



# IFC Financing to Micro, Small, and Medium Enterprises in Latin America and the Caribbean

## Key Highlights

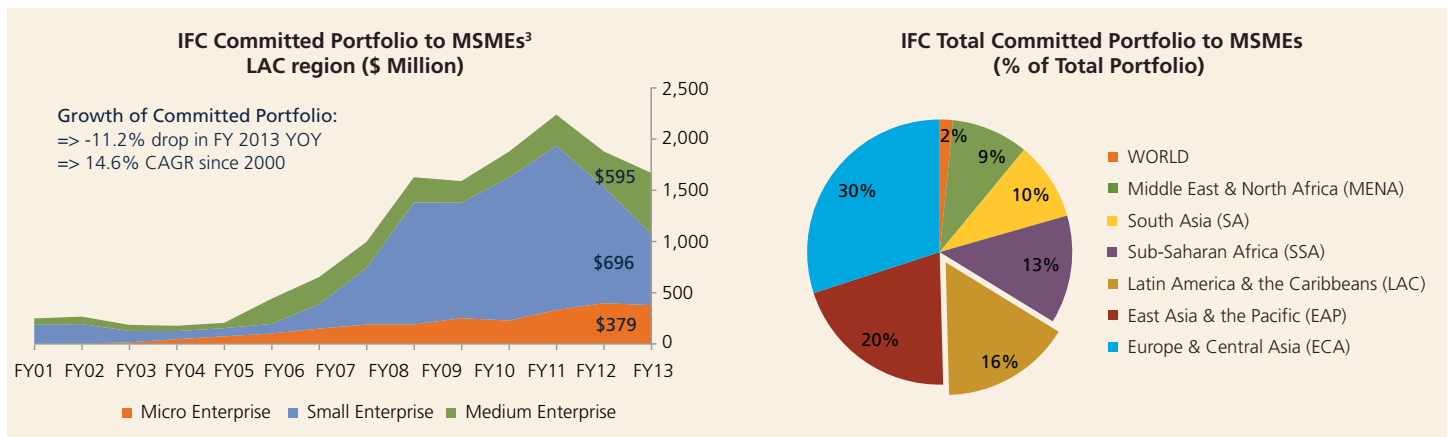
IFC is working to develop solutions to close the micro, small, and medium enterprise (MSME<sup>1</sup>) financing gap, collaborating with 62 financial institutions (FIs) across 19 countries in Latin America and the Caribbean (LAC) region.

As of June 2013, IFC committed a total of \$2.4 billion to MSME finance in LAC Region<sup>2</sup>, \$1.9 billion for long-term finance, including \$0.2 billion for funds supporting MSMEs, and \$0.5 billion for trade finance. In fiscal year (FY) 2013 alone, IFC MSME commitments in the region were \$1.6 billion (up 29 percent from \$1.2 billion

in FY2012), \$460 million of which was attributed to long-term financing.

By the end of calendar year (CY) 2012 IFC's MSME clients had 12.44 million micro loans outstanding in Latin America and the Caribbean (up from 6.11 million in CY2011), totaling \$9.43 billion (up 67 percent from \$5.63 billion in CY2011). Similarly, IFC's MSME clients had over 2.50 million small and medium loans outstanding by the end of CY2012 (up from 0.7 million previous year), totaling \$73.70 billion in this region (up 50 percent from \$49.16 billion in CY2011).

## MSME Financial Intermediary Portfolio, FY2013 (as of June 2013)



## MSME Loans by Type of IFC Clients in LAC Region, CY2012

### MSME Loans by Microfinance Institutions

IFC was able to survey or extrapolate outreach data from 24 clients - microfinance institutions (MFIs) in 10 countries, 58 percent of these clients received advisory services from IFC.

