IFC's Advisory Services are 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 recognizes 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, The MasterCard Foundation, Millennium Foundation, the Netherlands, New Zealand, Norway, OMIDYAR Network Fund, INC., Saxony (Germany), Spain, Sweden, Switzerland, United Kingdom, United States, and Visa International.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>FOREWORD</strong></td>
<td>2</td>
</tr>
<tr>
<td><strong>OVERVIEW</strong></td>
<td>4</td>
</tr>
<tr>
<td><strong>FINANCIAL INSTITUTIONS</strong></td>
<td>6</td>
</tr>
<tr>
<td>Micro / Retail</td>
<td>6</td>
</tr>
<tr>
<td>Insurance</td>
<td>6</td>
</tr>
<tr>
<td>Microfinance</td>
<td>7</td>
</tr>
<tr>
<td>Retail Payment Institutions</td>
<td>7</td>
</tr>
<tr>
<td><strong>SMES &amp; BUSINESSES</strong></td>
<td>7</td>
</tr>
<tr>
<td>Agrifinance</td>
<td>8</td>
</tr>
<tr>
<td>Leasing</td>
<td>8</td>
</tr>
<tr>
<td>SME Banking</td>
<td>9</td>
</tr>
<tr>
<td>Trade Finance</td>
<td>10</td>
</tr>
<tr>
<td>Risk Management</td>
<td>10</td>
</tr>
<tr>
<td>Sustainable Energy Finance</td>
<td>11</td>
</tr>
<tr>
<td><strong>FINANCIAL INFRASTRUCTURE</strong></td>
<td>12</td>
</tr>
<tr>
<td>Collateral Registries and Secured Transactions</td>
<td>12</td>
</tr>
<tr>
<td>Credit Reporting</td>
<td>12</td>
</tr>
<tr>
<td>Securities Markets</td>
<td>13</td>
</tr>
<tr>
<td><strong>RESPONSIBLE FINANCE</strong></td>
<td>14</td>
</tr>
<tr>
<td>Advancing Responsible Financial Inclusion</td>
<td>14</td>
</tr>
<tr>
<td>IFC’s Investment and Advisory Initiative in India</td>
<td>14</td>
</tr>
<tr>
<td>Beyond Responsible Microfinance</td>
<td>15</td>
</tr>
<tr>
<td>Responsible Finance Forum</td>
<td>16</td>
</tr>
<tr>
<td><strong>PORTFOLIO DATA AND DEVELOPMENT IMPACT</strong></td>
<td>18</td>
</tr>
<tr>
<td>Portfolio Data</td>
<td>18</td>
</tr>
<tr>
<td>Development Results</td>
<td>18</td>
</tr>
<tr>
<td>Development Effectiveness</td>
<td>19</td>
</tr>
<tr>
<td>Monitoring, Evaluation &amp; Learning</td>
<td>19</td>
</tr>
<tr>
<td>IFC’s Development Goals for Finance</td>
<td>21</td>
</tr>
<tr>
<td><strong>CASE STUDIES – HIGHLIGHTS</strong></td>
<td>22</td>
</tr>
<tr>
<td>BAI-TUSHUM Transformation from Microlending Provider to a Deposit-Taking Joint Stock Company</td>
<td>22</td>
</tr>
<tr>
<td>Strengthening Financial Services for Women Entrepreneurs in the Dominican Republic</td>
<td>23</td>
</tr>
<tr>
<td>Deposit Assessment Studies in South Asia</td>
<td>23</td>
</tr>
<tr>
<td>IFC and the Arab Monetary Fund Strengthen Cooperation to Develop Financial Infrastructure in MENA</td>
<td>24</td>
</tr>
<tr>
<td>Tajikistan Agrifinance – Sustainable Working Capital Lending to Cotton Farmers</td>
<td>24</td>
</tr>
<tr>
<td>Index-Based Agriculture Insurance in Kenya</td>
<td>25</td>
</tr>
<tr>
<td>G-20 SME Finance Special Initiative</td>
<td>26</td>
</tr>
<tr>
<td>Small Russian Town Welcomes Winter with a Brand New Boiler House</td>
<td>27</td>
</tr>
<tr>
<td>Turning Green to Gold: Philippine SEF Program Helps Small Entrepreneurs Cut Energy Costs</td>
<td>27</td>
</tr>
<tr>
<td>The First Russian-Language Risk Management Certification Program Launched in the Europe and Central Asia Region</td>
<td>28</td>
</tr>
<tr>
<td>Transforming the Banking Sector to Tap the Potential of MSMEs</td>
<td>28</td>
</tr>
<tr>
<td>Ecobank Group: Scaling Up SME Support in Africa</td>
<td>29</td>
</tr>
<tr>
<td>SECO and IFC Help Azeri Banks Expand Access to Finance for Small and Medium Enterprises</td>
<td>30</td>
</tr>
<tr>
<td>Growing SME and Housing Finance in Honduras</td>
<td>31</td>
</tr>
<tr>
<td>Promoting Sustainable Energy Finance in Latin America</td>
<td>31</td>
</tr>
<tr>
<td>Challenges Confronted by Newly-Established Leasing Company</td>
<td>32</td>
</tr>
<tr>
<td>IFC Helps Vietnam Bond Market Association Create a More Efficient Capital Market</td>
<td>33</td>
</tr>
<tr>
<td>SME Banking Segmentation Study in Pakistan</td>
<td>34</td>
</tr>
<tr>
<td>Sustainable SME Banking Operations Rolled Out Across East Africa</td>
<td>35</td>
</tr>
<tr>
<td>Benchmarking SME Banks in ECA</td>
<td>36</td>
</tr>
<tr>
<td><strong>SHARING KNOWLEDGE</strong></td>
<td>38</td>
</tr>
<tr>
<td>Benchmarking Best Practices in SME Banking</td>
<td>38</td>
</tr>
<tr>
<td>SME Banking Knowledge Guide</td>
<td>38</td>
</tr>
<tr>
<td>SmartLessons</td>
<td>38</td>
</tr>
<tr>
<td>Global Leasing Toolkit</td>
<td>38</td>
</tr>
<tr>
<td>Leasing Guidelines for Emerging Economies</td>
<td>39</td>
</tr>
<tr>
<td>Secured Transactions Toolkit</td>
<td>39</td>
</tr>
<tr>
<td>2011 Global Microscope</td>
<td>39</td>
</tr>
<tr>
<td>Housing Microfinance Toolkit</td>
<td>39</td>
</tr>
<tr>
<td>Financial Infrastructure Report</td>
<td>40</td>
</tr>
<tr>
<td>World Bank-IFC Remittance Prices Worldwide Database</td>
<td>40</td>
</tr>
<tr>
<td>Corporate and SME Workouts: A Manual of Best Practice</td>
<td>40</td>
</tr>
<tr>
<td>Micro, Small &amp; Medium Enterprise Database &amp; Analysis</td>
<td>40</td>
</tr>
<tr>
<td>Scaling Up Access to Finance for Agricultural SMEs Policy Review and Recommendations</td>
<td>41</td>
</tr>
<tr>
<td>Towards Universal Access</td>
<td>41</td>
</tr>
<tr>
<td>SME Finance Policy Guide</td>
<td>41</td>
</tr>
<tr>
<td>Strengthening Access to Finance for Women-Owned SMEs in Developing Countries</td>
<td>41</td>
</tr>
<tr>
<td>Mobile Money Toolkit</td>
<td>41</td>
</tr>
<tr>
<td>Financial Inclusion Data: Assessing the Landscape and Country Level Target Approaches</td>
<td>41</td>
</tr>
<tr>
<td><strong>ACCESS TO FINANCE ADVISORY SERVICES CONTACTS</strong></td>
<td>42</td>
</tr>
<tr>
<td>Global Business Line Leaders</td>
<td>42</td>
</tr>
<tr>
<td>Global Products</td>
<td>42</td>
</tr>
<tr>
<td>Strategy, Knowledge &amp; Impact</td>
<td>42</td>
</tr>
<tr>
<td>Donor Relations</td>
<td>43</td>
</tr>
<tr>
<td>Regional Offices</td>
<td>43</td>
</tr>
<tr>
<td>IFC Financial Markets</td>
<td>43</td>
</tr>
</tbody>
</table>
The past fiscal year has been both challenging and rewarding for IFC’s Access to Finance Advisory as we delivered strong development results. We are committed to making a meaningful difference to development through improved access to financial services and continue to stimulate financial activity to help clients effectively during these economic times.

This annual report, which takes stock of our progress in FY11, underscores our continued efforts to provide world-class advisory services that target both financial institutions and the broader financial infrastructure.

In FY11, we left a strong advisory footprint with an emphasis on the poorest countries, supporting 189 financial institutions in 55 countries (including 36 IDA countries). These projects address some of the most essential challenges to sustainable development–supporting micro, small, and medium enterprises (MSMEs) 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 affordable and transparently.

As an implementing partner of the G-20 Global Partnership for Financial Inclusion (GPFI), IFC continued to support the G-20 financial inclusion agenda by providing technical analysis and guidance on SME finance, improving the global financial access data landscape, and supporting policymaker implementation of guidance tools at the country-level. Four reports, led and produced by IFC, were delivered to the G-20 co-chairs (available at www.gpfi.org):

- **SME Finance Policy Guide** – a reference point for governments and regulators to underpin the development of Financial Inclusion Strategies and SME Finance Action Plans;
- **Strengthening Access to Finance for Women Owned SMEs** – a report focusing on the issues impeding access to finance as well as non-financial barriers for women entrepreneurs;
- **Scaling Up Access to Finance for Agricultural SMEs** – policy review and recommendations on the development of SME Finance in the agricultural sector;
- **Financial Inclusion Data** – a review of global and multi-country data and gaps in the financial inclusion data industry.

FY11 was the first year of implementation for the IFC Development Goals (IDGs), building on initial targets and methodologies developed in FY10. Given our strategic priority within the G-20 agenda to scale up financial inclusion globally, IDGs for finance were expanded in scope to include non-credit services such as savings, payments, housing, and insurance services. The contributions from these products will be accounted for in the IDG targets for FY12 and going forward.

As IFC enters its second year of measuring the IDGs in FY12, a major thrust for access to finance will be to further strengthen advisory and investment engagements to deliver client-centric products and services, which is critical to achieving full implementation of IDGs in FY13. Development impact and results are core to IFC’s mission and success of Access to Finance Advisory Services. Some estimates for this year include:

- IFC’s microfinance clients provided $4.3 billion in financing to about 3.4 million micro enterprises.
- IFC’s housing finance clients provided $18.3 billion in housing finance loans to 1.9 million homeowners.
- IFC’s SME Banking clients provided almost $38.9 billion in financing and helped improve access to finance for about 720,000 small and medium enterprises.
IFC’s leasing clients provided $318 million in lease financing for 19,731 micro, small, and medium enterprises.

IFC’s trade finance clients have originated $13 billion in trade finance guarantees for 220 emerging market banks in 90 countries.

IFC’s credit bureau clients, established and/or improved in 20 countries, helped generate 31 million inquiries worth an estimated $6.2 billion in new financing to about 6 million retail and small business clients.

IFC helped to establish the first collateral registries in China and Ghana, facilitating more than $3.5 trillion in financing secured with movable property to 68,000 small and medium enterprises.2

The report also highlights knowledge sharing initiatives. Through knowledge and products, IFC’s Access to Finance Advisory 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 FY11, best practice initiatives included:

- Global Leasing Toolkit – a practical guide for leasing institutions that handle equipment leasing for SMEs.
- Corporate and SME Workouts: A Manual of Best Practice – a guide for staff at lending institutions who handle corporate and SME non-performing loans.

We would like to thank our donors who continue to 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 Scriver
Deputy Business Line Leader

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1 Results through financial institutions represent portfolio outstanding reported for calendar year 2010. Results of financing provided to micro clients through credit bureaus assume an estimated 20% of individual inquiries receive loans.

More than 2.7 billion people in developing countries still lack access to basic formal financial services, such as savings or checking accounts. In developing countries, about 400 million businesses lack the credit they need to grow. These enterprises typically employ fewer than 250 people, yet they account for nearly half the jobs created in the developing world. In all, their unmet financing needs total more than $2 trillion—an amount equal to the gross domestic product of some of the world’s wealthiest countries.

IFC’s Access to Finance Advisory helps increase the availability and affordability of financial services for individuals and micro, small and medium enterprises. Our priorities are to help our clients provide broad-based financial services to individuals (such as credit, savings, payments and insurance products) and to promote growth and employment generation by supporting sustainable lending to small and medium enterprises. We also help build the necessary financial infrastructure such as credit bureaus and collateral registries.

At the end of FY11 we has an active portfolio of 244 access to finance projects in 67 countries valued at almost $294 million. Our FY11 project expenditures totaled $63.3 million. In all, 67 percent of project expenditures attributable to clients in individual countries went to IDA countries and 10 percent to 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, and collateral registries.

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.
UNMET NEED FOR FORMAL FINANCIAL SERVICES

<table>
<thead>
<tr>
<th>Region</th>
<th>Population</th>
<th>MSMEs</th>
<th>MSMEs (% of region)</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-income OECD</td>
<td>60 million</td>
<td>18-22 million</td>
<td>32%</td>
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<tr>
<td>Latin America and the Caribbean</td>
<td>250 million</td>
<td>20-25 million</td>
<td>43%</td>
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<tr>
<td>Sub-Saharan Africa</td>
<td>326 million</td>
<td>24-39 million</td>
<td>68%</td>
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<tr>
<td>Middle East and North Africa</td>
<td>136 million</td>
<td>9-11 million</td>
<td>46%</td>
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<tr>
<td>South Asia</td>
<td>612 million</td>
<td>39-42 million</td>
<td>49%</td>
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<tr>
<td>Eastern Europe and Central Asia</td>
<td>193 million</td>
<td>9-11 million</td>
<td>50%</td>
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<tr>
<td>East Asia</td>
<td>876 million</td>
<td>103-126 million</td>
<td>61%</td>
</tr>
<tr>
<td>High-income OECD</td>
<td>60 million</td>
<td>18-22 million</td>
<td>32%</td>
</tr>
</tbody>
</table>


*Includes both formal and informal micro, small, and medium enterprises. % of total region’s MSME enterprises against those reporting either 1) underserved - having either a loan or overdraft account, but needing credit and 2) unserved - having neither a loan or overdraft account and needing credit.

Percent of total adult population that does not use financial services:

- 0-25
- 26-50
- 51-75
- 75-100

Percent of total MSMEs reporting unmet financial needs:

- <20
- 20-39
- 40-59
- >59
Insurance

Insurance is an important element of growth as it increases business formation, asset investment, and job creation by enabling both individuals and businesses to structure appropriate, cost-effective methods to mitigate or transfer risks.

Products such as micro-insurance, agricultural insurance, and index-based catastrophic insurance receive significant recognition as elements in protecting people against specific risks. However, large populations throughout emerging-market countries still do not have access to such products. There are several reasons that could contribute to this lack of access to insurance, including a negative perception toward insurance, products that are too expensive and complicated for the poor, or an absence of distribution channels that have the infrastructure to market these products. Although there is significant demand for insurance products in the developing world, much remains to be done to create insurance awareness, strengthen regulatory systems, and promote the use of insurance products.

Over the course of the past year, IFC has helped new and existing insurance companies build the skills and tools needed to establish efficient and sustainable systems, develop new products, and support the development of distribution channels. One important development is the establishment of the Ukraine Agri-Insurance Bureau, supported by the IFC Ukraine Agri-Insurance Development Project. With the assistance of IFC, the Bureau’s main role will be to establish a common data management system for its members, develop new products, and conduct education campaigns for farmers. IFC’s help enables Ukraine’s agri-insurance sector to develop quality products for the market as well as establish a modern corporate governance structure with open and transparent procedures.

