International Finance Corporation
World Bank Group

IFC Financing to Micro, Small, and Medium Enterprises in South Asia

Key Highlights

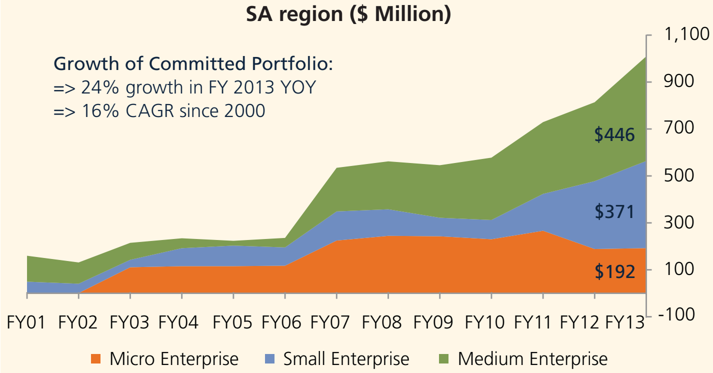
IFC is working to develop solutions to close the micro, small, and medium enterprise (MSME[1]) financing gap, collaborating with 29 financial institutions (FIs) across 4 countries in South Asia (SA) region.

As of June 2013, IFC committed a total of $1.4 billion to MSME finance in SA region[2], $1.3 billion for long term finance (including $0.3 billion for funds supporting MSMEs), and $0.1 billion for trade finance. In fiscal year (FY) 2013 alone, IFC MSME commitments in the region were $587 million (up 28 percent from $457 million), $259 million of which was attributed to long-term financing.

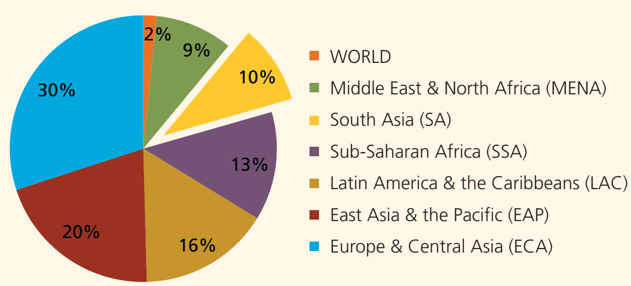
By the end of calendar year (CY) 2012 IFC's MSME clients had 2.46 million micro loans outstanding in SA region (down from 6.68 million in CY2011), totaling $4.74 billion (up 15 percent from $4.12 billion in CY2011). Similarly, IFC's MSME clients had over 648 thousand small and medium loans outstanding by the end of CY2012 (up 30 percent from 500 thousand in CY2011), totaling $19.76 billion in this region (up 26 percent from $15.65 billion in CY2011).

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

**IFC Committed Portfolio to MSMEs[3]
SA region ($ Million)**



**IFC Total Committed Portfolio to MSMEs
(% of Total Portfolio)**



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

MSME Loans by Microfinance Institutions

IFC was able to survey or extrapolate outreach data from 13 clients - microfinance institutions (MFIs) in 4 countries, 62 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	1,325,555	2,031,154	1,532	4%
Small Loans	348,831	5,173,323	14,830	3%
Medium Loans	24,677	6,020,100	243,960	3%

MSME Loans by SME Financial Institutions

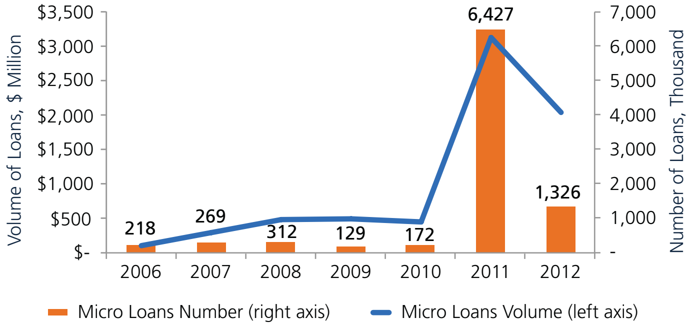
IFC was able to survey or extrapolate outreach data from 16 clients - small and medium enterprises (SME) FIs in 4 countries, 69 percent of these clients received advisory services from IFC.

