded as illegal.

“In June 2006, in order to strategically position us in the SME market, we signed an agreement with IFC to provide advisory services. Working with IFC to expand our SME business and customer base, we focused on six modules, namely, market research, formalizing a strategy, refining segmentation, adapting products, improving sales and delivery channels, and structuring the promotion strategy. The consultancy project was successfully completed in May 2007 and many of the final recommendations have already been implemented.”

Abdul Razzak Ali Issa, CEO of Bank Muscat.

“As a step further in the SME arena, we are glad to join hands once again with IFC. Through their Business Edge programme, we can provide business-related workshops to interested Omanis to help them start sustain their business.”

Mr. Paul Theil, Chairman of Zhong An Xin Ye

“We aim to become a leading global MFI with the help of IFC.”

Ms. Rosalind Copisarow, former Senior Vice President of Accion International

“We highly appreciate the contribution made by IFC in jointly developing the project.”

Mr. Arnaud Ventura, CEO of Microcred S.A.

“The contribution made by IFC in the development of Microcred Nanchong has been fantastic…”
Expanding Leasing in Peru

Through a sub-project of the Latin American and Caribbean Micro, Small, and Medium Enterprise (MSME) Finance Program, IFC is providing investment and advisory services to over 50 financial institutions. America Leasing (ALSA), an independent Peruvian leasing company, was one of the partners selected for the program because of its strategy for geographic expansion and plans to develop a new leasing product. The project is expected to enable $45.3 million in new investments benefiting 13,940 individuals. Projected impacts include greater access to long-term financing in underserved regions of Peru and the introduction of new leasing products into the Peruvian market.

The IFC project with ALSA consists of three major components. First, assisting the client in designing and piloting a new financial product to complement the range of its existing offer. Second, strengthening the company’s overall efficiency and operational productivity, which was fundamentally important to its ability to grow the portfolio and expand beyond Lima. Finally, to help the client implement a forward-looking sales strategy with a view to managing continued and sustainable expansion in new products and regions.

Following IFC’s recommendations, ALSA merged its sales and operations departments to become more client oriented and introduced a simple credit scoring model for “light vehicles.” It hired two sales representatives in Arequipa and Trujillo and has been already authorized by the authorities to open three offices outside Lima (in Arequipa, Trujillo, and Piura). IFC and ALSA are currently undertaking a market study to identify potential SME clients in Arequipa and Trujillo. In the meantime, leasing outside Lima increased from 14 to 15 percent of ALSA’s total portfolio.

Helping Leasing Take Off in Madagascar

In September 2005, IFC’s Private Enterprise Partnership in Africa (PEP-Africa) launched the Madagascar Leasing Program to develop a competitive leasing industry in Madagascar. The main goal of the program was to increase the volume of leasing transactions in Madagascar, thereby contributing to the growth of the leasing industry and improving access to finance for SMEs.

The program has been particularly responsive to the needs of the nascent leasing market in Madagascar. It supported the drafting and adoption of a better legal, regulatory, and tax framework for leasing, provided training to key government authorities, judges, and accountants on the new leasing legislation, educated thousands of SMEs and business/industry associations on the benefits of leasing, facilitated relationships between lessors, equipment suppliers and insurance companies, developed an efficient media campaign, provided advisory services and mobilized investment for lessors, organized a leasing investment conference to facilitate partnerships, and supported the creation of the first Madagascar Leasing Association. The strategic approach was to focus on key market elements that would facilitate a sustainable growth of the leasing industry.

As a result of the program’s activities, during the past fiscal year the total lease portfolio in Madagascar exceeded 2007 volumes by 200 percent, with an increase from $2.8 million to $6.1 million. It is projected that the country’s leasing portfolio will reach over $12 million in 2009 and over $25 million in 2011.