GLOBAL INDEX INSURANCE FACILITY

IFC, in partnership with International Bank for Reconstruction and Development (IBRD), launched the Global Index Insurance Facility (GIIF) in December 2009. GIIF’s objective is to develop effective and sustainable markets for index-based weather and catastrophic risk insurance to foster sustainable development in the agricultural sector. IFC works primarily with the private sector to develop local capacity to support index insurance markets, while IBRD works with the public sector to build capacity to regulate and administer index-based insurance.

Since its launch, GIIF has initiated a number of projects aimed at bringing affordable insurance protection against weather risks to small-scale farmers. To date, total GIIF commitments in Africa stand at approximately $8.9 million. New projects have also been approved in Bangladesh and Sri Lanka. GIIF also concluded a technical partnership agreement with Swiss Re Corporate Solutions to provide technical services to GIIF projects and to support GIIF’s strategic objectives, leveraging the global reinsurer’s longstanding experience in developing innovative risk transfer solutions for emerging markets.

The European Commission is the GIIF’s primary donor, having committed a €24.5 million grant to fund advisory work in Africa, Caribbean, and Pacific (ACP) countries. The Japan Ministry of Finance joined the GIIF donors in July 2010 and offered $2 million in funding for the financial year 2010. The Japanese funding was used to expand GIIF beyond ACP regions. The Dutch also provided $500,000 in funding to support the launch of the program.
To enhance capacity building and help develop an appropriate policy and regulatory framework in the insurance sector, IFC is partnering with colleagues from the World Bank, including those in the Sub-Saharan Africa, Caribbean, and Asia regions. A significant outcome of this partnership is the Global Index Insurance Facility (GIIF), which aims to develop effective and sustainable markets for index-based weather and catastrophic risk insurance.

**Microfinance**

As a global leader in microfinance, IFC works with more than 110 institutions in more than 50 countries. IFC has been a growth catalyst in financial inclusion since its first microfinance investment in 1995, providing investments and advisory services to microfinance institutions – including small-business banks, non-bank financial institutions, and nongovernmental organizations – and encouraging the emergence of collective investment vehicles.

IFC continues its support through investments and advisory services aimed at expanding the array of financial services available to low-income clients. As of June 2011, IFC had committed investments totaling $1.2 billion to microfinance institutions and microfinance intermediaries. In addition, funding for microfinance advisory services totaled $55.1 million, representing 67 microfinance projects. As of December 2010, IFC’s investee clients had an outstanding portfolio of almost 8 million microloans, worth nearly $12.6 billion. Access to Finance microfinance advisory services’ flagship initiatives include transforming NGOs/institutions; enhancing risk management and governance frameworks for portfolio clients; significantly expanding small-scale deposit mobilization and micro-insurance provision; and spurring advancements in technology. The Access to Finance mobile banking initiative is an additional way IFC is supporting technological innovations to expand microfinance.

**Retail Payment Institutions**

Our retail payment institutions work increases access to banking services through payments services as a point of entry for low-income clients by supporting the development of innovative and sustainable business models using new technologies that deliver payment services at a low cost. We focus on identifying and supporting start-up businesses offering electronic and mobile payment solutions, eventually leveraging these into relationships with financial institutions that can offer a broader range of financial services to low-income households. Specific emphasis is given to expanding access to electronic banking services in underserved countries and regions, including rural and post-conflict locations. Retail Payment Institutions work will replicate and scale up the successful work in East Asia using the Mobile Money Toolkit and expand it to be applicable to electronic banking services such as cell phones, cards and Point of Sale devices on the one hand, and expand the application of the toolkit to Africa, Middle Eastern, North African, South Asian and Latin American countries.

**SMES & BUSINESSES**

**Agrifinance**

Development of the agriculture sector is critical in addressing widespread poverty and advancing the Millennium Development Goal (MDG) of halving poverty and hunger by 2015. To target the large rural poor population in developing countries, agriculture investments are required to improve on-farm productivity, post-harvest practices, and the trade and marketing of agricultural commodities. Despite the significant financing needs of farmers and agribusinesses, the financial sector strongly lacks the appetite, incentives, and skills to target and service the agricultural sector and its supply chain, leading to severe financing constraints. Lack of broader access to financial services limits opportunities for agri-enterprises and small holders to adopt efficient technologies and allocate resources efficiently.

IFC has set forth a number of initiatives to increase the supply of finance to the agriculture sector and its supply chain. IFC’s Access to Finance Agrifinance Advisory Program primarily supports:

- **Banks, financial institutions, and non-bank financial institutions (NBFIs)** in building necessary skills, developing products, and finding ways to mitigate and manage risks related to lending to the agric-sector.
- **Farmers, farmer-based organizations, and agribusinesses along supply chains** in building capacity through targeted financial training, supply chain analysis, linkages to financial institutions and markets, and innovative financial products.

Globally, Access to Finance’s Agrifinance advisory services are offered in three areas:

- **Financial Institution Capacity Building**
  IFC’s approach is to help financial institutions to establish and/or further develop their agri-lending activities. The amount and nature of this advice is heavily tailored to the needs and strategy of each participating client bank. The advice addresses specific risk management practices, credit processes, and the development of sales channels and new products unique to agri-lending.

- **Supply Chain Analysis & Borrowers’ Needs Assessment**
  IFC can help an institution undertake systematic market research in selected target countries, regions, or agriculture sectors. Such an analysis includes a general SWOT assessment, a mapping of key priority
segments in the agriculture supply chain around selected commodities, an estimate of the potential market for financial services, an assessment of borrowers’ needs, and gap analysis of financial offerings. The advisory services also help financial institutions design training and capacity-building programs as well as develop targeted financial products for the sector, which may include a supply chain finance program implemented through value chain actors.

Borrower Support

This pillar assists agribusinesses, farmers, and farmer-based organizations with financial training programs directly related to the preparation of business plans and loan applications. The focus of this component is building the capacity of service providers to mediate between financial institutions and agribusinesses or farmers. Access to Finance Advisory is working in close cooperation with the Sustainable Business Advisory (SBA) business line and leveraging SBA tools and resources in linking financial institutions and Non-bank financial institutions to supply chains and farmers as well as ensuring a consistent approach with its work in social and environmental areas.

Given the unique and challenging risks, and in addition to agrifinance advisory services, financial institutions may be incentivized through lines of credit from IFC or risk-sharing facilities that would partially guarantee agriculture portfolios based on pre-agreed and pre-established criteria. IFC’s Global Warehouse Finance Program is a program focused specifically on increasing post-harvest finance. IFC is also bringing together banking and insurance expertise to improve access to finance by reducing the risk of agricultural activities. IFC’s initiative focused on developing weather index-insurance products (GIIF) can support the development of macro risk mitigation tools to make farming investment risks acceptable.

Leasing

Leasing plays a critical role in promoting a sustainable private sector in emerging markets since it particularly helps underserved markets. By leveraging little or no down payment, SMEs are able to obtain productive equipment through leasing and increase productivity, jobs, and incomes.

The stocktaking report developed by IFC in its capacity as a technical advisor to the G-20 SME Finance sub-group, affirmed that leasing is less developed in emerging markets. Yet, it is an important complementary source of investment finance, especially in countries where the collateral regime and the information infrastructure are weak. Building on the extensive sector-level work, IFC leasing programs are focused on integrating leasing into a comprehensive approach to bridge the access-to-finance gap.

IFC’s donors have continued to support IFC’s leasing programs, allowing IFC to maintain its outreach to underserved SMEs, particularly in rural areas. Leasing programs have continued in IDA countries, post-conflict and frontier markets in East Asia and the Pacific, Latin America and the Caribbean, Middle East and North Africa, and Sub-Saharan Africa. In Mongolia and Peru, IFC has facilitated increased outreach to SMEs by providing a unique range of services to local financial institutions, building their capacity to increase the share and reach of respective SME portfolios. IFC also made significant impact in its work with governments and policy makers in Afghanistan, Liberia, and Sierra Leone by offering advice on improving respective tax and legal frameworks and creating an environment conducive to lease market growth.

To expand its reach, IFC and respective governments are working on initiatives in new post-conflict markets including Cote d’Ivoire, Egypt, and Sudan. For example, working with the World Bank, IFC provided assistance to the government of Sudan on creating an environment favorable for sustainable lease market development, including Islamic leasing.

In line with IFC’s objective to increase the impact of leasing through innovation, IFC advanced its efforts to support climate change by working on a leasing and ESCO project in Thailand with support from Japan. The project aims to ramp up lease/ESCO activities as part of an effort to reduce greenhouse gas emissions by exploiting new market opportunities. It is expected that climate change mitigation efforts, together with the agribusiness sector, will play a key role in lease market growth going forward. The aim is to make use of leasing to counter the lack of access to capital needed to purchase sustainable energy equipment that would be used for energy efficiency, renewable energy, and cleaner production.
The *Global Leasing Toolkit*, developed by IFC with support from Japan, has been very well received by stakeholders. The Toolkit aims to guide financial institutions in providing lease financing to SMEs and helps facilitate IFC’s innovative approach, particularly in climate change, food security and Islamic finance. It will continue to play a key role as IFC focuses on working with and through financial institutions to increase sustainable lease services to SMEs. The Toolkit draws on IFC’s efforts to contribute to global knowledge in leasing by disseminating best practices. As part of these efforts, IFC also organized a sustainable energy finance conference in Beijing and an agribusiness sector conference in Bangkok, which allowed a broad range of stakeholders to share knowledge and experiences and explore innovative solutions to reduce adverse climate change and increase food security.

**SME Banking**

Over the last year, the development of small and medium enterprises (SMEs) has taken center stage in the global development agenda as countries focus on rebuilding their economies following the recent financial crisis. SMEs are critical to this recovery because they employ a significant portion of a country’s population. Studies indicate that formal SMEs contribute up to 45 percent of employment and 33 percent of gross domestic product in developing economies. These numbers are significantly higher when taking into account the estimated contributions of SMEs operating in the informal sector.

Despite their importance, SMEs remain underserved, particularly in emerging markets. There is large unmet demand in the SME finance market with many financial intermediaries reluctant to target this sector. In an effort to address this issue, IFC offers a package of investment and advisory services for financial intermediaries committed to expanding financial services to SMEs and underserved market segments. IFC’s Access to Finance Advisory has been helping financial intermediaries recognize and seize the untapped and profitable opportunities that the SME segment represents by building capacity. This includes strategy design, market segmentation, product development, expansion of a sales culture, streamlining credit risk management processes, and leveraging technology to reduce service costs. In this field, IFC remains a knowledge leader by developing industry benchmarks, creating and disseminating tools and publications, supporting networks, and showcasing best practices to efficiently target the SME segment globally.

In 2011, IFC’s Global SME Banking Advisory Services Program comprised 59 projects spanning 38 countries and totaling $41.5 million. About 81 percent of these projects were in IDA countries, with 16 percent in conflict-affected or fragile states. Sixteen percent of these projects included a component supporting targeted lending to women-owned SMEs. Several events and workshops were organized during the year, including a global conference on credit guarantee schemes for SME finance that was held in Estonia. The conference, which brought together over 130 participants from 34 countries, provided an opportunity for participants to share different approaches to public policy and financing schemes, the challenges they faced, and their successes in credit guarantee schemes for SME finance. A regional SME banking conference held in South Africa brought together IFC’s banking clients and development partners involved in SME banking under the Africa micro, small, and medium enterprise program. A total of 155 participants attended the conference, which gave insight into best practices and included discussion of the latest trends in SME banking. SME Banking training workshops were held in several places, including China, Georgia, Vietnam, and West Bank and Gaza. The training targeted mid-level bank officers and provided a comprehensive understanding of SME banking fundamentals, analysis of global best practices, and instruction on adapting these practices to local and regional market conditions.

Several activities undertaken by the program under the G-20 initiative helped cement IFC’s position as a global thought leader in the SME finance area. As the technical lead for the G-20 SME Finance Sub-Group under the Global Partnership for Financial Inclusion (GPFI), IFC’s program led the production of a stocktaking report which included a literature review on SME finance challenges, the collection of more than 160 SME finance models, and policy recommendations to scale up SME access to finance. The comprehensive report documented a broad spectrum of interventions, including (i) legal and regulatory framework; (ii) financial information infrastructure; (iii) public support schemes; and (iv) private sector schemes. It was adopted by G-20 leaders at the Seoul Summit in
November 2010. New stocktaking reports focusing on women entrepreneurs, agrifinance and frameworks with an emphasis on Least Developed Countries/Low-Income Countries were submitted and endorsed by the G-20 as IFC deliverables for the 2011 Cannes Summit. (online at www.fpi.org)

The program conducted a groundbreaking mapping exercise of the SME finance gap by region and by size in volume and value. The study suggests that about 45 to 55 percent of the formal SMEs (11 to 17 million) in emerging markets do not have access to formal institutional loans or overdrafts despite a need for one. The formal SME credit gap is estimated at about $800 billion in developing countries. The results of the exercise were published in a public report Two Trillion and Counting. The mapping exercise is the first detailed exercise of the SME finance gap providing critical information for policy makers, investors, and development institutions. The program led the effort to establish a global SME financing fund – SME Finance Innovation Program – to provide grant support to the winners of the G-20 SME Finance Challenge held in 2010 with an initial contribution of $20 million from Canada. The SME Finance Innovation Program is the first phase in a broader and longer-term SME financing framework that will have both investment and advisory components. The advisory framework is expected to fund technical assistance and capacity building of additional SME finance projects that are scalable and replicable.

Trade Finance

IFC’s $3 billion Global Trade Finance Program offers confirming banks partial or full guarantees to cover payment in 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 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. These programs have now been standardized and replicated in all regions and in local languages where necessary.

On a selective basis, IFC places experienced trade finance experts with issuing banks to help the banks develop trade finance skills. In close collaboration with the International Chamber of Commerce, IFC has also 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 4,080 participants from more than 60 countries have benefited from 154 training and advisory services programs.

Risk Management

IFC’s Access to Finance Risk Management advisory strengthens financial institutions’ risk management capacity and frameworks, loan portfolio monitoring, and nonperforming loan (NPL) management and workouts capacity, while supporting the development of emerging distressed asset markets.

The program provides global knowledge management and senior expertise support to implement efforts in the regions, with the regional advisory teams focusing on both sector work and financial institution-specific work. To strengthen risk management capacity and practices at the financial institution level, 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 2008 global financial crisis is that all these risk areas are interconnected and one type of risk often can change into another.

At the sector level, sustained dissemination efforts are being conducted. Since early 2009, 79 risk management banking sector workshops and conferences were held in 33 countries across Eastern Europe and Central Asia, Middle East and North Africa, Asia, and Sub-Saharan Africa.
Furthermore, a wide institution-building effort engaging 86 financial institutions across all regions continues through the use of diagnostics and capacity-building projects.

As part of its knowledge management agenda, the program develops risk management tools to identify issues and support the capacity-building work with client financial institutions. Key tools include: Risk Assessment Framework, Diagnostic Toolkit, Deep Dive Banking NPL Diagnostic Toolkit, Risk Management – NPL Quick Questionnaire, Risk Reporting Templates, Risk Management training course for IFC investment officers; Bank Risk Management Training; Manual for Corporate SME Workouts; Guidelines for Responsible and Ethical Debt Collections; and a series of presentations on Credit Risk Management, Treasury Risk Management, Risk Appetite Determination; and Options and Best Practices in NPL Sales.

The program is also supporting the development of emerging distressed assets markets, especially in Europe and Central Asia, part of a wider sector-level distressed asset resolution initiative closely coordinated with the World Bank and the International Monetary Fund. Access to Finance is working to influence emerging markets toward the 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 agenda led by IFC and the World Bank.

Although initially launched in response to the 2008 global financial crisis to address risk management and NPL challenges in emerging markets, the program today engages client financial institutions to show that their growth and resilience to future crises requires implementation of better risk management systems and processes through longer-term client engagements and in-depth institutional-building work.

The program is working to position financial institutions for resilience in turbulent markets and beyond by (1) helping them address their weaknesses in treasury and liquidity management, supporting diversification of funding sources, and building stronger risk management frameworks and practices; and (2) helping them shift emphasis from rapid loan growth to sustainable loan growth by improving management and monitoring of loan portfolios, minimizing NPL rates, and improving collections efficiency.

