International Finance Corporation
WORLD BANK GROUP

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

Key Highlights

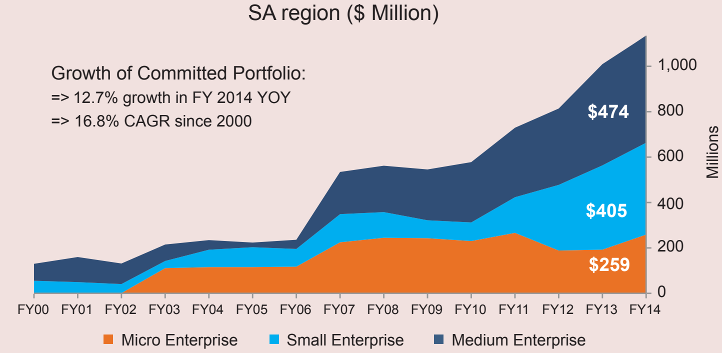
IFC is working to develop solutions to close the micro, small, and medium enterprise (MSME[1]) financing gap, collaborating with 36 financial institutions (FIs) across 5 countries in South Asia (SA) region.

As of June 2014, IFC committed a total of $1.6 billion to MSME finance in SA region[2], $1.1 billion for long term finance, $341.4 million for funds supporting MSMEs, and $123.3 million for trade finance. In fiscal year (FY) 2014 alone, IFC MSME commitments in the region were $583 million ($587 million in FY2013), $299 million of which was attributed to long-term financing.

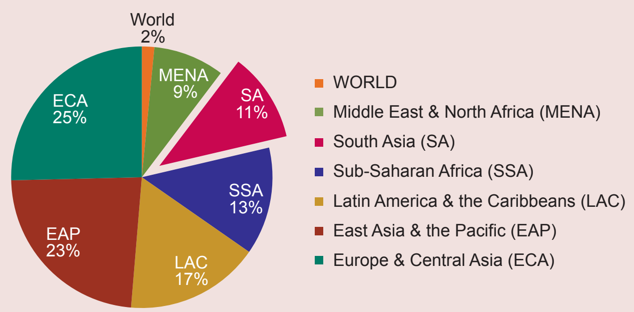
By the end of calendar year (CY) 2013, IFC's MSME clients had 5.9 million micro loans outstanding in SA region (up from 2.5 million in CY2012), totaling $5.4 billion (up 12.9 percent from $4.7 billion in CY2012). Similarly, IFC's MSME clients had near 800 thousand small and medium loans outstanding by the end of CY2013 (up 23.5 percent from 648 thousand in CY2012), totaling $25.3 billion in this region (up 28.2 percent from $19.8 billion in CY2012).

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

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



IFC Total Committed Portfolio to MSMEs
(percent of Total Portfolio)



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

MSME Loans by Microfinance Institutions

IFC was able to survey or extrapolate outreach data from 14 clients - microfinance institutions (MFI) in 3 countries, 64 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	4,974,916	$2,260,399	$454	2%
Small Loans	415,556	$5,671,300	$13,647	3%
Medium Loans	28,159	$7,086,476	$251,659	5%

MSME Loans by SME Financial Institutions

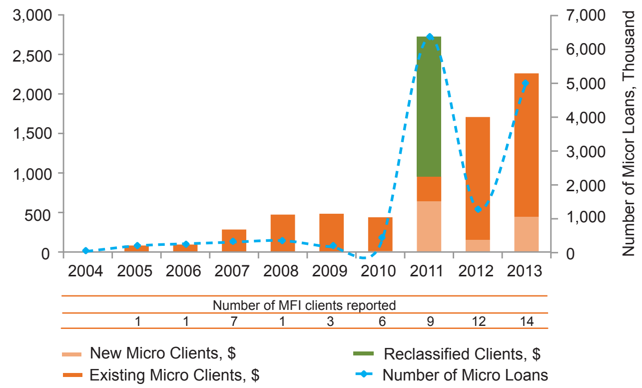
IFC was able to survey or extrapolate outreach data from 22 clients - Small and Medium Enterprises (SME) FIs in 5 countries, 68 percent of these clients received advisory services from IFC.