	Number of Loans Outstanding	Outstanding Loan Portfolio in '000\$	Average Loan Size	NPL % <sup>4</sup>
Micro Loans	6,600,925	5,296,007	802	4%
Small Loans	324,092	4,080,458	12,590	3%
Medium Loans	5,087	1,167,981	229,601	2%

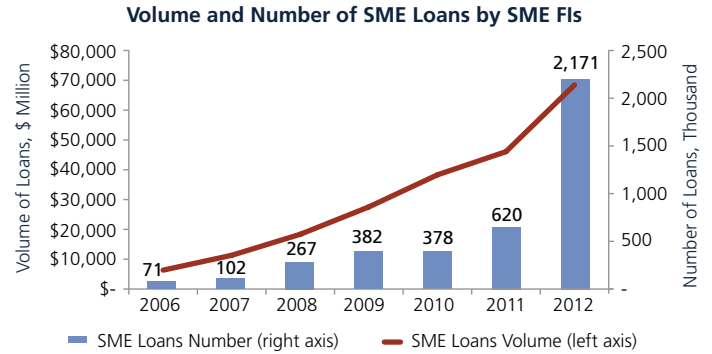
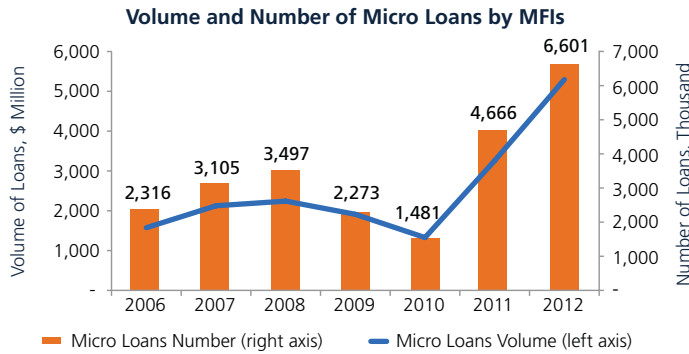
### MSME Loans by SME Financial Institutions

IFC was able to survey or extrapolate outreach data from 38 clients - small and medium enterprises (SME) FIs in 16 countries, 24 percent of these clients received advisory services from IFC.

	Number of Loans Outstanding	Outstanding Loan Portfolio in '000 \$	Average Loan Size	NPL % <sup>4</sup>
Micro Loans	5,837,335	4,138,879	709	6%
Small Loans	1,606,263	14,818,334	9,225	6%
Medium Loans	565,019	53,629,227	94,916	3%

1. MSME Firm Size Definitions: IFC's Financial Institutions Group categorizes its clients' sub-borrowers according to the following definitions: (1) microfinance institutions if loan < \$10,000 at origination; (2) small enterprise if loan < \$100,000 at origination; (3) medium enterprise if loan < \$1 million at origination (\$2 million for more advanced countries).  
 2. The share of committed loans to microfinance institutions in MSME committed portfolio increased from 21.1 percent in FY2012 to 22.7 percent in FY2013; small enterprises accounted for 41.7 percent in FY2013 (60.6 percent in FY2012); medium enterprises accounted for 35.6 percent in FY2013 (18.3 percent in FY2012).  
 3. The committed portfolio in MSME FIs below does not include commitments for commercial banking trade finance and collective investment vehicles.  
 4. Nonperforming Loan (NPL) = > 90 days past due loans.

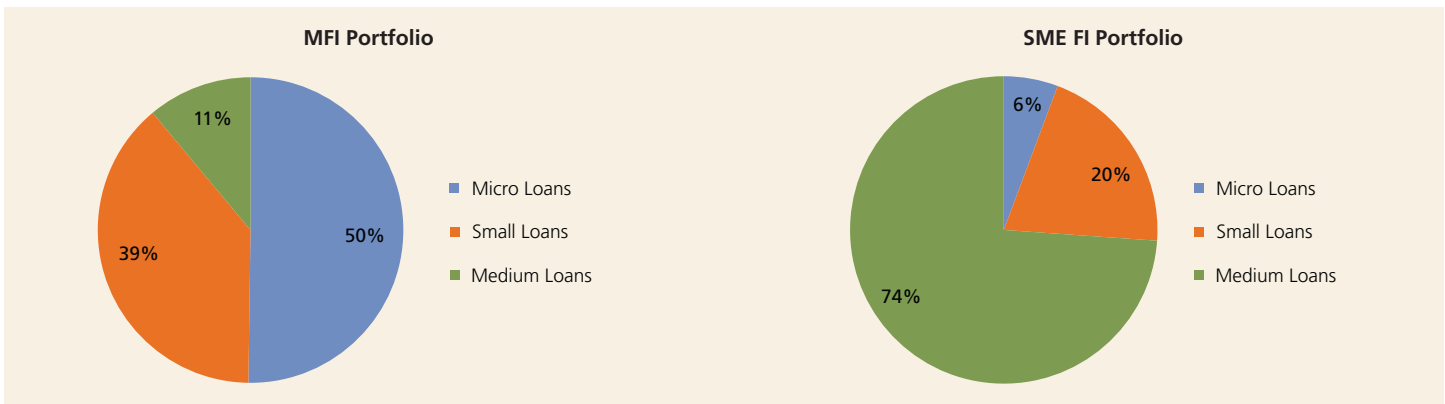
## Growth Trends of Loan Volume by Type of Institution in LAC Region, CY2006-CY2012



