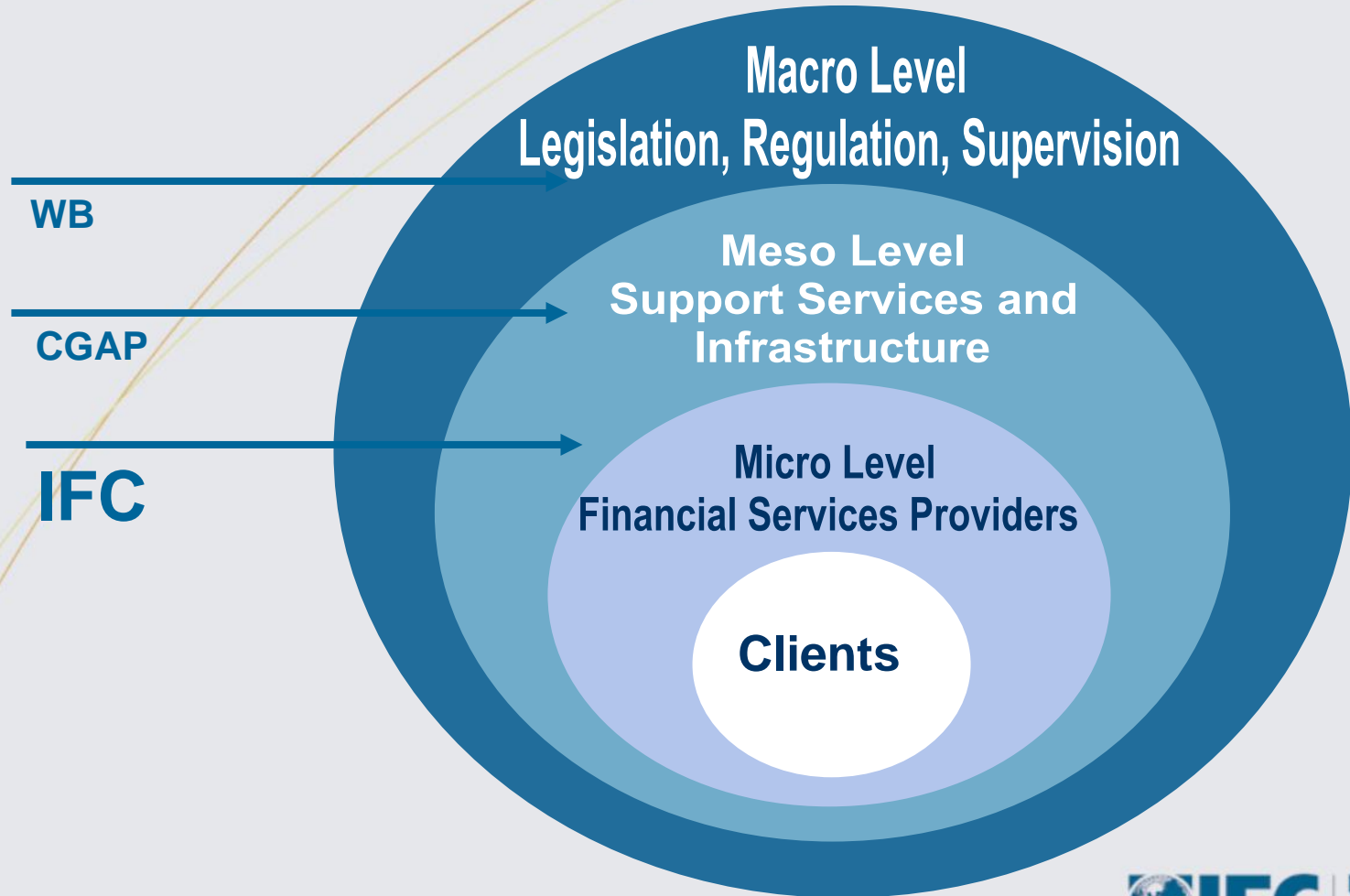


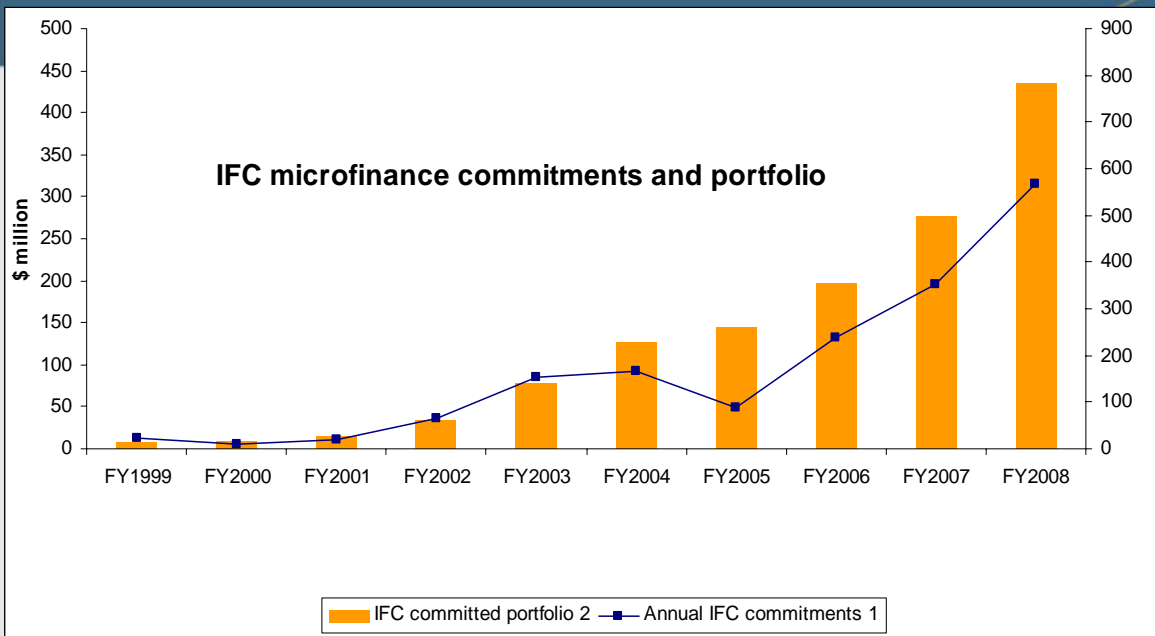
# Microfinance: A Key to Increasing Domestic Consumption

*Michael Ipson*  
*Country Manager, IFC*  
**People's Bank of China GTZ**  
**Microfinance Investor Conference**  
*December 11, 2008*

