

IFC Financing to Micro, Small, and Medium Enterprises in Europe and Central Asia (ECA)

Key Highlights

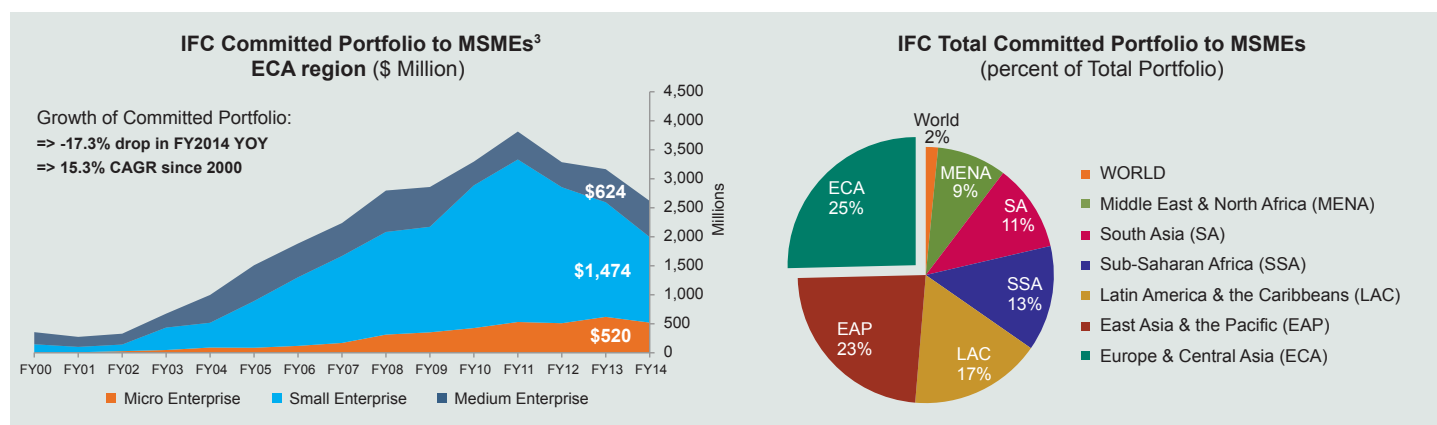
IFC is working to develop solutions to close the micro, small, and medium enterprise (MSME¹) financing gap, collaborating with 97 financial institutions across 20 countries in Europe and Central Asia.

As of June 2014, IFC committed a total of \$3.1 billion to MSME finance in ECA region², \$2.6 billion for long term finance, \$160.5 million for funds supporting MSMEs, and \$333.1 million for trade finance. In fiscal year (FY) 2014 alone, IFC MSME commitments in the region were \$1.0 billion (up 11.7 percent

from \$917 million in FY2013), \$362 million of which was attributed to long-term financing.

By the end of calendar year (CY) 2013, IFC's MSME clients had 2.9 million micro loans outstanding in ECA (up 33.1 percent from 2.2 million in CY2012), totaling \$5.7 billion (up 39.1 percent from \$4.1 billion in CY2012). Similarly, IFC's MSME clients had over 1.5 million small and medium loans outstanding by the end of CY2013 (up 14.4 percent from 1.3 million in CY2012), totaling \$64.6 billion in this region (up 10.8 percent from \$58.3 billion in CY2012).

MSME Financial Intermediary Portfolio, June 2014



MSME Loans by type of IFC Clients in ECA Region, CY2013

MSME Loans by Microfinance Institutions

IFC was able to survey or extrapolate outreach data from 22 microfinance clients in 12 countries, 36 percent of these clients received advisory services from IFC.

	Number of Loans Outstanding	Outstanding Loan Portfolio in '000 \$	Average Loan Size, \$	NPL percent ⁴
Micro Loans	1,393,554	\$2,670,246	\$1,916	2%
Small Loans	122,480	\$3,139,042	\$25,629	2%
Medium Loans	16,912	\$5,451,012	\$322,316	6%

MSME Loans by SME Financial Institutions

IFC was able to survey or extrapolate outreach data from 75 SME FI clients in 20 countries, 36 percent of these clients received advisory services from IFC.