The program has been instrumental in accelerating portfolio growth of the first IFC leasing investment in Madagascar (BNI Leasing, a subsidiary leasing company of Credit Lyonnais Bank). Thanks to a full range of leasing advisory services, in FY08 BNI leasing reported 180 percent portfolio growth and improved credit, risk, and recovery policies. Subsequently, the program supported a Malagasy equipment supplier (Mada Finance) to set up an equipment leasing company – the first non-bank lessor in the country targeting underserved SMEs, specifically in rural areas. The program provided a full range of advisory services and has been instrumental in the identification of a credible and experienced technical and investment partner. IFC’s advisory and investment teams are working together to offer an integrated package of equity, debt, and advisory services to support the establishment and growth of Mada Finance.
It is estimated that by the end of FY09 the value of IFC’s investment in the Madagascar Leasing Program will reach $2.6 million. Moreover, the value of increase in private sector investment due to the program will reach an estimated $17.4 million by FY10.

**Leasing Provides Access to Finance to Uzbekistan’s SMEs**

Uzbek Leasing’s clients are private SMEs, whose growth is critical for the development of Uzbekistan’s economy. With total assets of $7.1 billion equivalent and declining banking penetration rates, the financing needs of the private sector, particularly SMEs, were not being met.

“Without access to term finance, SMEs are unable to implement investment plans and modernize existing facilities. Many small companies raised funds on the curb market, in cash, and often at significantly higher interest rates. IFC provided advisory services to Uzbek Leasing and granted them a loan targeted at addressing the scarcity of term foreign currency financing available for businesses to fund imported production equipment. In addition to supplying funding and boosting domestic investment, the project should increase employment in the country and contribute to development of best practice.”

— Lars Thunell, IFC Executive Vice-President and CEO

“This loan will increase private companies’ access to long-term finance in Uzbekistan and strengthen its growing leasing sector. It will also provide an important demonstration effect for others in the market.”

— Zafar Mustafavi, CEO, Uzbek Leasing International

In August 2008, IFC committed a $3 million loan to Uzbek Leasing International, the first leasing company established in Uzbekistan. Today Uzbek Leasing, which has IFC as one of its four shareholders, is one of the leading and most successful leasing companies in the country. Uzbek Leasing has served as a model that has led other leasing companies to launch operations in Uzbekistan.
IFC Helps Develop Mortgage Market in the Kyrgyz Republic

The economies of Central Asia are characterized by imperfect mortgage legislation, weak institutional capacity, and a low level of mortgage awareness within the industry and among the general public. The IFC Central Asia Primary Mortgage Market Development Project works to fine-tune legislation and regulation to enable the start-up and growth of primary mortgage markets in the region. The IFC project also works to strengthen the mortgage-lending capabilities of local banks by developing best-in-class origination, underwriting, and servicing standards, and developing a set of standardized mortgage products adapted to the realities of the local markets.

A successful product paves the way to innovation. The IFC project developed an appraisal product for mortgage lending operations which Bai Tushum Bank, an existing IFC investment client, committed to using. The project will start with an analysis of Bai Tushum’s mortgage lending operations after which IFC will advise the bank’s senior management on ways to grow its mortgage portfolio while maintaining adequate credit quality. In an environment where other international financial institutions (e.g. EBRD, KfW) offer advisory services free of charge, the fact that the client has agreed to pay for these advisory services demonstrates the value add that the IFC advisory project brings to the client. It also reinforces IFC’s position in the industry as a channel to assist other banks and financial institutions improve their mortgage lending operations.

Providing Housing Finance Training in Pakistan

In 2007, Pakistan’s mortgage market was witnessing unprecedented growth. The housing finance portfolio in the country had grown nearly threefold in as many years from $370 million to $1.08 billion. The number of financial institutions offering mortgages had also expanded to 25 out of the country’s total 35. However, as a percentage of GDP, Pakistan’s outstanding mortgage was about 0.8 percent - one of the lowest in the MENA region compared to Jordan at nearly 10 percent and Morocco and Tunisia close to 7 percent. Given the large growth potential in this sector and an environment of controlled inflation, low interest rates, high land prices, and strong liquidity, most of the primary mortgage lenders were looking at the mortgage business as a profitable proposition. However financial institutions had no formal mortgage lending training and relied on general consumer banking experience along with on-the-job training. Given this gap in the market, IFC partnered with the State Bank of Pakistan (SBP) in July 2007 to offer the first specialised and extensive mortgage training program for the country’s mortgage lenders.

