

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

Key Highlights

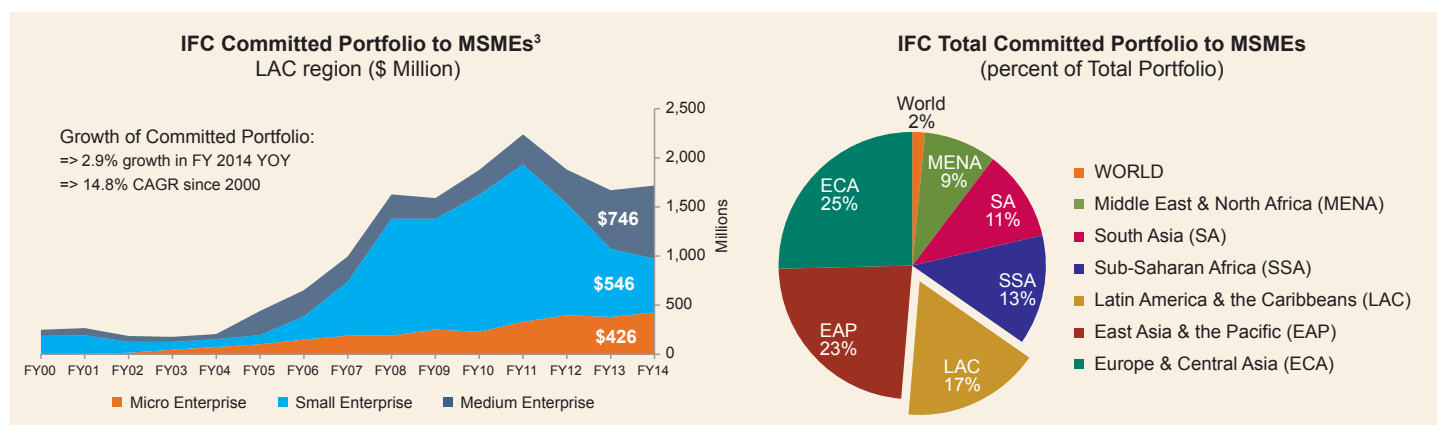
IFC is working to develop solutions to close the micro, small, and medium enterprise (MSME¹) financing gap, collaborating with 65 financial institutions (FIs) across 20 countries in Latin America and the Caribbean (LAC) region.

As of June 2014, IFC committed a total of \$2.5 billion to MSME finance in LAC Region², \$1.7 billion for long-term finance, \$288.6 million for funds supporting MSMEs, and \$534.1 million for trade finance. In fiscal year (FY) 2014 alone, IFC MSME commitments in the region were \$1.5 billion (down 5.0 percent

from \$1.6 billion in FY2013), \$465 million of which was attributed to long-term financing.

By the end of calendar year (CY) 2013, IFC's MSME clients had 11.7 million micro loans outstanding in Latin America and the Caribbean (down 5.6 percent from 12.4 million in CY2012), totaling \$8.5 billion (down 9.5 percent from \$9.4 billion in CY2012). Similarly, IFC's MSME clients had over 0.9 million small and medium loans outstanding by the end of CY2013 (2.5 million in CY2012), totaling \$63.2 billion in this region (\$73.7 billion in CY2012).

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



MSME Loans by Type of IFC Clients in LAC Region, CY2013

MSME Loans by Microfinance Institutions

IFC was able to survey or extrapolate outreach data from 25 clients - microfinance institutions (MFI) in 12 countries, 28 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	6,301,193	\$5,015,267	\$796	3%
Small Loans	191,406	\$2,988,180	\$15,612	3%
Medium Loans	9,254	\$1,764,022	\$190,623	2%

MSME Loans by SME Financial Institutions

IFC was able to survey or extrapolate outreach data from 40 clients - Small and Medium Enterprises (SME) FIs in 17 countries, 18 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	5,439,521	\$3,528,003	\$649	6%
Small Loans	452,258	\$11,145,873	\$24,645	5%
Medium Loans	296,127	\$47,328,023	\$159,824	3%

1. MSME Firm Size Definitions: IFC's Global Financial Markets 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 22.7 percent in FY2013 to 24.8 percent in FY2014; small enterprises accounted for 31.8 percent in FY2014 (41.7 percent in FY2013); medium enterprises accounted for 43.4 percent in FY2013 (35.6 percent in FY2013).

