

IFC Financing to Micro, Small, and Medium Enterprises in the Poorest Countries

Key Highlights

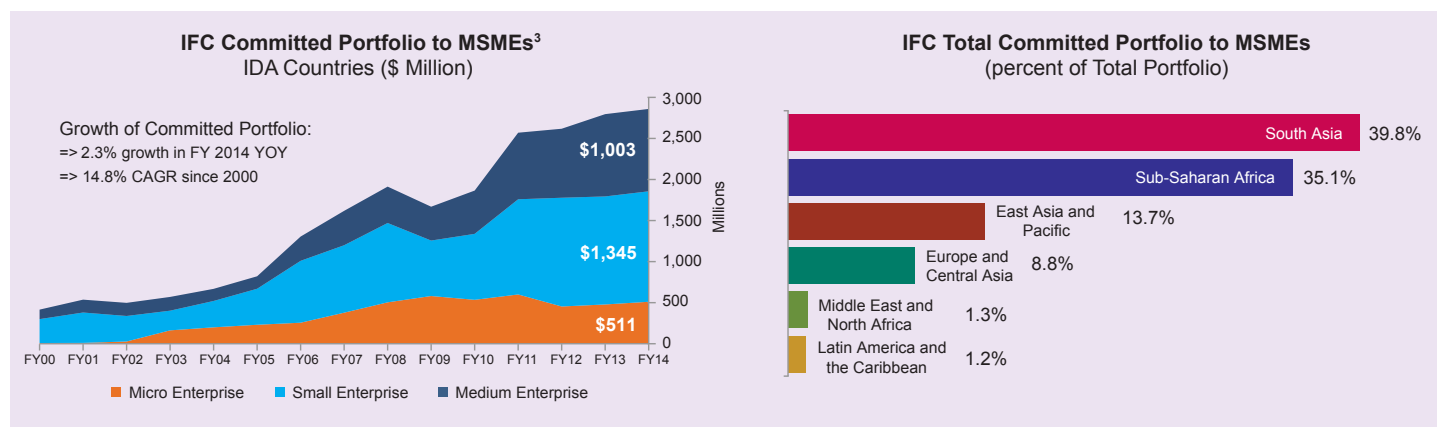
IFC is working to develop solutions to close the micro, small, and medium enterprise (MSME¹) financing gap, collaborating with 146 financial institutions (FIs) across 41 International Development Association (IDA) countries².

As of June 2014, IFC committed a total of \$4.2 billion to MSME finance in IDA countries, \$2.9 billion for long term finance, \$416.3 million for funds supporting MSMEs, and \$921.6 million for trade finance. In fiscal year (FY) 2014 alone, IFC MSME commitments in IDA countries were \$2.8 billion (up 11.9

percent from \$2.5 billion in FY2013), \$593 million of which was attributed to long-term financing.

By the end of calendar year (CY) 2013, IFC's MSME clients had 9.4 million micro loans outstanding in IDA Countries (up from 4.5 million in CY2012), totaling \$9.0 billion (up from \$7.0 billion in CY2012). Similarly, IFC's MSME clients had 1.2 million small and medium loans outstanding by the end of CY2013 (up 23.3 percent from 952.7 thousand in CY2012), totaling \$48.1 billion in IDA countries (up 38.8 percent from \$34.7 billion in CY2012).

MSME Financial Intermediary Portfolio, FY2014 (as of June 2014)



MSME Loans by type of IFC Clients in IDA Countries, CY2013

MSME Loans by Microfinance Institutions

IFC was able to survey or extrapolate outreach data from 61 clients - Microfinance Institutions (MFI) in 27 IDA countries, 54 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	7,580,334	4,246,644	560	2%
Small Loans	491,424	7,081,107	14,409	2%
Medium Loans	32,889	7,666,593	233,105	6%