**Sustainable Energy Finance**

IFC’s integrated advisory and investment services enable partner financial institutions to build a sustainable energy finance (SEF) business. The market for SEF projects in the developing world, including cleaner production, energy efficiency, and renewable energy, is estimated at $100 billion per year. Financial institutions can use sustainable energy finance to 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 FY 2011, IFC secured its first SEF advisory agreements in 10 countries: Bangladesh, Belarus, Indonesia, Jordan, Kenya, Lebanon, Nepal, South Africa, Thailand, and Ukraine. SEF cuts across various market segments and financial products, including SMEs, Microfinance, Leasing, Residential Energy Efficiency, Trade Finance, Carbon Finance, Renewable Energy, and Resource Efficiency. 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.
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 modernizing secured transactions laws, building electronic collateral registries, and training financial and non-bank financial institutions in movable 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 21 economies and one regional organization, Organization for Harmonization of Business Law in Africa (OHADA), and has organized a number of learning events. The 21 economies are Afghanistan, Azerbaijan, Belarus, Cambodia, Colombia, China, Ghana, Haiti, India, Jordan, Lao PDR, Malawi, Moldova, the Philippines, Rwanda, South Sudan, Sri Lanka, Tajikistan, Vietnam, West Bank and Gaza, and Yemen. Meanwhile, demand in this area is increasing with projects in the pipeline in Egypt, Indonesia, the Kyrgyz Republic, Lebanon, Liberia, Mongolia, Sierra Leone, Uganda, Uzbekistan, and Zambia.

Four major accomplishments stand out from the last year: (i) the enactment of the secured transactions law for OHADA, which will be immediately applicable in OHADA’s 16-member countries, and as well new laws governing secured transactions in Lao PDR, Liberia, Moldova, and Yemen; (ii) the drafting of laws/regulations in Ghana, Jordan and Malawi; (iii) support for the creation of an electronic collateral registry in Ghana, India, Sri Lanka, and Vietnam; and (iv) on the knowledge management front, the successful organization of a number of events, including our Flagship Financial Infrastructure-Secured Transactions International Conference in Brazil in March 2011, along with the publication of best practice notes and the launch of our web-based collaborative secured transactions platform.

Credit Reporting

Credit reporting addresses a fundamental problem of credit markets: asymmetric information between borrowers and lenders, which may lead to adverse selection, credit rationing, and moral hazard problems. Regulators and financial market participants are therefore increasingly recognizing the value of credit reporting systems to improve credit risk and overall credit portfolio management as well as to enhance financial supervision, financial sector stability, and access to credit.1

Since 2001, IFC has been an international leader in the development of credit reporting systems, providing support in over 60 emerging-market countries worldwide. In 2010 and 2011, IFC supported the set-up or improvement of credit reporting systems in Bangladesh, Cambodia, Cape Verde, Ethiopia, Lao PDR, the Maldives, Mongolia, Papua New Guinea, Samoa, Tonga, Vanuatu, and Vietnam. In India, where the program launched its first microfinance credit reporting project, two bureaus have started uploading microfinance borrower data. Twenty-seven microfinance institutions have shared data with these two credit bureaus and the number of client records uploaded by these microfinance institutions is close to 29 million, of which active loan accounts are close to 27 million. A consultative version of the first-ever universal standards on credit reporting, General Principles for Credit Reporting, Consultative Report. March 2011. The World Bank.
was coordinated by the World Bank with support from the
Bank for International Settlements.

Depending on specific country contexts and needs, IFC’s
interventions in credit reporting vary. They include legal
and regulatory support, in collaboration with the World
Bank, to develop an environment conducive to sharing
credit information; outreach and raising awareness on the
benefits of sharing credit information; 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.

With liquidity margins expected to continue being
squeezed amid the current crisis, IFC’s program supports
the development of more inclusive credit reporting
systems for SMEs and microfinance, better utilization
of credit information data by prudent supervisors, and
the promotion of financial education and literacy on
credit and credit reporting, which will target supervisors,
regulators, lenders, and indirectly, end-users or borrowers.
The activities of IFC’s Global Credit Reporting Program,
including our regional offices, are funded by several donors,
including Australia, Canada, Italy, Japan, Luxembourg,
Nigeria, New Zealand, the Netherlands, Omidyar Network
Fund Inc., Switzerland, and Visa International.

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. Together with
the World Bank, 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 institutions
managing social safety-net funds in developing countries.

The IFC/World Bank Capital Market Development &
Corporate Governance Group has two main securities
market 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 respectively focus on the
development of government and non-government local
currency bond markets. Both programs are able to operate
in countries simultaneously and leverage one another. In
addition, the group is developing a global program to
develop equity markets in frontier countries.

Gemloc country-specific advisory projects are currently
operating in Brazil, Costa Rica, Egypt, Kenya, Morocco,
Nigeria, and Uruguay, with projects in Romania, South
Africa, and Vietnam in the pipeline. 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 Africa (Kenya, Nigeria, Rwanda,
Tanzania, and Uganda) and Latin America (Colombia and
Peru) and will support expansion in Indonesia and Vietnam.
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 implement 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.

The ESMID program works to develop non-government
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
pilot program was funded by a $5 million grant from the
Swedish International Development Cooperation Agency
to help build securities markets to finance housing and
infrastructure development in Sub-Saharan Africa (Kenya,
Nigeria, Rwanda, Tanzania, and Uganda). With additional
funding from the Swiss State Secretariat for Economic
Affairs (SECO), ESMID 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.
ADVANCING RESPONSIBLE FINANCIAL INCLUSION

With an estimated 2.7 billion working age adults without access to basic formal financial services, IFC continues to play a critical role in the G-20 financial inclusion initiative\(^1\). To-date, this has involved efforts to define and advance progress on the broader financial inclusion agenda that calls for expanding the range of financial services beyond credit, such as payments, savings, remittances and insurance. The finance gap remains equally critical for small and medium enterprises (SMEs), which are the main driver of job creation in emerging markets. SMEs remain a key target segment of financial inclusion as they are one of the largest employers in emerging markets, employing a growing share of women (25-40 percent) worldwide\(^2\).

Together with its strategic priority to scale up financial inclusion globally, IFC has an increasing role to advance responsible finance. The potential for another global financial crisis underscores the importance of accountability, client protection, security and transparency in the financial sector more generally. IFC’s relationship with over 750 partners and clients provides a unique opportunity. A key success factor will be enhancing IFC’s advisory and investment collaboration, one that takes a client-centric approach to: (1) improving market intelligence and providing a more dynamic feedback process within advisory and investment product offerings; (2) complementing risk management initiatives to build resiliency and better crisis preparedness; and (3) striving toward balanced approaches between financial and social sustainability, one that nimbly responds to the needs of the underserved.

IFC’S INVESTMENT AND ADVISORY INITIATIVE IN INDIA

Over the last year, IFC’s advisory and investment teams, in collaboration with the World Bank, have responded to address the microfinance crisis in India, which has been shaken with recent allegations of over-lending, lack of transparency, high interest rates and coercive practices. This prompted IFC’s comprehensive support in responsible microfinance, to help refocus efforts to establish responsible finance principles and practices that include working with clients, regulators and industry bodies to strengthen codes of conduct and industry practices (Box 2).

BOX 1. RESPONSIBLE FINANCE: WHAT IS IT?

Responsible finance brings focus on the needs of end-beneficiary clients, namely individual households, micro, small and medium enterprises. We work with our client institutions by helping them to translate this client centric vision into a responsible finance strategy with relevant operational actions, such as: recruiting and training management and staff with that vision in mind, designing a broader range of affordable services (savings, insurance or housing) alongside credit, developing understandable processes, treating customers fairly with transparent pricing policies, designing appropriate distribution channels and branch networks which suit the end users’ needs, as well as promoting transparent credit reporting. When responsible finance best practices are well integrated into financial institutions’ daily operations, it promotes a more dynamic process towards inclusive finance which helps manage risks, balance financial with social returns and contribute to long term commercial sustainability that are essential to wider economic growth and employment.


Since early 2010, as part of IFC’s efforts in responsible finance, it has been working to support the long-term sustainable growth of the Indian microfinance sector and refocus efforts towards customer-centric lending that integrates three approaches, namely:

- Promoting practices in responsible financing;
- Linking microfinance institutions to credit bureaus to encourage reporting; and
- Instituting risk management systems in microfinance institutions.

IFC’s Responsible Finance Program in India is expected to achieve the following objectives:

- Facilitate adoption of harmonized India Microfinance Code of Conduct and help industry stakeholders ensure adoption and enforcement of the code.
- Build institutional capacity of microfinance institutions to introduce systems/processes to promote adherence to the code of conduct, and client protection in particular.
- Raise financial awareness among clients, the end-users of microfinance services.
- Increase coverage of credit bureaus to enable MFIs to track and avoid client over-indebtedness and help clients build credit history.

The program will also support platforms to facilitate sharing of best practices and key issues facing the sector, and conduct studies that will inform the way forward for the microfinance industry in India. While IFC’s responsible finance program in India ramped up post-crisis in Andhra Pradesh, responsible financing had been an integral component of all performance based3 client agreements in the region, much before the crisis happened in October 2010.

**BEYOND RESPONSIBLE MICROFINANCE**

IFC has been involved across a spectrum of activities within responsible microfinance (Box 3), with varying degrees of engagement among partners and through different interventions with selected clients. In addition to the microfinance and credit reporting program in India, IFC’s responsible finance activities also covered other financial institutions and services particularly housing and SME finance.

Since late 2008, IFC’s Performance Based Grant Initiative (PBGI) program has continued to promote social performance and responsible finance approaches through its partners and client financial institutions. The first responsible finance pilot began with an IFC joint investment and advisory services project with a housing finance company, HDFC in the Maldives. A responsible financial inclusion strategy was adapted at the outset, using

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3 Performance Based Grants Initiative (PBGI), see next section below.
emerging approaches from the microfinance industry. HDFC integrated social performance management approaches into its business in the first year of expansion, including new social performance metrics relevant to its lower income housing finance operations. The strategy incorporated several elements. The first entailed in-depth market analysis to serve the low-income population in the outer islands with appropriate products. Another element was to formalize operational guidelines and monitor key policies related to client protection, environmental standards and social performance data, including rural outreach. IFC’s advisory team reviewed and provided recommendations for the updated guidelines for clarity and compliance of key policies at all operational levels, including front desk/reception, loan appraisal by credit officers, loan approvals by credit committee, accounts, MIS, internal audit and human resources.

Our work in responsible finance spans a number of areas, including ethical collections and work with small and medium enterprises. IFC published a debt collections study to understand and disseminate best practices in retail debt collections in emerging markets, and focuses on how financial institutions can ensure collections activities are carried out consistent with the principles of responsible lending and fair customer treatment.

Going forward, IFC is exploring strategic partnerships with leading financial institutions worldwide to bring innovative and best practice standards in responsible financial inclusion. In addition, it is integrating responsible financial inclusion principles and practices in new, multi-year programs, including IFC’s recent partnership in the Africa region with The Mastercard Foundation, which is an effort to scale-up financial inclusion through microfinance and mobile finance services.

RESPONSIBLE FINANCE FORUM

Founded in 2010 by IFC, BMZ and CGAP, the Responsible Finance Forum (RFF) was established to: (1) convene leading stakeholders, promote dialogue and disseminate emerging practices in responsible finance; (2) build on responsible finance frameworks developed to date to facilitate a convergence of perspectives; and (3) support coordinated action and joint collaboration. The Responsible Finance Forum has achieved the following to date:

- Established a community of practice at the first Responsible Finance Forum (RFF, January 2010), which was co-hosted by BMZ and IFC;
- Launched the Principles for Investors in Inclusive Finance (PIIF) at the second RFF in January 2011, which was hosted by the Netherlands Ministry of Foreign Affairs and co-sponsored by BMZ, IFC, CGAP and the United Nations-backed Principles for Responsible Investment Initiative (UNPRI);
- A report, “Advancing Responsible Finance for Greater Development Impact,” was also released in January 2011, which mapped responsible finance initiatives within the community of practice.

In 2012, IFC will host the third Responsible Finance Forum to bring together partners and clients, and leading international financial institutions, donors, and industry experts to set the stage for building consensus and a strategy for responsible finance. Particular focus will include harnessing lessons from industry best practices worldwide, and practical applications for micro, small, and medium businesses in emerging markets.
BOX 3. EVOLVING LANDSCAPE OF RESPONSIBLE FINANCIAL INCLUSION

- **Universal Standards for Social Performance (USSP)**[^4] is an effort to establish clear and objective standards for assessing “social performance.” Since 2005, the global, industry-wide Social Performance Task Force (SPTF) has focused on developing ways to measure social performance in microfinance. One of the achievements of this initiative has been the creation of social performance indicators to assess how a microfinance institution aligns its systems and processes to its mission and how it uses social performance management to reach its social goals. The work is led by SPTF, which brings together more than 1,000 members, as well as experts outside of the Task Force who work in related fields to draft standards, benchmarks, and guidelines based on existing data and industry experience. MIX started to collect information on social performance in 2008 with a pilot set of 22 social performance indicator categories. Over 400 MFIs reported on these indicators in 2009 and 2010. Since the spring of 2011, every MFI that reports to the MIX has been asked to report on these indicators, which includes specific, measurable standards for client protection, building on the Smart Campaign Principles. More recent efforts are underway toward USSP.

- **Smart Campaign**[^5] Accion, CGAP, and UNPRI have led the work to develop industry-standard Client Protection Principles to help microfinance providers practice ethical and responsible business. The seven core principles are: (1) appropriate product design and delivery; (2) prevention of over-indebtedness; (3) transparency; (4) responsible pricing; (5) fair and respectful treatment of clients; (6) privacy of client data, and; (7) mechanisms for complaint resolution.

- **Principles for Responsible Investment (PRI)**[^6] is a campaign housed at the UNPRI which focuses on environmental, social, and governance standards for institutional investors across all industries. The Principles for Responsible Investment were developed by an international group of institutional investors to reflect the increasing relevance of environmental, social, and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General. In signing the Principles, investors publicly commit to adopt and implement them when consistent with their fiduciary responsibilities.

- **Principles for Investors in Inclusive Finance (PIIF)**[^7] includes principles that investors should apply to their policies and procedures to ensure their investments promote responsible finance. The seven principles are: (1) actively support retail providers to innovate and expand the range of financial services available to low income people; (2) integrate client protection in investment policies and practices; (3) treat investees fairly with appropriate financing that meets demand, clear and balanced contracts, and fair process for resolving disputes; (4) include environmental, social and corporate governance issues in investment policies and reporting; (5) actively promote transparency in all aspects; (6) strive for a balanced long-term social and financial risk-adjusted return that recognizes the interests of clients, retail providers, and investors, and; (7) collaborate to set harmonized investor standards for inclusive finance.

[^4]: www.sptf.info
[^5]: www.smartcampaign.org
[^6]: www.unpri.org
[^7]: www.unpri.org
PORTFOLIO DATA

IFC’s committed portfolio in financial institutions that serve MSMEs has grown by 45 percent compared to the previous year with a total committed portfolio of $12.3 billion in FY11.

At the end of FY11, we had an active portfolio of 244 access to finance advisory services projects in 67 countries, valued at almost $294 million. Our FY11 project expenditures totaled $63 million, of which $53 million were client facing. In all, 67 percent of client-facing project expenditures in FY11 were in IDA countries and 10 percent were in fragile and conflict-affected countries.

As of December 2010, IFC’s financial institution clients that received Access to Finance advisory services held 3.75 million MSME outstanding loans worth more than $43.3 billion in a range of countries, including Afghanistan, Azerbaijan, Bangladesh, Botswana, Cameroon, Egypt, Haiti, Mexico, and Vietnam.