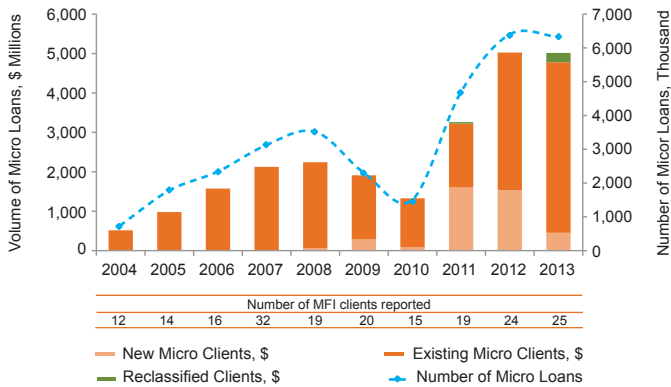
3. The committed portfolio in MSME FIs below does not include commitments for commercial banking trade finance and collective investment vehicles.

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

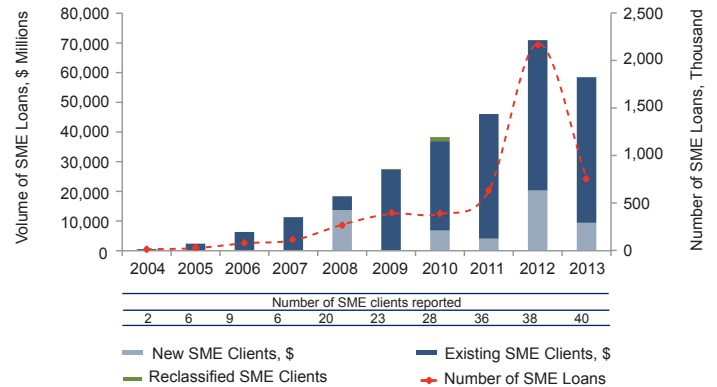


Growth Trends of Loan Volume by Type of Institution in LAC Region, CY2004-CY2013

Volume and Number of Micro Loans by MFIs



Volume and Number of SME Loans by SME FIs



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.

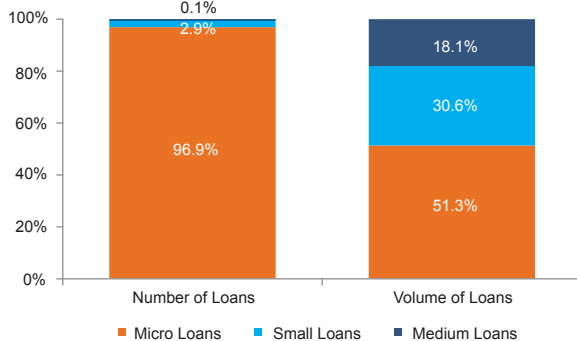
In CY2013 the micro portfolio stayed almost on CY2012 level with slight decrease in both number (-1.2 percent) and volume (-0.2 percent) of micro loans mainly due to the fact that IFC stopped accounting for one of the large PE funds with more than \$800 million micro loans portfolio. Were this case excluded from the analysis, the micro loan portfolio of IFC clients would have increased by 20 percent in CY2013.

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.