Growth in volume of micro loans provided by MFIs continued since 2006, but experienced a 15 percent drop in CY2009 and an even deeper 30 percent decline in CY2010. This was mainly due to the termination of business with a large Mexican client (\$400 million) in CY2009 and another two clients in Colombia and Bolivia (jointly \$500 million) in CY2010. The large spike in 2011 was fostered by the two new Mexican and Colombian clients (\$850 and \$430 million of micro loans respectively). These two clients were major contributors to the portfolio in CY2012.

Portfolio of small and medium loans provided by SME FIs gradually increased during the last seven years with compounded annual growth rate of 80 percent since 2006. The largest growth, especially in number of loans (three times) was observed in CY2012, while the volume of loans increased by almost 50 percent since CY2011. This was mainly driven by the acquisition of a new large client in Colombia in CY2012, which extended the IFC SME client portfolio by 1.5 million of new SME loans accounting for \$12 billion of SME loan volume.

## MSME Portfolio Composition by Loan Category in LAC Region, CY2012



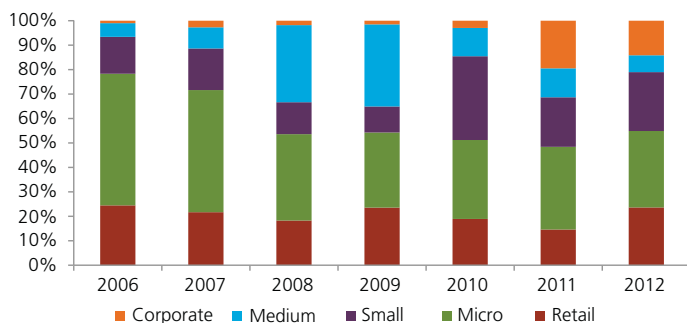
MFI	Micro Loans	Small Loans	Medium Loans
2006	72.2%	20.3%	7.5%
2007	66.1%	22.5%	11.4%
2008	44.2%	16.3%	39.5%
2009	41.0%	14.2%	44.8%
2010	41.3%	43.9%	14.8%
2011	51.3%	30.7%	18.0%
2012	50.2%	38.7%	11.1%

SME	Micro Loans	Small Loans	Medium Loans
2006	9.1%	18.8%	72.1%
2007	10.6%	16.4%	73.0%
2008	9.3%	40.2%	50.6%
2009	7.1%	11.2%	81.7%
2010	9.1%	42.0%	48.9%
2011	4.9%	13.8%	81.3%
2012	5.7%	20.4%	73.9%