SHARE OF PROJECTS BY PRODUCT LINE

A2F-Other 5%
Risk Management 9%
Sustainable Energy Finance 19%
Financial Infrastructure 13%
Micro/Retail 37%
SME Business 26%

DEVELOPMENT RESULTS

IFC’s Access to Finance advisory services work has continued to deliver strong results. Selected results across Micro/Retail, SME Business, and Financial Infrastructure products are as follows:

Micro/Retail
- IFC’s microfinance clients provided $4.3 billion in financing to about 3.4 million micro enterprises.
- IFC’s housing finance clients provided $18.3 billion in housing finance loans to 1.9 million homeowners.

SME Business
- IFC’s SME Banking clients provided almost $38.9 billion in financing and helped improve access to finance for about 720,000 small and medium enterprises.

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SME Business
- IFC’s SME Banking clients provided almost $38.9 billion in financing and helped improve access to finance for about 720,000 small and medium enterprises.
• IFC’s leasing clients provided $318 million in lease financing for 19,731 micro, small, and medium enterprises.
• IFC’s trade finance clients have originated $13 billion in trade finance guarantees for 220 emerging market banks in 90 countries.

**Financial Infrastructure**

• IFC’s credit bureau clients, established and/or improved in 20 countries, helped generate 31 million inquiries worth an estimated $6.2 billion in new financing to about 6 million retail and small business clients.
• IFC helped to establish the first collateral registries in China and Ghana, facilitating more than $3.5 trillion in financing secured with movable property to 68,000 small and medium enterprises.²

**DEVELOPMENT EFFECTIVENESS**

In FY11, the Access to Finance business line achieved a development effectiveness rating of 75 percent for 28 projects that were rated positively, mainly in the more developed micro and SME product areas. During FY08-FY11, Access to Finance achieved a four-year average development effectiveness rating of 67 percent for 126 projects completed. The business line showed a steady increase during the same period, reaching the highest development effectiveness rating across IFC’s business lines.

Efforts over the last fiscal year focused not only on improving Access to Finance projects’ effectiveness, but also on building a better understanding of the five dimensions critical to a project achieving development effectiveness at completion. The gap between project staff ratings and the results measurement unit was nearly halved, from 15 percent in FY10 to 8 percent in FY11, showing improved understanding within operations staff across the regions on how to better achieve project objectives and evidence-based results critical to improving future project design.

**MONITORING, EVALUATION & LEARNING**

Monitoring, evaluation, and learning are integral to Access to Finance’s work in order to provide a dynamic feedback loop that deepens results and development effectiveness. During FY11, an in-depth evaluation on IFC’s secured transactions advisory project in China (Box 1) was undertaken. The evaluation validated preliminary findings and harnessed lessons from feedback that led to the design of new/existing interventions in the SME segment through secured transactions reform advisory services.

**BOX 1. Evaluation of IFC’s Secured Transactions Advisory Project in China⁴**

Unleashing more than $3 trillion in financing through secured transactions reform

In 2005, China embarked upon reform of its movable collateral framework. The goal of the reform was to encourage financing against valuable movable assets such as inventory and receivables. This was particularly important for China’s large number of SMEs, whose assets are mostly in the form of inventory and receivables and which reported access to credit as their most significant business constraint. Specific targets by completion (June 2011) were developed: (1) a ground-breaking property law; (2) an electronic registry for pledged assets (accounts receivable and leases), and; (3) public awareness and capacity building for lenders to use movable assets as a basis for their lending.

The evaluation showed the following about IFC’s secured transactions advisory project:

**Strategic relevance.** The project addressed an important bottleneck to SME sector growth and has focused on one of China’s major national development priorities. More than half of the assets owned by Chinese SMEs were movable assets. The resulting lack of acceptable security collateral was the primary obstacle to SMEs obtaining more financing.⁵

**Strong additionality.** The project filled a gap in the financial sector, with IFC being the only multinational development agency intervention that has remained focused on secured transactions reform in China.

**Efficiency.** The project spent over $1.5 million since inception, but the amount of financing facilitated in China reached approximately $3.5 trillion of accounts receivable financing that has been registered between October 2007 and June 2011. This unusually high efficiency return is primarily driven by the size of the Chinese economy, the second largest in the world. Similar projects in other countries cannot be expected to achieve similar results.

**Long-term sustainability.** The outcomes of the project are expected to endure as the Chinese government and the banking sector continue to modernize the secured transactions system in China. Stakeholders in the Chinese government see no signs of any reversal of the property law of 2007.
Substantially achieved project objectives, namely (1) the establishment of a legal and regulatory framework for secured transactions; (2) the launch of a single, unified electronic registry of security interest in accounts receivable; and (3) significant media coverage and market awareness of movables financing.

Broader market impacts were achieved, particularly for the SME segment:

- $3.5 trillion in credit for businesses in China through more than 385,000 loans (registered security interests)
- Of the $3.5 trillion in credit, around $1 trillion has been granted to more than 68,000 SMEs. SMEs are the main beneficiaries of the reform (62 percent of businesses that received loans)
- New SME segments previously underserved are getting new loans secured with receivables
- Financial institutions consider the passage of the property law and the creation of the account receivables registry are two of the most important drivers for growth in the movables financing industry in China
- 92 percent of the financial institutions surveyed have confirmed that the reform of the secured transactions regime in China has been a very important or somewhat important factor in reducing the cost of credit for SMEs
- Around 90 percent of the financial institutions surveyed have confirmed that the reform of the secured transactions regime in China has been a very important or somewhat important factor in attracting new SME segment clients or serving new SME clients
- Women entrepreneurs are one of the segments that have considerably benefitted from the reform, with 20 percent of the firms receiving loans majority owned by women and 63 percent with females among their owners
- 40 percent of firms surveyed have confirmed that they have been able to obtain loans secured with movables only (account receivables)
- The economic sectors that have seen more positive impact from the reform are wholesale, retail, and trade, followed by manufacturing and transportation
- 88 percent of the SMEs surveyed claim that the additional credit they have obtained through this new form of financing has contributed to growing their business
- The percentage of moveable based lending in China went from 12 percent, pre-reform and prior to the creation of the receivables registry, to a conservative estimate of 20 percent after the reform
- The project has led to further development of the factoring and leasing industries in the country. Factoring went up from around $2 billion in 2003 to around $67 billion in 2009.

Lessons Learned for Future Projects

Four replicable lessons for IFC’s global secured transactions program were identified:

- Partnering with a politically powerful agency with market knowledge and administrative capacity
- Positioning the reform as the creation of a market
- Merging local knowledge with global subject matter expertise
- Sustaining a professional team over time

Four areas of potential improvement regarding the project’s Monitoring and Evaluation design:

- Enabling the host of a security interest registry to collect and disseminate statistics
- Measuring the “credit culture” of financial institutions as a project outcome as well as establishing baseline credit culture specific to a country and using it to guide the content and target outcomes of their capacity-building effort;
- Measuring the impact of a secured transactions program on a longitudinal basis
- Measuring the impact opportunistically on SME survival in times of liquidity crunch such as bankruptcy rates and potential jobs saved when applicable.
IFC’S DEVELOPMENT GOALS (IDGS) FOR FINANCE

IFC has long been a standard-setter in measuring development results. We were the first global development bank to report on development results for our entire portfolio. In FY11, we began testing a concept of IFC Development Goals, which should allow us to integrate results measurement with business strategy. These goals measure the expected contribution of IFC’s projects at the time of an investment commitment or an Advisory Services agreement.

IFC identified six preliminary goals - each covering high priority areas for IFC - and we set clear targets for FY11. The first two years will be a period of testing, and we have just completed the first. Our focus this year was on learning and improving the design rather than achieving numerical targets. We explored whether we had set the right goals and numerical targets.

Particularly, IFC’s FY11 target Development Goals in finance were:

<table>
<thead>
<tr>
<th>Goal</th>
<th>FY11 Reach Commitments Obtained</th>
<th>FY11 Reach Benefit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase access to financial services for microfinance clients</td>
<td>22.9M people</td>
<td>16.9M people</td>
</tr>
<tr>
<td>Increase access to financial services for SME clients</td>
<td>437,532 clients</td>
<td>600,000 clients</td>
</tr>
</tbody>
</table>

As we enter our second year of testing IDGs, we included additional goal contributions. Given IFC’s strategic goal to increase access to financial services globally, our finance goals will be expanded in scope to include noncredit services such as savings, payments, housing, and insurance services. The contributions from these types of financial services will be accounted for in the FY12 IFC Development Goals targets. For more information on all IFC’s Development Goals - www.ifc.org

1 Results through financial institutions represent portfolio outstanding reported for calendar year 2010. Results of financing provided to micro clients through credit bureaus assume an estimated 20% of individual inquiries receive loans.
3 Development Impact Department (CDI).
4 Source: Ibid.
5 Source: NDRC/PEP-China 2005/06 SME Finance Survey (1000 SMEs in Five Cities).
The microfinance sector plays an important role in the economy of the Kyrgyz Republic, annually providing $50 million in financing to small businesses. While 2010 marked a period of considerable economic and political turmoil that negatively affected many businesses in the country, microlending continued to grow, covering 7.1 percent of the population by the end of the year.

Bai-Tushum & Partners Microfinance Company is one of the leading microlending institutions in Central Asia. Originally established in 2000 as a non-governmental organization, it transformed into a microfinance company in 2009 and holds an estimated 21 percent market share of microenterprise clients among regulated and non-regulated microfinance institutions. With hopes to soon become a microfinance bank and expand its range of financial services for the underserved segment in the country, the company plans to apply for a deposit-taking license in 2011 and start rendering remittance services through money-transfer systems.

Synergy of IFC Investment and Advisory Services to Support Microfinance Transformation

In 2005, IFC provided $1.2 million in debt financing, coupled with advisory services, to Bai-Tushum. In 2009, IFC committed a second investment to support microlending activities in the form of an additional $4 million credit line.

IFC’s advisory services helped Bai-Tushum become the first transformed microfinance institution in the country. IFC Azerbaijan & Central Asia Microfinance Transformation Support Project, funded by IFC, the Ministry of Foreign Affairs of the Netherlands, and Oesterreichische Entwicklungsbank, continues to strengthen Bai-Tushum’s organizational structure by improving internal control and audit, enhancing its communications strategy, and rolling out the deposits product. IFC mentored senior Bai-Tushum managers in strategic and business planning, investor relations and negotiations, and provided consulting support in key organizational and institutional capacity-building activities relevant to the transformation process.

IFC Helps Transformation of Bai-Tushum by Building a Dialogue with Policymakers

With a goal of increasing access to finance for microentrepreneurs, IFC helps improve the legal and institutional framework for microfinance in Europe and Central Asia.

In 2010, IFC organized a study tour in Mongolia to demonstrate successful examples of microfinance-related policies for 14 policymakers from Azerbaijan, Bosnia and Herzegovina, Kazakhstan, the Kyrgyz Republic, and Tajikistan. “The purpose of the study tour was to learn the legislative and legal framework of microfinance in Mongolia,” said Samatbek Djumashev, one of the tour participants. “Moreover, we saw examples of how modern information technology can help provide financial services in remote areas and improve the welfare of the population.”

Upon return to the Kyrgyz Republic, a delegation from the Kyrgyz National Bank initiated legislative changes that would simplify the transformation process for microfinance organizations, allowing Bai-Tushum to apply for a deposit-taking license.

Since 2000, Bai-Tushum has disbursed more than $150 million and served more than 90,000 clients, 52 percent of which have been agriculture and agriculture-related businesses. The average loan size was $1,663. Approximately 88 percent of loans went to rural residents in remote areas and about 44 percent of loans were made to women with little access to credit. As of December 2010, Bai-Tushum had 30,161 outstanding microloans worth more than $38 million.
STRENGTHENING FINANCIAL SERVICES FOR WOMEN ENTREPRENEURS IN THE DOMINICAN REPUBLIC

Banco ADOPEM, which started as a non-governmental organization created by women for women, has a clear mission “to promote the development of Dominican families by incorporating them into the formal economic and financial system.” IFC assisted the bank in this endeavor by strengthening its institutional capacity, which helped consolidate its presence in the market and broadened opportunities for female microentrepreneurs.

When discussions between IFC and ADOPEM began in 2009, the bank was concerned that a small number of large depositors accounted for most of its deposit funding, with its 20 largest depositors contributing 70 percent of all deposit funding. The situation was affecting the institution’s credit rating and exposing it to refinancing risks. Later that year, ADOPEM began a three-month Advisory Services project, supported by the Spanish Fund for Latin America and the Caribbean. The project consisted of (i) an evaluation of deposit mobilization capabilities; (ii) an assessment of risk management practices and the development of a plan to establish a risk management unit; and (iii) an evaluation of credit processes to improve operating efficiency. As a result, ADOPEM chose to engage with IFC in a second longer project aimed at implementing the ideas developed during the initial project.

ADOPEM had several notable achievements in the course of its work with IFC, particularly in the area of deposit mobilization. ADOPEM went from having no branch staff dedicated to deposits to having trained deposit staff in each of the four branches participating in its savings mobilization pilot. In addition, a marketing campaign to promote deposit products to new customers was implemented, along with a campaign aimed at increasing transactions among existing savings customers. As a result of these efforts, deposits grew at a healthy pace with the number of certificate deposits almost doubling to 3,057 and the number of savings accounts increasing by 39,483 as of May 2011.

As well as the impact on deposit mobilization, the project also helped improve lending processes and risk management. Policies that hindered staff productivity were eliminated, while other policies facilitating the monitoring of loan officers and day-to-day operations were developed. On the risk management front, a risk unit was established and unit staff trained in different methodologies for assessing risk. The development of the risk unit was a major step for the bank. Despite being the second-largest formal microfinance institution in the country, ADOPEM previously had no risk management unit in place. Women entrepreneurs in particular benefited from these improvements with women representing 75 percent of the bank’s portfolio.

The ADOPEM project has the potential to play a significant role in increasing small-scale savings in the country. By 2014, it is expected that the value held in savings accounts at ADOPEM will have tripled to $10.7 million.

DEPOSIT ASSESSMENT STUDIES IN SOUTH ASIA

Tackling financial inclusion in developing countries is a strategic priority for IFC. Recent developments in the financial sector demonstrate that diversifying products to include deposits, remittances, and insurance is increasingly important to clients and critical to improving their lives.

Across the world, a large number of microfinance institutions (MFIs) mobilize deposits as a core pillar of their financial services strategy. The implementation of well-designed deposit mobilization strategies can help MFIs grow and become profitable. Cumulative disbursement of micro-credit among members was $12.77 billion with a recovery rate of 96.56 percent. In the face of growing competition, deposit mobilization can help an institution garner cheaper funds as well as attract and retain a broader range of clients.

Microfinance is well established in South Asia, with the existence of a number of large, successful, and internationally-recognized institutions in Bangladesh, India, Nepal, and Sri Lanka. For a variety of reasons, however, most institutions focus on micro-credit, while the development of deposit services has lagged. An estimated 2.7 billion people worldwide lack access to basic formal financial services, including savings accounts, and South Asia, with 22 percent of all unbanked people, has the largest share.

To address the need, IFC commissioned a project called Industry Mapping of Small-Balance Deposits in South Asia. The project was aimed at devising market-led solutions to expand access to micro-deposit and micro-insurance services for the low-income population. IFC conceptualized, guided, and supported the production of the South Asia Deposit Assessment studies, designed to help understand the supply and demand of the market for micro-savings in Bangladesh, India, Nepal, and Sri Lanka.

A series of deposit assessment reports analyzes the demand-supply gap in savings and provides broad recommendations on products designed for this client segment. IFC hopes the products developed as a result of this study will be adopted and piloted by banks, microfinance institutions, and insurance companies. The reports also emphasize the increasing importance of micro-savings and its critical role in achieving financial inclusion.

“We hope this groundbreaking study will give banks and microfinance institutions new information to help them diversify financial services for low-income households. Based on the findings, IFC is identifying partner banks and microfinance institutions to help expand their reach..."
and offerings as well as increase financial inclusion across South Asia,” said Jennifer Isern, head of IFC’s Access to Finance Advisory Program in South Asia.