	Number of Loans Outstanding	Outstanding Loan Portfolio '000 in $	Average Loan Size	NPL %[4]
Micro Loans	1,132,677	2,712,772	2,395	3%
Small Loans	266,480	4,656,881	17,476	2%
Medium Loans	7,915	3,908,636	493,849	3%

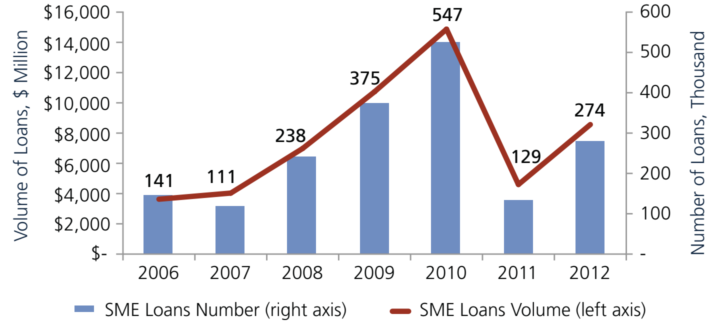
1. MSME firm size definitions: IFC's Financial Institutions Group categorizes its clients' sub-borrowers according to the following definitions: (1) microfinance institutions if loan < $10,000 at origination; (2) small enterprise if loan < $100,000 at origination; (3) medium enterprise if loan < $1 million at origination ($2 million for more advanced countries).
2. The share of committed loans to microfinance institutions in MSME committed portfolio decreased from 23.2 percent in FY2012 to 19.1 percent in FY2013; small enterprises accounted for 36.8 percent in FY 2013 (35.5 percent in FY2012); medium enterprises accounted for 44.2 percent in FY 2013 (41.3 percent in FY 2012).
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 SA Region, CY2006-CY2012

Volume and Number of Micro Loans by MFIs



Volume and Number of SME Loans by SME FIs

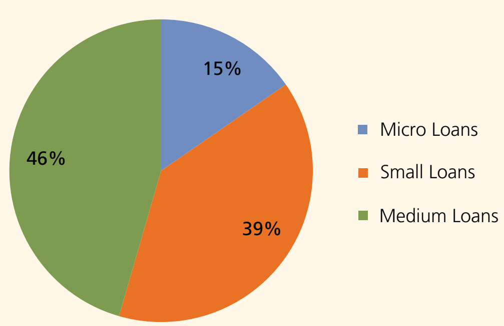


The portfolio of micro loans provided by microfinance institutions experienced extreme spike in CY2011 from $450 million to $3 billion following the entrance of 4 new clients in India and one in Sri Lanka into IFC portfolio. The largest of these new clients accounted for 42 percent of MFI Portfolio in CY2011. Over the next year the portfolio shrank by $1 billion due to scaling down of an existing large client in India, dropping its share in the regional portfolio from 20 percent to 0.2 percent. Another client in India shifted its entire portfolio towards retail loans, due to reclassification of its portfolio. And finally a third client in India was reclassified from MFI to SME type thus negatively affecting the MFI portfolio.