	Number of Loans Outstanding	Outstanding Loan Portfolio in '000 $	Average Loan Size	NPL percent[4]
Micro Loans	933,790	$3,095,076	$3,315	6%
Small Loans	331,654	$5,075,798	$15,304	6%
Medium Loans	24,599	$7,504,926	$305,094	4%

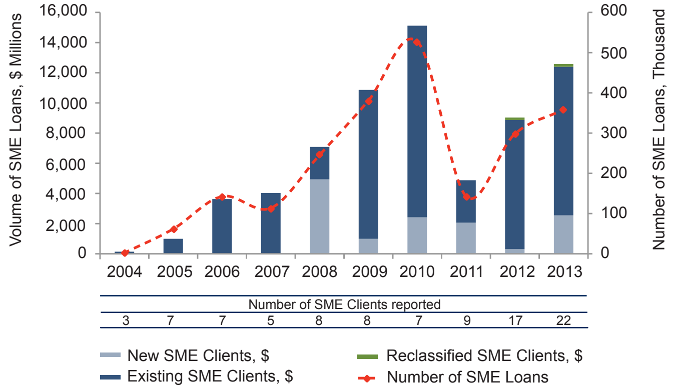
1. MSME firm size definitions: IFC's Global Financial Markets categorizes its clients' sub-borrowers according to the following definitions: (1) microfinance institutions if loan < $10,000 at origination; (2) small enterprise if loan < $100,000 at origination; (3) medium enterprise if loan < $1 million at origination ($2 million for more advanced countries).
2. The share of committed loans to microfinance institutions in MSME committed portfolio increased from 19.1 percent in FY 2013 to 22.7 percent in FY2014; small enterprises accounted for 35.6 percent in FY 2014 (36.8 percent in FY 2013); medium enterprises accounted for 41.7 percent in FY 2014 (44.2 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 Loans Volume by Type of Institution in SA Region, CY2004-CY2013

Volume and Number of Micro Loans by MFIs



Volume and Number of SME Loans by SME FIs

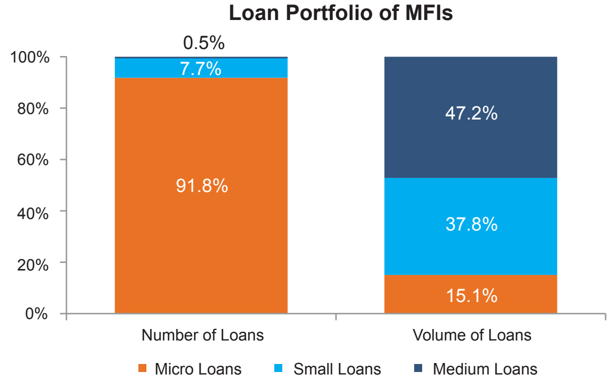


The portfolio of micro loans provided by microfinance institutions experienced an extreme spike in CY2011 from $450 million to $3 billion following the entrance of 4 new clients in India and one in Sri Lanka into IFC portfolio. The largest of these new clients accounted for 42 percent of MFI Portfolio in CY2011. Moreover 3 large clients in India and Sri Lanka, jointly accounted for 65% of the respective portfolio in loan volume terms, were reclassified from SME to MFIs in 2011. 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. In CY2013 IFC has started business with two new clients in India which increased the micro loan portfolio by 33 percent in volume terms and 3 times in number terms.

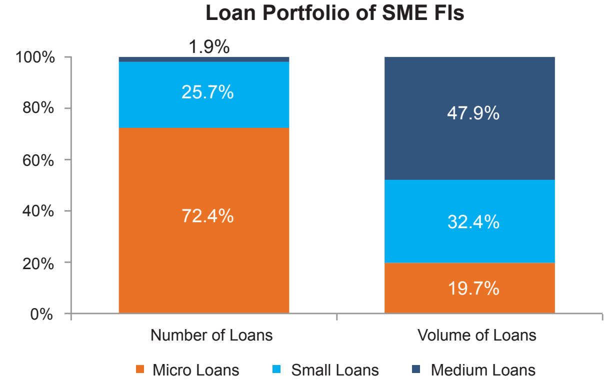
The dynamic growth trend of the SME FIs portfolio since CY2006 turned down in 2011, decreasing the portfolio from $15 billion to $5 billion in volume of loans following the reclassification of one of Indian clients from SME to MFI type of institution. This client accounted for a lion share of 61 percent 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 loan terms. A new client in Sri Lanka also contributed significantly to boosting the growth in CY2012. In the latest CY2013 year IFC added 6 new clients to its portfolio in Bangladesh, Sri Lanka, Bhutan, and India. This was the major driver of the portfolio growth by 39 percent in volume and 21 percent in number terms.