**IFC AND THE ARAB MONETARY FUND STRENGTHEN COOPERATION TO DEVELOP FINANCIAL INFRASTRUCTURE IN MENA**

The Middle East and North Africa (MENA) region is undergoing a period of political change, partly driven by a desire for more economic opportunities. Businesses need access to finance to grow and employ more people. As many as 70 percent of firms in MENA do not have access to credit and SMEs struggle to obtain the financing they need to grow and create jobs.

Sustainable economic growth in the region depends significantly on an active private sector and vibrant micro, small, and medium enterprises. These enterprises struggle, however, with obtaining the financing they need to grow and create jobs. Overall private sector credit remains significantly low in MENA, partly due to inadequate financial infrastructure, including lack of credit reporting systems and legal and institutional frameworks for secured lending.

The World Bank Group and the Arab Monetary Fund (AMF) have been working in close collaboration over the past five years to develop financial markets and strengthen financial infrastructure in the MENA region. In 2008, IFC and AMF launched the Arab Credit Reporting Initiative (ACRI) to promote effective credit information sharing in MENA, building upon Arab Payment Initiative – a partnership between AMF and the World Bank to support the development of payment systems in MENA. In operation for nearly three years, ACRI has helped fuel reform of credit reporting systems in MENA by raising awareness about the importance of credit information sharing and offering specific recommendations to MENA governments on how to develop credit reporting.

The project completed comprehensive individual assessments in Lebanon, Tunisia, Syria, Libya, Oman, Yemen, and Palestine and organized two conferences on credit reporting in MENA, as well as a comprehensive training for MENA central banks’ representatives. Furthermore, the project has helped launch a new Web-based credit information-sharing portal, which will become the point of reference for authorities, lenders, credit reporting agencies and other stakeholders in MENA. Most important, as the result of increased awareness of the importance of credit information sharing, a number of MENA governments started to introduce reforms in line with ACRI’s recommendations, and IFC is looking into offering in-depth support to develop credit bureaus or registries in Jordan, Syria, and Yemen.

Owing to their successful partnership through ACRI, IFC and AMF agreed to expand their cooperation, recognizing that more can be done in this area as well as other aspects of financial infrastructure requiring attention, such as secured transactions.

Reforms to increase the efficiency of collateral laws and registries can have an immediate, positive, and far-reaching impact on levels of domestic investment flows, thus improving access to private credit for SMEs. To raise awareness and promote best practices in the area of secured lending and to encourage the harmonization of secured transactions in the MENA region, IFC and AMF in April 2011 launched a new project called Arab Secured Transactions Initiative.

With the launch of the new initiative, the partnership between IFC and AMF focuses on addressing all three main pillars of financial infrastructure. Credit bureaus provide information needed for accurate and timely risk analysis. Collateral systems give creditors assurance of their priority in the collateral, which reduces risk to lenders and facilitates access to credit. A sound payment system can mitigate financial crises by reducing or eliminating settlement risks related to financial markets transactions. Such a holistic approach will reinforce each initiative and will strengthen the impact in MENA markets.

**TAJIKISTAN AGRIFINANCE - SUSTAINABLE WORKING CAPITAL LENDING TO COTTON FARMERS**

Cotton makes an important contribution to both the agricultural sector and the national economy of Tajikistan. Cotton accounts for 60 percent of agricultural output, supports 75 percent of the rural population, and uses 45 percent of irrigated arable land. At the national level, it is an important source of both export earnings and tax revenue. For years, the vast majority of cotton farms in Tajikistan received financing from private investors, with banks traditionally avoiding the sector due to perceived risks. In order to bring cotton farms into the formal financial sector, IFC began working with local banks to demonstrate that cotton financing could be done profitably and sustainably.

While limited access to finance was the main issue faced by cotton farmers, farms also suffered from low productivity. In addition, women make up a majority of farm workers, and working conditions are not satisfactory. IFC designed a project to address these issues and had three objectives. The first and main objective was to improve access to finance for cotton farmers by helping partner banks First Microfinance Bank of Tajikistan and Tojiksoirothbonk introduce a cotton lending product on a commercially viable basis for small to medium-sized farms in Khatlon Province. The second objective was to improve the yield of cotton farms and the third to improve the working conditions of women farmers in the province.
In order to increase access to finance for farmers, IFC provided the banks with lending methodologies and technology that were originally developed and successfully tested under the previous Farmer Ownership Model Project in northern Tajikistan and later enhanced and customized for the client banks. Employing a proven lending system gave IFC’s partner banks the confidence to start lending to the cotton sector. IFC provided training to the bank’s loan officers on all phases of the lending process. IFC also introduced innovations to Tajikistan, including, for example, the use of GPS technology to map farm size, thereby improving use of agri-inputs. As a result of IFC’s work, more than 250 cotton loans were issued by partner banks, about 160 farms received financing, partner banks issued about $5 million in cotton loans, and asset quality proved strong. There was also a strong knock-on effect as additional financial institutions entered the market.

To improve farm yields, IFC trained farmers in various agricultural techniques and cotton-growing methods, provided consultations on buying and using agricultural inputs, taught farm managers to work with banks to get loans, and organized knowledge exchange events between farmers. An evaluation by an independent consultant noted that the yields of IFC project farms were on average 37 percent higher than the yields of farms outside the IFC project.

To improve working conditions for women, the project team implemented a gender equality plan that included raising key gender-related issues with farm managers, creating simple work tools to ease labor and improve working conditions, conducting training for gender champions, promoting hygiene and sanitation rules among farm workers, and introducing first aid and educating farms on the importance of healthcare. More than 5,800 women workers benefited from the project, experiencing improvements in hygiene, health, and childcare, as well as enjoying greater productivity.

The project demonstrated to the market that banks could extend cotton financing in a profitable and sustainable way, that farm productivity could be increased, and that at little or no cost, working conditions for women farmers could be improved significantly by implementing recommendations laid out in IFC’s gender equality plan.

INDEX-BASED AGRICULTURE INSURANCE IN KENYA

Farming is the most important economic sector in Kenya, representing three quarters of employment in the country. Nearly half of all farming output in the country is for subsistence purposes. Therefore, many farmers’ livelihoods are entirely dependent on their harvests, both for the income generated by selling crops and for feeding their families. Unfortunately, there is little certainty in subsistence farming since the size of the harvest is largely determined by the timing and amount of rainfall. A drought resulting in a bad harvest can lead to insufficient funds to invest in next year’s planting, a vicious cycle from which it is difficult to recover.

The Kilimo Salama (‘safe agriculture’ in Kiswahili) is an index-based insurance product that covers farmers’ inputs in the event of drought or excessive rainfall. It was developed by the Syngenta Foundation for Sustainable Agriculture and launched in partnership with Safaricom, the largest mobile network operator in Kenya, and UAP Insurance in Kenya. In November 2010, IFC’s Global Index Insurance Facility (GIIF) offered Syngenta Foundation a grant of $2.4 million to further develop the technology of the SMS-based mobile platform and scale up the Kilimo Salama product in the country. GIIF helps promote the development of effective and sustainable markets for indexed weather and catastrophic risk insurance in developing countries.

This insurance product is index-based, meaning payouts are determined by comparison to historical, regional rainfall patterns. During the planting season, actual rainfall is measured using solar-powered weather stations and if the rainfall falls below or above a pre-determined amount, then there is a payout.

Precise rainfall measurements and the distribution of payouts are critical to the success of index-based weather insurance. Kilimo Salama uses weather stations in each agricultural region to measure rainfall and sends the data to a central location. Based on the index, the farmer is notified by text message about the amount he will receive if a payout is deemed necessary. An SMS-based platform is used in product distribution, administration, and claims payout using M-pesa. Kilimo Salama is the first micro-insurance product to be distributed and implemented over a mobile phone network. This system is efficient, reduces administration costs, and reaches farmers in remote areas.

In addition to insuring inputs, the program also facilitates agricultural lending. Since Kilimo Salama’s inception, the Syngenta Foundation and UAP Insurance have entered into several agreements with aggregators, such as microfinance institutions who deliver agricultural loans and services to farmers. Weather index insurance is bundled together with the loan to protect the farmers in the event of unfavorable weather conditions. In such an event, the insurance company compensates the organization, which in return writes off the loans of the affected farmers. The products have been remarkably popular. In the pilot phase in 2009, 200 farmers were insured; by June 2011, approximately 21,000 farmers had purchased the product.

This insurance product is a tool that can help improve the sustainability of African smallholder farming on an individual as well as regional level. “This technology is reviving our faded hopes in farming in this area,” said Beatrice Muthoni, 40, who farms in the Mbeere district.
Her payout from last year’s damaged harvest will enable her to expand this year despite the crop losses. “I tilled only half an acre last season, but this season I will extend my shamba [crop garden],” she said.

With support from GIIF, the agricultural index insurance product is expected to be a commercially viable and sustainable product in Kenya, insuring 30,000 low-income farmers by the end of 2012.

**G-20 SME Finance Special Initiative**

In September 2009, G-20 leaders in Pittsburgh made a commitment “to improving access to financial services for the poor” and announced the creation of the Financial Inclusion Experts Group (FIEG). The FIEG was divided into two sub-groups focusing on (i) households (Access through Innovation); and (ii) businesses (SME Finance).

Recognizing its leading role in SME Finance, IFC was nominated as lead technical advisor to the FIEG SME Finance sub-group and was tasked to lead the sub-group’s deliverables and act as its secretariat. At the Seoul Summit in November 2010, G-20 leaders endorsed the work carried out by the SME Finance sub-group, including:

- The production of an SME Finance stocktaking report, called Scaling Up SME Financing in the Developing World, which identified SME finance mechanisms. The report, based on 164 case studies from around the world, made recommendations on scaling up SME finance sustainably, focusing on (1) legislation, regulation, and supervision; (2) financial market infrastructure; and (3) public intervention and support mechanisms.
- The establishment of the SME Work Group on Data. Under the Honorary Chair of Princess Maxima of the Netherlands. The group made recommendations to the G-20 for improving data critical to designing policies, setting targets, and evaluating impact.
- The launch of the G-20 SME Finance Challenge, which received more than 350 submitted proposals. The 14 winning proposals were announced at the Seoul Summit. In December 2010, the G-20 Leaders launched the Global Partnership for Financial Inclusion (GPFI) to institutionalize the work of the FIEG. The GPFI established three sub-groups: Principles and Standard Setting Bodies (SSBs), SME Finance, and Financial Inclusion Data and Measurement. For the 2011 Cannes Summit and 2012 Mexico Summit, the SME Finance Sub-Group’s deliverables fit into the three categories of platforms for knowledge sharing and collaboration, policy recommendations, and research reports. These will comprise:
  - Platforms for Implementation:
    - The SME Finance Forum – an inclusive knowledge-sharing platform for SME finance data, research, and best practices. The forum, to be housed at IFC, will be a collaborative platform among various stakeholders of SME Finance.
    - The SME Finance Compact – a pilot initiative to support a set of developing countries committed to implementing the SME Finance Policy Framework. G-20 countries, international finance institutions, development finance institutions, and interested private sector and civil society stakeholders in SME finance will be invited to partner with and support the Compact countries’ implementation of the policy framework.

In addition, the SME Finance Innovation Trust Fund was set up at IFC in March 2011 with initial funding from Canada of 20 million Canadian dollars to provide grants to the winners of the SME Finance Challenge. Other donors are also expected to contribute to this initiative, which is the first phase of a broader and longer-term Global SME Financing Framework that will include both investment and advisory components.

- SME Finance Policy Framework: The policy framework refines the recommendations made in the 2010 G-20 stocktaking report, Scaling-Up Access to Finance of Financial Services in the Developing World, and underpins the SME Finance Compact. The recommendations that arise from a report on women entrepreneurs’ finance and the sub-group’s work on SME agrifinance form part of the framework. The framework also identifies those policy recommendations that are most relevant to the Least Developed Countries. Recommendations were presented at the G-20 Cannes Summit and focused on implementing national diagnostics and strategies; developing supportive legal and regulatory frameworks; strengthening financial infrastructure; designing effective government support mechanisms; building consistent and reliable data sources; promoting private sector financing approaches; and improving capacity within financial institutions.
- Research Reports: IFC and the World Bank are acting as the technical leads in conducting research on women entrepreneurs and agrifinance. The outcome of the research are:
  - Women Entrepreneurs: A report, Strengthening Access to Finance for Women-owned SMEs in Developing Countries, summarizes the existing literature, catalogues the challenges faced by women entrepreneurs who want to start and grow businesses, offers policy recommendations that facilitate success for women entrepreneurs, and provides some examples of successful business models for increasing women entrepreneurs’ access to finance.
  - Agrifinance: A stocktaking exercise explores existing initiatives, approaches, and projects by private and public as well as national and international institutions
with the objective of culling international best practices and effective tools and methods to create guidelines for policy and regulatory frameworks conducive to agricultural finance and consistent with the G-20 Principles for Inclusive Finance.

SMALL RUSSIAN TOWN WELCOMES WINTER WITH A BRAND NEW BOILER HOUSE

Currently, Russia uses twice as much energy in just one administrative district as all of the Nordic countries combined. High energy consumption is particularly common in the industrial sector since much of its equipment is at least 30 years old.

In 2005, IFC launched the Russia Sustainable Energy Finance Program to stimulate investment in energy efficiency by helping financial institutions build a sustainable energy finance product for SMEs. One of IFC’s partner banks in the northwest region of Russia, Bank Prime Finance, had used IFC support to train its credit officers and adjust its underwriting process to better finance energy efficiency projects.

EnergoStroy is one of the bank’s 3,000 corporate and SME clients, and it specializes in the building and repairing of steam and water-heating boiler houses. EnergoStroy won the municipal tender for the replacement of an outdated boiler house in the town of Nevskaya Dubrovka, located in one of Russia’s frontier regions, 30 kilometers from Saint Petersburg.

Based on IFC’s criteria for energy efficiency projects, Bank Prime Finance issued a $513,000 loan to EnergoStroy to carry out the construction of the boiler house. There was heavy pressure to complete the project since many residents would be affected. The boiler house had to be completed before the onset of winter in order to ensure steady heating and hot water supply for a settlement of 6,000 residents. It was also very important for the administration of Nevskaya Dubrovka to build an independent boiler house in order to avoid heating supply failure in the future.

In addition to social and environmental considerations, there was also a high potential for cost savings. The municipal administration of Nevskaya Dubrovka was able to realize energy savings of up to $185,000 per year, a considerable amount of money for the municipality.

Due to the success of the project in Nevskaya Dubrovka, Bank Prime Finance now helps promote sustainable energy finance throughout the northwestern region of Russia. This is just one of many successful examples of Russian banks leveraging IFC advisory support to improve energy efficiency in Russia’s municipalities.

TURNING GREEN TO GOLD: PHILIPPINE SEF PROGRAM HELPS SMALL ENTREPRENEURS CUT ENERGY COSTS

IFC chose the Philippines for the Sustainable Energy Finance (SEF) program in 2008 due to the country’s rising energy costs, energy shortages stemming from growing demand, increased concern for environmental sustainability, and stable and sophisticated banking system. The SEF Program sought to partner with local banks to increase access to finance for energy efficiency and renewable energy projects in the private sector.

The Bank of the Philippine Islands (BPI), the country’s oldest and third largest bank, was the first to leverage IFC’s expertise in sustainable energy finance, signing an advisory services agreement in 2008. In 2009, the bank took the partnership a step further by signing a risk-sharing agreement with IFC. The SEF program allows them to add value to their clients’ business. The bank’s technical consultants help potential borrowers identify opportunities for energy efficiency through free walkthrough energy audits and evaluation of project feasibility studies.

“The relationship with IFC has been very cooperative, warm, reciprocal, and productive. Our SEF team has learned many lessons from the IFC. As we disseminate the knowledge to our marketing groups, we will be able to pursue the SEF market, which is perceived by many as high risk, with greater confidence,” said BPI President Aurelio R. Montinola.