MSME Loans by SME Financial Institutions

IFC was able to survey or extrapolate outreach data from 85 clients - Small and Medium Enterprises (SME) FIs in 36 IDA countries, 58 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	1,826,682	4,758,047	2,605	9%
Small Loans	568,487	12,033,039	21,167	7%
Medium Loans	81,820	21,322,274	260,601	6%

1. MSME firm size definitions: IFC's Global Financial Markets categorizes its clients' sub-borrowers according to the following definitions: (1) microfinance institution 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 International Development Association (IDA) is the World Bank's Fund for the Poorest. Further information may be found at <http://www.worldbank.org/ida/>

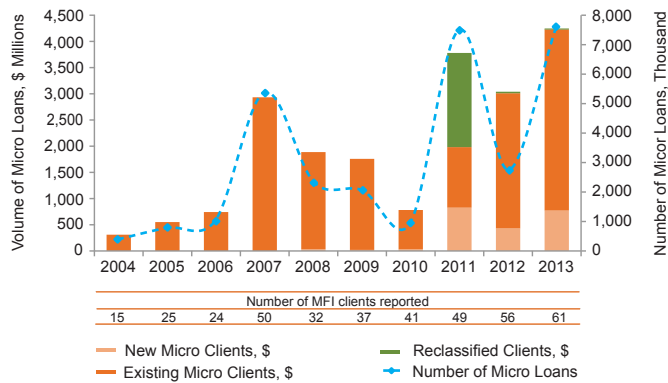
3. The committed portfolio in MSME FIs below does not include commitments for commercial banking trade finance and collective investment vehicles. In FY2010 IFC has changed the methodology of accounting for commitments in IDA countries. The revision of the methodology has been applied retrospectively from FY2000 to FY2014. Therefore there is a change in this chart representation versus FY2013 publication.

4. Nonperforming Loan (NPL) = > 90 days past due loans.

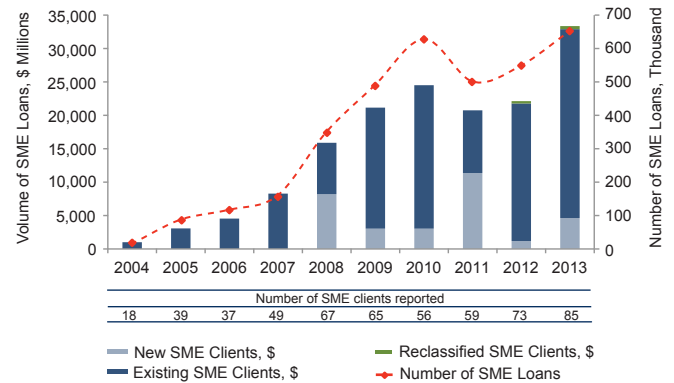


Growth Trends of Loan Volume by Type of Institution in IDA Countries, CY2004-CY2013⁴

Volume and Number of Micro Loans by MFIs



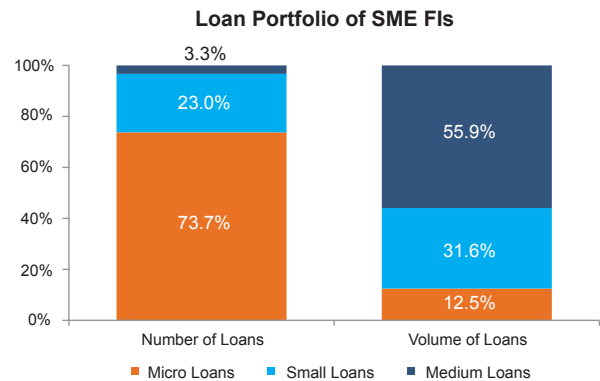
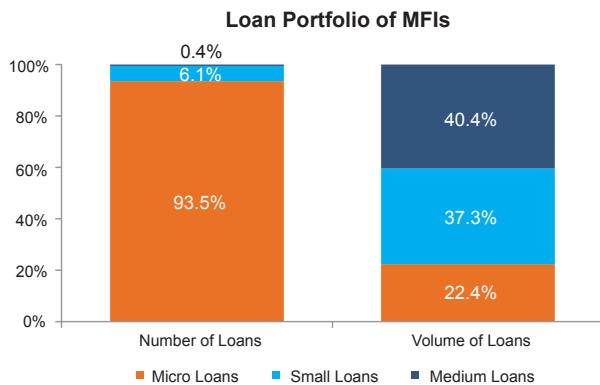
Volume and Number of SME Loans by SME FIs



