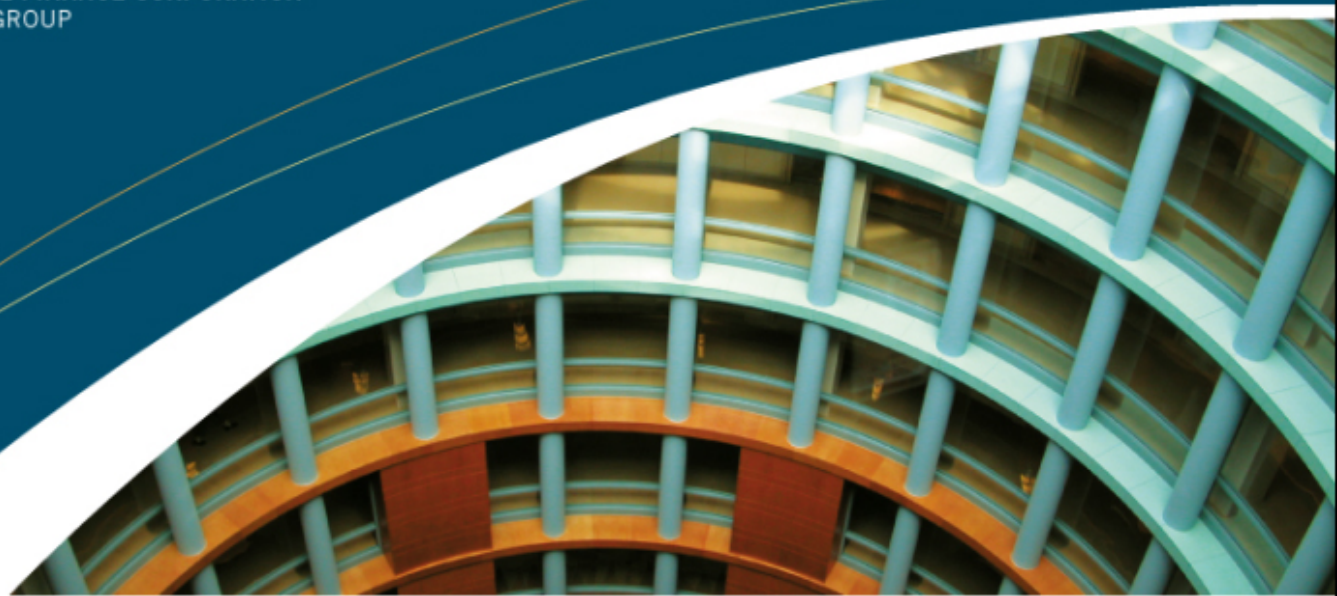




INTERNATIONAL FINANCE CORPORATION
WORLD BANK GROUP



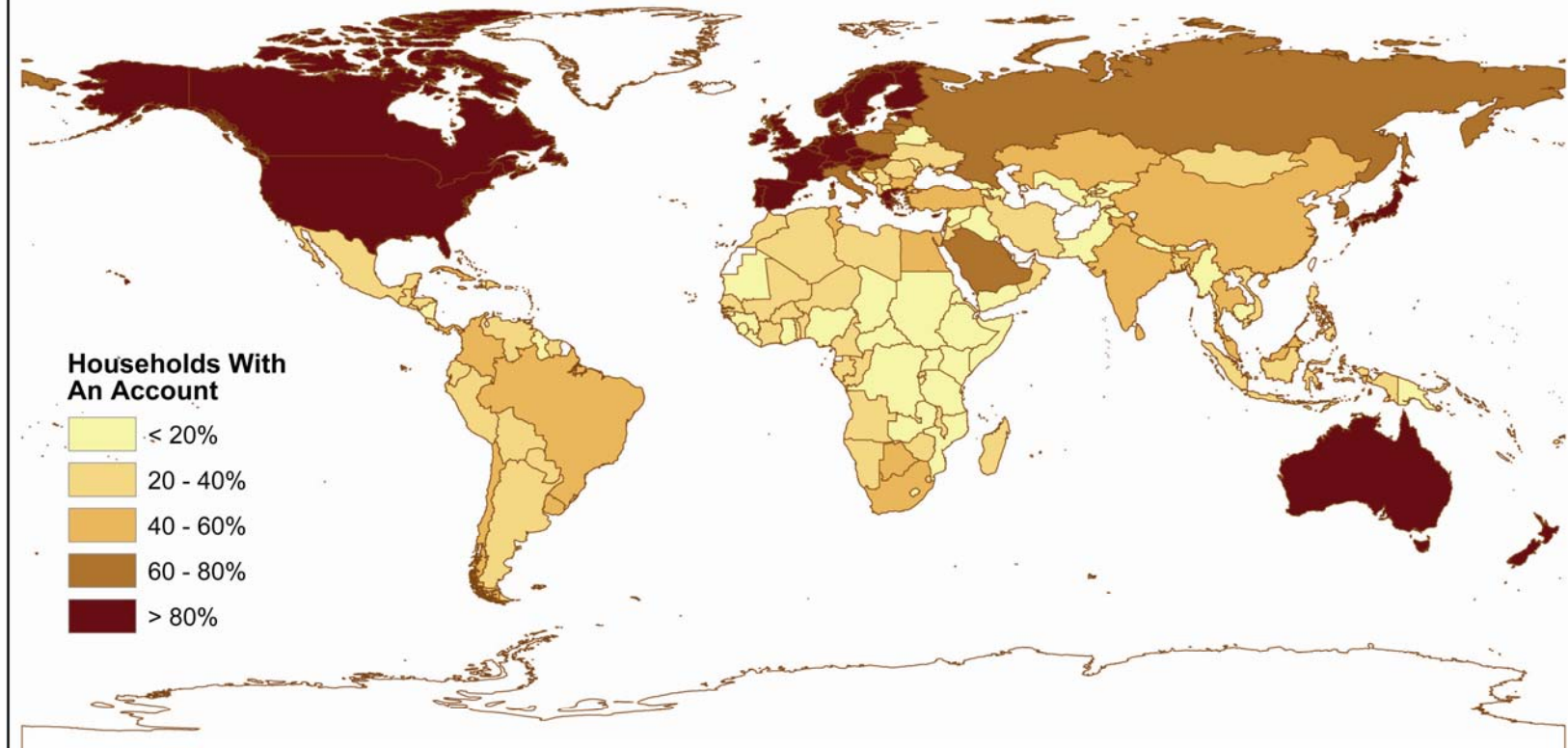
Next Generation Access to Finance Setting the Stage