# IFC Position in the Microfinance Industry



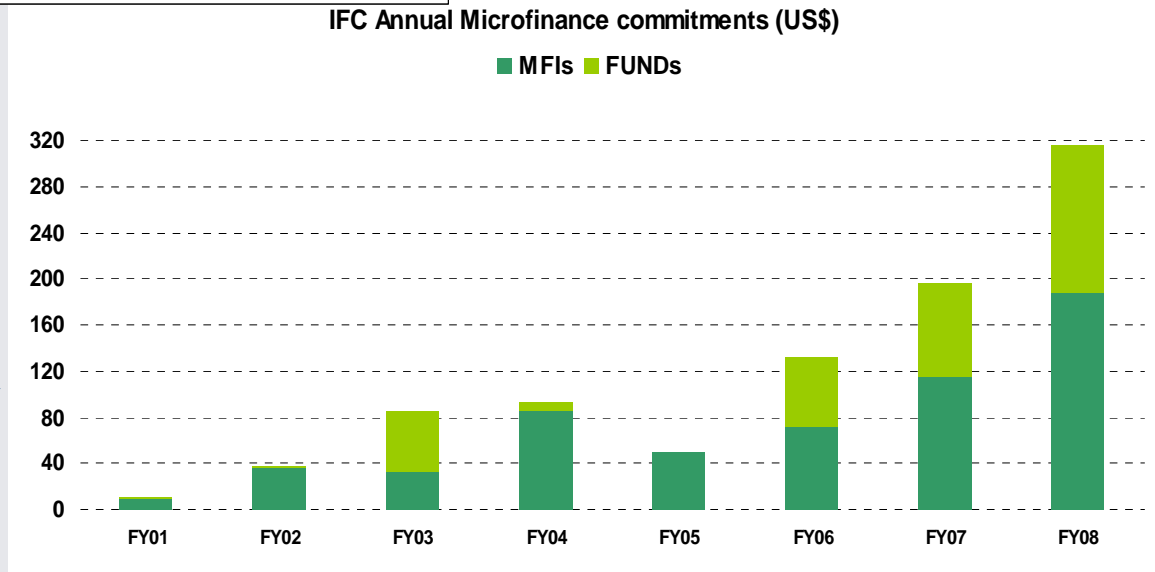
# IFC Commitments in Microfinance



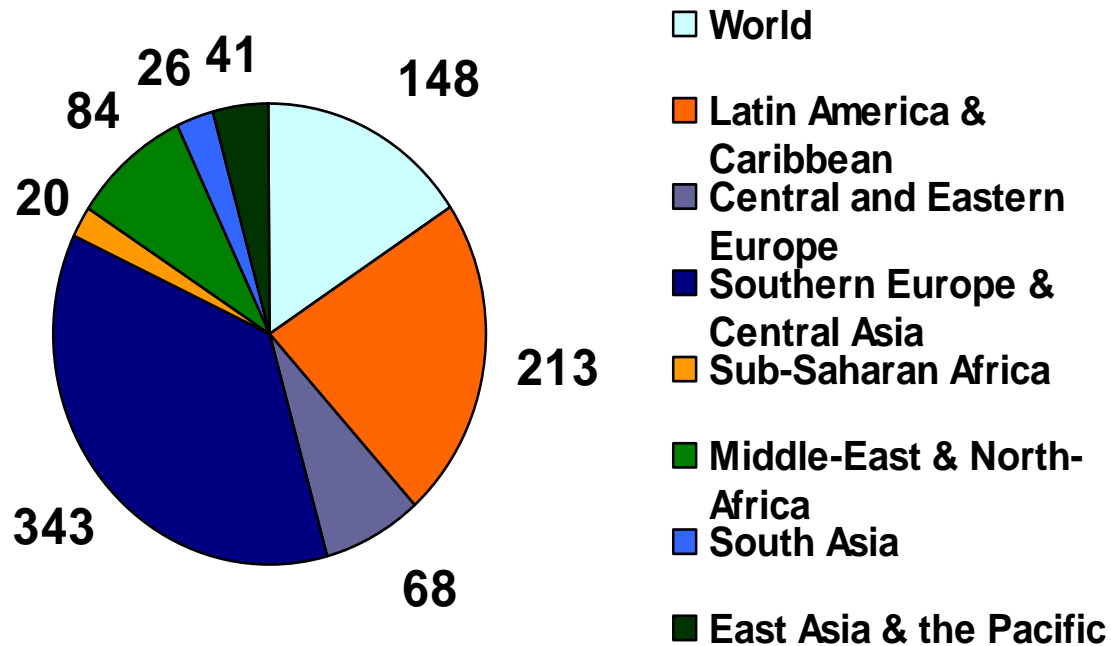
- Record of US\$316million committed in FY08 alone

- Over US\$942 million as of June,30 2008

- Wholesale approach takes off in FY06 and FY07
- Committed portfolio in over 100 direct MFIs – 45% receive IFC Advisory Services



# IFC Commitments in Microfinance



# Microfinance Initiative For Asia

- **New** strategic partnership between IFC, the private sector arm of the World Bank Group, and KfW, the German development bank
- **IFC and KfW jointly** will commit up to **US\$1 billion** through debt and equity investments, structured finance and advisory services to support microfinance institutions in **Asia**

