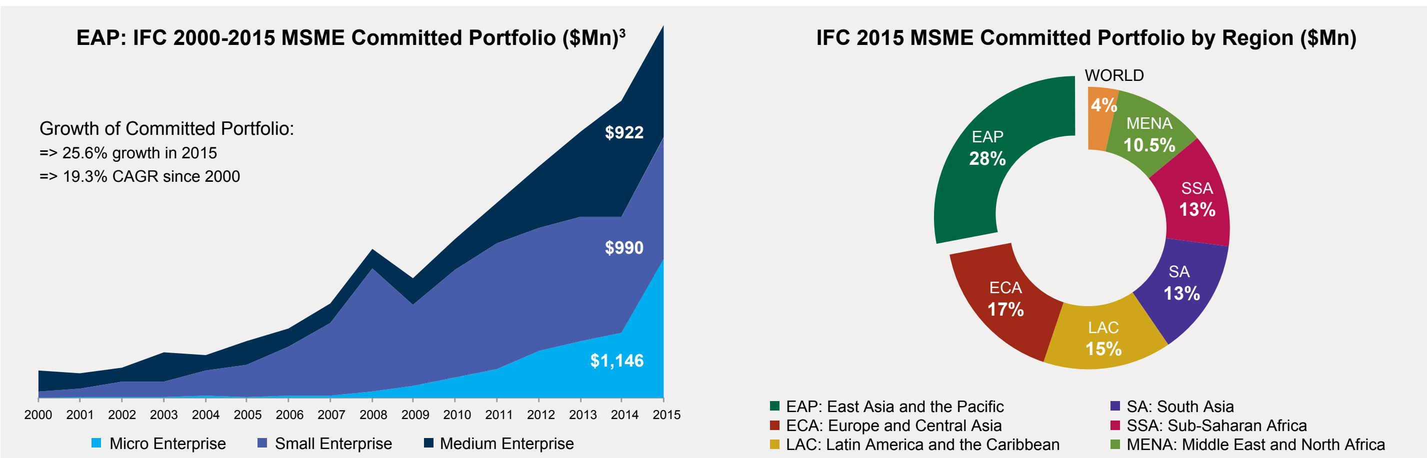
EAST ASIA AND THE PACIFIC

IFC Financing to Micro, Small and Medium Enterprises in 2014

Lack of access to financial services is one of the key barriers to the growth of MSMEs, which account for about 90 percent of the businesses and more than 50 percent of employment worldwide.[1] IFC, through its network of over 60 financial institutions (FI) across 12 countries in East Asia and the Pacific (EAP), including microfinance institutions, commercial banks, leasing companies, and private equity funds, reaches many more MSMEs than it could ever do directly.

IFC offers a wide range of financial products and services to its client FIs that work with local MSMEs, including loans, equity, risk sharing facilities, trade finance, working capital loans and advisory services. It also helps to mobilize funding from other FIs and investors. In 2015,[2] IFC provided $1.3 billion of long term finance to client FIs for MSME support in EAP. As of the end of 2015 IFC's committed long-term finance MSME portfolio in EAP was $3.1 billion.