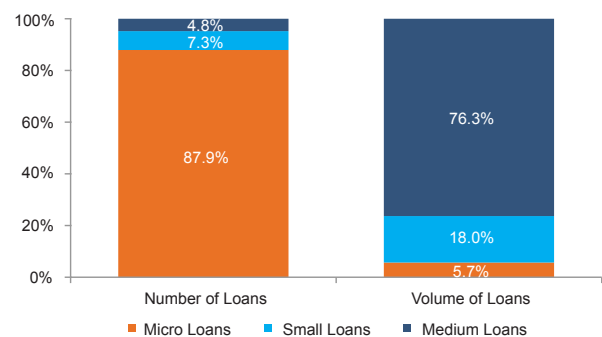
In CY2013 the SME loan portfolio held by SME FIs dropped 18 percent in volume and 66 percent in number terms. IFC is closing up a project with one of the large clients in Colombia, which constituted 66 percent of the regional SME portfolio in CY2012 (in number terms). Therefore this client did not report Reach data this year. Having excluded this case, the portfolio stayed almost unchanged in CY2013 in comparison to CY2012.

MSME Portfolio Composition by Loan Category in LAC Region, CY013

Loan Portfolio of MFIs

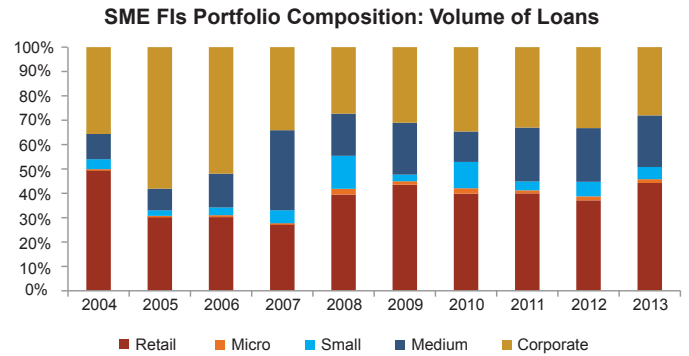
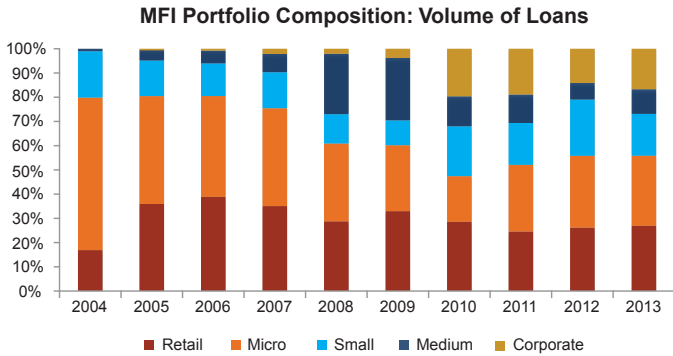


