

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

Key Highlights

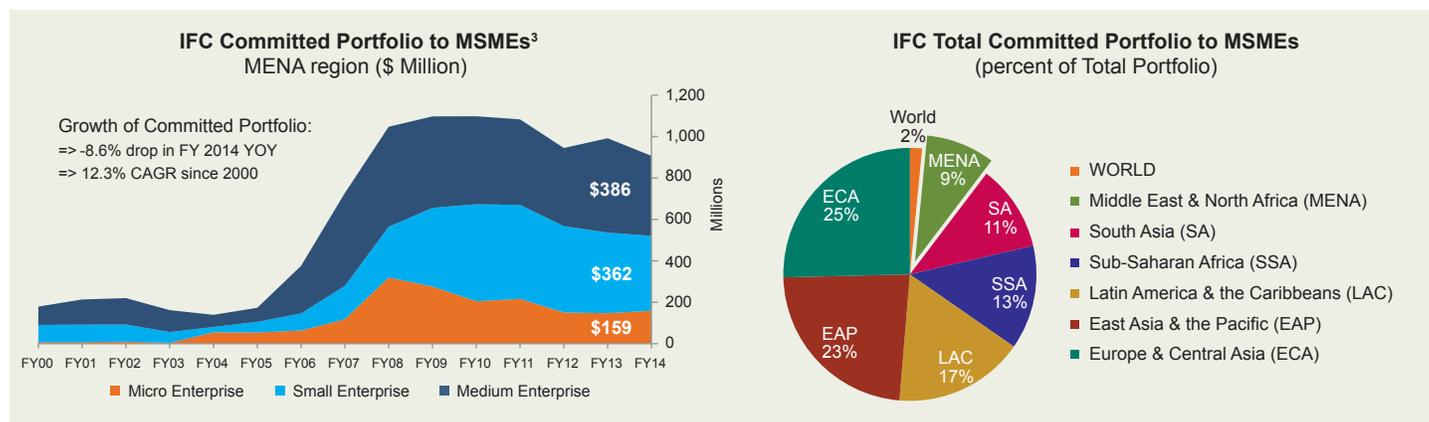
IFC is working to develop solutions to close the micro, small, and medium enterprise (MSME¹) financing gap, collaborating with 38 financial institutions (FIs) across 14 countries in the Middle East and North Africa (MENA).

As of June 2014, IFC committed a total of \$1.2 billion to MSME finance in MENA Region², \$906.7 million for long term finance, \$133.4 million for funds supporting MSMEs, and \$115.6 million for trade finance. In fiscal year (FY) 2014 alone, IFC MSME commitments in the region were \$559 million (\$758 million in FY2013), \$56 million of which was attributed to long-term

financing, \$38 million for MSME Funds and \$465 million for the Trade Finance.

By the end of calendar year (CY) 2013, IFC's MSME clients had 2.2 million micro loans outstanding in MENA (up 20.5 percent from 1.8 million in CY 2012), totaling \$1.7 billion (up 25.5 percent from \$1.4 billion in CY2012). Similarly, IFC's MSME clients had over 144.4 thousand small and medium loans outstanding by the end of CY2013 (up 25.9 percent from 114.7 thousand in CY2012), totaling \$12.4 billion in this region (up 4.0 percent from 11.9 billion in CY2012).

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



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

MSME Loans by Microfinance Institutions

IFC was able to survey or extrapolate outreach data from 19 clients - microfinance institutions (MFI) in ten countries in MENA region, 43 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	1,869,629	\$1,195,055	\$639	3%
Small Loans	43,091	\$959,190	\$22,260	5%
Medium Loans	7,296	\$2,695,501	\$369,449	10%

MSME Loans by SME Financial Institutions

IFC was able to survey or extrapolate outreach data from 19 clients - small and medium enterprises (SME) FIs in eleven countries in MENA region, 42 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	293,455	\$529,123	\$1,803	14%
Small Loans	72,864	\$2,193,143	\$30,099	10%
Medium Loans	21,101	\$6,575,205	\$311,612	9%

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 14.8 percent in FY2013 to 17.5 percent in FY2014; small enterprises accounted for 39.9 percent in FY 2014 (39.3 percent in FY 2013); medium enterprises accounted for 42.6 percent in MSME committed portfolio in FY2014 (45.9 percent in FY2013).