Chart 1. IFC Committed Portfolio



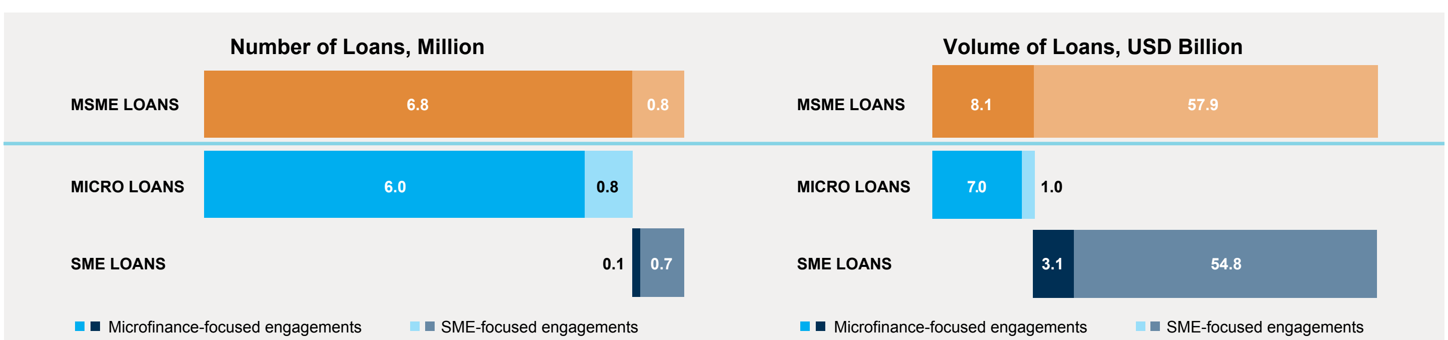
EAP: ANALYSIS OF MSME REACH SURVEY DATA FROM IFC FINANCIAL INSTITUTION CLIENTS

Every year IFC FI clients are requested to provide IFC with information about their loan, deposit portfolio and other business related data. Through this Reach Survey IFC tracks and analyzes financing outreach to the final recipients, including MSMEs.

In 2014, IFC collected and extrapolated data from 43 clients[4] in 13 countries in EAP, which had over 14.5 million loans outstanding worth over $244.9 million.[5] This included retail, micro, SME and corporate loans.

IFC **specifically monitors the MSME financial outreach** of its FI clients that received microfinance and SME related financing or services from IFC. IFC aggregates the collected loan portfolio data using MSME loan size proxy.[6] In 2014, 40 such clients in EAP had **6.8 million micro and 805.9 thousand SME loans totaling $66.0 billion** (see Chart 2).[7] Further analysis represents this group of clients.

Chart 2. IFC FI Clients' Micro and SME Loan Portfolio, 2014



1. Source: IFC Annual Report (2015).
2. The IFC commitments data are based on the IFC fiscal year, which ends on June 30th. IFC's fiscal year 2014 year ended on June 30th, 2015.
3. The portfolio includes long-term financing to financial institutions, with the exception of commitments for trade finance and funds.
4. 91 percent of these clients provided actual data. The missing data were extrapolated.
5. Reach Survey data is based on the calendar year cycle, which ends on December 31st, with the exception of a few clients that provide data based on different fiscal calendar.
6. IFC categorized its clients' sub-borrowers according to the following definitions: (1) micro enterprise have loan < $10,000 at origination; (2) small enterprise have loan < $100,000 at origination; (3) medium enterprise have loan < $1 million at origination ($2 million for more advanced countries).
7. While numerous controls are performed on the data provided by clients, they are sometimes based on estimates and the understanding of the indicator definitions may vary slightly between clients.

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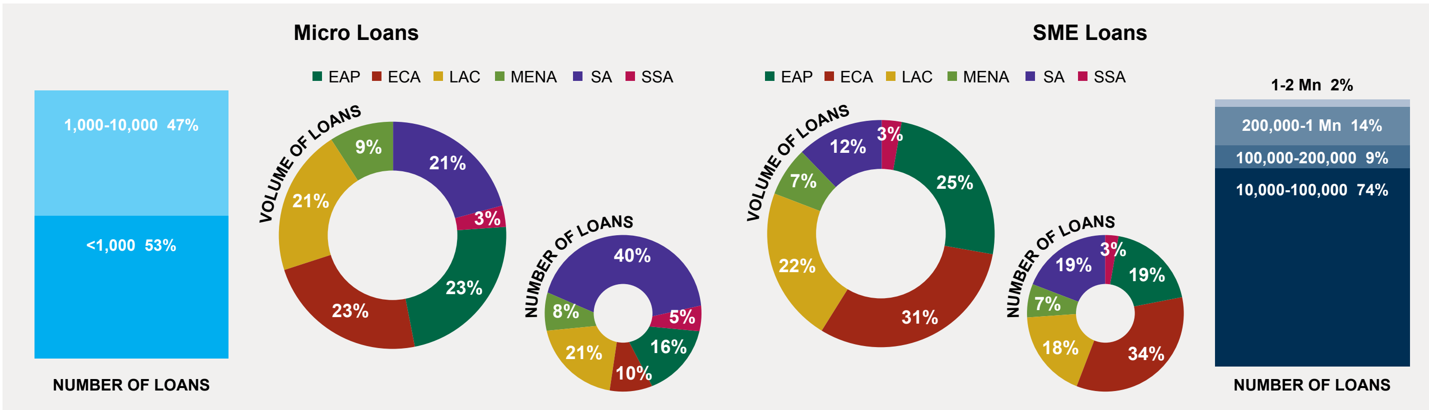
Chart 3. EAP: IFC FI Clients' Micro and SME Loan Portfolio by Region and Loan Size at Origination, 2014