Peer Stein

**Head, Financial Infrastructure & Institution Building
September 17, 2007, Washington, DC**

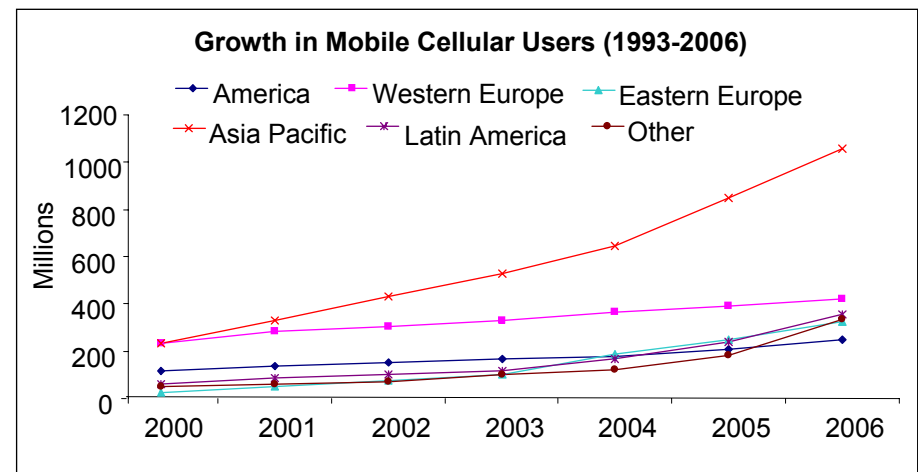
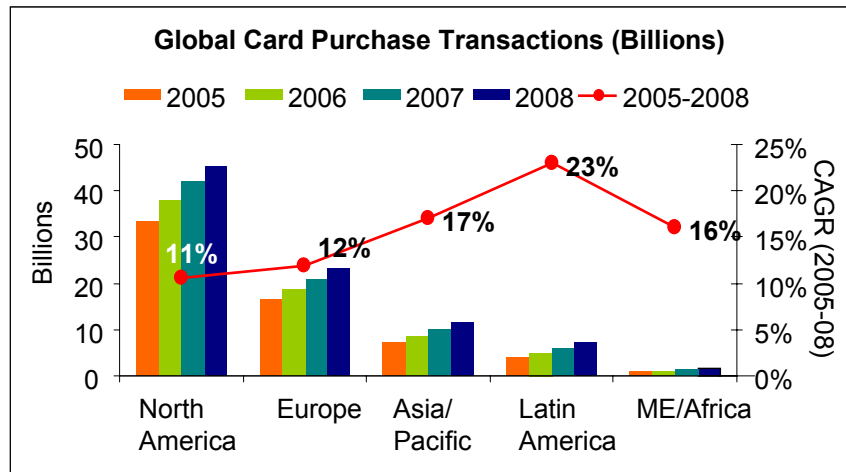
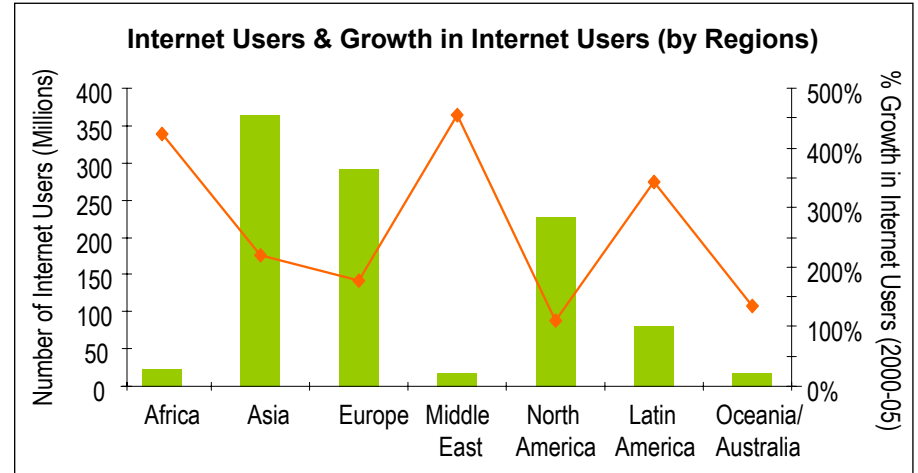
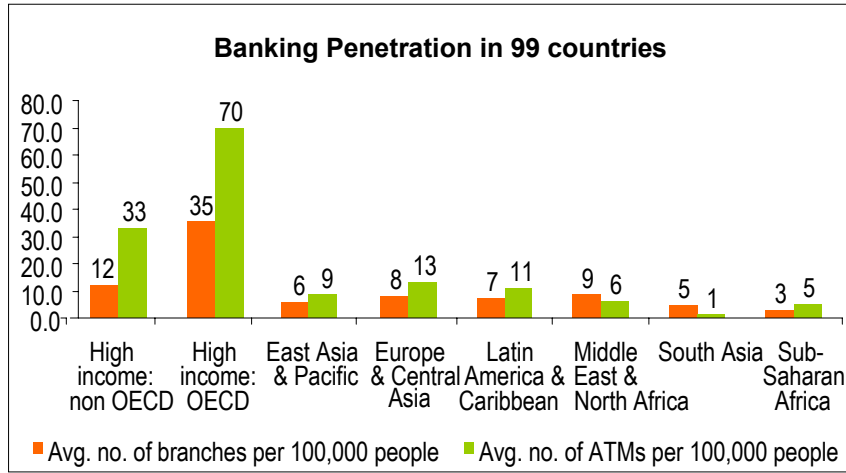
In emerging markets, roughly two-thirds of the population remain unbanked and underserved

Access to Finance



Note: Map shows percent of households with a deposit or loan account in an institution (banks, savings banks, microfinance institutions). Where available, the data come from household surveys, otherwise, they are predicted values from a regression using aggregate deposit figures.
Source: Demircug-Kunt, Beck and Honohan, 2007, *Policy Research Report on Access to Finance*, World Bank.