The project was completed in December 2007 and resulted in the development of comprehensive Master Trainer and Trainee manuals that covered all aspects of conventional and Islamic mortgage lending. The program trained 60 Master Trainers and 60 Trainees from 30 financial institutions in two back-to-back five-day training sessions. The training program achieved a positive rating from 95 percent of the participants. The training was replicated independently by SBP, using seven of the local Master Trainers trained by IFC using the IFC Trainee Manual. As a result, an additional 38 bankers from 12 financial institutions were trained. The mortgage lending portfolio in the country has grown to one percent of GDP as of June 2008 and is expected to grow further.

“This is the first time that such comprehensive housing finance training has been implemented in Pakistan and we are grateful to IFC for making it happen. We have already been able to utilize the Trainee Manuals and Master Trainers to conduct further training sessions and expect to replicate this every six months to remove capacity constraints in the sector and thus increase the availability of affordable housing finance in the country.”

Dr. Muhammad Saleem, Joint Director, Housing and Infrastructure Department, State Bank of Pakistan.
Egyptian Mortgage Refinance Company

The absence of long-term, fixed rate local currency funding has been a major impediment in realizing the high growth potential of the Egyptian mortgage market. To address this challenge, IFC, in collaboration with the World Bank and the Government of Egypt, established the Egyptian Mortgage Refinance Company (EMRC).

IFC initially conducted an assessment of the key factors necessary for the success of a liquidity facility in Egypt and then provided seed capital (nine percent of the paid-up capital of about $36 million) to establish the institution. IFC also provided advisory services to help EMRC become operational.

IFC worked closely with EMRC to develop corporate tools, such as a business plan, operational manual, process maps, and address IT requirements to build the operational infrastructure needed for EMRC to start business activity. During project implementation, EMRC signed Master Refinance Agreements of $37.8 million with three mortgage lenders and, after completion of the project in June 2008, EMRC made its first refinance loan disbursement for $13.2 million.

“With IFC’s advisory support, EMRC has prepared the operational and IT infrastructure necessary to commence activities. This initiative will further develop the Egyptian housing finance market through the provision of long term funding. We have signed Master Refinance Agreements with three primary mortgage lenders and are now ready to start refinancing their mortgage loan portfolios.”  
Iman Ismail (CEO, EMRC)

“...We did not have the know-how or the capacity before IFC arrived. The policies and procedures for cotton lending to small and medium sized farms developed by IFC were essential to building a strong, effective cotton portfolio for TSB.”
Khabibullo Khaydarov, 
Branch Manager of TSB, Kurgan Tyube
Global Credit Bureau Program

IFC to date has set up or significantly strengthened credit bureaus in 10 countries, namely: Bosnia and Herzegovina, Bulgaria, Costa Rica, Guatemala, Honduras, Nicaragua, Pakistan, Panama, Romania, and South Africa. Recent developments under the program include:

- **Egypt**: Egypt's first private credit bureau, i-Score, was launched in July 2008 with IFC support. At the time of the launch, i-Score's database included 3.5 million financial instruments, which represented approximately 86 percent of the commercial banking market in Egypt.

- **Morocco**: In a successful public-private partnership, the Central Bank of Morocco, with support from IFC, established a transparent and advanced credit information sharing infrastructure, thus establishing a foundation for the country's first private credit bureau.

- **Kenya and Ghana**: Legislation enabling the licensing of private credit bureaus has been approved and issued in both countries, following several years of IFC involvement. Private credit bureaus are expected to start operating shortly in both Kenya and Ghana.

- **Vietnam**: The State Bank of Vietnam, with support from IFC, has set up the country's first private credit bureau. IFC is currently providing assistance in reviewing the draft decree on credit information and technical vendor selection.