EAP: IFC CLIENTS' LOAN PORTFOLIO BY TYPE OF IFC ENGAGEMENT

Depending on the type of engagement, IFC places its clients in two categories: FIs supported by IFC in the area of microfinance, and FIs supported by IFC in the area of SME financing.

MICROFINANCE FOCUSED ENGAGEMENTS

In 2014, IFC was able to survey or extrapolate outreach data from 24 FI clients with microfinance-focused engagements in 10 countries, 33.3 percent of these clients received advisory services from IFC.

SME FOCUSED ENGAGEMENTS

In 2014, IFC was able to survey or extrapolate outreach data from 16 FI clients with SME-focused engagements in 8 countries, 62.5 percent of these clients received advisory services from IFC.

Chart 4. EAP: IFC Clients' Loan Portfolio Composition by Micro, Small and Medium Loans, 2014

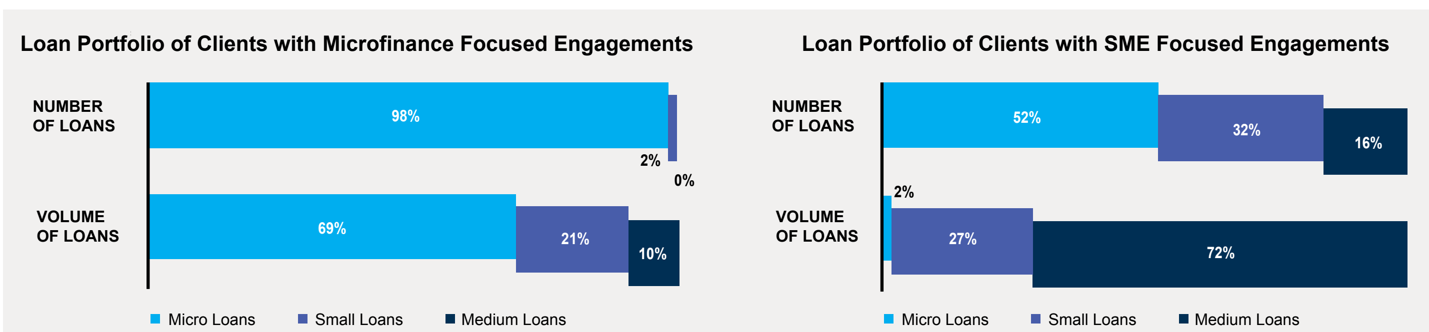


Table 1. Microfinance Focused Engagements in EAP: Detailed Loan Portfolio Breakdown, 2014

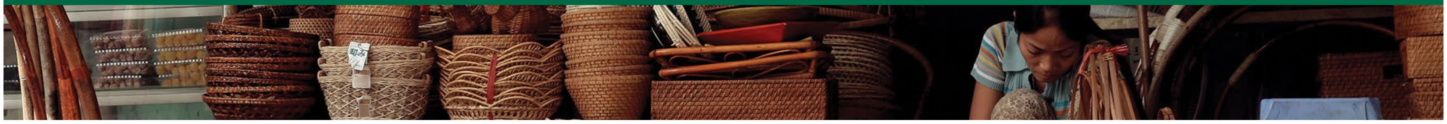
	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women[8]	NPL percent[9]
Loan	Number	'000 $	$	%	%
Micro	6,046,563	7,036,648	1,164	43.9%	1.2%
Small	107,232	2,112,636	19,702	30.6%	1.3%
Medium	9,016	982,436,248	108,966	21.4%	4.8%

