



IFC Financing to Micro, Small, and Medium Enterprises in Middle East and North Africa

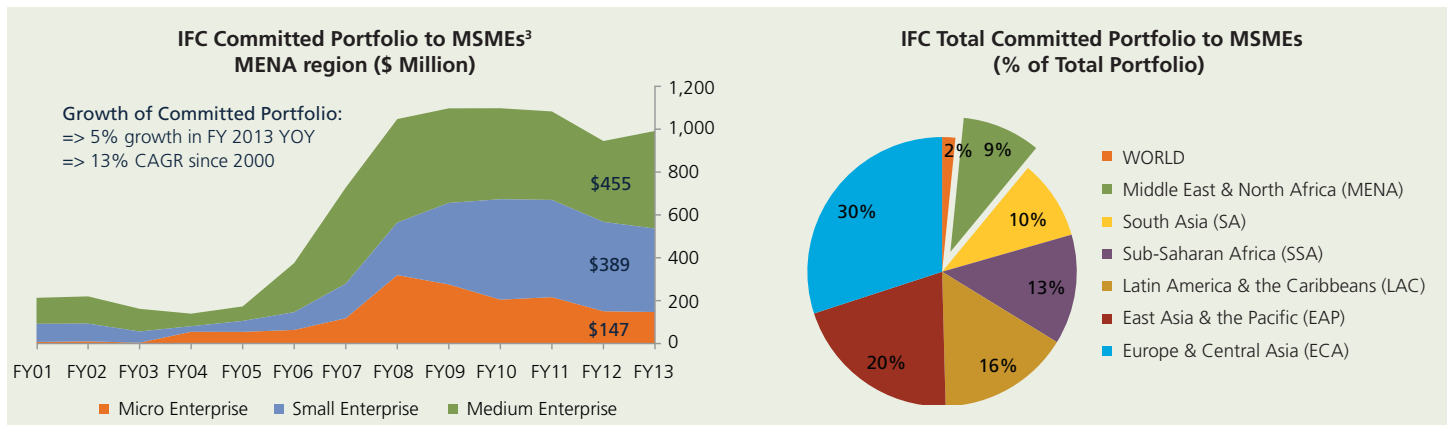
Key Highlights

IFC is working to develop solutions to close the micro, small, and medium enterprise (MSME¹) financing gap, collaborating with 32 financial institutions (FIs) across 12 countries in the Middle East and North Africa (MENA).

As of June 2013, IFC committed a total of \$1.2 billion to MSME finance in MENA Region², \$1.1 billion for long term finance (including \$0.1 billion for funds supporting MSMEs), and \$0.15 billion for trade finance. In fiscal year (FY) 2013 alone, IFC MSME commitments in the region were \$758 million (up 3 percent from \$736 million), \$343 million of which was attributed to long-term financing.

By the end of calendar year (CY) 2012 IFC's MSME clients had 1.80 million micro loans outstanding in Middle East and North Africa (up 5 percent from 1.72 million in CY 2011), totaling \$1.37 billion (up 12 percent from \$1.22 billion in CY2011). Similarly, IFC's MSME clients had over 115 thousand small and medium loans outstanding by the end of CY2012 (up 10 percent from 105 thousand in CY2011), totaling \$11.95 billion in this region (up 19 percent from \$10.05 billion in CY2011).

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



MSME Loans by Type of IFC Clients in MENA Region, CY2012

MSME Loans by Microfinance Institutions

IFC was able to survey or extrapolate outreach data from 15 clients - microfinance institutions (MFIs) in eight countries in MENA region, 53 percent of these clients received advisory services from IFC.