The trend of micro loans provided by microfinance institutions was not even over time. Recent economic growth observed in IDA countries boosted IFC clients' portfolio in CY201. This increase resulted from the addition of 8 new clients, which contributed 22 percent to the total micro loan portfolio by MFIs in IDA countries. Moreover 7 clients were reclassified from SME to MFI, which further scaled up micro loan portfolio. In CY2012, portfolio contraction by 20 percent can be mainly explained by the squeezing of the portfolio of an Indian client by \$600 million. The subsequent growth of microloan portfolio by MFIs in CY2013 by 40 percent versus CY2012 is mainly explained by adding ten new clients in 8 IDA countries.

The portfolio of SME loans provided by SME FIs experienced smooth growth since 2006 until the drop in CY2011 by 22 percent. This was a result of the termination of business with 13 clients, the three largest of which (in India, Sri Lanka and Indonesia) accounted for 42 percent of total SME portfolio in IDA countries in CY2010. This contraction was partially compensated by adding 16 new clients, which contributed \$1.5 billion in CY2012. The portfolio increased by 51 percent in CY2013 versus CY2012. More than 40 percent of this growth was attributed to the addition of 17 new clients in 13 IDA countries located in 4 different regions.

MSME Portfolio Composition by Loan Category in IDA Countries, CY2013

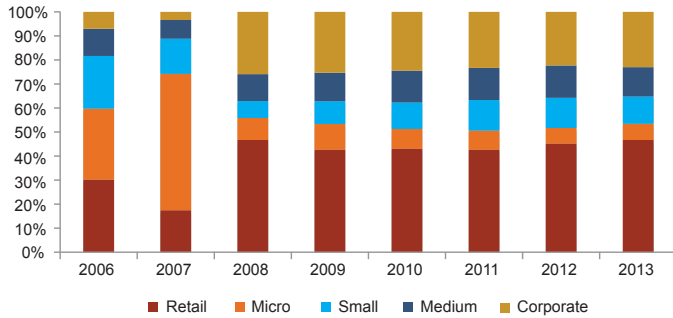


4. Nonperforming Loan (NPL) = > 90 days past due loans.

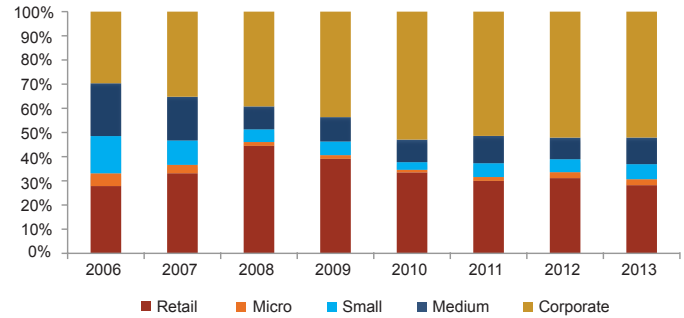


Total Portfolio Composition by Loan Category in IDA Countries, CY2004-CY2013

MFI Portfolio Composition: Volume of Loans



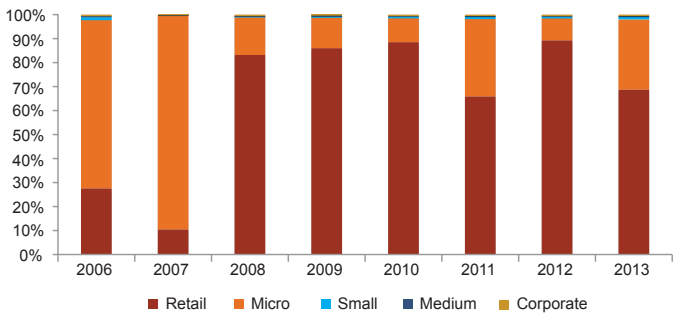
SME FIs Portfolio Composition: Volume of Loans