Table 2. SME Focused Engagements in EAP: Detailed Loan Portfolio Breakdown, 2014

	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women[8]	NPL percent[9]
Loan	Number	'000 $	$	%	%
Micro	759,682	1,014,336	1,335	26.3%	3.3%
Small	460,277	14,811,913	32,180	27.5%	4.2%
Medium	229,371	39,996,905	174,377	12.9%	4.6%

Notably, the portfolios of clients that had micro and SME-focused engagements with IFC were different in terms of loan performance and gender profile. The clients receiving microfinance focused financing and services, reported significant reach to women entrepreneurs (43.9 percent of micro loans) and very low NPL levels, especially for the micro and small loans (below 2 percent). Clients with SME-focused engagements reported that about 12.9-27.5 percent of loans were issued to women entrepreneurs. The NPL level was at 3.3-4.6 percent among these clients (see Table 1 and Table 2).

8. Estimated percentage of outstanding loans to women in each loan size category. Data was reported by 15 clients with microfinance-focused engagements, and 3 clients with SME-focused engagements.
9. Nonperforming Loan (NPL) = > 90 days past due loans.



EAP: MSME LOAN PORTFOLIO GROWTH AND DYNAMICS, 2004-2014

Volume of micro and SME loan portfolios of clients in EAP grew consistently over time. During 2004-2014, their MSME loan portfolio grew by 44.3 percent by number, and by 23.7 percent by volume of loans on a compounded basis.

Three main factors influence MSME loan portfolio growth: changes in the MSME portfolio among existing IFC clients, entries of new clients, and exits of existing clients, when, for example, IFC loans get fully repaid. The dynamics of these factors determines the MSME Reach growth trends from year to year.

In 2014, MSME loan volume of 32 existing clients grew by 17.6 percent, while the number of such loans increased by 23.5 percent over the year.

In 2014, 7 new IFC clients in EAP contributed to the wider MSME outreach with 1.1 million loan portfolio totaling in $4.0 billion. At the same time, 11 exited clients pushed the overall MSME portfolio volume down. Specifically, IFC's exit from its equity investments in one of the large clients in China, which held $53.0 billion MSME loan portfolio last year, significantly affected the overall portfolio. As a result of these factors, the volume of MSME loans decreased by 38.5 percent, while the number of loans increased by 20.1 percent in 2014 compared to 2013.

A total of 22 MSME focused clients reported in 2012, 2013, and 2014. During this period, the number of MSME loans they provided grew by 21.3 percent and volume increased by 23.7 percent on a compounded basis.

Chart 5. EAP: IFC Clients' MSME Loan Portfolio Dynamic. Contribution from Existing and New Clients 2004-2014