For helping SMEs identify and finance their sustainable energy projects in the Philippines, BPI was recognized as one of the 14 winners of the G-20 Finance Challenge awards. BPI intends to use the grant money to expand the SEF program and introduce new products, such as green building investments, cleaner production, green mortgages, and carbon financing. To date, BPI has approved a total of $136 million worth of energy efficiency and renewable energy loans, estimated to reduce an annual 245,043 tons of carbon dioxide. BPI has so far conducted 27 staff trainings, attended by 570 individuals, and 26 market awareness and education activities for potential borrowers to help them turn their business from green to gold.
THE FIRST RUSSIAN-LANGUAGE RISK MANAGEMENT CERTIFICATION PROGRAM LAUNCHED IN THE EUROPE AND CENTRAL ASIA REGION

A vast expansion of the financial sector in the Europe and Central Asia (ECA) region over the last decade has taken place without the benefit of a trained cadre of risk managers to support the growth. Lack of knowledge and experience with risk management led to a much greater number of bad assets than would exist with best-practice risk management systems. After the financial crisis, IFC recognized that the improvement of risk management practices in financial institutions would be a major factor fueling a sustainable resurgence of the financial sector.

Over the last few years, there has been renewed interest in risk management in ECA. However, there are still too few qualified professionals in this field, their education hindered by a lack of qualified trainees in the field and the unavailability of study materials in Russian. This has often led to risk management being viewed as an afterthought in many banking institutions in ECA.

To rectify this situation, IFC has engaged GARP (Global Association of Risk Professionals) to introduce a Risk Management Certification Program in Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Russia, Tajikistan, Ukraine, and Uzbekistan through an initiative co-implemented by the Azerbaijan-Central Asia Financial Markets Infrastructure Advisory Services Project and the ECA Financial Markets Crisis Management Project. The project aims to help employees of commercial banks and other financial institutions gain knowledge of the best practices in risk management in order to minimize risks and make the financial sector more competitive and secure.

Currently, internationally recognized risk management certification programs are not available in Russian and most materials are not adapted to the local specifics. IFC will support translation of GARP’s educational materials into Russian and assist with selection and engagement of partner organizations in each country to ensure sustainability. Local partners will be trained and certified by GARP and will in turn provide on-site training and review sessions to all the professionals who wish to go through the same program from 2012 onward.

Students who successfully complete the Risk Certification Program will gain a broad understanding of the methodology and structure of financial risk management as well as regulatory requirements as described by the Basel Committee on Banking Supervision. Those who successfully complete the program will receive the Foundations of Banking Risk certification, which will allow them to apply for the more comprehensive Financial Risk Manager certification. By providing these necessary skills and knowledge to ECA professionals, the IFC/GARP program will help financial institutions minimize risks and protect themselves from potential financial upheavals in the future.

TRANSFORMING THE BANKING SECTOR TO TAP THE POTENTIAL OF MSMEs

In Malawi, as in many African countries, micro, small, and medium enterprises (MSMEs) are underserved, and in spite of the country’s sound but small banking sector, many Malawians do not have access to formal banking services. This can be attributed to a lack of personnel with skills to effectively address the needs of small business owners, the scarcity of appropriate MSME product offerings, and the lack of capacity to develop suitable products and channels.

In November 2008, as part of its Africa MSME (AMSME) Finance Program, IFC launched a two-year Advisory Services Program to provide technical assistance to First Merchant Bank (FMB) Malawi to strengthen the overall capacity of the bank and address the weaknesses in servicing MSMEs. The project formed an integral part of the AMSME Program, the main purpose of which was to work with financial institutions to better serve small business customers and increase access to finance, drawing on lessons learned from IFC’s experience in promoting MSME business across Africa and globally.

The program’s ultimate objective was to create better access to finance for small businesses by working with financial institutions in Malawi to deepen and broaden the Malawian financial sector as well as raise the standard of financial services provided to MSMEs. The focus was on developing retail/SME banking and building a deposit base to facilitate SME lending. The outcome of this program was the successful transformation of FMB from
a high-end niche corporate/high net-worth retail bank to a broad-based commercial bank focusing on both retail and the SME banking segment.

IFC's AMSME program assisted FMB in setting specific goals to be achieved over the two-year period. These included increased outreach to new MSME markets specifically in the agriculture sector, organizational strengthening of the bank, growing the MSME loan portfolio within acceptable risk or quality levels, training and product development, and setting up SME banking/retail operations to enable the bank to downscale. By the end of the project in December 2010, FMB Malawi reported 2,624 outstanding loans valued at $42.77 million compared with 2,329 loans totaling $34.28 million outstanding in June 2010, demonstrating that the bank successfully went down market.

A program that targets the agricultural sector has great potential in Malawi since the sector employs more than 80 percent of the labor force, accounts for 35 percent of GDP and 90 percent of exports, and provides 65 percent of the manufacturing sector's raw material. With a view to tapping this market, FMB also requested assistance in developing special products for the agriculture sector, such as warehouse financing and out-grower schemes.

With advice from IFC Advisory Services, the bank implemented segmentation activities that included a multichannel MSME distribution strategy that assessed SME market needs and enabled the bank to develop appropriate channels and products. Several key products were developed, namely the low-cost FMB Fast Account, which resulted in the opening of 40,000 personal accounts over a six-month period, and its two sub-products, the ATM Visa Card and FMB Mobile product. The bank also developed an FMB Business Account, which targeted retail clients and SMEs in rural and peri-urban areas, including unregistered businesses, and was designed to increase FMB's deposit base to facilitate enhanced lending.

The IFC program also supervised FMB's successful expansion of its branch network from 12 branches in 2008 to 24 by November 2010, the acquisition of two mobile vans to be used for banking services in two locations, and the establishment of a mobile banking channel to enable subscribers to access services via mobile phone.

IFC's advisory support significantly strengthened FMB's overall capacity. In particular, key developments included the implementation of an MSME distribution strategy, branch management and process redesign, the provision of agriculture finance, portfolio risk management, and human resource development and assessment. The bank's management writes in its end-of-project letter, "We are looking back to a very important period in the history of FMB that has fundamentally changed the strategic direction of our bank."

**ECOBANK GROUP: SCALING UP SME SUPPORT IN AFRICA**

Promoting small business development in Africa is critical to economic development and poverty alleviation on the continent. It hinges on the commitment of African banks and financial institutions to increase SME financing in a way that improves banking practices and facilitates easier access to finance for micro, small, and medium enterprises across regions and markets.

The Ecobank Transnational Incorporated (ETI), also known as the Ecobank Group, is a pan-African bank with broad geographical reach. Spread across 30 countries in western, central, eastern and southern Africa, its network numbers 750 branches, 10,000 employees, and an estimated three million customers. The Group’s vision is to contribute to the economic development and financial integration of Africa, a key component of which is support for SMEs on a large scale.

Through a strategic partnership with IFC’s Africa Micro, Small and Medium Enterprises Program, Ecobank has embarked on a 24-month program to promote and increase support to Africa’s MSMEs and women-led enterprises, and to address the shortage of skills and human resources needed to develop a successful MSME business line. The AMSME program is an institution-building initiative that assists financial intermediaries in providing improved financial services to MSMEs through best banking practices.

The IFC program is designed to transfer knowledge and capacity across six of Ecobank’s affiliates in Nigeria, Senegal, Cameroon, Cote d’Ivoire, Benin, and Niger to substantially boost their SME operations as they are rolled out across the group’s larger network and to help develop and maintain a quality portfolio. A key advantage of this model is the economies of scale achieved by designing and developing all new products, processes, and procedures just once and applying them across the affiliate network.

Women entrepreneurs across Africa are an important but underserved market segment. In an effort to redress the balance, IFC’s AMSME advisory services program incorporates a component that promotes women’s access to finance through training strategies on providing financial services to women.

IFC’s SME Banking advisory program aims to improve operating efficiencies across the Ecobank affiliate network through reorganizing the bank’s SME units and training staff on SME banking best practices, sales and marketing, credit risk management, and strategies enabling access to finance for women entrepreneurs. The program will help boost Ecobank’s SME operations, products, and services through the development of new financial products and increase the number and value of outstanding loans. IFC has also committed the bank to keeping its ratio of non-
performing loans to less than 7.5 percent of the total outstanding MSME portfolio, offered recommendations on tailoring Ecobank’s IT and MIS platforms for SME operations, and introduced a credit scoring application and system.

IFC MSME project activities are underway, and several milestones have been achieved. Resident advisors and local consultants have been deployed in all six countries and work plans validated by management teams. Also, market studies, segmentation and business models, baseline, targets, and objectives have been completed and endorsed in each respective affiliate. Following a thorough review of existing products and processes for smaller businesses, SME products have been streamlined and harmonized within the entire Ecobank network to better respond to SME financing needs. There are now four products programs dedicated to SMEs that are available in each Ecobank affiliate in Sub-Saharan Africa. In addition, IFC continues to hold training sessions for staff on SME banking and approaches to the women’s market. A ‘women in business’ strategy dubbed ‘Ecobank Women World’ is operational and training for women entrepreneurs has commenced in Benin, Niger, and Nigeria.

Ecobank’s pan-African reach offers real potential for transformation and scale in increasing financial services to SMEs. Ecobank is an ideal partner for IFC in that its work with the six selected affiliates ensures that all improvements in SME operations and new products are rolled out across the group’s network in 30 countries, making it possible to significantly scale up SME support in Africa and increase the impact on SME markets in all the countries in which it operates.

**SECO AND IFC HELP AZERI BANKS EXPAND ACCESS TO FINANCE FOR SMALL AND MEDIUM ENTERPRISES**

Azerbaijan’s Turan Bank is a relatively small bank but with ambitious growth plans, particularly for the underserved areas of the country. Launched in 2005, the bank’s vision is to become a universal bank that provides a comprehensive range of financial products and services to SMEs and individuals through a wide network of branches and regional centers. To strengthen its position in the market, the bank’s management knew that it needed to improve its internal systems and practices as well as attract further investment.

In 2009, Turan Bank was chosen as a pilot in the IFC Azerbaijan Corporate Governance Advisory Services Project, which IFC launched in partnership with the State Secretariat for Economic Affairs of Switzerland (SECO). The IFC program provided in-depth advice to banks on aligning their corporate governance systems with best international practices.

“Our plans for growth were ambitious, and we knew that we would benefit from IFC’s expertise in this area,” said Fuad Musayev, Chairman of Turan Bank’s Supervisory Board. “We felt IFC’s pilot program would help strengthen our systems in line with our strategic plan on institutional development.”

IFC experts helped Turan Bank introduce numerous corporate governance improvements, including the development and adoption of new internal documents to govern and guide practices, the clarification of management and supervision responsibilities, the establishment of a corporate governance officer position, and the adoption of a succession plan and a dividend policy.

“With IFC’s support, we achieved significant results. IFC’s methodology engaged not only top management but all of Turan Bank’s employees. IFC does a great job in increasing awareness and improving understanding through its tailored workshops and meetings. Personally, I see that employees are much more informed and willing to implement better practices,” said Nazim Sadigov, chairman of Turan Bank’s management board.

Building on its successful collaboration with IFC, Turan Bank later joined IFC’s Risk Management Project, which IFC also implemented with SECO’s support. The project helps banks across Eastern Europe and Central Asia recover from the financial crisis by building their internal capacity and advising them on better risk management. Currently, IFC is working with Turan Bank to better manage non-performing loans and credit risk.

In June 2011, IFC extended a $7 million loan to help Turan Bank increase lending to micro and small entrepreneurs across Azerbaijan. The loan will enable the bank to diversify services and expand operations, especially in underserved rural areas.

IFC Senior Manager Ed Strawderman said, “Turan Bank’s partnership with IFC to date and the bank’s commitment to strengthening its corporate governance and risk management practices are key factors that led IFC to provide this loan. This financing will help Turan Bank to increase outreach to micro and small businesses, which is part of IFC’s financial markets strategy in Azerbaijan.”

Nailya Safarova, national coordinator at the Swiss Cooperation Office in Baku, said, “We are very proud to see that the impact of the cooperation with IFC was even greater than we expected. While Turan Bank received the IFC investment as a result of its improved corporate governance and risk management practices, this facility will help it achieve other development goals that are priorities for SECO -- to ease access to finance for the small and medium enterprises and for the agricultural sector through microfinance.”

SECO began its partnership with IFC in 2001 and has been instrumental in helping IFC to expand advisory
services to Azerbaijan, the Kyrgyz Republic, Tajikistan, and Azerbaijan. In the past decade, the Swiss-IFC partnership has provided significant opportunities for private sector development in areas as diverse as leasing, regulatory reform, housing finance, corporate governance, and risk management.

**GROWING SME AND HOUSING FINANCE IN HONDURAS**

Around the world, IFC is committed to supporting the development of micro and small businesses and housing finance markets for lower income segments through direct support to private financial institutions. To that end, in Central America since 2008, IFC has worked with Ficohsa, a locally owned bank operating in Honduras, an International Development Association country with two-thirds of its population living in extreme poverty.

When IFC began working with Ficohsa, the bank was a relatively new player in both the housing and SME segments and needed assistance enhancing its business model in these areas. With the support of the government of the Netherlands, IFC conducted a three-year project that began with initial assessments of three areas: SME finance, housing finance, and corporate governance. These assessments were followed by design and implementation of action plans in these areas.

With IFC’s support, Ficohsa evolved from a traditional corporate bank into a bank that had broadened its focus to effectively serve the SME and housing finance markets and was able to offer products tailored to those markets. Ficohsa made significant organizational changes and modified its structure with the establishment of a SME finance unit and a housing finance unit. Products, policies, and procedures were developed for these units, and staff was trained to work in the units. The SME and housing finance portfolios achieved notable growth during the project with the value of outstanding SME loans increasing by 47 percent, while outstanding housing finance loans grew 44 percent.

The corporate governance component of the project also generated strong results, and a series of recommendations for new corporate governance policies and procedures were implemented at the bank. Ficohsa’s holding company, the Ficohsa Financial Group, was sufficiently impressed with the corporate governance work that it actually decided to implement comparable changes in other companies under its umbrella.

As the project neared completion and the client was deciding whether or not to extend the project, Monitoring and Evaluation (M&E) activities ramped up. Because M&E activities were well-coordinated with the project team and the client, the involvement of M&E at this critical moment helped convince the client of the value of extending the project. While no definitive decision has been made yet regarding project extension, the evaluation underway is expected to continue to play a key role since it has been designed not just to measure how Ficohsa loans help SMEs to grow, but also to quickly demonstrate operationally useful results. The client particularly appreciated the evaluator’s independent assessment of the project and recommendations on actions management should take to ensure sustainability; this added a layer of analysis and validation to the work already done by the IFC team and consultants. The evaluation, fully funded by IFC, was designed in an innovative way to maximize effectiveness within a limited budget.

Ficohsa is very pleased with the progress it made in working with IFC. Camilo Atala, President of the Ficohsa Financial Group, stated, “Without IFC’s assistance, our SME and Housing Finance programs would not be where they are today. We now have solid business models in place and a strong corporate governance framework.”

**PROMOTING SUSTAINABLE ENERGY FINANCE IN LATIN AMERICA**

IFC’s Sustainable Energy Finance (SEF) program focuses on helping financial institutions finance projects that reduce energy consumption, increase use of renewable energy sources, and reduce greenhouse gas emissions and other environmental pollution in emerging markets.

In Latin America and the Caribbean (LAC), one of the major impediments to the development of SEF is the widespread lack of knowledge about SEF and the market opportunity it represents. In light of this, IFC’s Access to Finance team in LAC developed market assessments and
carried out mapping exercises to identify opportunities and barriers to sustainable energy market development in countries such as Mexico, Peru, and Brazil. These assessments were useful in the development of a series of programs and initiatives to raise awareness and inform financial institutions about SEF and the need to develop sustainable mitigation and adaptation activities. IFC also helped renowned financial institutions identify potential partners and other market players that could help them better understand market opportunities and explore projects for possible financing.