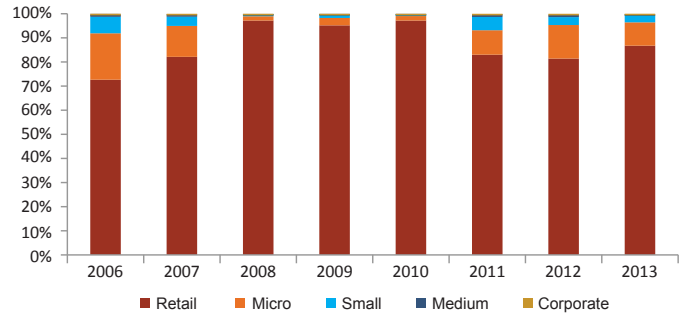
The portfolio composition among the MFI clients in IDA countries demonstrates the historical bias towards the retail loans, the share of which increased from 17.5 percent in CY2007 to 46.7 percent in CY2013. Micro loans by MFIs increased from 6.5 percent in CY2012 to 6.8 percent in CY2013 (29.6 percent

in CY2006). The share of medium loans by SME FIs increased from 9.34 percent in CY2010 to 11.0 percent in CY2013; the volume of small loans increased from 5.4 percent in CY2012 to 6.2 percent in CY2013.

MFI Portfolio Composition: Number of Loans



SME FIs Portfolio Composition: Number of Loans

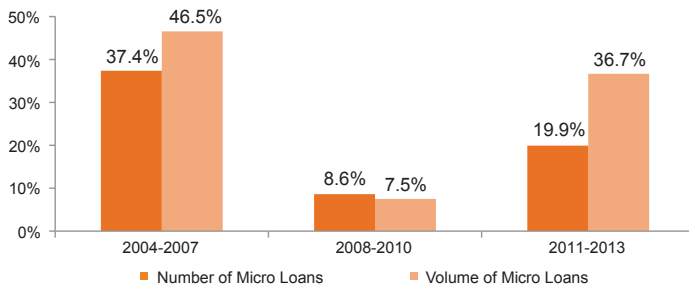


Analysis of the portfolio composition based on the number of loans show that the largest share of the portfolio is attributed to the retail and micro loans. The graphs demonstrate that microfinance institutions are relying largely on the retail loans while decreasing micro portfolio over time. SME FIs' portfolio is mainly concentrated in retail and corporate loans. It is worth

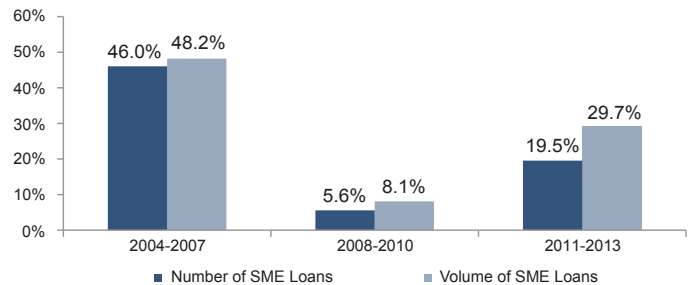
mentioning that retail loans account for 86.8 percent of number of loans, while only 28.2 percent in volume terms. Although the corporate loans account for only less than one percent of the number of loans, due to the scale of transactions, they account for 52.1 percent of the share in the volume of loans.