MSME Portfolio Composition by Loan Category in SA Region, CY2013

Loan Portfolio of MFIs

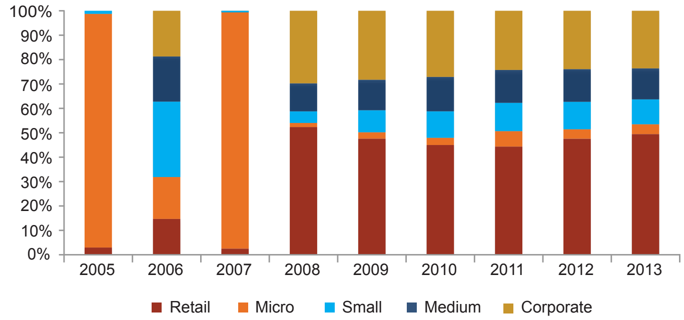


Loan Portfolio of SME FIs

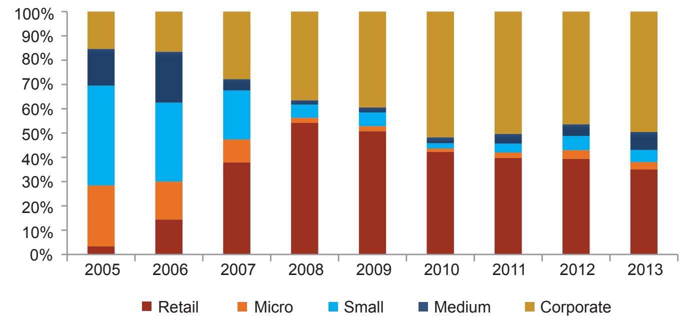


Total Portfolio Composition by Loan Category in SA Region, CY2004 - CY2013

MFI Portfolio Composition: Volume of Loans



SME FIs Portfolio Composition: Volume of Loans

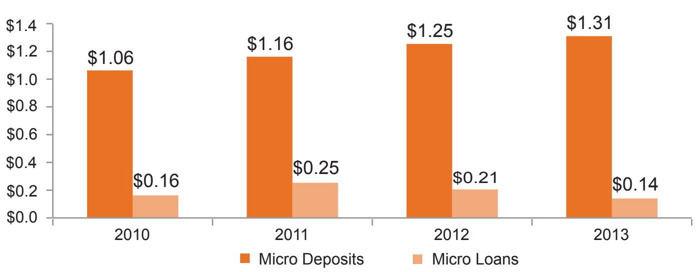


Change in Deposits Volume CY2010-CY2013[5]

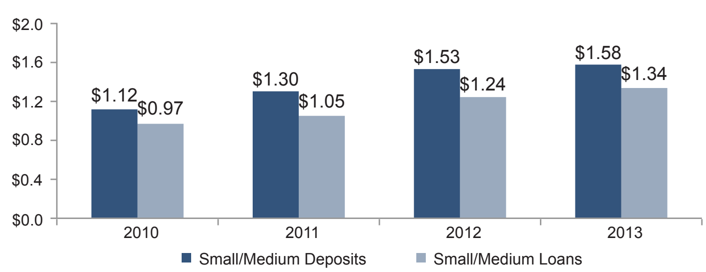
The dynamic trends of IFC clients' portfolios can be assessed by comparing the loan and deposit portfolios of the sampled microfinance institutions and banks. Over the last several years the deposits held by MFIs in SA region demonstrated stable growth: the deposits volume increased by 3.7 percent in CY2013 versus CY2010 and by 9.8 percent since CY2010 on a compounded basis. On average the deposits held by the sampled MFIs during the last four years surpassed their loan portfolio 2 times.

The deposits held by SME FIs consistently increased over the last four years at 11.1 percent a year rate on a compounded basis. During the same period the loan portfolio of the sampled banks increased by 5.6 percent annually on a compounded basis. On average the volumes on the SME FI's deposits are larger than their loan portfolios by 49 percent.

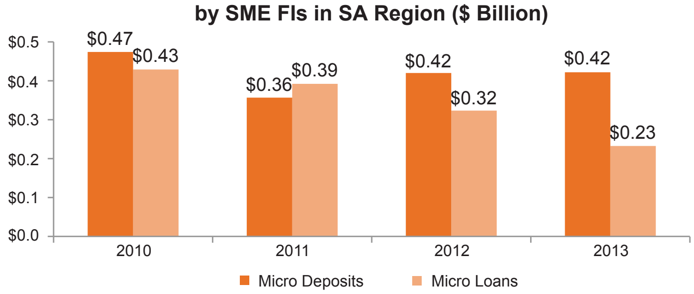
Volume of Micro Loans and Deposits by MFIs in SA Region ($ Billion)



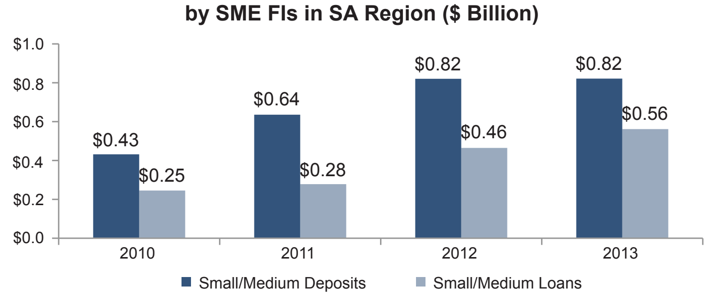
Volume of Small/Medium Loans and Deposits by MFIs in SA Region ($ Billion)