Developing Collateral Registries in China and Nepal, Secured Lending in Vietnam

In China, IFC and the World Bank collaborated with regulatory authorities to enact a new Property Law, which helped to establish the first national web-based registry. This enabled all types of assets to be used as collateral, unleashing over $2 trillion worth of capital which could now be used as collateral. As of January 15, 2008, the registry had recorded 10,469 new entries. By the end of June 2008, total new entries had increased to over 20,000, representing loans with an aggregate value estimated at over $300 billion.

In Nepal, an agreement was reached with the government on the implementation timeline for an electronic nationwide collateral registry. The registry will be established on a public-private partnership basis with the Ministry of Finance and the Credit Information Bureau. The impact of the registry on credit volumes is expected to be significant. According to a survey of lenders, within five years of inception the registry is expected to receive 11,500 new loan registrations.

In Vietnam, accessing credit continues to be a binding constraint for entrepreneurs and the burgeoning sector of smaller businesses in Vietnam. Donor reports estimate 20 to 40 percent of households and small firms do not have access to formal financing channels. IFC responded to a request from the government of Vietnam to streamline the country's secured transactions laws and registry. This effort resulted in a three-point improvement on the relevant Doing Business indicator, putting the Vietnamese legal framework on par with the OECD average. Vietnam's “getting credit” ranking in the Doing Business 2008 report improved from 80 to 48 among 145 countries. As a result of the law, any asset could legally be used as collateral, creditors would be better able to assess the risk profile of their lending portfolios, and all conflicting legislation was repealed.

In FY08, with the new policy framework in place, the project’s primary focus has become streamlining the administrative operations of the National Registration Authority for Secured Transactions. Significant progress has been made in redesigning the registry. The new electronic registry is expected to be operational in FY09, reducing registration time from six days to six minutes.
New Initiatives

IFC’s A2F advisory services has a number of initiatives which are at the early stages of development, including creating efficient microfinance credit reporting systems globally and the Global Index Reinsurance Facility. New initiatives in climate change mitigation and agribusiness finance will be an increased focus of our work.

Linking Microfinance and Credit Bureaus

Over the last two decades, the microfinance industry has made significant strides. At the end of 2006, 3,316 microfinance institutions (MFIs) reported reaching over 133 million micro-borrowers, 93 million of whom were among the poorest when they took their first loan. The microfinance industry has achieved commendable results, as demonstrated by the rapid growth and increased number of sustainable MFIs over the past decade. However, the industry continues to expand without an important element – integration with credit bureaus. Such integration is indispensable to the industry’s long-term sustainability, and to the expansion of responsible finance.

IFC’s A2F advisory services are developing an initiative to enable the creation of effective and efficient microfinance credit reporting systems globally. The initiative seeks to promote best practice regulatory frameworks for integrating MFIs with credit bureaus. It includes the provision of financial education to empower microborrowers to build and use their credit history as reputational collateral to access financial services – and at better rates – while maintaining prudent levels of indebtedness. The initiative also aims to assist MFIs to use credit bureau data for loan screening and portfolio supervision, thus improving loan processing efficiency, risk management, and possibly reducing their operational costs.
Boosting Market Penetration through Performance-Based Grants

IFC’s Performance-Based Grant Initiative for Access to Finance (PBGI-A2F) aims to better meet demand for access to financial services and deepen overall penetration of those financial services in developing countries by offering performance-based grants. The PBGI-A2F initiative offers incentives to financial institutions that demonstrate strong commitment to penetrating new market segments, and to developing innovative initiatives to reach the unbanked and underserved. To be eligible for PBGI-A2F funds, projects must show performance indicators and targets for reaching clients’ end-users and beneficiaries, a clear strategy with strong client commitment, and demonstrated capacity to successfully achieve targets. Up to 80 percent of PBGI funds are allocated to IDA countries. Projects proposed for PBGI funding further aim to strengthen synergies between investment and advisory services.

IFC Warehouse Receipts System to Boost Indonesian Farmers’ Access To Finance

Lack of access to finance is a leading cause of the structural poverty which is prevalent throughout much of Indonesia’s agrarian society. Given the cyclical nature of farming, Indonesia’s farmers are particularly sensitive to financial shortages at critical times throughout the year. IFC has provided advisory services to the Commodity Future Trading Regulatory Agency (COFTRA) as it develops a warehouse receipt system and establishes the infrastructure required for the operation of licensed warehouses.