# MIFA's Objectives

- **Create** and enhance institutional capacity for sustainable microfinance delivery in Asia
- **Strengthen** linkages with domestic and international capital markets
- **Identify** and address constraints that could prevent further scaling up of outreach

# What will MIFA do?

To fill the current gap in appropriate financing mechanisms and to link MFIs to the capital markets, MIFA will provide capital support by:

- **Leveraging existing investment vehicles** to provide equity and long-term local currency debt financing through partial guarantees
- **Developing new investment vehicles** in markets with less access to capital markets
- Assisting individual institutions with **debt and equity** financing
- Facilitating the establishment of **greenfield institutions**
- Managing foreign exchange risks through currency swaps and other **local currency mechanisms**
- **Accessing bond markets** through credit enhancement

# What will MIFA do?(cont.)

MIFA will provide **advisory services** to client MFIs to address gaps in retail delivery capacity

- **Upgrading microfinance operations** through transforming MFIs into regulated entities; creating new regional network partners; linking MFIs with existing network partners; and fostering consolidation of smaller MFIs
- **Downscaling** private commercial bank operations into microfinance and **establishing greenfield institutions**
- Expanding delivery capacity by **developing new distribution channels**
- **Extending product offerings** such as micro-insurance and remittances
- **Establishing linkages** with distributors, wholesalers, trade assns

# Innovative MIFA Website

**The MIFA website will be accessible to the public and will serve as an information forum for microfinance and related topics in Asia**

- The public section of the MIFA website will contain **country diagnostic studies** commissioned by MIFA and prepared by the technical team
- We will soon be uploading in-depth market assessments on **China, India, Kazakhstan, and Pakistan to be followed by Bangladesh and Mongolia**
- The website will also contribute to the **sharing of best practices** in the field of microfinance with a **focus on Asia**
- <http://ifc.org/mifa>

# Opportunities Offered by MIFA

## MIFA offers opportunities for:

- **Financial Intermediaries:** IFC and KfW are committed to increase access to finance for MFIs in foreign and local currency
- **Investors:** Investors may engage alongside IFC and KfW. <http://www.ifc.org/investors> will regularly be updated to reflect current opportunities.
- **Consultants:** Capacity building needs are to be procured through an international competitive bid procedure All calls for proposals will be published on the World Bank Groups procurement site: [www.econsult.org](http://www.econsult.org).

# Microfinance in China

**There is considerable unmet demand for China's microentrepreneurs**

- Microcredit is a critical tool to address **access to finance in rural areas**
- Microcredit also has a key role to play in the **SME segment**
- **27 million** formally registered enterprises in urban areas plus more than **150 million unregistered rural dwellers**,
- Served by Rural Commercial Banks and Rural Credit Cooperatives in rural areas and selected City Commercial Banks in urban areas
- 300 NGOs offering microcredit programs: two networks with 33,000 and 15,000 clients respectively across 26 and 15 independent NGOs
- Newly formed Village and Township Banks (VTBs)
- Extensive use of **informal moneylenders**

# Key Factors in Microfinance Growth

Regulatory experiments have proven the potential and value of various microfinance models

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## Need to achieve scale and operational efficiency

- Loosen limits on borrowing by non-deposit taking microfinance companies
- Expand permitted geographic scope of operations
- Develop human resources and product offerings
- Apply IT to increase outreach and automate processing
- Engage experienced microfinance investors
- Enable umbrella entities to achieve critical mass in capital and operating cost management

# Microfinance Business Models in China

## IFC will test four business models in China

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- **Rural Commercial Banks**
- **Microfinance companies**
- **Village and Township banks**
- **Service companies**

# Lessons Learned

## IFC's on-the-ground experience

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- Market potential is great given properly designed products
- Capacity building is important particularly in terms of IT, credit procedure, and risk management in order to reduce operating expenses and maintain good asset quality
- Support of local government is essential
- An international technical provider who is able to second resources is necessary for training of local staff and transfer of know-how