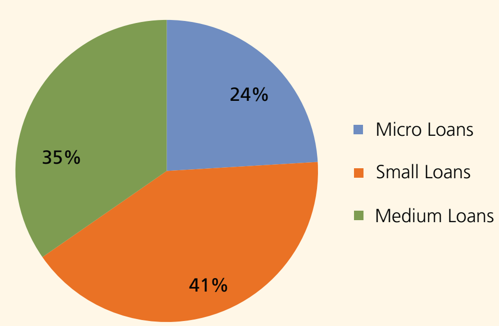
The dynamic growth trend of the SME FIs portfolio since CY2006 turned down in 2011, decreasing the portfolio from $15 billion to $5 billion in volume of loans following the reclassification of one of Indian clients from SME to MFI type of institution. This client accounted for a lion share of 61 percent in the regional SME portfolio in CY2010 and thus, having moved out of SME portfolio, pushed down its loan volume. Fast recovery of SME portfolio in CY2012 to $8.5 was mainly driven by the scaling up of several projects, especially the client in India, which increased its portfolio 6 times in volume and 9 times in number of loans. A new client in Sri Lanka also contributed significantly to boosting the growth in CY2012.

MSME Portfolio Composition by Loan Category in SA Region, CY2012

MFI Portfolio



SME FI Portfolio

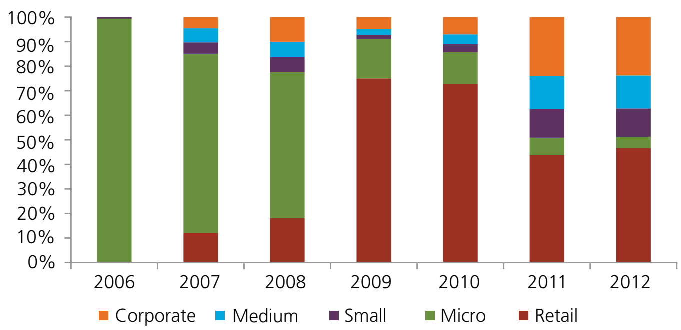


MFI	Micro Loans	Small Loans	Medium Loans
2006	99.6%	0.4%	0.0%
2007	87.6%	5.5%	6.9%
2008	82.7%	8.5%	8.8%
2009	79.4%	8.6%	12.0%
2010	64.0%	16.1%	19.9%
2011	22.0%	36.2%	41.8%
2012	15.4%	39.1%	45.5%

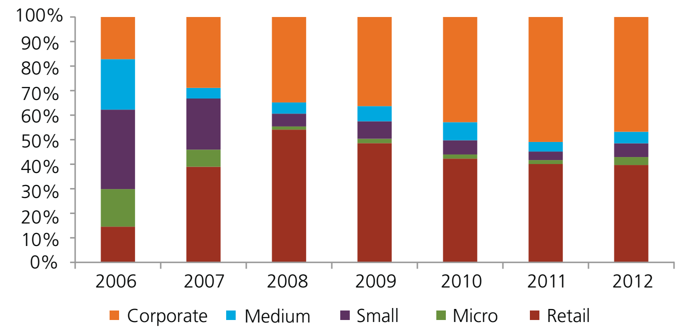
SME	Micro Loans	Small Loans	Medium Loans
2006	22.4%	47.4%	30.1%
2007	21.7%	64.8%	13.5%
2008	11.6%	47.2%	41.2%
2009	11.9%	47.2%	40.9%
2010	11.4%	39.0%	49.6%
2011	17.9%	38.6%	43.5%
2012	24.1%	41.3%	34.7%

Total Portfolio Composition by Loan Category in SA Region, CY2012

MFI Portfolio Composition: Volume of Loans



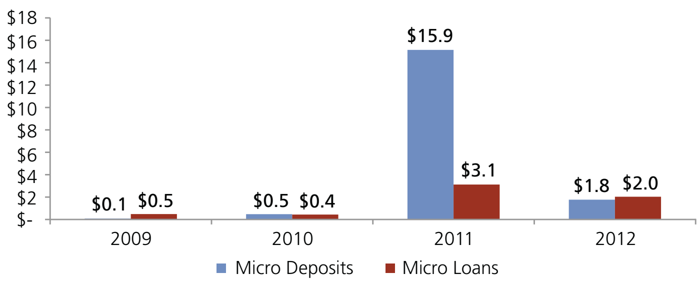
SME FI Portfolio Composition: Volume of Loans