Around the world, the number of users of new technologies has seen a rapid increase



Sources: 1) Reaching Out: Access to and use of banking services across countries, Beck, Thorsten, A.Demirgüç-Kunt and M. Martinez Peria, *Journal of Financial Economics*, 85, pp. 234-66. 2) BuddeComm based on internetworldstats.com, 2006 3) Lehman Brothers report on Specialty Finance, June 25, 2007 4) PaulBudde Communications Pty Ltd, 2007



A comparison of the average costs of providing access to credit shows huge potential efficiency gains for MFIs

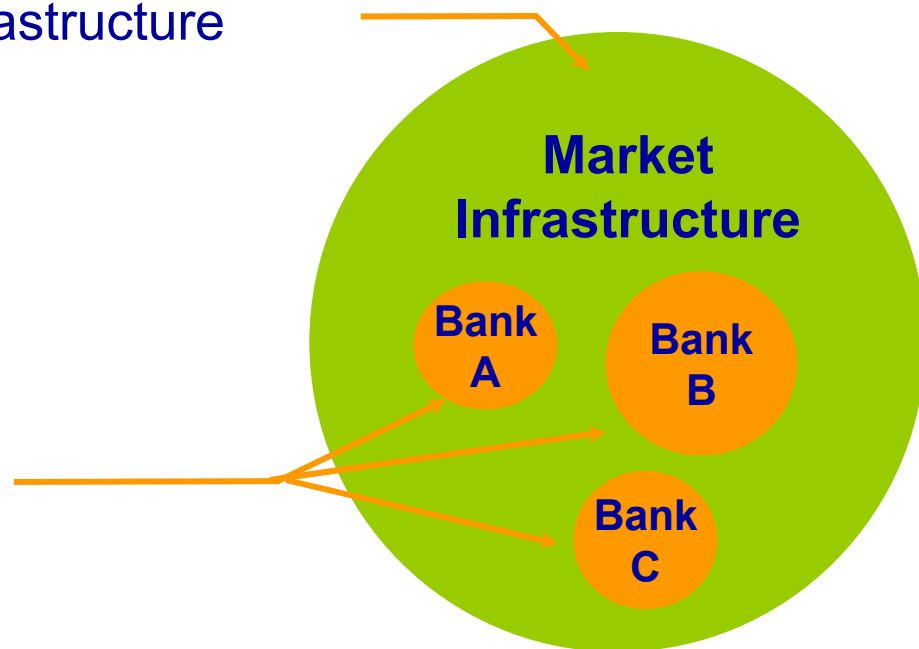
Cost Category	Microfinance	Credit Cards (US)	Housing Finance (US)
Operating Costs	29.10%	1.35%	1.60%
Funding Costs	18.00% - 60.00%	5.95-6.10%	6.47- 6.88%
Loan Losses	1.60%	4.09%	4.95%

Sources:

- 1) Microfinance: a) Operating costs as a % of loan portfolio information obtained from 2006 MIX Market data for 798 MFIs in 96 countries around the world. b) Estimates vary depending on local conditions. Source: Hawser, Anita. Sector Report: Big Banks Eye Micro Market, Global Finance, Volume 21: Issue 6, June 1, 2007. c) Loan losses data obtained from MIX Market. Average write-off ratio based on 2006 information from 798 MFIs in 96 countries around the world. More information available at www.mixmarket.org.
- 2) Credit Cards: a) Operating costs : % of operating cost of card portfolio to total loan portfolio of one of the largest credit card lenders in the US. Source: MBNA 10-K, 2006. b) Funding costs: Based on World Bank, JP Morgan Structured Finance estimates and Bloomberg Markets. Funding costs estimated at 3 month LIBOR + 30-45 bps, where 3 month LIBOR = 5.65. c) Loan Losses : Average charge-offs over three quarters, for six major credit card issuers in the U.S.
- 3) Housing Finance: a) Operating costs – Estimate is net cost to originate loans, which is defined as total operating expense, less mortgage loan servicing related costs, plus yield spread premiums, less points and fees collected, all prior to any deferrals of origination costs. Source: Accredited Home Lenders' 2006 10K, pp. 66-67. b) Funding costs: Based on World Bank, JP Morgan Structured Finance estimates and Bloomberg markets. Funding costs estimated at 3 month LIBOR + 82 – 123 bps, where 3 month LIBOR = 5.65. c) Loan Losses – Based on 4th quarter 2006 results for the US residential mortgage market as collected from the Mortgage Bankers Association's National Delinquency Survey. Available at: <http://www.mortgagebankers.org/NewsandMedia/PressCenter/50974.htm>