	Number of Loans Outstanding	Outstanding Loan Portfolio in '000\$	Average Loan Size	NPL % ⁴
Micro Loans	1,594,955	1,111,997	697	4%
Small Loans	38,495	1,235,855	32,104	5%
Medium Loans	13,082	5,314,759	406,265	6%

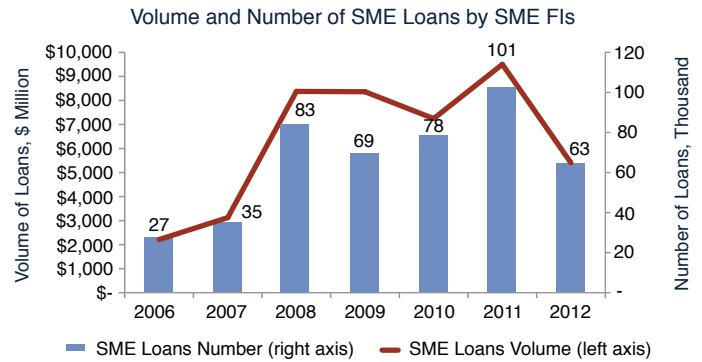
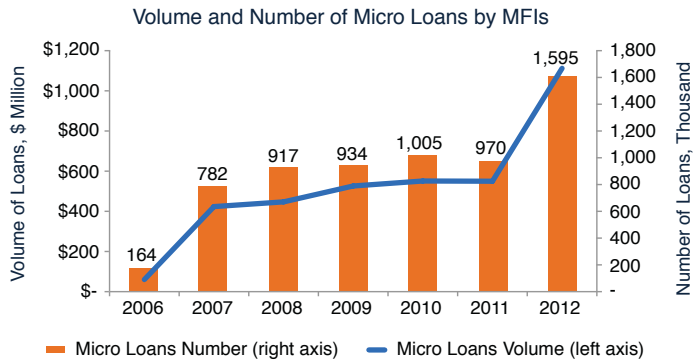
MSME Loans by SME Financial Institutions

IFC was able to survey or extrapolate outreach data from 17 clients - small and medium enterprises (SME) FIs in eight countries in MENA region, 41 percent of these clients received advisory services from IFC.

	Number of Loans Outstanding	Outstanding Loan Portfolio '000 in \$	Average Loan Size	NPL % ⁴
Micro Loans	200,117	261,878	1,309	15%
Small Loans	48,993	1,365,388	27,869	11%
Medium Loans	14,110	4,032,291	285,774	13%

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 decreased from 15.9 percent in FY2012 to 14.8 percent in FY2013; small enterprises accounted for 39.3 percent in FY 2013 (44.1 percent in FY 2012); medium enterprises accounted for 45.9 percent in MSME committed portfolio in FY2013 (39.9 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.

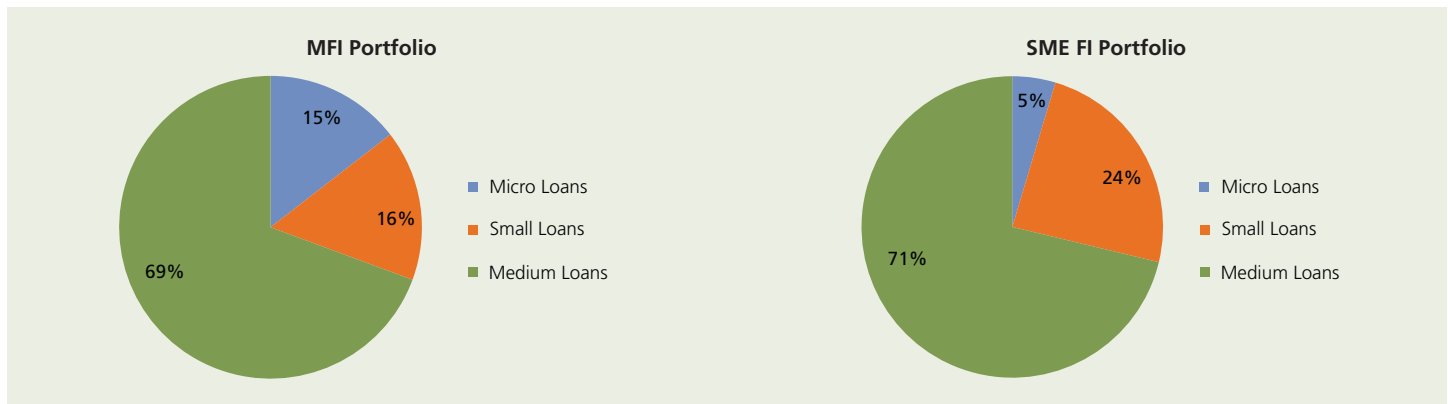
Growth Trends of Loan Volume by Type of Institution in MENA Region, CY2006-CY2012