IFC’s advisory services for COFTRA have begun with an initial phase that runs from September 2007 until December 2008. IFC is collaborating with the Ministry of Trade (MoT) on:

- Legislation and regulation development
- Development of warehouse licensing and inspection services
- Introduction of financial performance guarantee mechanisms
- Fee structures
- Market information system needs assessment
- Collateral registry assessment
- Development of pilot program

During a second phase, 2009-2010, IFC is expected to assist COFTRA in socializing the system among stakeholders, and conduct training and institutional capacity building to gradually introduce the warehouse receipt system across the real sector throughout Indonesia. IFC will also train banks to establish systems for lending against warehouse receipts. Providing advisory services to COFTRA is one way in which IFC is helping to reduce poverty and improve lives in Indonesia.

Index-Based Weather Insurance for Farmers

Developed and developing countries alike are affected by the growing number of weather and catastrophic (CAT) events such as flood, drought, windstorms, possibly related to global warming and climate change.

Risks associated with weather and catastrophic events adversely impact the development process in emerging markets, particularly for low-income and rural households. There is a significant need within developing countries to deal with or hedge the risks or perils, but there is virtually no capacity. Currently insurance protection against weather or other CAT risks is either unavailable or prohibitively expensive in many developing countries. In collaboration with the World Bank, and with funding support from the European Union, IFC is creating the Global Index Reinsurance Facility (GIRIF). GIRIF will establish technical and intermediation capacity to mitigate such weather and CAT risks through indexed insurance products. The program will also institute policies and regulations to facilitate risk mitigation using indexed insurance instruments.

The program is expected to foster a market-intermediate risk-transfer product to provide partial loss coverage in the event of catastrophes or losses from natural events and disasters. The program is expected to have a significant development impact in protecting the lives and livelihoods of those in agricultural areas, as well as contributing towards food security initiatives. At the same time, it expects to facilitate the creation of a new commercial reinsurance institutional marketplace dedicated to introducing novel risk mitigation instruments for developing countries.

GIRIF consists of a commercial risk bearing entity and a Multi-donor Trust Fund called the GTF Program. The GTF Program will support local capacity building, work with and support partner financial institutions such as reinsurance companies, collaborate with the World Bank to work with local regulators on legal and regulatory policies, and help to introduce market solutions for indexed CAT-risk products.
Disseminating knowledge in access to finance (A2F) is a key deliverable for IFC’s advisory services work. The A2F network, FinNet, has a membership base of over 350 staff working on a range of products. FinNet holds an annual meeting to discuss cross cutting issues in access to finance such as monitoring and evaluation, to roll out new product tools, and provide networking opportunities to its members. FinNet as the umbrella network on A2F is complemented by practice groups which take leadership on product-specific strategies and tools.

Sharing Knowledge

Key to A2F advisory services’ outreach and development impact is our ability to generate and use knowledge in ways to benefit our clients.

An important component of knowledge sharing is the interactive web platform on A2F advisory services resources, which was launched in July 2008. This new site is the repository of toolkits, sample project documents, templates, calendar of events, etc. for each product in the A2F business line. In the last year, A2F advisory services products continued to feature prominently in the SmartLessons program, which documents lessons and experience written by staff. A2F advisory services has contributed 25 such short lessons to date. In addition, IFC’s A2F business line disseminated knowledge by supporting a number of international conferences with key development and private sector partners, such as the Next Generation Access to Finance event held in cooperation with CGAP and Visa. It also published best practice materials such as a brochure on Benchmarking SME Banking Practices.
New Tools in Access to Finance

SME BANKING BENCHMARKING – ROLLING OUT A WEB-BASED TOOL

IFC has developed a new web-based survey that can help banking partners in emerging markets improve their SME operations by benchmarking their SME banking practices. The survey leverages IFC’s expertise in SME Banking advisory services and its existing tools, including the IFC SME Banking CHECK and the IFC SME Benchmarking study in OECD and Emerging Markets, which was completed in 2007.