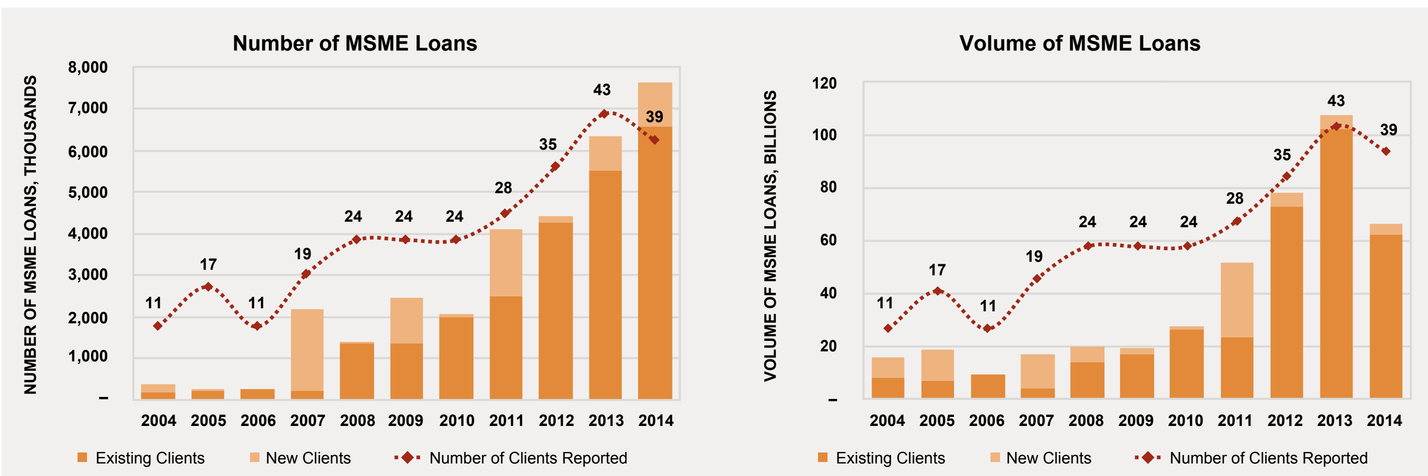
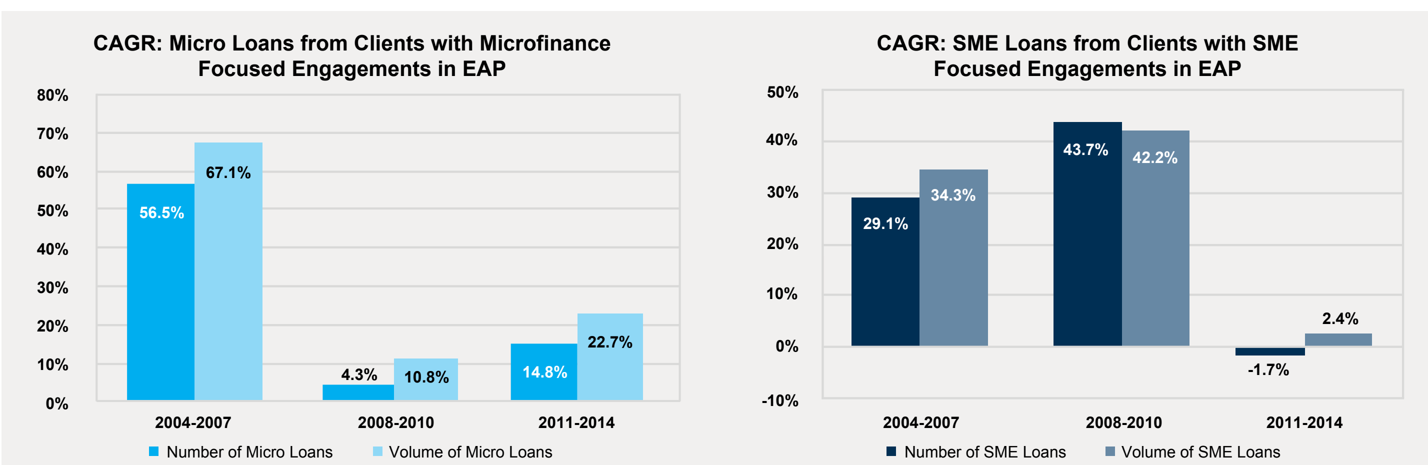


Chart 6. EAP: IFC Clients' Micro and SME Loan Portfolio Growth (CAGR), 2004-2014[10]



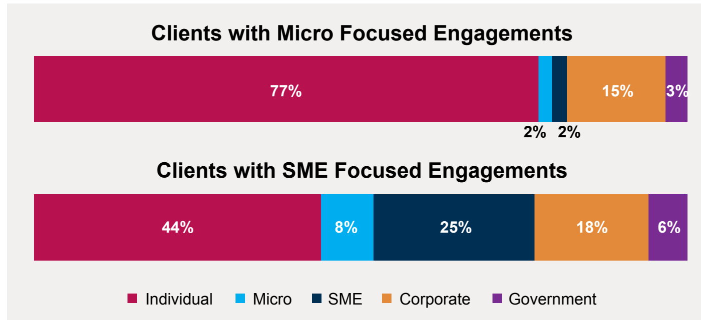
10. Compounded annual growth rate (CAGR) in EAP is calculated based on the data from 6 reporting and repeated clients in the 2004-2007 period, 7 reporting and repeated clients in the 2008-2010 period, 13 reporting and repeated clients in the 2011-2014 period, excluding greenfield institutions and FIs that are closing their operations.