Number and volume of micro loans provided by microfinance institutions demonstrated smooth upward sloping trend over the last several years. In CY2012, the volume of micro loans provided by MFIs increased almost twice in CY2012 from \$550 million in CY2011 to more than \$1 billion in CY2012, and the number of loans jumped 64 percent from 970 thousands to 1.6 million of loans respectively. This spike was mainly driven by a new large client in Morocco, which was reclassified from SME FI to MFI type of institution and expanded IFC MFI client portfolio by \$500 million of micro loans with 500 thousand of micro loans. This client accounted for 41 percent of the total regional MFI portfolio.

Small and medium loans provided by SME FIs demonstrated a volatile trend over the last years. A decrease in number of loans in CY2009 versus CY2008 was explained by the restructuring of a Pakistani client's portfolio, accounting for 31 percent of the regional SME portfolio, which squeezed the number of SME loans three times, and volume by 24 percent. A positive \$2 billion shift in CY2011 was fostered by the scale up of Tunisian, Moroccan and Omani client's portfolio, which jointly accounted for 53 percent of the SME regional portfolio in CY2011. The positive portfolio trend changed in CY2012 with a \$4 billion drop, explained by reclassification of a Moroccan and Tunisian clients to MFI type of institutions.

MSME Portfolio Composition by Loan Category in MENA Region, CY2012



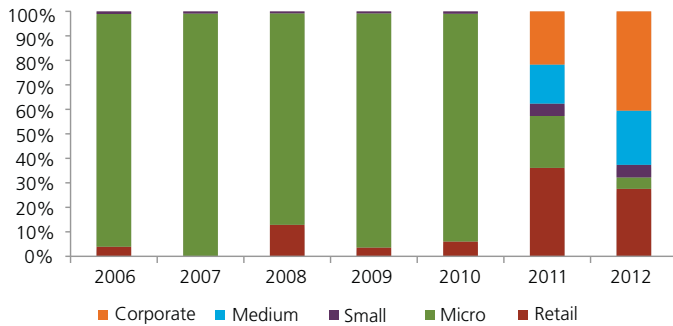
MFI	Micro Loans	Small Loans	Medium Loans
2006	98.9%	1.1%	0.0%
2007	99.1%	0.9%	0.0%
2008	99.1%	0.9%	0.0%
2009	99.1%	0.9%	0.0%
2010	99.0%	1.0%	0.0%
2011	50.2%	12.0%	37.8%
2012	14.5%	16.1%	69.4%

SME	Micro Loans	Small Loans	Medium Loans
2006	2.4%	22.2%	75.4%
2007	1.9%	17.5%	80.6%
2008	4.1%	16.6%	79.4%
2009	4.8%	20.9%	74.3%
2010	5.3%	19.0%	75.8%
2011	6.6%	21.6%	71.8%
2012	4.6%	24.1%	71.2%