IFC is currently piloting the survey in select countries around the world. This allows it to build a baseline database of benchmarks that will enable participating banks to receive benchmarking results. As a result of the high demand in the Central and Eastern Europe region, IFC translated the survey into Russian and will translate it into other languages as the exercise expands. IFC is rolling out the survey to all interested banks in emerging markets through its A2F regional facilities.

NEW HOUSING FINANCE TOOLKIT

The Housing Finance Toolkit is a product and approach to provide emerging markets financial institutions with detailed guidance and resources for initiating or improving an existing mortgage lending program. The Toolkit provides an overview of the mortgage lending process, offers sample residential mortgage products that an institution can employ, provides examples of the forms and documents that a lender can use to originate and manage mortgages, and presents a detailed operating manual that lays out the step-by-step process that a financial institution would follow in offering and managing mortgage loans. The Toolkit provides a gateway to standardizing many of the key aspects of mortgage lending. It has been made available to IFC’s clients in Albania, Ghana, Mexico, Pakistan, Russia, and Uganda.

SHARING KNOWLEDGE THROUGH PRODUCT GROUPS AND PRACTICE GROUPS

Product Groups: IFC’s A2F business line started to develop product groups for 11 of its product lines. The product groups are comprised of three to nine specialists who provide leadership in their respective products, providing input on strategy, monitoring and evaluation, tools, and funding. Some products groups such as Credit Bureaus and Leasing are more developed compared to others such as Rural Finance, which is still in its formative stage.

Practice Groups: IFC’s A2F business line continued its work on existing practice groups, such as Leasing, and created new ones to support the array of A2F advisory services products. The Leasing practice group holds an annual meeting in the field. This year it held a three day event in Kiev, Ukraine. A key part of the discussion was the review and updating of the IFC Leasing Manual.

The Advisory Services Microfinance practice group teamed with its Investment Services colleagues to contribute to a new virtual platform for staff collaboration. Over 100 best in class documents on microfinance were identified, such as milestone transactions, benchmarking, guidance and toolkits, examples (greenfield, transformation, expansion, structured vehicle examples using equity, debt, PCG, and/or advisory services); lessons learned/interviews (including a “Top ten list for establishing and investing in holding companies”); and presentations (global and regional sector strategies).

The Credit Bureau practice group continues to meet on a semi-annual basis with the broader Financial Infrastructure team to discuss the preparation of its piece on Financial Infrastructure and key program deliverables.

The SME Banking team has prepared the ground for its newly-created practice group to hold its meeting before FinNet 2008 in October.
IFC AND PARTNERS LAUNCH NEW HOUSING FINANCE PORTAL

A new initiative to create a housing finance internet portal aims to provide a central quality assured information source for housing finance research. The web portal, which will be run by an NGO bringing together IFC, IBRD, Wharton School and any other donors, will consolidate and develop housing finance information and analyses with an emphasis on emerging market and developing countries. It will encourage the sharing of best practice and ideas, and the distribution of relevant research knowledge. Over the longer term, through its network of country and subject editors, the portal will be an important resource for the housing finance practitioners, both private and public, in emerging markets with the portal generating its own content and revenue.

The Housing Finance Information Network (www.HoFin.Net), will be a nonprofit organization, jointly founded by IFC, World Bank Group, and Wharton School’s Real Estate Center. It is being established to launch and maintain a premier global information web portal which will provide relevant information on housing finance and related topics - research, systems, experiences - of countries around the world. It is a collaborative effort of housing finance professionals and institutions who will work together to bring standardized international housing finance information – both country and subject-specific – into the public domain.

The portal was launched in September 2008. It aims to cover at least 10 subjects and 10 countries within its first year of operation and to expand to cover 35 subjects and 40 countries by 2009. The portal is expected to attract a broad range of users including policy makers, housing and housing finance practitioners in public, private and non-government sectors, trade associations, researchers and students, and journalists.
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