IFC, in partnership with local think tank Peru 2021, organized IFC’s first event on climate change in the LAC region. Around 200 leading representatives from public, private sector, and civil society organizations gathered in Lima, Peru, to discuss the challenges and opportunities presented by climate change for the private sector. The event explored the new investments private sector companies are making in new technologies as well as the adaptive measures they are undertaking in this area. It not only covered sustainable energy-related topics but also included sessions on forestry and land use change, water use efficiency, and risk management and insurance. IFC also organized additional sustainable energy-related events in Peru and Brazil and participated in events organized by other entities in Colombia and Chile.

Aside from deepening knowledge about SEF market opportunities, the market assessment work has generated other results. In Brazil, the assessments led to IFC offering advisory services support to two midsize banks. In Peru, the team identified a financial institution, initially not considered for SEF, as a potential partner to help support access to finance for smaller enterprises, a key challenge for SEF.

One of the difficulties IFC has encountered in building the SEF program in LAC has been its relatively recent entry into the space in the region. Finding other non-financial institution market partners was particularly challenging as IFC had not yet established itself as a key player in the field of sustainable energy in LAC, and additional effort was required in establishing IFC’s credibility. This same issue has cropped up with financial institutions as well; while most financial institutions know of IFC, many are not aware of IFC’s experience in sustainable energy and as a result, do not view IFC as their partner of choice in this area. IFC’s leading role in organizing and participating in awareness-raising events over the past year has been a crucial first step in beginning to remove this barrier.

In the immediate future, the IFC team in the region will collaborate with other IFC business lines to help analyze countries’ regulatory frameworks by identifying key bottlenecks and areas for improvement that will create a business climate more conducive to sustainable energy. This work is to commence in Colombia, followed by Mexico and Chile.

Through these activities and efforts, we expect IFC to become a SEF partner of choice for financial institutions in the region. As such, IFC will continue supporting the private sector in its quest to mitigate and adapt to the challenges of climate change, thus helping to achieve climate-friendly business.

**CASE STUDIES – HIGHLIGHTS**

**CHALLENGES CONFRONTED BY NEWLY-ESTABLISHED LEASING COMPANY**

Mongolia, an International Development Association country with a population of only 2.6 million, relies heavily on SME and rural enterprises to support employment. Although there is significant demand for leasing by SMEs and rural businesses, the nascent industry lacks sufficient leasing market players and expertise. In 2007, Tenger Financial Group, a diversified financial services group operating in Mongolia, spun off the leasing business from the portfolio of its subsidiary, XacBank. Management of the newly-created XacLeasing company was committed to financing the SME sector but faced several challenges including limited funding sources, scarce human resources, inadequate operating systems, and inexperience in running a leasing business. As a strategic partner of Tenger Financial Group and a potential investor, IFC was well positioned to provide technical assistance and funding support. In 2007, IFC assigned two leasing experts to XacLeasing and delivered on-site guidance on accounting practices and strategy improvement. The experts identified the following issues:
The existing business plan was not sufficiently detailed and did not outline a clear strategy.

XacLeasing did not have a pricing policy and associated procedures for its products.

Staff required extensive training to understand the leasing products offered.

Internal policies and procedures for workflow, risk assessment, vendor assessment, VAT payment, default solutions, and audit trail check lists were not yet in place.

XacLeasing did not have sustainable mid- and long-term funding sources.

Against XacLeasing’s initial expectations, recognition of leased assets under a finance lease on the lessor’s balance sheet was not possible under Mongolian accounting standards. In addition, it was ineffective for tax purposes due to short lease terms and long depreciation periods.

To combat the above challenges, a two-year advisory services package was agreed upon in 2008 between IFC and XacLeasing to help the latter refine its strategy, explore market opportunities, improve policies and procedures, and train staff. An international consultant with more than 20 years of leasing experience was tasked with providing hands-on guidance and advice to XacLeasing.

The areas of the IFC Advisory Services package covered the following: (1) strengthening risk management and credit underwriting; (2) working with the Tenger group’s management and local stakeholders to identify a company structure that would ensure a sustainable funding strategy; (3) helping XacLeasing and XacBank to create synergies between XacLeasing products and the XacBank branch network; (4) business plan improvement and product development/design; (5) leasing documentation standardization; (6) staff training; and (7) IT system improvement.

The consultant ran several workshops for XacLeasing’s staff focusing on the basics of leasing and explained critical fiscal and VAT issues as well as prepared several modules for the management, covering key aspects such as workflows and risk assessment. The consultant also worked with the chief executive officer of XacLeasing to finalize a business plan and offered practical suggestions on boosting loan volume, facilitating loan approval, and improving risk management. On June 9, 2010, IFC and XacLeasing co-sponsored a symposium on SME leasing that helped XacLeasing market its services and promote the concept of financial leasing in Mongolia.

Satisfied with the quality of the consultant’s services, XacLeasing contributed about 30 percent of the total costs, a significant amount for a newly-created and small company in Mongolia.

In 2009, IFC and XacLeasing signed a $1 million loan agreement. As of the first quarter of 2011, the lease portfolio of XacLeasing had grown from zero to about $5.7 million and return on equity was 20.3 percent. A total of 14 staff members are now managing 126 lessee relationships.

IFC HELPS VIETNAM BOND MARKET ASSOCIATION CREATE A MORE EFFICIENT CAPITAL MARKET

Financial intermediation is an important element that underpins economic development and ensures the efficient allocation of financial resources. Estimates say assets in Vietnam’s financial system will reach $286 billion in the next ten years. At this level, financial intermediation that goes beyond the services normally provided by banks and direct investment will be required.

Establishing a bond market is a key step in further developing Vietnam’s financial intermediation capacity, and it will be an important complement to bank funding and foreign direct investment. In particular, it will be an important avenue for raising capital for infrastructure, housing, and social projects as Vietnam continues to grow; address the challenges of urbanization, and generate employment opportunities. In the infrastructure sector alone, Vietnam expects to spend $180 billion over the next 10 years, of which about $100 billion will come from the public budget and the remainder from private sector sources. Given the long-term nature of infrastructure projects, Vietnam needs to develop a bond market capable of raising long-term financing at reasonable cost to fund this expansion.

In order to facilitate access to capital to help government, sub-national, and private sector entities finance infrastructure projects and expand business in general, the country needs prudent and transparent regulations as well as efficient and reliable market infrastructure. At the same time, the market needs capable participants, such as issuers, investors, and intermediaries, who will bring transactions to market and operate with a high level of integrity.

To this end, IFC helped local market participants and stakeholders establish the Vietnam Bond Market Association (VBMA), an industry association that now serves as the main private sector agent for bond market development. VBMA’s responsibilities include enhancing public awareness about the bond market, standardizing market practices and conduct, enhancing the professionalism of market participants, and acting as a market interlocutor and information provider for the Vietnamese authorities.

Initially an informal forum of market professionals committed to developing the market and building their own professional capacity, the Vietnam Bond Market Association was established in late 2009 with strong support from IFC and the World Bank. VBMA was quickly
recognized as a credible ‘voice’ for industry professionals and a competent counterparty for the government in policy formulation and implementation.

Working with VBMA, IFC is helping to develop capacity and infrastructure for an efficient bond market by introducing standard practices and improving market operations. With IFC’s help, VBMA has established a high standard of conduct, which all of its members have committed to uphold. After reaching a consensus on fundamental market principles, VBMA is now working on establishing market conventions and has produced a standard operating manual for bond market practitioners, also with IFC’s assistance. IFC also helped develop the curriculum for a corporate bond market-training program that VBMA has successfully rolled out.

In Vietnam, the World Bank Group has been advising government policy makers and market stakeholders on building more efficient and accessible domestic capital markets. IFC’s assistance to VBMA complements these efforts by capitalizing on the genuine interest of market professionals in improving their own skills and developing the local fixed-income market.

SME BANKING SEGMENTATION STUDY IN PAKISTAN

Each SME sub-segment has different needs and requires customization of banking products and services as well as a tailored customer care strategy based on the nature and behavior of each SME sub-segment. Segmentation is a basic management technique increasingly necessary to maximize profitability and customer satisfaction.

IFC’s Bank Advisory Services Program in the Middle East and North Africa region has developed 10 SME banking booklets for banks in Pakistan. This initiative was part of the program’s knowledge management project in the region. The booklets are the end-deliverable of the SME Segmentation study conducted in Pakistan in partnership with the State Bank of Pakistan, which saw the participation of SME teams from 14 of the country’s top banks as advisors and eventual beneficiaries. These booklets, which cover ten sectors including food, education, health, services and transport, aim to help banks create better and lower-cost product programs that enable more small businesses to obtain financing and expand their operations.

IFC decided to support the SME Segmentation study in the country to address a market weakness that created a bias against small firms as individual banks in Pakistan perceive gathering credit information on small firms as expensive. IFC believes that to allocate resources efficiently all market participants should have the same relevant information. Very few of the country’s banks had a separate SME business unit with a large enough portfolio of customers to justify allocating resources to conduct segmentation studies.

HOW WAS IT EXECUTED?

■ Use of global and local resources
- IFC’s global market segmentation methodology and questionnaire
- SBP’s facilitation and market knowledge
- Grant Thornton’s market research expertise

■ Extensive interaction with banks
- 14 banks accounting for over 90 percent of the SME lending portfolio formally participated in the exercise
- Over 50 hours of extensive one on one meetings with 14 banks
- SME Banking competitor landscape analysis conducted
- Focus group with 30 bankers from 14 banks
- Feedback sought at each stage – questionnaire, methodology, sector selection
- Consensus obtained on methodology and sector selection

■ Segment selection
- Overall economic sub-sector wise data for contribution to GDP has been used to draw inferences for the SME sector (Economic Survey of Pakistan, Federal Bureau of Statistics)
- The above assumption is based on the fact that small-scale industries are mainly driven by large-scale enterprises in terms of business activity and volume
- Quantitative data with respect to contribution of SME sub-sectors to the overall GDP of Pakistan is not available.

■ Sample selection
- 300 (30 detailed interviews – more than 2 hours each)
- At least 60 percent informal
- At least 60 percent have turnover of less than $850,000
- At least 60 percent have less than 20 employees
- At least 80 percent with banking history

Intended benefits

The 10 SME banking product booklets have been widely disseminated to all the banks in the country. The IFC segmentation study encourages innovation in product development, lending methodologies, delivery mechanisms, and risk assessment suited to low-cost SME banking.
SUSTAINABLE SME BANKING OPERATIONS ROLLED OUT ACROSS EAST AFRICA

With an operational hub in Kenya, the Diamond Trust Bank (DTB) Group, is one of East Africa’s leading banks, with a network of 70 branches in Kenya, Uganda, Tanzania, and Burundi and further plans to expand regionally into Mozambique.

The DTB Group, affiliated with the Aga Khan Fund for Economic Development, its largest shareholder, has long recognized the need to shift its focus away from large corporations to individuals. The bank has systematically targeted SMEs, tailoring its products and services to meet the needs of the SME sector, which represents over 70 percent of its loan portfolio. In Uganda, for instance, there are an estimated 1 million micro, small and medium enterprises, comprising more than 90 percent of the country’s private sector and contributing 75 percent of Uganda’s GDP. Ugandan MSMEs are largely informal, located in urban areas, and employ approximately 1.5 million non-farm workers, who are involved in retail trade, basic food processing, and small-scale manufacturing. Entrepreneurs with little formal education primarily own these small businesses.

In 2008, the DTB Group approached IFC, a longstanding partner, to help develop a strong SME banking network in East Africa by creating sustainable SME banking operations across the region. The result was the launch of a crosscutting IFC SME Banking Advisory project, which fell under IFC’s Africa MSME Finance Program, a regional institution-building program that helped financial intermediaries better service MSMEs.

The process began with an in-depth review of SME markets served by DTB in all countries, which identified the most pressing needs of SME customers and DTB’s requirements in better meeting those needs, particularly on a competitive basis. It emerged that the needs of SME customers extend far beyond credit or access to loans to include faster service, assistance in managing cash flow, and a streamlined method for sending and receiving payments. From the bank’s perspective, SMEs required a modern current account tailored to their needs that also improved the performance and soundness of their balance sheets. Building the appropriate capabilities was also key in facilitating online banking and moving the SME segment away from traditional lending processes and collateral policies.

The IFC advisory services were tailored to the countries’ market priorities and the program focused on several critical areas, including SME banking training, improving efficiency through revised organization design and performance management systems, credit process review and automation, SME product development, and business analytics.

As heads of many small businesses, women in Africa are frequently at the forefront of local economic development but often face large obstacles when it comes to acquiring permits and licenses, asserting property rights, and accessing finance. To address these realities and in addition to the core program offerings, DTB has partnered with IFC’s Women in Business component, one of its unique and innovative gender financing interventions, to train 120 employees in four countries in strategies for offering financial services to women customers.

Similarly, DTB Kenya will benefit from IFC’s SME Toolkit, a Web-based portal providing technical knowledge, functional skills, and business tools to help SMEs scale their businesses to the next level.

The program’s results have been impressive, seen in the bank’s rapid branch network expansion, significant growth in the size of its customer base and the number of products per customer, a shift in the liability mix in favor of low-cost deposits as a result of new bank accounts targeted at the SME sector, and a broader range of channels on offer to customers. Among these last are the introduction of Web-based cash management services and an online banking platform for SMEs as well as mobile payment solutions. The bank’s SME loan portfolio has grown by 42 percent to date, representing an additional 1,468 outstanding loans valued at $130.58 million for the group.

“We would like to thank IFC for their partnership and support in realizing the results we achieved across all our markets. More than anything else, the Africa MSME program gave the management team a clarity of focus and purpose that benefited the bank way beyond the financial contributions received under the program”, said Nasim Devji, CEO of DTB, in her keynote address at the Africa SME Banking Conference held in Johannesburg in April 2011.

IFC’s success can be attributed to its capacity for inter-regional collaboration, its work in expanding and building a network of strong SME banks in East African countries, and its ability to integrate financing and technical support, all of which are viewed with credibility by financial institutions.
BENCHMARKING SME BANKS IN ECA

Over the last three years, IFC has been conducting surveys of banks from all over the world to better understand their SME banking business and develop SME banking advisory solutions. To date, a total of 34 banks have filled out the IFC SME Benchmarking Survey, an online tool which provides participating banks with an opportunity to benchmark their practices against peer banks in the existing database in five key strategic areas: (i) strategy, segmentation and business model; (ii) market, products and services; (iii) sales and delivery channels; (iv) credit risk management; and (v) IT and MIS.

IFC now has enough critical mass in the database to undertake a first-ever analysis of aggregated results with a focus on a particular region or country. This case study discusses the main findings of an analysis of 11 banks in the database from Eastern and Central Asia, 64 percent of these from Russia.

RECOMMENDATIONS SUMMARY

- SME banking is a big opportunity
- Develop holistic approach to SME Banking
- Wanted: “A client-centric approach”
- Need a pro-active sales culture
- Use low-cost delivery channels
- Introduce risk-based pricing

Strategy, SME Focus & Business Models

Like most banks around the world, the participating banks from ECA decided to enter the SME segment due to the growth opportunity in serving this sector. Among banks surveyed, operating income from the SME segment was nearly double that of the entire bank, fueled by extremely strong growth of the SME banking portfolio, which grew at an average 155 percent compared with 81 percent for the total bank portfolio. The survey found that the biggest external challenges to growing the SME portfolio were macroeconomic challenges and challenges specific to SMEs, such as poor quality of financial statements, collateral, and informality. This, however, did not appear to deter the banks, with at least 80 percent of the survey respondents indicating they had a dedicated SME unit as well as some basic organizational structures and systems in place to support the growth of the SME banking business. Across the board, banks cited the lack of experienced staff as the most relevant internal challenge.