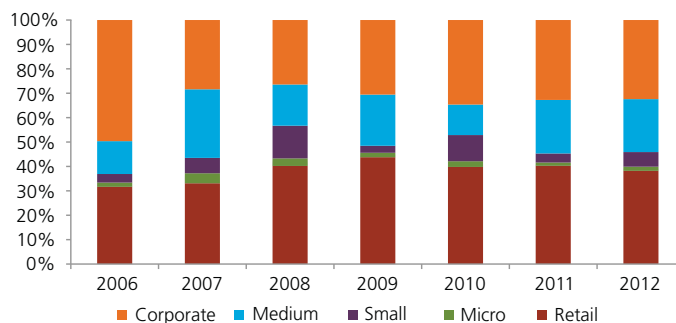


## Total Portfolio Composition by Loan Category in LAC Region, CY2012

### MFI Portfolio Composition: Volume of Loans



### SME FI Portfolio Composition: Volume of Loans

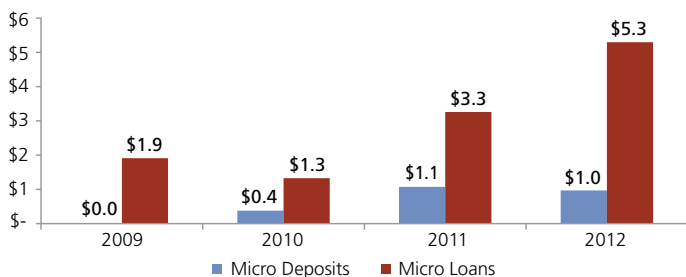


## Change in Deposits Volume CY2009-CY2012<sup>5</sup>

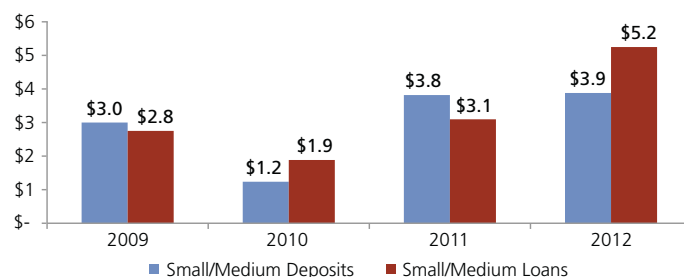
Small and medium deposits held by MFIs decreased by 47 percent in CY2010 since CY2009 due to reclassification of the large MFI type client in Trinidad and Tobago to SME type of institution. In CY2011 another large client in Guatemala, with \$0.6 billion in micro and \$1.7 billion in small and medium deposits, was reclassified from SME to MFI type client contributing to the portfolio growth. Deposits

held by SME FIs increased by more than 6 times in CY2011 since CY2010, which was driven by the scaling up the deposit portfolio of a Mexican client from \$16 billion in CY2010 to \$219 billion in CY2011. In CY2012, this client experienced the large drop to \$18 billion of micro, small and medium deposits, thus pushing down the entire regional portfolio.

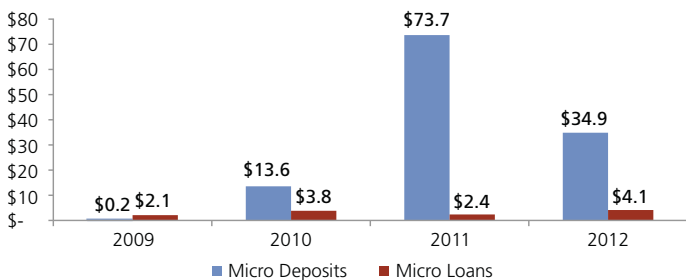
### Volume of Micro Loans and Deposits by MFIs in LAC Region (\$ Billion)



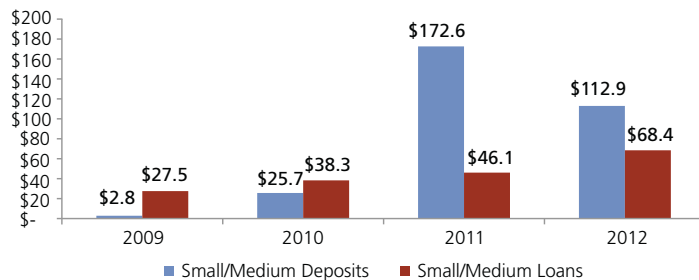
### Volume of Small/Medium Loans and Deposits by MFIs in LAC Region (\$ Billion)



### Volume of Micro Loans and Deposits by SME FIs in LAC Region (\$ Billion)



### Volume of Small/Medium Loans and Deposits by SME FIs in LAC Region (\$ Billion)

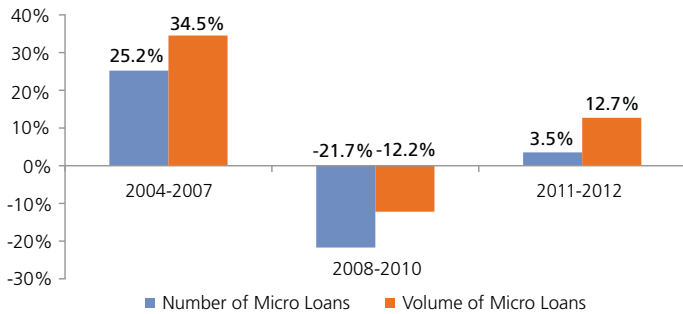


5. Micro and Small/Medium deposits definition is based on the deposit size and irrespective of the depositor (retail / business). The classification was done in accordance with definition of relevant loan size noted in footnote 1.