Trend Analysis of Compounded Annual Growth Rate (CAGR)⁵

CAGR Trend – Micro Loans by MFIs in IDA Region



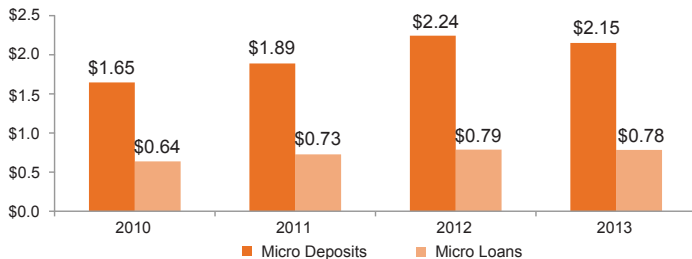
CAGR Trend – SME Loans by SME FIs in IDA Region



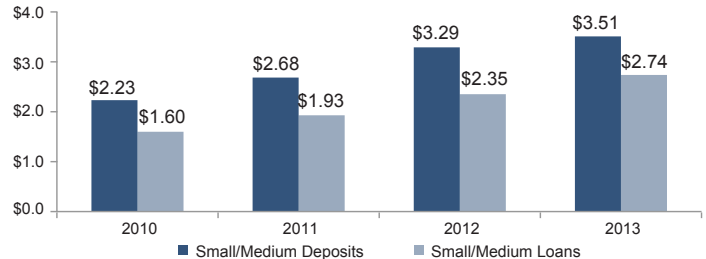
5. Compounded annual growth rate (CAGR) from 18 reporting and repeated clients in the CY2004-CY2007 period, 37 reporting and repeated clients in the CY2008-CY2010 period, 42 reporting and repeated clients in the CY2011-CY2013 period, excluding greenfield institutions and FIs that are closing their operations.

Change in Deposits Volume CY2010-CY2013⁶

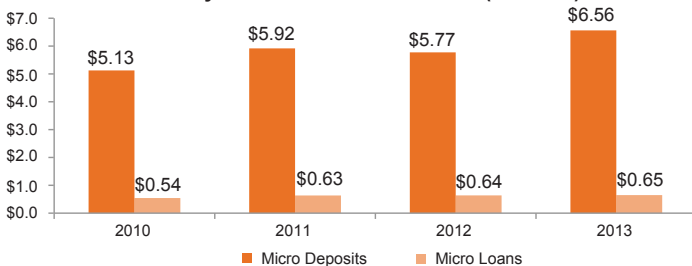
Volume of Micro Loans and Deposits by MFIs in IDA Countries (\$ Billion)



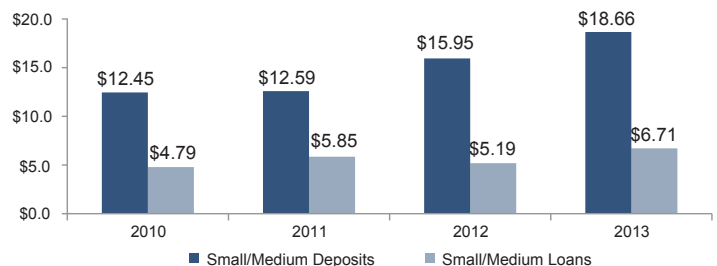
Volume of Small/Medium Loans and Deposits by MFIs in IDA Countries (\$ Billion)



Volume of Micro Loans and Deposits by SME FIs in IDA Countries (\$ Billion)



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



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 four years the deposits held by MFIs in the IDA countries of IFC operation demonstrated steady growth: the deposits volume increased at 13.4 percent annual compounded rate since CY2010, while loan portfolio grew by 16.3 percent per year during the same period. On average the deposits held by the sampled MFIs during the last four years surpassed their loan portfolio by 71 percent.

The deposits held by SME FIs consistently increased over the last four years at 12.8 percent a year rate on a compounded basis since CY2010, while loan portfolio of the sampled banks grew at 11.3 percent a year during the same period. Deposits base of SME FIs were on average 3.3 times larger than the loan portfolio of the sampled banks.

6. 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.