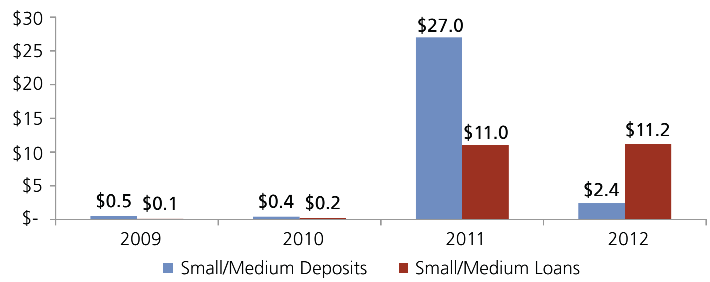
Change in Deposits Volume CY2009-CY2012[5]

The volatility of the deposits volumes in South Asia followed changes in portfolio reconfiguration over time. Thus in CY2011 one of the large SME FIs in India, with portfolio of $25 billion of micro and $39 billion in small and medium deposits, was reclassified to MFI type institution. Since this client had fairly large portfolio (accounted for 93 percent of entire deposits portfolio held by MFIs in CY2011), this reclassification was the major reason for the deep drop in deposits volume held by SMEs in CY2011. Although next year this client was reclassified to non-MSME, thus IFC portfolio shrank significantly in CY2012. The increase in the deposits held by SME in CY2012 from $2 billion to $8.6 billion was mainly driven by adding two new large clients in Bangladesh and a client in India, which jointly added $5.3 billion deposits and accounted for 62 percent of small and medium deposits received by SME type clients of IFC.

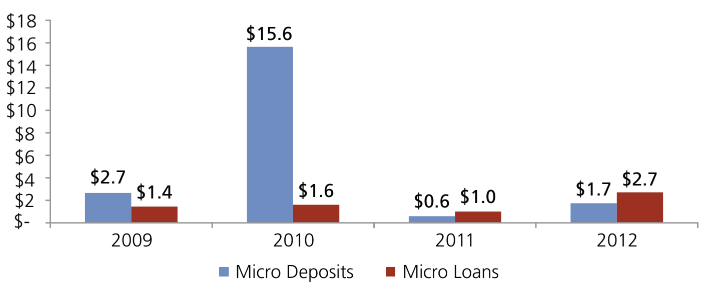
Volume of Micro Loans and Deposits by MFIs in SA Region ($ Billion)



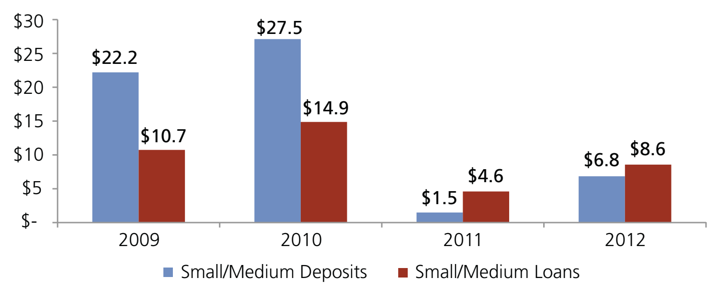
Volume of Small/Medium Loans and Deposits by MFIs in SA Region ($ Billion)



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



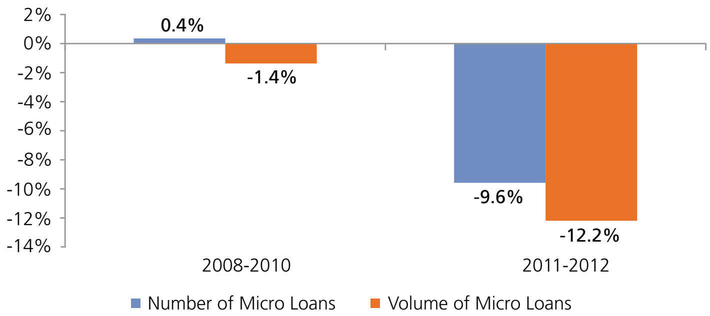
Volume of Small/Medium Loans and Deposits by SME FIs in SA Region ($ Billion)