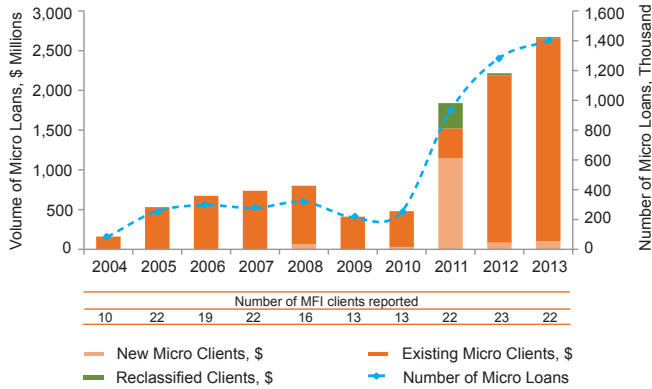
	Number of Loans Outstanding	Outstanding Loan Portfolio in '000 \$	Average Loan Size	NPL percent ⁴
Micro Loans	1,506,341	\$3,060,032	\$2,031	12%
Small Loans	1,008,129	\$15,750,804	\$15,624	9%
Medium Loans	380,101	\$40,303,505	\$106,034	8%

1. MSME Firm Size Definitions: IFC's Global Financial Markets categorizes its clients' sub-borrowers according to the following definitions: (1) Microenterprises if loan < \$10,000 at origination; (2) Small Business if loan < \$100,000 at origination; (3) Medium Business if loan < \$1 million at origination (\$2 million for more advanced countries).
2. The share of committed loans to Micro Enterprises in MSME committed portfolio increased from 19.6 percent in FY 2013 to 19.9 percent in FY2014; Small Enterprises accounted for 56.3 percent in FY 2014 (62.4 percent in FY 2013); Medium Enterprises accounted for 23.8 percent in FY 2014 (18 percent in FY 2013).
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.

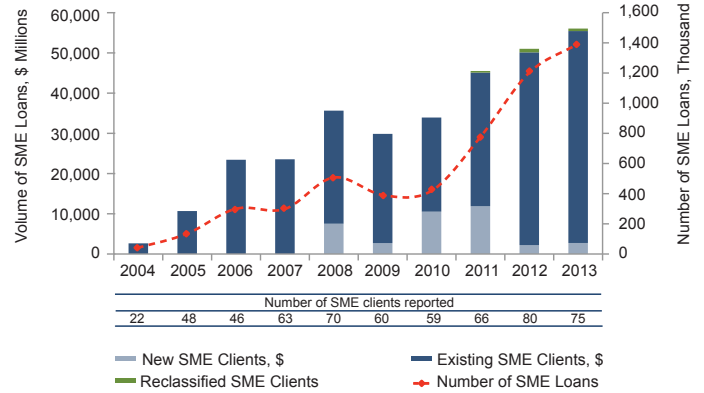


Growth Trends of Loan Volume by Type of Institution in ECA Region, CY2004-CY2013

Volume and Number of Micro Loans by MFIs



Volume and Number of SME Loans by SME FIs

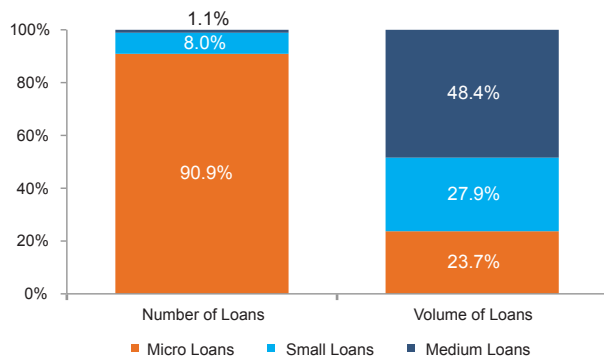


Historically micro loans provided by MFIs demonstrated upward sloping trend in ECA region except for the drop in CY2009: portfolio of two clients in Serbia and Romania (accounted for 47 percent of CY2008 portfolio) scaled down from \$370 million to \$120 million. Significant growth of micro loans portfolio in CY2011 was mainly fostered by acquiring a new client in Turkey. It accounted for 43 percent of this segment's volume of loans and 52 percent of this segment's number of loans in CY2011 and continued expansion in CY2012. In 2013 the micro loan portfolio held by MFIs increased by 20 percent in volume terms, almost 80 percent of this growth is attributed to the existing business.