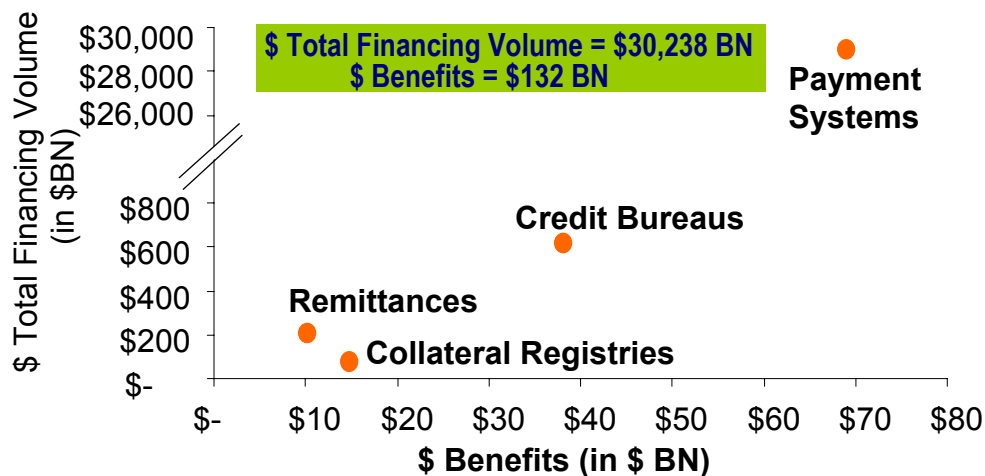
Next Generation solutions for A2F

- Creating and improving financial infrastructure
 - Credit bureaus
 - Payment systems
 - Collateral registries
- Improving financial institutions
 - Credit scoring
 - New technologies and financial products including mobile banking, ATMs, debit, credit and prepaid cards

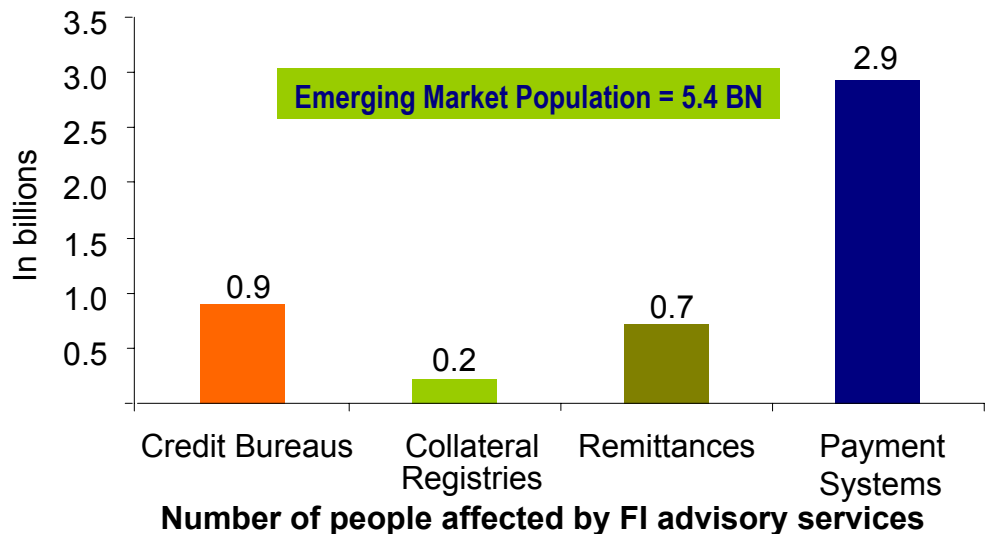


Estimated footprint of Financial Infrastructure

\$ Total Financing Volume and \$ Benefits



Emerging Market Population = 5.4 BN



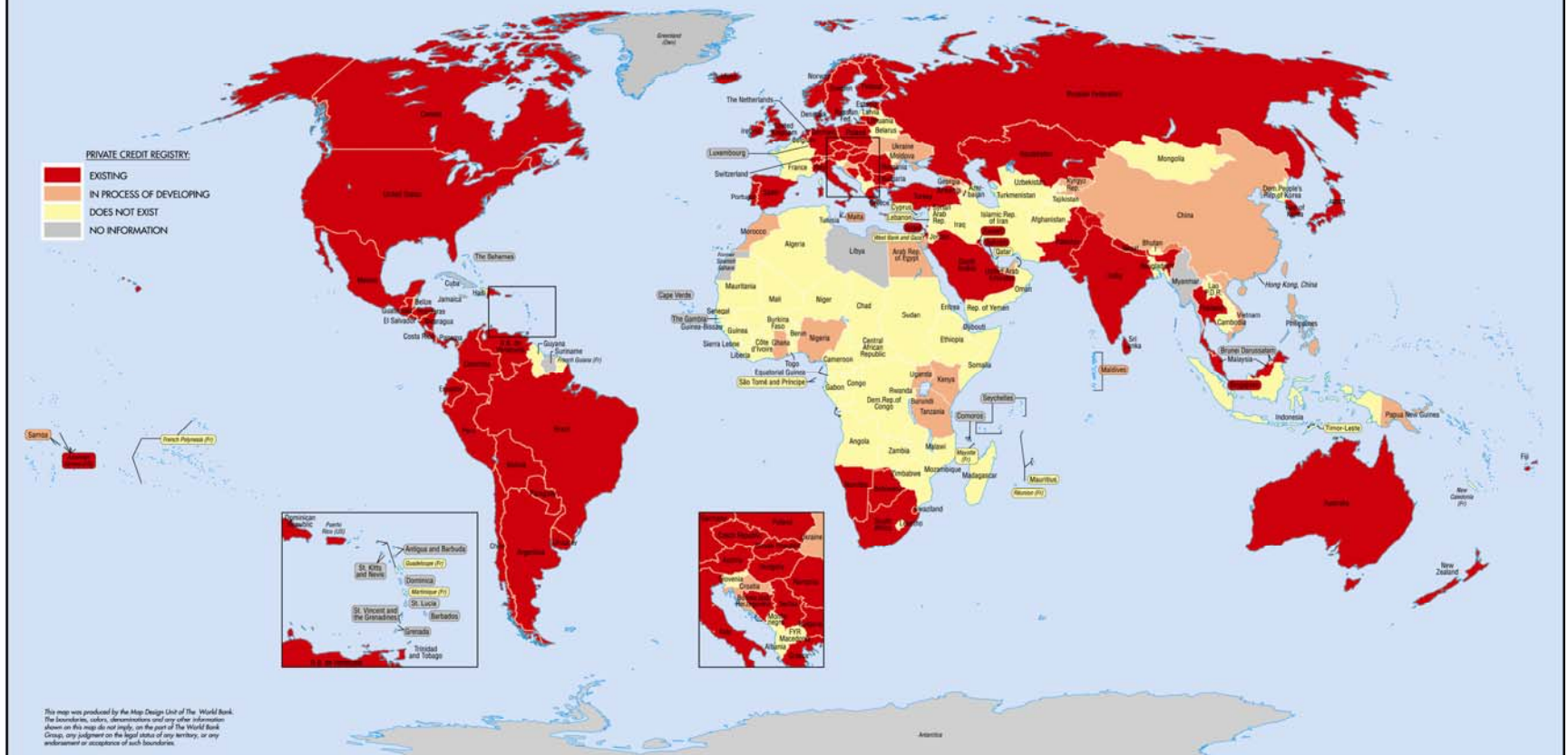
\$ Impact Indicators (in billions)