Loan Portfolio of SME FIs





Total Portfolio Composition by Loan Category in LAC Region, CY2013



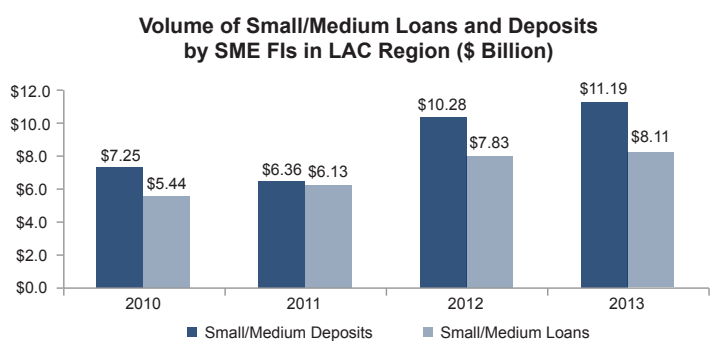
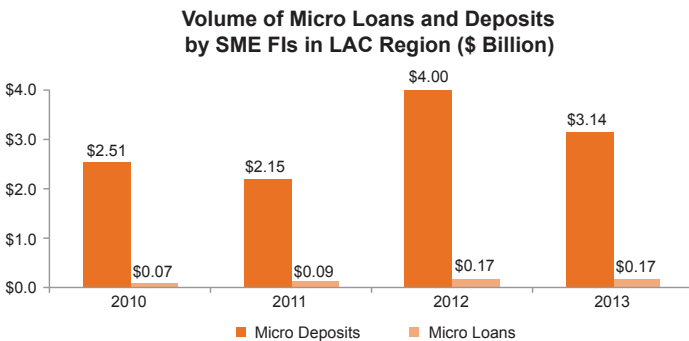
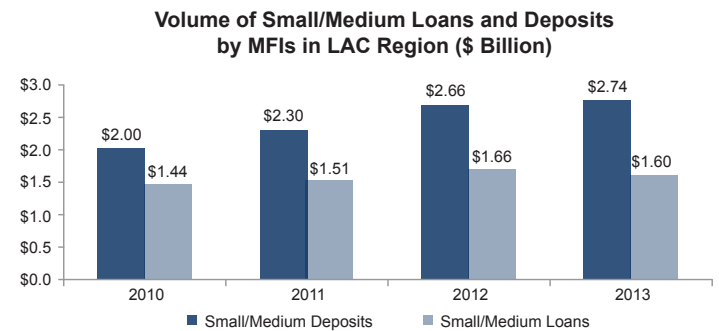
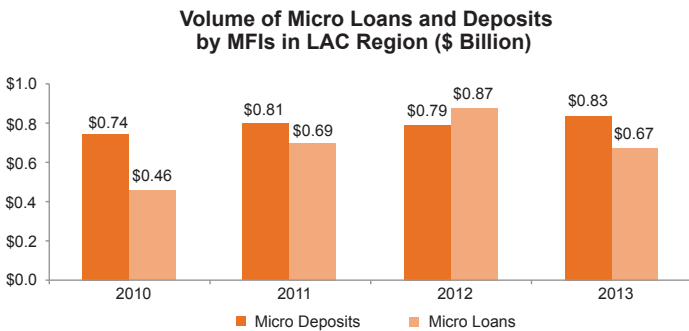
Deposits versus Loans Comparison CY2010-CY2013⁵

The dynamic trends of IFC clients' portfolios can be assessed by comparing the loan and deposit portfolios of the sampled microfinance institutions and banks.

The deposit base of the client MFIs were generally higher than the loan volumes, except for CY2012, when one of the clients in Peru increased its loan portfolio by 25 percent. Although in the following CY2013 year this client lost this volume (26 percent drop in the micro loans volume and 16 percent drop in SME loans), which caused the decline of the overall loan volume of

the sampled MFIs. Micro, small and medium deposits held by MFIs increased by 4 percent in CY2013 since CY2012.

Deposits held by SME focused clients increased at 14 percent annual growth rate on a compounded basis since CY2010, and loans outstanding by SME FIs grew at 15 percent annually since 2010. On average deposits held by SME FIs overweighted loans by the same institutions in the sample by 66 percent over the last four years.

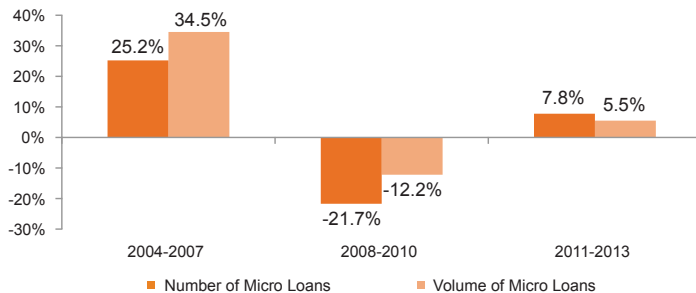


5. Micro and Small/Medium deposits definition is based on the deposit size and irrespective of the depositor (retail / business). The classification was done in accordance with definition of relevant loan size noted in footnote 1.