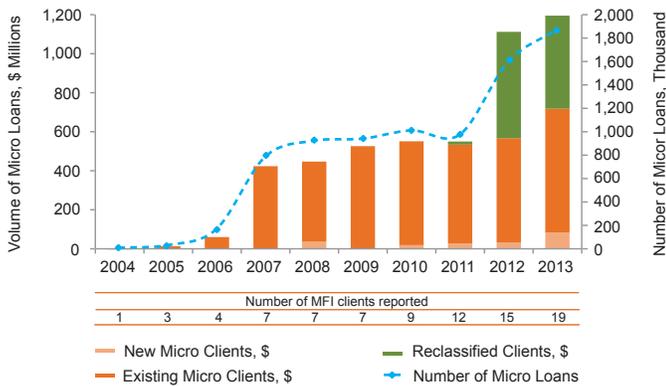
3. The committed portfolio in MSME FIs below does not include commitments for commercial banking trade finance and collective investment vehicles.

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

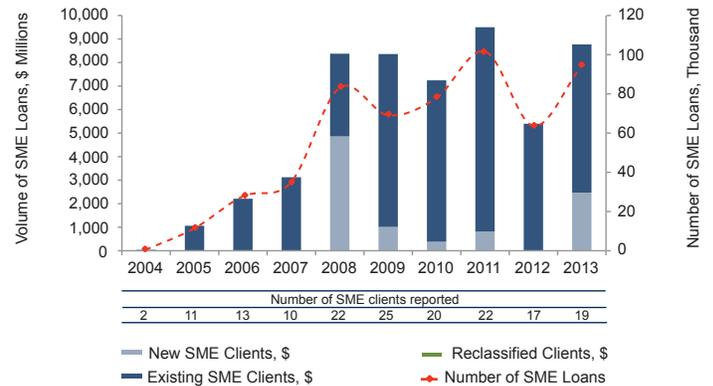


Growth Trends of Loans Volume by Type of Institution in MENA Region, CY2004-CY2013

Volume and Number of Micro Loans by MFIs



Volume and Number of SME Loans by SME FIs

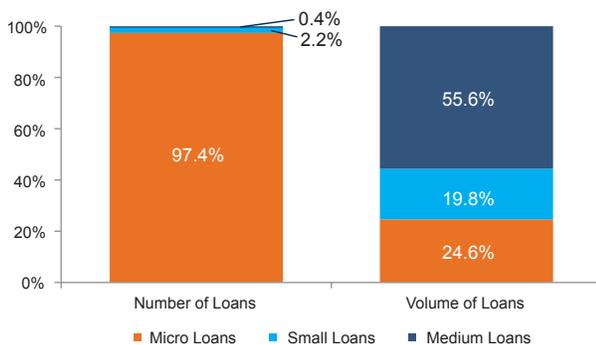


Number and volume of micro loans provided by microfinance institutions demonstrated smooth upward sloping trend over the last several years. In CY2012, the volume of micro loans provided by MFIs increased almost twice in CY2012 from \$550 million in CY2011 to more than \$1 billion in CY2012, and the 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. In CY2013 micro loan portfolio held by MFIs increased by 7.5 percent in volume and 17 percent in number terms. This was almost entirely attributed to the new business: IFC added 5 new clients in Lebanon, Jordan, Egypt and Yemen.

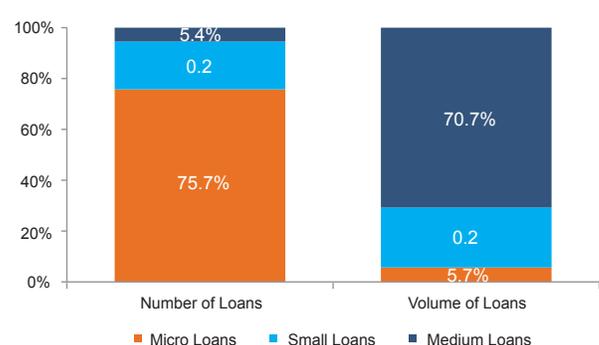
Small and medium loans provided by SME FIs demonstrated a volatile trend over the last years. A decrease in number of loans in CY2009 versus CY2008 was explained by the restructuring of a Pakistani client's portfolio, accounting for 31 percent of the regional SME portfolio, which squeezed the number 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. SME loan portfolio held by SME FIs increased by 62 percent in volume and 49 percent in number terms. More than 70 percent of this growth was attributed to the new IFC clients in Saudi Arabia, Morocco, Tunisia and West Bank.