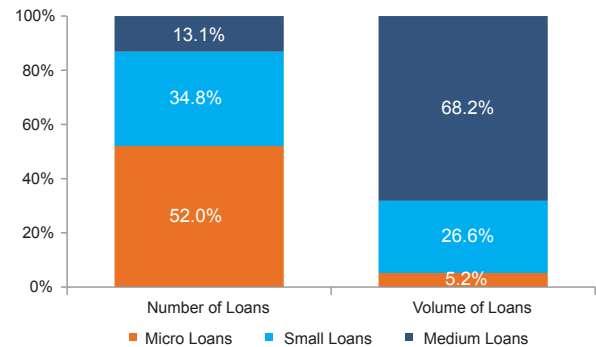
Small and medium loans provided by SME FIs demonstrated smooth growth during the last several years. The increase in number of loans in CY2011 (86 percent) was mainly attributed to scaling up (10 times) of a Turkish client portfolio and acquisition of a new client in Turkey. Number of loans increased by 56 percent in CY2012, which was mainly driven by fast growth of one of Turkish clients' portfolio and also by expanding of IFC clientele. In CY2013 SME loan portfolio held by SME FIs increased by 10 percent in volume terms, with 55 percent of this growth being attributed to the new business (8 new clients with the largest residing in Turkey).

MSME Portfolio by Loan Category in ECA Region, CY2013

Loan Portfolio of MFIs

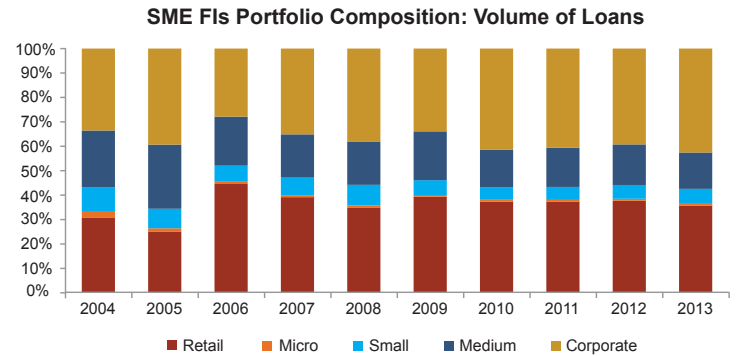
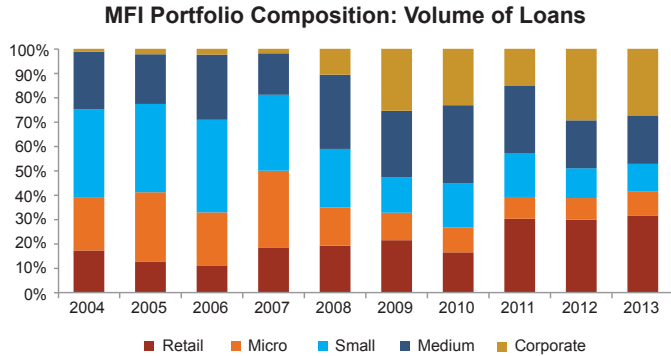