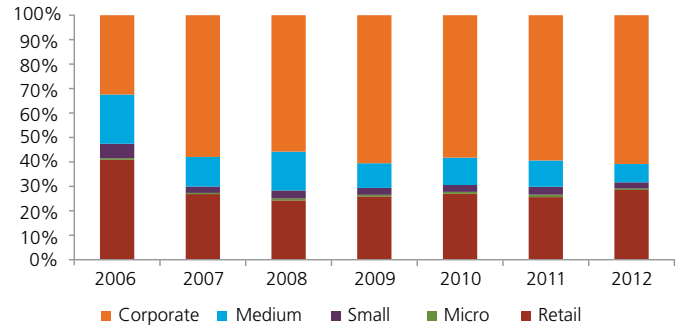


Total Portfolio Composition by Loan Size in MENA Region, CY2012

MFI Portfolio Composition: Volume of Loans



SME FI Portfolio Composition: Volume of Loans

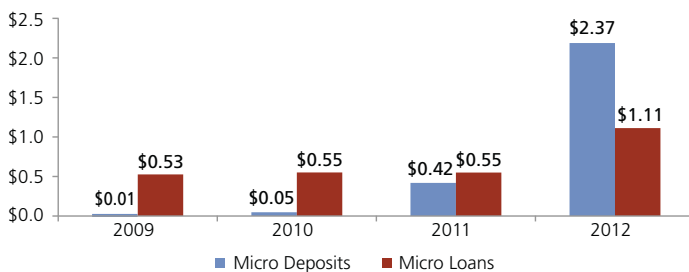


Change in Deposits Volume CY2010-CY2012⁵

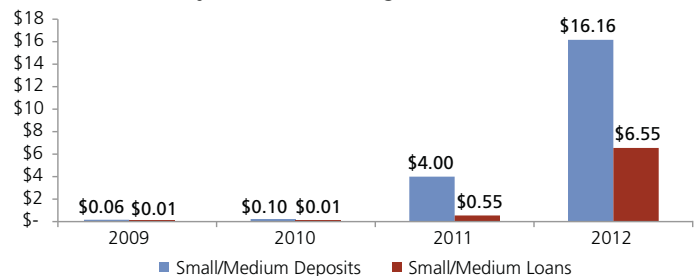
In CY2011 IFC reclassified the large clients in Lebanon from SME to MFI type of institution, which accounted for the share of 96 percent of MFI deposits portfolio in CY2011, thus pushing up the total regional deposit portfolio. Further in CY2012 the portfolio of micro, small and medium deposits held by MFIs experienced significant growth by 4.2 times since CY2011, followed by the reclassification of the SME type client in Morocco with \$8 billion portfolio (accounted for 44 percent of deposit portfolio held by MFIs in CY2012) to MFI type. The rapid growth of the deposit portfolio held by SME FIs by

more than three times in CY2010 since CY2009 was attributed to the reclassification of a large client in Pakistan from MFI to SME type of institution, which accounted for 87 percent of the regional micro, small and medium deposits portfolio received by MFIs in CY2009. In CY2012, SME FIs shrank their deposits portfolio by 20 percent. This was mainly attributed to a Moroccan client, which was reclassified from SME type client to MFI type, thus driving down the SME deposit portfolio.

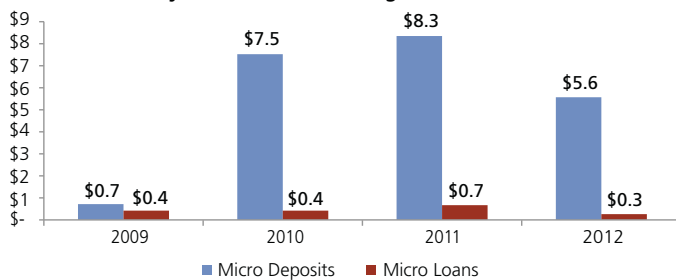
Volume of Micro Loans and Deposits by MFIs in MENA Region (\$ Billion)



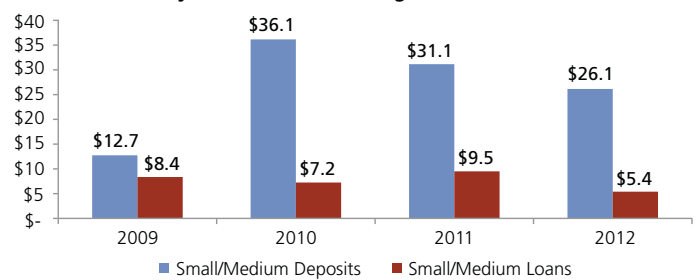
Volume of Small/Medium Loans and Deposits by MFIs in MENA Region (\$ Billion)



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



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

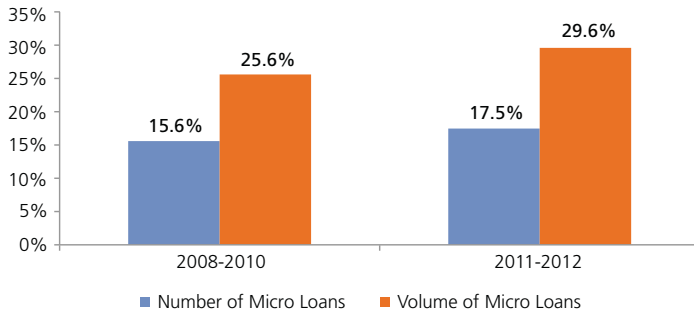


5. The deposits data includes retail, MSME and other commercial portfolio deposits. Micro and Small/Medium deposits classifications were done in accordance with definition of relevant loan size noted in footnote 1.