MSME Portfolio by Loan Size in MENA Region, CY2013

Loan Portfolio of MFIs



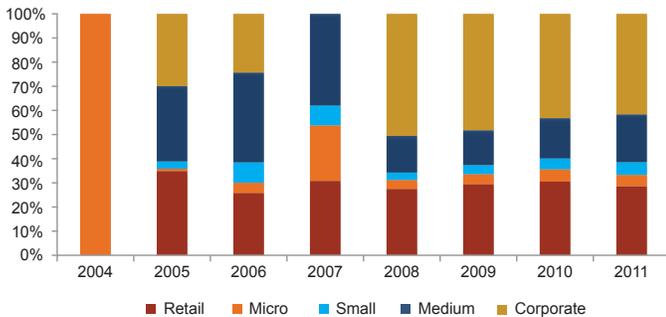
Loan Portfolio of SME FIs



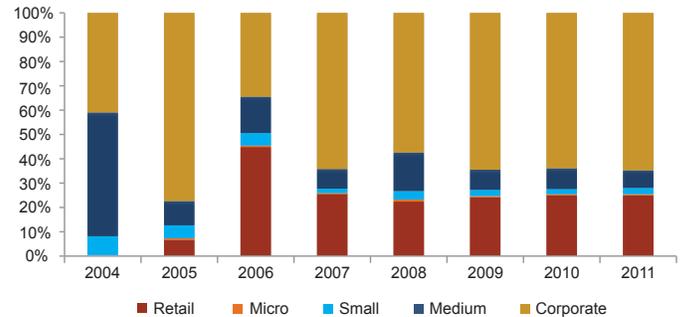


Total Portfolio composition by Loan Size in MENA Region, CY2013

MFI Portfolio Composition: Volume of Loans



SME FIs Portfolio Composition: Volume of Loans



Change in Deposits Volume 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. Over the last several years the deposits held by MFIs in MENA region demonstrated stable growth with 7.6 percent compounded annual growth rate since CY2010 and increased by 4.5 percent in CY2013 versus CY2012. Aggregated deposits base on average was 5 times larger than the loan portfolio of the sampled banks during the period CY2010-CY2013.

The deposits held by SME FIs consistently increased over the last four years at 7.4 percent a year rate on a compounded basis. During the same period the loan portfolio of the sampled banks increased by 6.2 percent annually on a compounded basis. Deposits base of SME FIs were on average 7 times larger than the loan portfolio of the sampled banks.

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)

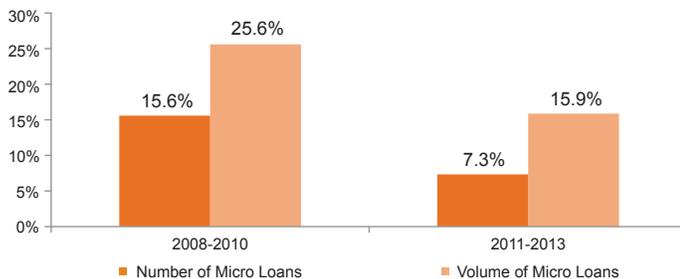


5. The deposits data includes retail, MSME and other commercial portfolio deposits. Micro and Small/Medium deposits classifications were done in accordance with definition of relevant loan size noted in footnote 1.