Loan Portfolio of SME FIs





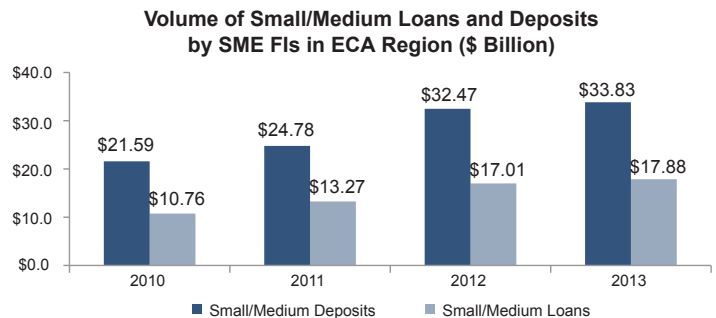
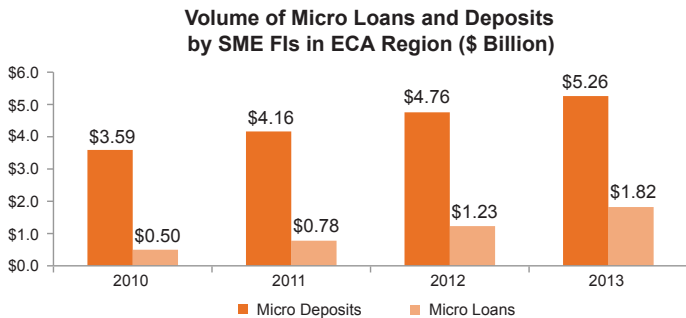
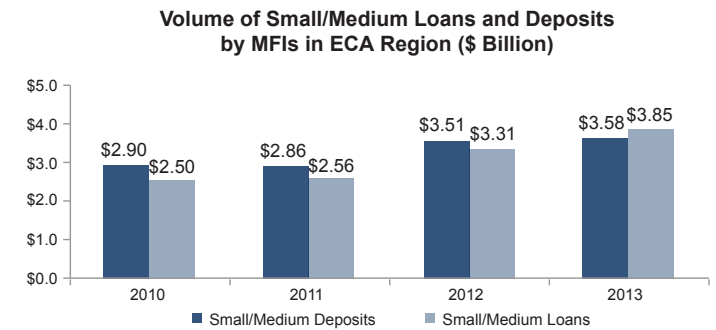
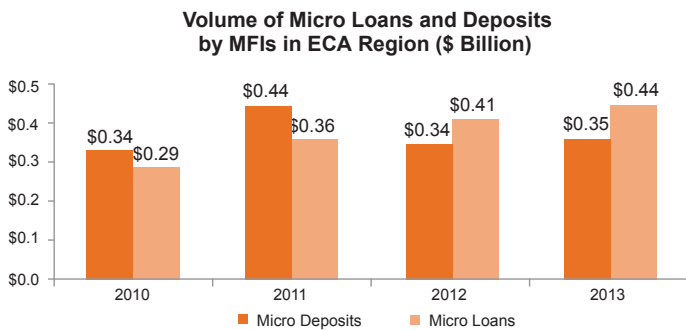
Total Portfolio composition by Loan Category in ECA Region, CY2004-CY2013



Change in Deposits Volume 2010-2013⁵

The dynamic trends of IFC clients' portfolios can be assessed by comparing the loan and deposit portfolios of the sampled microfinance institutions and banks. Over the last several years the deposits received by MFIs in ECA region demonstrated stable growth from \$3.2 billion in CY2010 to \$3.9 billion in CY2013 (7 percent compounded annual growth rate). In 2012 micro loans

over-weighted micro deposits mainly due to 30 percent decrease in the portfolio base of one of the MFI clients in Turkey. Deposits held by SME focused clients grew 5 percent on the annual compounded basis since 2010. Both micro and SME deposits grew in CY2013 by 11 percent and 4 percent respectively in comparison with CY2012.

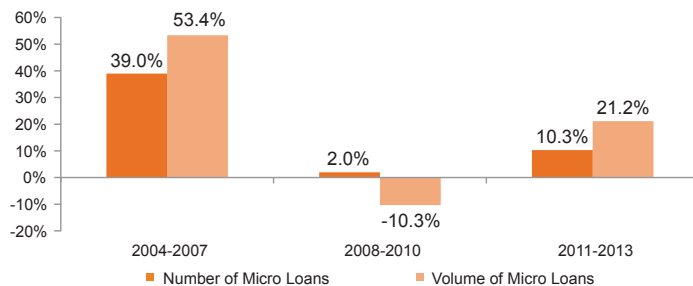


5. The deposits data includes retail, MSME and other commercial portfolio deposits. Micro and Small/Medium deposits classifications were done in accordance with definition of relevant loan size noted in footnote 1.