Group	\$ Total Financing Volume	\$ Annual Financing Volume Increase	\$ Benefits
Credit Bureaus	\$617	\$135	\$38
Collateral Registries	\$77	\$20	\$15
Remittances*	\$206	\$13	\$10
Payment Systems	\$29,338	\$9,908	\$69
Total	\$30,238	\$10,076	\$132

Note: Estimates are preliminary and conservative.
 * Inward remittance flows to developing countries.

Private credit reporting

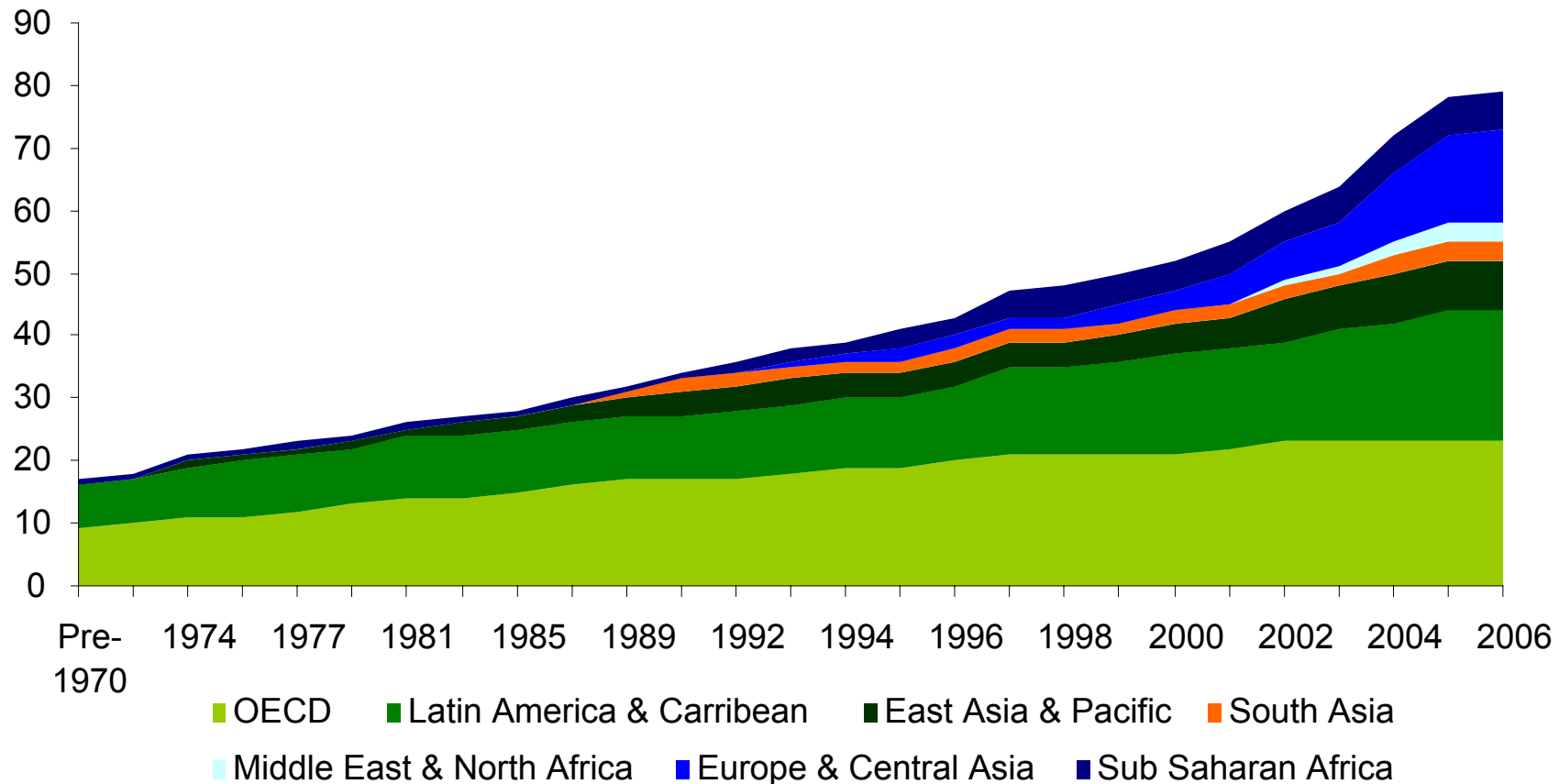
Private Credit Reporting



Note: The map shows which countries have existing, developing or no private consumer credit bureaus serving financial institutions and other lenders. The data comes from country assessments and advisory work of IFC's Global Credit Bureau Program and Doing Business Surveys.