Product Mix & Cross-Selling

Banks in the region have recognized the need to look at the SME segment with a fresh pair of eyes and have developed a broad range of SME-specific products. However, most banks appear to equate SME banking to SME lending. Approximately 74 percent of income derived from the SME segment originated from credit products with the balance split almost equally between deposit and transactional products. This may be the result of heavy demand for credit products and the predominant use of cash-based transactions by SMEs. In contrast, an IFC survey of best-practice banks in the Organisation for Economic Co-operation and Development and emerging countries found that lending was just one service offered as part of a larger overall package to SMEs. Among this group of best-practice banks, 35 to 40 percent of SME income was derived from credit products. Lending products were used to attract or retain credit clients but strong revenue generally came from deposit and transactional products such as Internet banking, insurance, transfer services, debit cards, payroll service, and receivables collections, to name just a few examples.

If banks in ECA are serious about growing their SME portfolio in a sustainable manner, they need to adopt a holistic approach to SME banking. This can be done by institutionalizing a cross-selling culture within the organization. Cross-selling of products enables a bank to grow its revenues while developing a loyal customer base. With an average cross-sell ratio of 3.6 among the ECA banks in the database, there is scope to strengthen the banks’ cross-sell ratio by (i) formalizing and adopting a

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<th>ECA Regional Banks</th>
<th>OECD Countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Breakdown in the SME Segment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Loans &amp; Related Fees</td>
<td>74%</td>
<td>35%</td>
</tr>
<tr>
<td>Deposit Account &amp; Management Fees 14%</td>
<td>42%</td>
<td>26%</td>
</tr>
<tr>
<td>Other Transaction &amp; Fee Based Services</td>
<td>17%</td>
<td>23%</td>
</tr>
<tr>
<td></td>
<td>SME</td>
<td>Bank</td>
</tr>
<tr>
<td>Credit Products</td>
<td>12</td>
<td>21</td>
</tr>
<tr>
<td>Deposit Products</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Transaction Products</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td>Cross Sell Ratios</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Products</td>
<td>3.8</td>
<td>1.35</td>
</tr>
<tr>
<td>Deposit Products</td>
<td>1.7</td>
<td>1.3-3.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Average Number of Products</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>1.3-3.5</td>
</tr>
</tbody>
</table>
more structured approach to cross-selling, such as setting targets for relationship managers across all product ranges and creating an incentive structure that rewards achieving cross-selling targets; (ii) measuring the cross-sell ratio at the corporate and SME level, especially for banks that do not keep track of this important indicator; and (iii) mining the existing customer base to identify potential SMEs who could already be sitting in other units within the bank and are not being serviced by SME-specific products.

Moreover, it is important to keep track of the cross-sell ratio to maximize the share of wallet for SME clients.

Sales and Delivery Channels

In growing their SME business, banks in ECA region assign high relevance to the account manager, specialized relationship managers, and a sales force dedicated to SME business development. In terms of delivery channels, the two most cited channels were specialized SME branches and a non-segmented branch network with a specialized relationship manager for SMEs. This is a step in the right direction as it demonstrates an understanding by the banks of the need to align organizational structure with their strategic focus on serving the SME segment.

Nevertheless, additional steps could be taken to strengthen customer relationship management services by separating the client acquisition functions (“hunter”) from customer service functions (“farmer”). Although relationship managers in the ECA banks said they spend 75 percent of their time on average in client-facing roles, further investigation reveals that 40 percent of this time is spent at their desks receiving clients. This is further underscored by the fact that the most predominant method of client acquisition among the banks surveyed was referrals from existing clients and an internal client/transaction database. The hunter-farmer approach would refine the role of the relationship manager, creating two teams: the hunter who focuses on a pro-active sales strategy and the farmer who focuses on cross-selling and nurturing the client to ensure a long-term client-bank relationship. In addition, ECA banks need to create well-structured sales-linked incentive or remuneration systems that set targets for different functions by relationship managers and move away from the current volume-based target-setting system that is commonly found in the ECA banking sector. Best-practice banks are known to implement a proactive but cost-efficient sales and customer service strategy focused on reaching out to potential clients rather than waiting for walk-ins, which allows banks to cherry-pick clients with high potential for income generation. From a risk management and client monitoring point of view, more frequent client visits from the relationship manager ensures a high level of monitoring of the business conditions and allows the bank to anticipate adverse movements in the portfolio due to forthcoming higher non-repayment rates.

Furthermore, relationship management does not always necessarily mean having a human relationship manager but can be executed through low-cost delivery channels supported by strong client management tools. This is particularly true for ECA banks, whose operating environment is considered to be more sophisticated compared with less developed regions. IFC found that among the surveyed ECA banks, low-cost channels such as ATMs, Internet banking, and mobile banking were underutilized channels for servicing the SME segment.

Credit Risk Management

Credit decision making is fairly decentralized with eight banks indicating they have delegated lending authority to the branch level. Three out of nine banks have an independent credit department, although seven out of eleven banks said they had credit officials dedicated to processing SME loan applications. In addition, scoring tools are mostly used for credit decision-making purposes, while the most critical data to the credit decision-making process were financial statements of the business, the financial situation of the owner, and information from an external database.

Even though the ECA banks surveyed had an average small business non-performing loan ratio of 5.8 percent (90 days past due) compared with 5.2 percent for best-practice banks, the banks could strengthen their risk management capabilities. One method is to use the scoring tool for pricing, thus introducing risk-based pricing. Such an approach would support the growth of SME banking business without compromising portfolio quality, but it would require more robust IT systems and capacity in this area compared to what currently exists among various banks in the region.

In conclusion, initial results of this study show that ECA banks have correctly identified opportunity in the SME segment and put in place some basic structures to support services to that segment. However, in order to maximize the opportunity, banks need to (i) develop a holistic approach to SME banking; (ii) adopt a more client-centric approach; (iii) embed a sales culture within the organization; and (iv) introduce risk-based pricing to support growth of the portfolio, to name a few recommendations.

As of December 2010, IFC’s SME financial institution clients had 460,000 outstanding loans totaling more than $35 billion in volume terms. Nevertheless, the gap in SME finance remains large, with approximately 39 percent of formal SMEs still lacking access to loans or an overdraft account. Over the last decade, IFC has remained committed to supporting the region, offering a wide range of financial products and advisory solutions focused on supporting the growth of the SME loan portfolio and strengthening the capacity of institutions in SME banking and risk management.
BENCHMARKING BEST PRACTICES IN SME BANKING

The SME Banking Benchmarking online survey has so far allowed 34 banks in emerging markets to assess and automatically benchmark themselves against the banking practices of their peers in credit risk management, market segmentation, business model, product offerings, and information technology/management information systems. Participating banks received a tailored report with valuable and unique information on how they compare with best-practice banks and what key operational areas they can improve to efficiently and effectively serve SMEs.

SME BANKING KNOWLEDGE GUIDE

IFC’s Global SME Banking Program published its SME Banking Knowledge Guide, which outlines 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 are searching for the best way to approach untapped opportunity in the SME segment in their local markets. It is also a useful guide for policy makers and other financial sector stakeholders to better understand the essentials of SME finance. http://www.ifc.org/smebanking

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 using multiple criteria such as region, country, topic, and sector, among others. http://smartlessons.ifc.org

GLOBAL LEASING TOOLKIT

IFC developed the Global Leasing Toolkit, which comprises the Base Toolkit and four Focused Toolkits, to complement the institution-building work of IFC Leasing teams around the world and to engage with the management of leasing entities and other stakeholders. This comprehensive Toolkit aims to provide a practical guide to SME equipment leasing for banks, financial institutions, and leasing entities. The Toolkit is organized into sections that address the need for increased SME finance, information on the benefits of leasing, and various ways to respond to market opportunities and adapt to local conditions.

The Base Toolkit covers leasing principles and best practices that are universally recognized. The four Focused
Toolkits cover areas of stakeholders’ interest as well as areas expected to account for a major portion of the future growth of the leasing industry. The Global Leasing Toolkit follows the second edition of the policies and guidelines manual published last year. Both the guidelines and this toolkit disseminate IFC’s 36 years of experience in lease market development to stakeholders, aimed at boosting 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 lessons learned since then. The guidelines identify the key policy issues on leasing development, while examining the approach of current and past projects. The guidelines were primarily written for the benefit of policymakers and are 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 elements particular to local markets, how experiences may vary widely among countries, and based on IFC’s experience, the appropriate courses of action to take under different circumstances. The guidelines will help leasing development practitioners identify local characteristics and assess their potential impact, allowing them to make informed development and implementation decisions. http://www.ifc.org/accesstofinance

**2011 GLOBAL MICROSCOPE**

The Global Microscope on Microfinance Business Environment outlines the findings of in-depth analysis of the microfinance business environment in 55 countries. With up-dated indicators that reflect the changing environment of microfinance, the 2011 Global Microscope study examines countries’ microfinance sector by considering the regulatory environment and non-regulatory operating conditions and practices in microfinance. This year the study has added new indicators that assess: the regulatory framework for deposit taking; client protection and dispute resolution mechanisms; policy and practices for doing financial transactions through agents; and the role of political shocks that affect the microfinance sector. Financial support for the study was provided by 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 IFC. http://www.ifc.org/microfinance

**HOUSING MICROFINANCE TOOLKIT**

IFC’s new Housing Microfinance Toolkit: Guidelines for Product Development and Operations is targeted at financial institutions planning 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 nongovernmental organizations and commercial banks, which 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 at managers and lending staff. The first part offers guidance and tools 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. The second part covers the loan process from loan application to delinquency management.

**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 as well as existing best practices in jurisdictions with advanced secured transactions systems. The Toolkit addresses the most important elements of reform.

**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 work by the World Bank Group in payment and securities settlement systems, remittances, credit reporting, and secured transactions and collateral registries. The report makes recommendations on reforms that would 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 WORLDWIDE 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 200 “country corridors” worldwide, 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 a reference for monitoring the progress on the G-8 5x5 target, which aims to reduce costs by five percentage points over the next five years. http://www.remittanceprices.org

CORPORATE AND SME WORKOUTS: A MANUAL OF BEST PRACTICE

The Corporate and SME Workouts: A Manual of Best Practice is a guide for staff at lending institutions who handle corporate and SME non-performing loans. This manual deals with both ad hoc and systemic financial distress and delves into how borrower problems arise in the first place. It provides guidance to staff handling individual problem loans as well as to senior managers responsible for organizing portfolio-wide asset resolution.

For senior managers of lending institutions, the manual provides guidance regarding: (i) key considerations in setting up an non-performing loan unit within the lending institution; (ii) best-practice organizational arrangements for handling a sizeable non-performing loan portfolio; (iii) applying triage in managing an non-performing loan portfolio; as well as (iv) special topics in managing distressed loan portfolios resulting from money laundering, or other criminal activity, and widespread financial crisis.

The balance of the manual covers many topics relevant to staff dealing with and resolving problems in connection with individual clients or loan accounts as well as a series of practical tools.

MSME DATABASE & ANALYSIS

Micro, Small, and Medium Enterprise Country Indicators Database is the largest collection of data on MSMEs, put together jointly by IFC’s Access to Finance and Sustainable Business Advisory, and World Bank-IFC Global Indicators and Analysis. The MSME: Country Indicators Database offers both the latest global snapshot and 20 years of historical data on the number of MSMEs in 132 world economies.

The MSME: Country Indicators Database provides information on the number of MSMEs in a given country, the share of employment MSMEs provide, and the change in the number of MSMEs over the past 15 to 20 years. It also breaks down firm sizes within the MSME sector, growth rate trends across regions, and the composition of MSMEs from a sector standpoint. Descriptive statistical analysis is presented on the relationship between formal MSME density and key obstacles for MSMEs, such as access to finance and informality. http://www.ifc.org/smebanking

G-20 STOCKTAKing REPORT

IFC supports the G-20 SME Finance agenda through its G-20 stocktaking report, Scaling Up SME Access to Financial Services in the Developing World, which was presented to the G-20 leaders in Seoul.

As the technical lead for the G-20 SME Finance Sub-Group under the Global Partnership for Financial Inclusion, IFC led the production of the report to provide G-20 leaders with a summarized framework through which to understand the SME finance gap and its challenges. The report includes a review of the literature on SME finance in the developing world and a collection of over 160 SME finance models, compiled with help from G-20 member countries, non-member countries, development finance institutions, and private sector players. It documents a broad spectrum of SME finance interventions, including (i) legal and regulatory framework; (ii) financial information infrastructure; (iii) public support schemes; and (iv) private sector schemes. The authors also highlight key proposals to G-20 leaders that would achieve a significant and sustainable scale-up of SME access to financial services across the developing world. www.gpfi.org
SCALING UP ACCESS TO FINANCE FOR AGRICULTURAL SMES: POLICY REVIEW AND RECOMMENDATIONS

The development of SME Finance in the agricultural sector was identified as an important issue to bring forward food security and to reach the Millennium Development Goals. IFC conducted analytical work with the objective of identifying appropriate approaches to calculate or reduce the main risks and costs that inhibit access to financial services in the agricultural sector in developing countries. A stocktaking exercise was conducted on approximately 60 case studies and an outreach process was initiated, especially with African partner countries, supported by the Partnership “Making Finance Work for Africa”. This effort led to a report presenting several guidelines for policy and regulatory frameworks conducive to agricultural finance. www.gpfi.org

TOWARDS UNIVERSAL ACCESS

Toward Universal Access highlights trends, challenges, and opportunities for accelerating financial inclusion progress in developing countries. It includes a snapshot of the microfinance industry (its evolution, trends, and innovations) and how it can inform the financial inclusion future developments beyond microcredit. Toward Universal Access concludes with high-level policy recommendations that would benefit developing countries. Towards Universal Access, contributed by IFC to the World Bank book “Postcrisis Growth and Development: A Development Agenda for the G-20” framed financial inclusion as a key development pillar for G-20 leaders to consider at the Seoul Summit.

SME FINANCE POLICY GUIDE

Refining the recommendations to the G-20 made in the 2010 stocktaking report, IFC developed a comprehensive SME Finance Policy Guide intended as a reference point for governments and regulators to underpin the development of Financial Inclusion Strategies and SME Finance Action Plans. The guide aims at covering all the focal areas of the Sub-group (women-owned SMEs, SMEs in the agricultural sector, SMEs in LDCs); fed by a wide consultation process, it set out models and presented good practice for policy and legal reforms, financial infrastructure, and public interventions, thereby providing a roadmap for planning, assessing and implementing policy and legal measures to support SME access to finance and laying the groundwork for future country level engagement. www.gpfi.org

STRENGTHENING ACCESS TO FINANCE FOR WOMEN-OWNED SMES IN DEVELOPING COUNTRIES

In line with our corporate priorities on the need to devote special attention to the issue of women entrepreneurship, IFC produced a report focusing on the issues impeding access to finance as well as non-financial barriers for women entrepreneurs, highlighting key trends and challenges, and scrutinizing opportunities for increased access. The report identifies scalable approaches to increase access to finance for women entrepreneurs in developing countries and provides policy recommendations on empowering women entrepreneurs to pursue economic opportunities, invest additional capital, and hire more employees. www.gpfi.org

MOBILE MONEY TOOLKIT

IFC’s Mobile Money Toolkit © is a combination of both the best publicly available information and original content and newly created materials. It includes documents available from CGAP, USAID, the World Bank, GSMA, and other organizations that are doing research in the realm of mobile money. Each section contains a number of documents or tools, some specifically designed for this toolkit, others collected from the public domain. Many toolkit components are available and can be downloaded online at http://www.ifc.org/accessofinance

FINANCIAL INCLUSION DATA: ASSESSING THE LANDSCAPE AND COUNTRY-LEVEL TARGET APPROACHES

IFC, as an implementing partner of the Global Partnership for Financial Inclusion’s Data and Measurement Subgroup, jointly with CGAP, led a stocktaking of available financial inclusion data initiatives. Financial Inclusion Data presents results of this stocktaking exercise, including the major global and multi-country supply-side and demand-side data efforts and exposes high-level gaps to be addressed in order to improve the financial inclusion data landscape. Financial Inclusion Data also provides background on Alliance for Financial Inclusion’s recommended basic set of indicators focused on access and usage by households (the “Core Set” of indicators). A short review of global target-setting precedents (such as the Millennium Development Goals) gives guidance to the paper’s proposed initial principles for country-level financial inclusion goals. www.gpfi.org
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