DEPOSIT AND OTHER TRANSACTIONAL ACCOUNTS

Universal financial access, through financial products such as personal loans, loans to enterprises, alternative financial channels (i.e. mobile banking, internet banking), deposit/saving accounts, is one of the strategic development goals for the World Bank Group. IFC started to collect data about the liability accounts of the client financial institutions in 2014 to complement the analysis of increasing access to financial services for unserved and underserved segments. The importance of this data is reinforced by the fact that deposits provide major funding source for the deposit taking institutions.

The chart on the right demonstrates the distribution of the deposits and other transactional accounts by the type of the account owner: Individual, Microenterprise, SME, Corporate, and Government.

Chart 7. IFC Clients' Volume of Deposits and Other Transactional Accounts in EAP[11]



CLIENT HIGHLIGHT: TRM - MFI TRANSFORMATION

ABOUT THE CLIENT

The microfinance industry in Timor-Leste has had a tumultuous journey – with 11 of the 13 MFIs wiped out during the civil unrest in 2006-2007. The two remaining institutions, Tuba Rai Metin (TRM - "Feet Firmly on the Ground") and Moris Rasik ("Independent Life") currently serve a combined total of 17,000 clients in Timor-Leste.

TRM is the Timor-Leste's largest microfinance institution and aims to provide "microfinance and allied services for a large number of poor in a sustainable and regulated manner to improve the quality of lives of families and empower women". Through joint support from a multi-geographical IFC team and cross-departmental collaboration across IFC and WBG, TRM became the first microfinance institution to meet licensing requirements and now leads the sector with a 60% increase in number of active clients since 2013.

ENGAGEMENT WITH IFC

In 2012, when the Central Bank required all deposit takers to meet strict licensing requirements, TRM and IFC became partners with the goal of helping TRM transform into the licensed commercial financial institution. In early 2013 IFC entered into an over USD 1.5 million advisory agreement with TRM to upgrade risk management and information management systems, build an independent and capable Board, develop the management succession plan and improve staff retention. This advisory support made TRM ready for the subsequent investment, which happened in June 2013, when IFC committed a convertible loan of $500,000 to help TRM expand its customer reach through its branch network. This, the first IFC investment in Timor-Leste, was designed in a way that IFC can convert part of the loan into equity on completion of the TRM's transformation process. In February 2015, following significant internal negotiation, IFC management agreed to convert USD 250,000 of IFC debt to equity, enabling TRM to put its final application for a license into the Central Bank. With advisory services playing critical role, and strong risk mitigation through the effective exit strategy, this small equity deal played a tremendous role in the TRM transformation and in strengthening the financial services market in Timor-Leste.

DEVELOPMENT RESULTS

Without a doubt, taking equity in fragile and conflict affected states with low human resource capacity has significantly higher costs compared to more established markets. However, it is exactly in these markets that IFC can have a transformational development impact. In this instance IFC:

- **Expanded access to financial services and improved institutional sustainability:** The project contributes to the development of the Timor-Leste financial sector through more competition and increased participation of local financial institutions. In a country where only 13% of the adult population have access to financial services this impact cannot be underestimated.
- **Crowded In Players:** The presence of IFC encourages other institutions into the institution/market, via IFC's world class reputation, due diligence rigor and integrity. In this instance the other investor, BOPA, would have been unlikely to invest without IFC or a similarly strong institution present.
- **Fostered the formalization and commercialization of microfinance:** the investment supports the Central Bank's initiative to improve and formalize financial access but also endorse the possibility of private sector investment in commercial microfinance.
- Provided a **strong demonstration effect** to show other players that investment in Timorese institutions is possible.

11. In CY2014, 37 MSME-focused FI clients in EAP region reported data about liability accounts, which includes current / transactional accounts, interest-bearing deposits, e-money accounts. Classification of the enterprises is based on the reporting institution's definition.

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