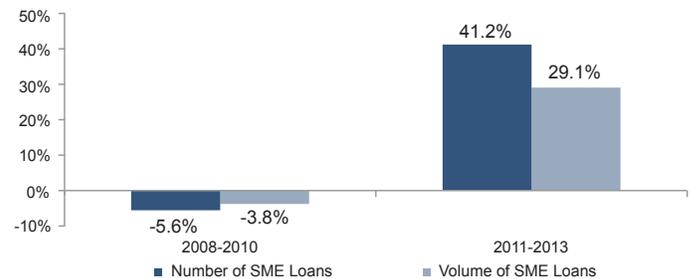
Loan-Deposit analysis are done on the basis of repeated clients, which means that the data used for comparison of Micro/SME loans and deposits are comprised only of those clients that reported each of the last 4 years all 4 data series (Micro deposits, SME deposits, Micro Loans, SME Loans). Globally IFC had 72 such clients, 31 of which are in IDA countries, 11 of such clients reside in MENA.

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: Al Kuraimi Islamic Microfinance Bank (Yemen)

About the client

Al-Kuraimi Islamic Microfinance Bank (KIMB) is one of the most innovative and fastest growing financial service providers in Yemen. Arising from a family-run money transfer and exchange business with a strong reputation and vast branch network in the country, KIMB acquired a microfinance bank license in 2010. Today the bank has evolved to deliver a range of financial services including sharia-compliant savings, currency exchange, money transfer⁷ and financing services to the micro and small enterprises.

Engagement with IFC

In 2012, KIMB sought IFC's support to help the bank learn from international sound practices and build capacity in key areas that will help it to scale up access to finance in Yemen, where the formal financial sector remains highly underdeveloped and most banks are not lending to the Micro and Small Enterprise (MSE) customers⁸, creating a large gap at the lower end of the market and a missing 'middle'. After signing an agreement in early 2013, IFC began supporting KIMB through a multi-year, comprehensive package of advisory services. First, the work began with placement of a resident adviser at the bank, which helped KIMB to strengthen its micro-financing operations. Next, the advisory engagement helped KIMB to design and pilot a new Islamic SME finance product and set up an SME unit. In parallel, the bank and IFC have together worked on strengthening KIMB's information systems, developing a clear HR strategy, and creating a dedicated training unit. Likewise, IFC has been training KIMB on advanced risk management practices to improve the monitoring and reporting of risk. Finally, in

recent months, IFC's corporate governance team has been helping KIMB to improve the bank's governance practices and policies – putting it at the cutting edge of MFIs in the Arab World.

Development Results

Since 2013, KIMB's growth trajectory has been truly impressive. While it maintains a cautious and prudent approach to extending financing as it builds capacity, it has already more than tripled its financing portfolio from 1,433 financings and US\$2.6 million outstanding near the end of 2012 to 8,116 and almost US\$11 million (July 2014). With IFC support, KIMB has built up a dedicated SME team and begun pilot-testing its new shariah-compliant SME product in two of its branches in Sana'a, financing small businesses with amounts ranging from US\$5,000 to \$100,000. Already it has disbursed 109 financings (valued at \$1.5 million). Meanwhile, the number of depositors at the bank has taken off, with the bank opening over 340,000 accounts and mobilizing over US\$120 million in savings (as of July 2014) – putting it among the largest actors active in microfinance in the Arab world.

As Yemen struggles to emerge from internal political, social and economic difficulties, efforts such as those of IFC and Al Kuraimi Islamic Microfinance Bank are critical in stimulating the economic growth and job creation through developing MSME financing and, through the demonstration effect which raise an interest among other MFIs in serving not only micro enterprises, but also very small and small businesses.

"Both IFC and KIMB have a high commitment towards the success of the project. Despite all the difficulties of working in Yemen, because of that commitment we always find ways to overcome the obstacles."

Yousef Al Kuraimi, GM, KIMB

6. Compounded annual growth rate (CAGR) from 13 reporting and repeated clients in the CY2008-CY2010 period, 18 reporting and repeated clients in the CY2011-CY2013 period, excluding greenfield institutions and FIs that are closing their operations.

7. KIMB provides Islamic shariah-compliant products, which is often referred to as "financing" rather than "loans", on a "murabaha" (working capital and assets) or "ijarah" (assets only) basis: e.g. the bank buys and owns the working capital and/or assets on behalf of the client and sells them to the client at a pre-agreed price plus mark up.

8. IFC, "Assessment of MSE Financial Needs in Yemen". 2007