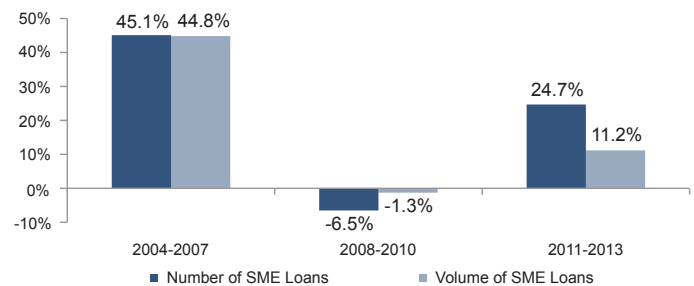
Loan-Deposit analysis are done on the basis of repeated clients, which means that the data used for comparison of Micro/SME loans and deposits are comprised only of those clients that reported each of the last 4 years all 4 data series (Micro deposits, SME deposits, Micro Loans, SME Loans). Globally IFC had 72 such clients, 31 of which are in IDA countries, 25 of such clients reside in ECA.

Trend Analysis of Compounded Annual Growth Rate (CAGR)⁶

CAGR Trend – Micro Loans by MFIs in ECA Region



CAGR Trend – SME Loans by SME FIs in ECA Region



Client Highlight: Turan Bank – SME Banking, Azerbaijan

About the client

Turan Bank (“the Bank”), was originally established as a corporate bank in Azerbaijan in 1992, later downscaled to MSME and retail banking segments. Nowadays, the Bank is expanding as a universal bank with foreign investment, serving individuals, micro, small and medium-sized enterprises throughout the country with a sales network of 15 branches and sub-branhs, 8 of which are located in the regions.

Engagement with IFC

IFC started to support Turan Bank in 2007, initially strengthening the bank’s corporate governance framework and later helping the Bank to upgrade its risk management practices, which improved significantly the Bank’s operational performance. To move forward to its goal of shifting the focus to the MSME segment, the Bank received a US\$7 million SME credit line from IFC in late 2011 and subsequent technical assistance to support the Bank in building SME banking capabilities.

On the advisory side, IFC has helped Turan Bank to scale up its SME business and increase efficiency of its operations. The three main modules for the advisory engagement include:

1) SME Strategy. With the guidance of IFC advisory team, the Bank developed and adopted an SME focused strategy document serving as a roadmap to build SME business;

2) Product Development. Advisory support from IFC helped the Bank to strengthen the SME business line with clear responsibilities and sales targets and a new product bundle targeting SMEs;

3) Credit and Risk Management Framework. IFC assisted the Bank in restructuring its business model of the risk assessment for a greater efficiency and stronger focus on front office and sales, as well as streamlining credit process, and better managing portfolio and NPLs.

Development Results

IFC’s investment and support through advisory helped Turan Bank build a sustainable and profitable SME Banking business, almost increased more than 2 time SME loan portfolio from US\$39 million at the end of 2011 to US\$87.4 million by end June 2014.

Moreover, the Bank was able to successfully increase their deposit base by 55.7% which amounted to US\$83.1 million from the end of 2011 to end of June, 2014 as a primary tool to fund the loan growth. The larger deposit volume in fact had a larger impact on the bank’s performance than attracting outside financing, since it provided cheaper and more sustainable resources.

6. Compounded annual growth rate (CAGR) from 16 reporting and repeated MSME focused clients in the 2004-2007 period, 40 reporting and repeated clients in the 2008-2010 period, 67 reporting and repeated clients in the 2011-2013 period, excluding greenfield institutions and FIs that are closing their operations.