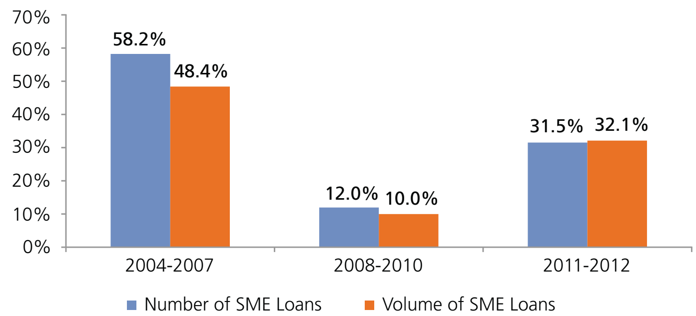
5. Micro and Small/Medium deposits classification is based on the deposit size and irrespective of the recipient (retail/commercial). The classification was done in accordance with definition of the relevant loan size noted in footnote 1.

Trend Analysis of Compounded Annual Growth Rate (CAGR)[6]

CAGR Trend – Micro Loans by MFIs in SA Region



CAGR Trend – SME Loans by SME FIs in SA Region



Client Highlight: Utkarsh Microfinance Private Limited (Utkarsh), India

Objective and Client Need:

Utkarsh Microfinance Private Limited (Utkarsh) is an IFC investee client that also has an on-going advisory relationship. Utkarsh has benefitted from a Performance Based Grant for strengthening systems and expanding their traditional microfinance activities. In late 2011, Utkarsh approached IFC with a plan to develop a Micro, Small and Medium Enterprise (MSME) loan product, called "Utkarsh Samridhi (Prosperity)", to offer credit support to micro entrepreneurs/enterprises that do not have access to formal credit from banks and other financial institutions. The purpose of the loan would primarily be for growing and expanding their businesses with loans ranging from USD 500 to USD 6,000.

IFC's role:

In the first project of its kind in South Asia, IFC stepped in to provide advisory support to Utkarsh in this upscaling effort. The main focus of the project was to help ensure that the Utkarsh Samridhi product would be tailored to address the needs and the unique risks and challenges of the Micro Enterprise segment. The IFC project commenced in June, 2012 and through the placement of a Resident Advisor, IFC has provided support to Utkarsh for the development and implementation of the strategy and business plan for this new segment.

Development Impact:

Although there have been several challenges in roll out of Utkarsh Samridhi, including recruitment of skilled staff and a slower than expected uptake of this product by the existing Joint Liability Group clients, the Utkarsh management remains positive about the market potential of the MSME loan product. This not only provides them with an opportunity to diversify their product base and their risk profile, but also allows them to use their deep expertise of the market to address the needs of an underserved and unserved segment. Utkarsh's portfolio for Samridhi has grown almost four fold since the start of the IFC Advisory and the plans are to reach at least 15,000 micro enterprises within 2 years. In recognition of its continued focus on social responsibility, Utkarsh Micro Finance Pvt Ltd has been awarded Microfinance India Organization of the year (medium & small category) for the year 2012 by Access Development Services, Access Assist and HSBC India.

"Once we started microfinance operations, we soon realized that missing middle was absolutely missing in our area of operations. We approached IFC to seek support to explore more and consider funding the missing middle. We were extremely happy to see the support and sound understanding of IFC on MSME. We are confident that IFC's support, on and off locations, will help us make inroads in one of the toughest markets."

Govind Singh MD & CEO, UTKARSH Micro Finance Pvt Ltd

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

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