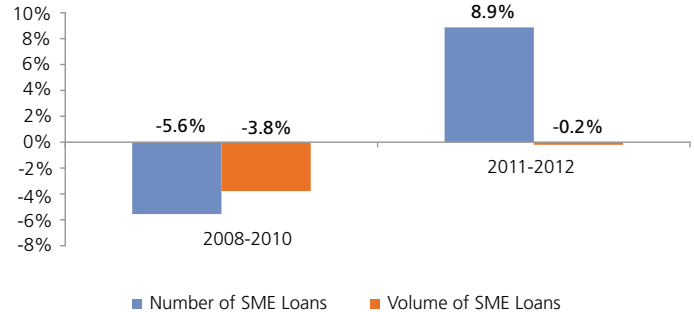


Trend Analysis of Compounded Annual Growth Rate (CAGR)⁶

CAGR Trend – Micro Loans by MFIs in MENA Region



CAGR Trend – SME Loans by SME FIs in MENA Region



Client Highlight: HBL, Pakistan

Objective and Client Need:

HBL, the largest private sector bank in Pakistan with 1,550 branches, has an aspiration to diversify its lending portfolio into the SME asset class. Moreover, the bank sees this segment as a future growth engine for the institution.

Pakistan is a country with over \$3 million SMEs, which contribute 30 percent to the GDP and employ over 70 percent of the non-agri labor force. IFC has attained the position of being a leader in promoting access to finance in the country through various investment and advisory interventions in the financial sector. HBL is one of the most strategic IFC clients in the region, with a quasi loan of USD \$50 Million and a Trade finance guarantee line of USD 20 Million since 2006.

IFC's role:

In June 2011, IFC entered into an advisory agreement with HBL to help design and test a new business model for SME banking. This advisory engagement is ongoing until June 2013. Although HBL already had a number of SMEs in its customer base, it was not targeting them as a customer category, thereby limiting outreach from its true potential. IFC has successfully provided technical assistance to HBL for the development of a new business model for SME Banking. The objective of the advisory project was to build capacity of HBL to adapt best practices in SME banking and then test and refine its "small business banking" by

piloting some activities. IFC provided technical assistance to HBL in developing a business model including a value proposition for SMEs, reengineering of credit and risk process, strengthening staff skill levels and piloting the SME banking services.

The newly established SME unit has brought SMEs under focus and raised the profile of this sector within the huge network of this bank.

Development Impact:

Over the last 6 months, this new SME unit has been able to get a new Trade finance product program approved for launch. As a strategy, the bank is now focusing on smaller loans ranging up to USD 100,000 processed under product programs. This is the bucket of loan sizes where historically the bank has seen lower level of NPLs. The new set up has also strengthened its analytical capabilities and working on drawing the full customer view. During the project, the bank also embarked on a Pilot test of the psychometric scorecard tool, which was introduced by IFC as one of the winners of the G20 SME Innovation challenge. This was the first time this innovative tool was tested in the MENA region. In addition, HBL has excelled in outreach to SMEs by opening deposit accounts for over 80,000 SMEs since September 2011. Gradual growth in the lending portfolio will follow during the next 2 years. The bank has reported over 10,000 SME loans disbursed worth USD 360 million since September, 2011.

"SMEs continue to be an integral and important part of our business. HBL's partnership with IFC has helped strengthen our capacity to better understand SME customers and meet their banking needs ensuring a more sustained and profitable growth in our SME lending portfolio."

Sima Kamil, Group Head Retail & Consumer Banking, HBL

6. Compounded annual growth rate (CAGR) from 13 reporting and repeated clients in the CY2008-CY2010 period, 13 reporting and repeated clients in the CY2011-CY2012 period, excluding greenfield institutions and FIs that are closing their operations.