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)

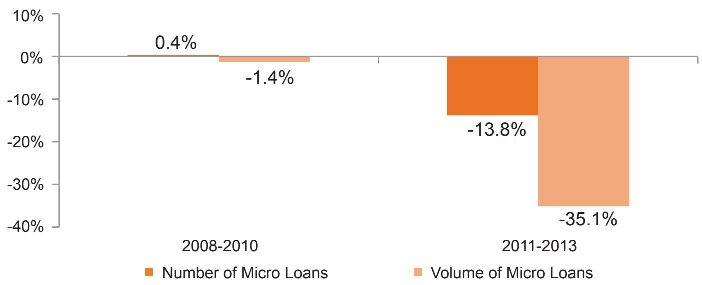


5. The deposits data includes retail, MSME and other commercial portfolio deposits. Micro and Small/Medium deposits classifications were done in accordance with definition of relevant loan size noted in footnote 1.

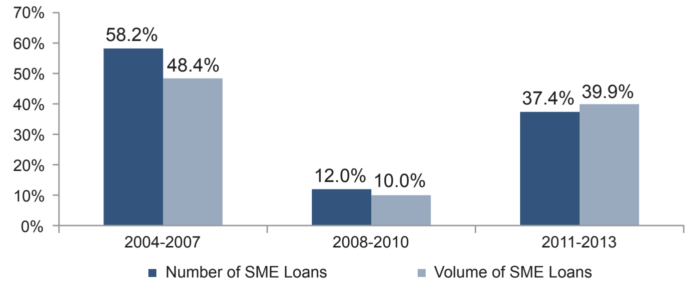
Loan-Deposit analysis are done on the basis of repeated clients, which means that the data used for comparison of Micro/SME loans and deposits are comprised only of those clients that reported each of the last 4 years all 4 data series (Micro deposits, SME deposits, Micro Loans, SME Loans). Globally IFC had 72 such clients, 31 of which are in IDA countries, 2 of such clients reside in SA.

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: Equitas, India

About the client

Equitas Holdings Private Limited ("Equitas Holdings") is amongst India's leading non-banking finance companies focused on low income households with businesses providing microfinance through the joint liability group model, income generation loans for financing used commercial vehicles and financing affordable housing. Equitas Microfinance Private Limited ("Equitas Microfinance)", a wholly owned subsidiary of Equitas Holdings, is amongst India's largest MFIs with a branch network of more than 330 branches in 6 Indian states with a borrower base of 1.9 million women and a gross loan portfolio of US$275 million (with an average loan size of approximately US$200) which comprises approximately 67 percent of the overall portfolio of Equitas Holdings. Equitas Microfinance has a business structure that combines the traditional joint liability group lending model at the front end with a state of the art technology platform and centralized back operations to establish a potentially low cost operating model that is widely acknowledged.

Engagement with IFC

Equitas Holdings Private Limited has been an IFC investee since October 2012, when IFC made an equity investment of approximately US$17 million in the company. Subsequently, the company has grown its business significantly with its outstanding portfolio increasing by almost 3 times across businesses to US$400 million. IFC has also consistently supported the company with a follow-on equity investment of US$4 million in December 2013 and an additional follow on equity investment of US$9 million expected in November 2014.

IFC has also provided long term debt (denominated in local currency) to Equitas Microfinance of US$10 million equivalent, which addresses a critical need of long term financing for microfinance institutions and diversifies sources of funding.

IFC's investment in Equitas Holdings is an example of the counter-cyclical approach adopted in India following the downturn in the microfinance sector in 2010. This played a key role in catalyzing further investment into the company and demonstrating support for the sector thereby providing confidence to other lenders and investors. IFC views Equitas as a strategic partner in the area of providing financial services to low income households across products by leveraging technology and processes and achieving market leading productivity.

Development Results

Equitas Holdings, through its subsidiaries reaches 2 million borrowers with more than 98% of its borrowers being women, most of whom have no access to formal sources of financing. The company which had a borrower base of 1.1 million when IFC first became an equity investor, has approximately doubled its outreach in 2 years.

Equitas is now working to graduate some of its group loan borrowers with a proven credit history to higher loan sizes through individual loans, which would play a critical role in meeting their increased credit needs as their businesses scale up. Equitas has already achieved a loan portfolio of approximately US$25 million in its individual loan business which is expected to grow rapidly in the future and address a critical market gap in terms of providing larger loans to microfinance borrowers who want to scale up their businesses contribution to job creation and asset creation.

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

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