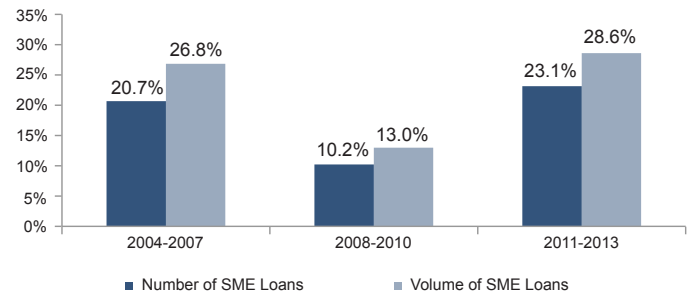
Loan-Deposit analysis are done on the basis of repeated clients, which means that the data used for comparison of Micro/SME loans and deposits are comprised only of those clients that reported each of the last 4 years all 4 data series (Micro deposits, SME deposits, Micro Loans, SME Loans). Globally IFC had 72 such clients, 31 of which are in IDA countries, 17 of such clients reside in LAC.

Trend Analysis of Compounded Annual Growth Rate (CAGR)⁶

CAGR Trend – Micro Loans by MFIs in LAC Region



CAGR Trend – SME Loans by SME FIs in LAC Region



Client Highlight: Financiera Edyficar – Microfinance Institution in Peru

Market Opportunity

Peru's microfinance industry has developed rapidly over the last two decades, providing a tool for the country's low-income population to escape poverty. However, micro-lending in Peru has largely focused on urban areas, while a quarter of the country's population – nearly 8 million people – in rural areas remains under-served. While challenging, lending to farmers in the county's highlands has proved to be a profitable field, helping MFIs tap into a new growth area and contributing to development of rural communities.

Engagement with IFC

IFC is working with local microfinance institutions (MFIs) to increase access to credit in remote rural areas of Peru. One of these institutions is Financiera Edyficar ("Edyficar"). IFC has been working with Edyficar since 2004, when it was a small finance company with 33,000 borrowers, dependent on financing from CARE, the poverty-fighting NGO that had founded it several years earlier. Since then, IFC has invested a total of \$58 million into the institution: \$3 million and a subordinated convertible loan of \$1 million in 2004, partial credit guarantee of \$14 million in 2007 and \$40 million in 2013 senior loan for on-lending to micro enterprises in rural/frontier regions of Peru.

In 2005, Advisory Services stepped in to help Edyficar transform from a non-deposit taking financial intermediary into a finance company, capable of accepting deposits and mobilizing small-scale savings. In addition, IFC advisory services helped sharpen Edyficar's business focus, reducing its operating costs and making it more attractive to potential new investors that CARE was seeking.

Building on this relationship, Edyficar and IFC launched a new agricultural micro-lending product to expand Edyficar's reach into Peru's rural areas.

Development results

Today Edyficar has more than 580,000 borrowers. Most live in the provinces, where average incomes are far lower than in capital city Lima. Many have never before had bank accounts. With one of the lowest average loan sizes of any local microlender (apprx. \$1,800), it is keenly focused on helping low-income entrepreneurs climb out of poverty with more than 50 percent of them being women. EDYFICAR is the number one company in providing financial access for the first time to the entrepreneurs in Peru. Edyficar has also started replicating the model in Bolivia and Colombia.

IFC's support has helped grow the value of Edyficar's outstanding portfolio to over \$1,100 million today from \$42 million in 2004, and improved access to loans in regions throughout Peru. Its ROE increased from 10% in 2004 to more than 39% in 2013.

Its new parent (acquired by Banco de Credito de Peru in 2009) has an extensive network of more than 5,500 correspondent agents throughout Peru, therefore, keeping its own brand identity, Edyficar is well positioned to offer small-scale savings products that are able to reach remote rural areas.

The example of Edyficar has demonstrated that lending in the rural areas can be a commercially viable segment, making rural micro-lending more attractive for other market players in Peru and beyond.

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, 38 reporting and repeated clients in the CY2011-CY2013 period, excluding greenfield institutions and FIs that are closing their operations.