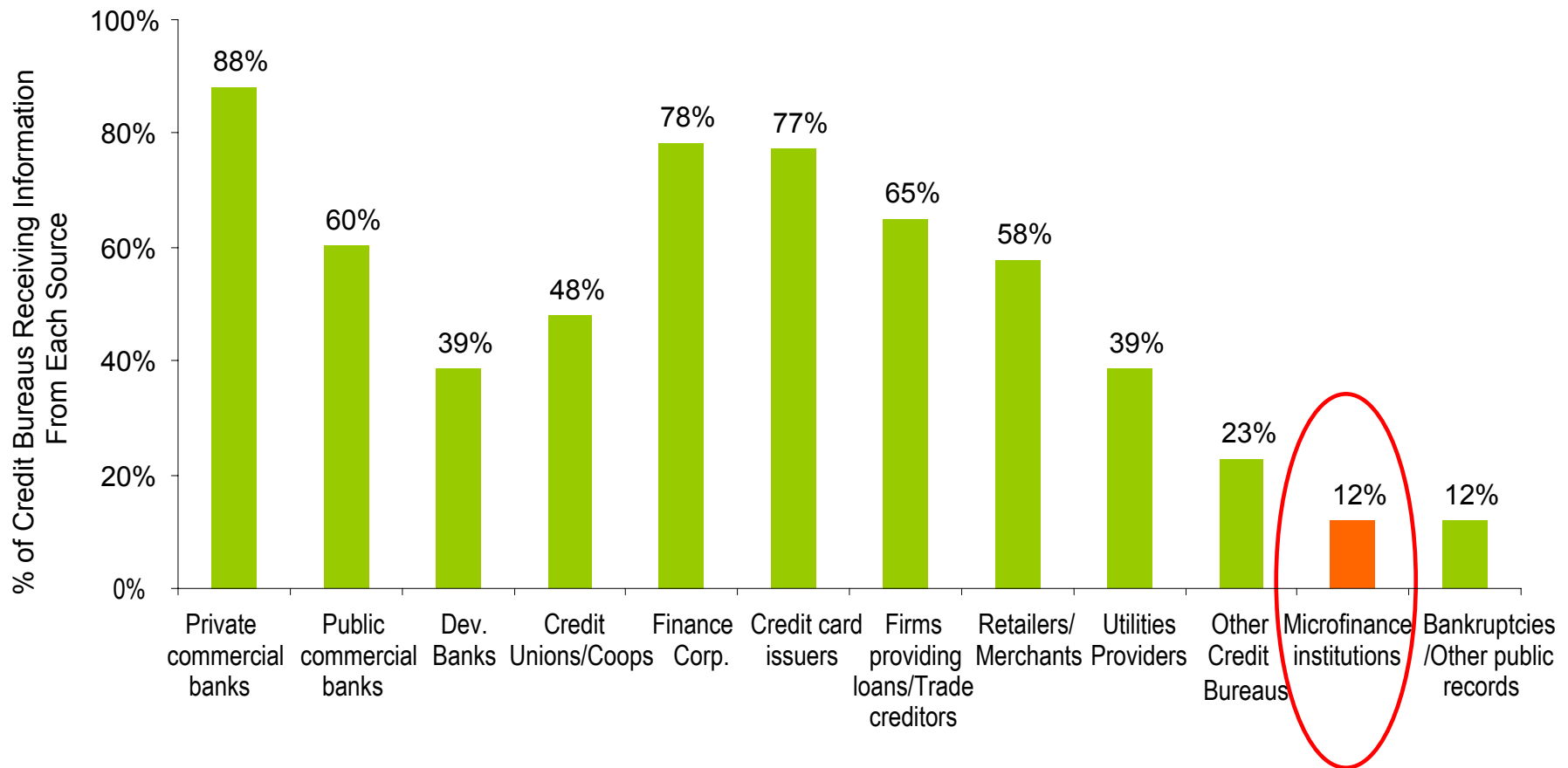
Source: Source: Global Credit Bureau Program and *Doing Business Report*.

Private credit bureaus continue to grow...



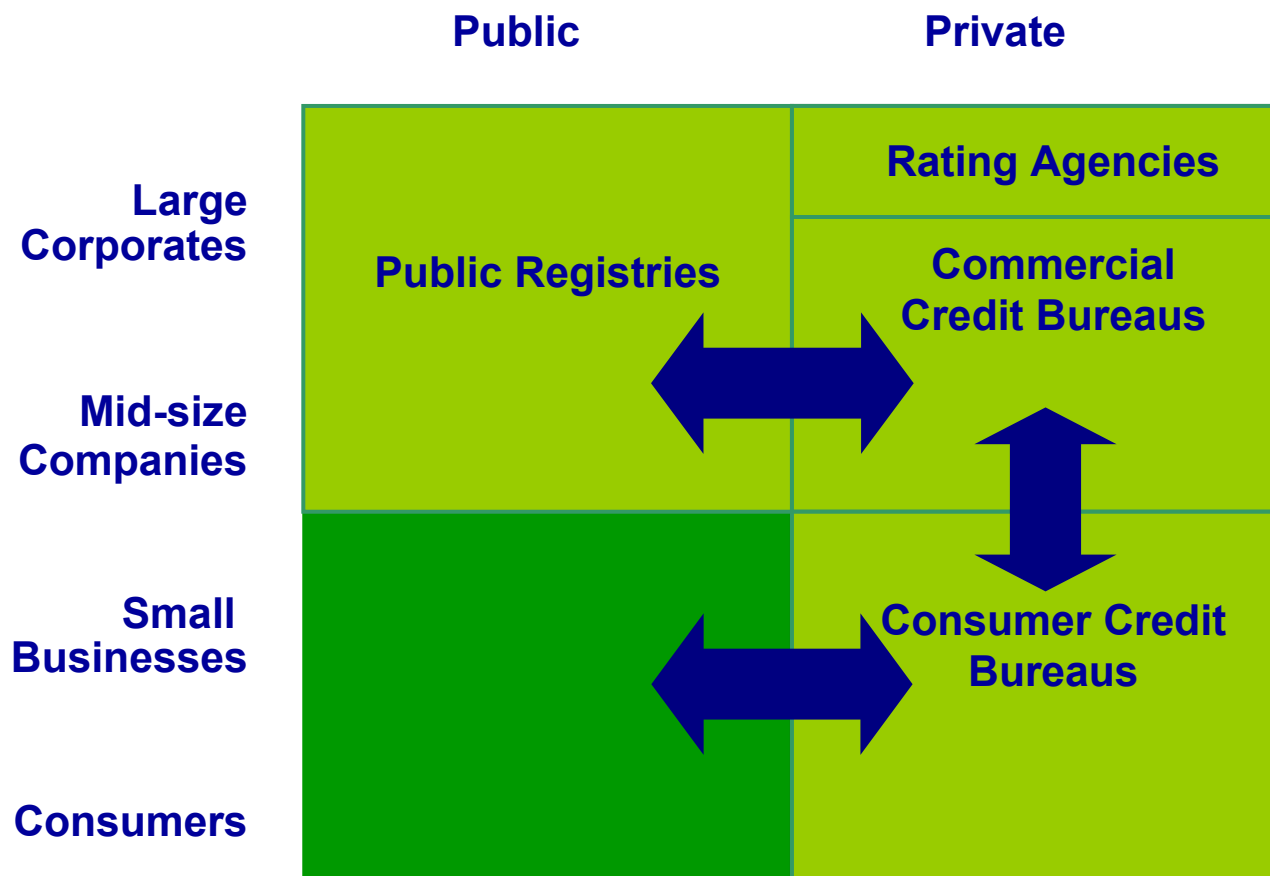
Source: Doing Business 2007. Based on survey results from 83 bureaus in 78 countries.