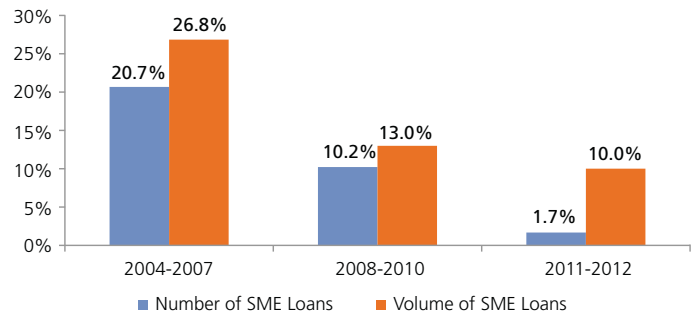


## Trend Analysis of Compounded Annual Growth Rate (CAGR)<sup>6</sup>

CAGR Trend – Micro Loans by MFIs in LAC Region



CAGR Trend – SME Loans by SME FIs in LAC Region



### Client Highlight: Sogebank, Haiti

#### Objective and Client Need:

Sogebank is the leading bank in Haiti, with activities spanning retail and corporate banking, microfinance, remittance distribution, and factoring which are operated as independent businesses through separate subsidiaries. Sogebank has one of the largest branch networks in the country with 35 branches, accompanied with a solid reputation.

The January 2010 earthquake that ravaged Haiti gave new urgency to an IFC project to stimulate lending to SMEs in the country. Small businesses are expected to play a key role in rebuilding the country's economy, but have little access to finance, and Sogebank is now meeting this market demand with loan products designed specifically for this sector. Many of them have difficulty securing financing because they don't have the collateral required by most banks or their property rights aren't sufficiently documented.

#### IFC's role:

IFC's engagement with Sogebank aimed at establishing a specialized SME unit, that would be adequately staffed, would provide appropriate banking products and services based on the SME segment's specific needs, and would operate with appropriate SME credit methodology and risk management controls, among others. Through an IFC Advisory Services project and an IFC \$4 million equity investment, SME banking has grown from being an insignificant component of Sogebank's business to a priority strategic segment.

Sogebank is financing SMEs, such as Les Essences Nido, which uses a local wood, bois chandelle, to produce a sweet-smelling essential oil that is commonly used in perfumes, cosmetics, and medicine. Sogebank gave the company a \$75,000 line of credit in March 2011, allowing it to finance its operating costs while waiting for payments from international buyers which can take up to six weeks. "This financing enabled me to ensure production," says Dominique Jean, owner and CEO of Les Essences Nido. Unlike other Haitian banks, Sogebank gave him financing without requiring him to put up cash collateral, he says. The Sogebank line of credit boosted Les Essences Nido's growth and in December 2011, Jean was able to buy his factory in Port au Prince, which he had been renting.

#### Development Impact:

Despite a devastating earthquake, political uncertainty with an extremely turbulent election season, and a cholera epidemic, as of November 2012, Sogebank had a US \$11 million outstanding SME portfolio, while maintaining a Non-performing loans ratio (over 90 days) of 2.5 percent. The bank is taking this new market focus very seriously and is concentrating efforts in adapting its operations to manage their SME portfolio. This has had a replication effect in the banking sector as the two other major banks are beginning to see the SME market potential and have both begun to build their SME business.

6. Compounded annual growth rate (CAGR) from seven reporting and repeated clients in the CY2004-CY2007 period, 20 reporting and repeated clients in the CY2008-CY2010 period, 27 reporting and repeated clients in the CY2011-CY2012 period, excluding greenfield institutions and FIs that are closing their operations.