... and yet very few MFIs participate in credit bureaus



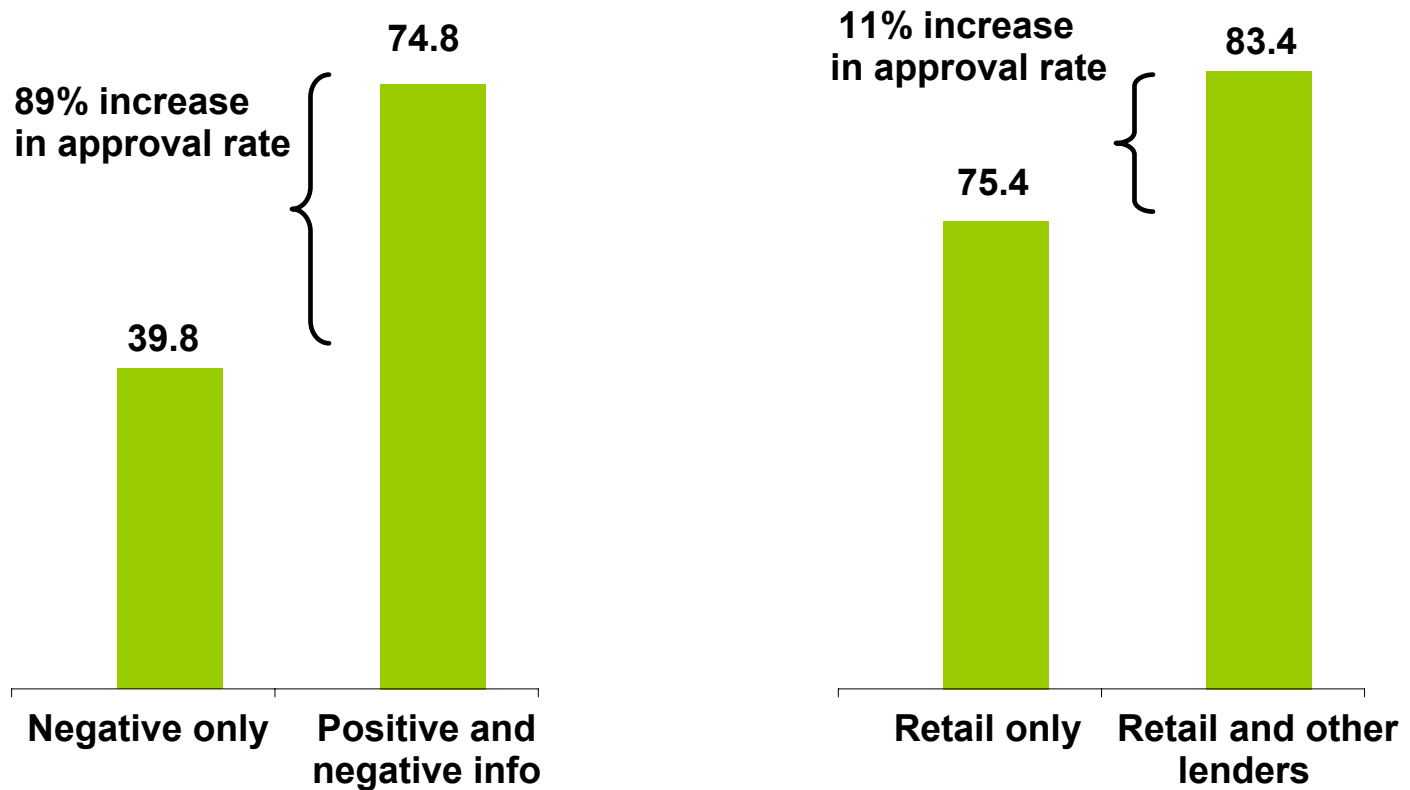
Source: Doing Business 2007. Based on survey results from 82 bureaus in 78 countries.

Credit information coverage



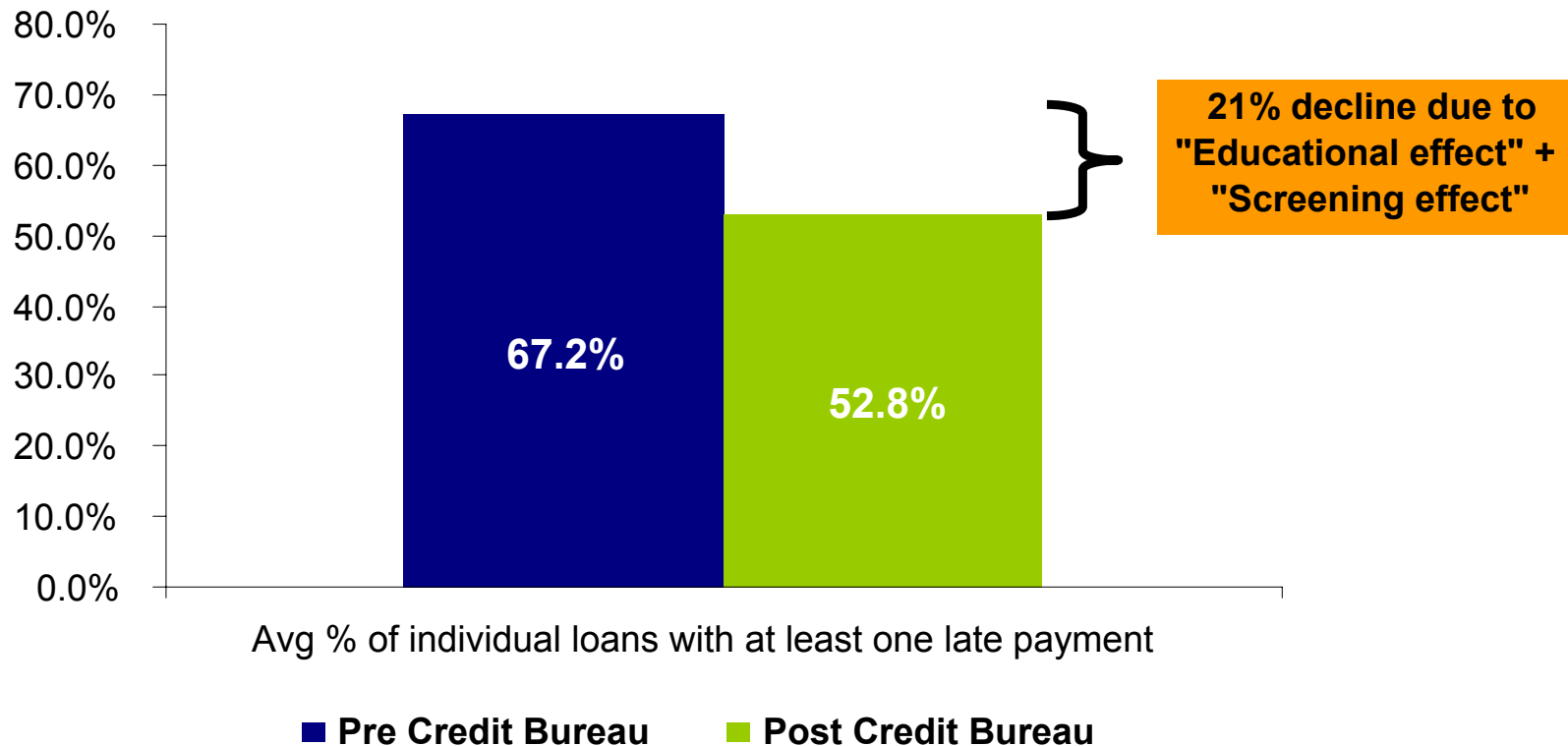
Broader information sharing expands credit

Percent of Applicants who Obtain a Loan



Source: Barron and Staten (2000). Figure shows the simulated credit availability assuming a target default rate of 3%.

A recent study in Guatemala finds that the use of a credit bureau by an MFI promotes better lending practices



Sources: Janvry, Alain de, Craig McIntosh and Elisabeth Sadoulet. "From Private to Public Reputation in Microfinance Lending: An Experiment in Borrower Response." May 2006. McIntosh, Craig, Elisabeth Sadoulet and Alain de Janvry. "Better Lending and Better Clients: Credit Bureau Impact on Microfinance." BASIS Brief, No. 45. May 2006.

What is credit scoring and what are its benefits?






A method by which data are used to predict a particular outcome of interest. The score represents an estimate of the probability or odds of an event occurring, such as the probability of default.

Benefits of credit scoring

- Streamline the lending process and lower costs
 - Reduces time and manual steps in processing each application
 - Reduces number of applications needing manual review
 - Reduces training time for new credit staff
 - Improve loan officer efficiency (reduce time spent on collections, which in some markets claim up to 50% of loan officers' time)
- Increase lending volume
 - Approve 10-30% more applications keeping loss rate unchanged
 - Enables risk-based pricing
- Better quantify expected losses for different risk classes of borrowers

Source: Based on Global Credit Bureau Program experience, USAID, ACCION (ACCION, Credit Scoring for Microenterprise Brief, www.accion.org)

Scoring applications for MFIs

Scoring Application	Relevance/ Prevalence of use in MFIs
Application scoring	
Behavioral Scoring	
Portfolio Management - Collections Scoring	
Shared Scoring	
Bureau Scores	

The case of Mibanco (Peru)

- Scoring reduced loan origination costs by about 10% by automating loan approval process
- Additional savings of 10-20% expected as scorecards applied to broader range of products and less decision making on part of loan officers
- Enabled maintenance of portfolio quality during rapid growth period

Network organizations have taken the lead in introducing credit scoring to affiliates:

- ACCIÓN International has worked with BancoSol, Mibanco and Banco Solidario
- Women's World Banking (WWB) has worked with affiliates in Colombia including CMM Medellín, WWB Cali, FMM Bucaramanga, CMM Bogotá, and FMM Popayán.

Source: Daniel G. Salazar, Credit Scoring, CGAP IT Innovation Series.

Financial Infrastructure active projects

