

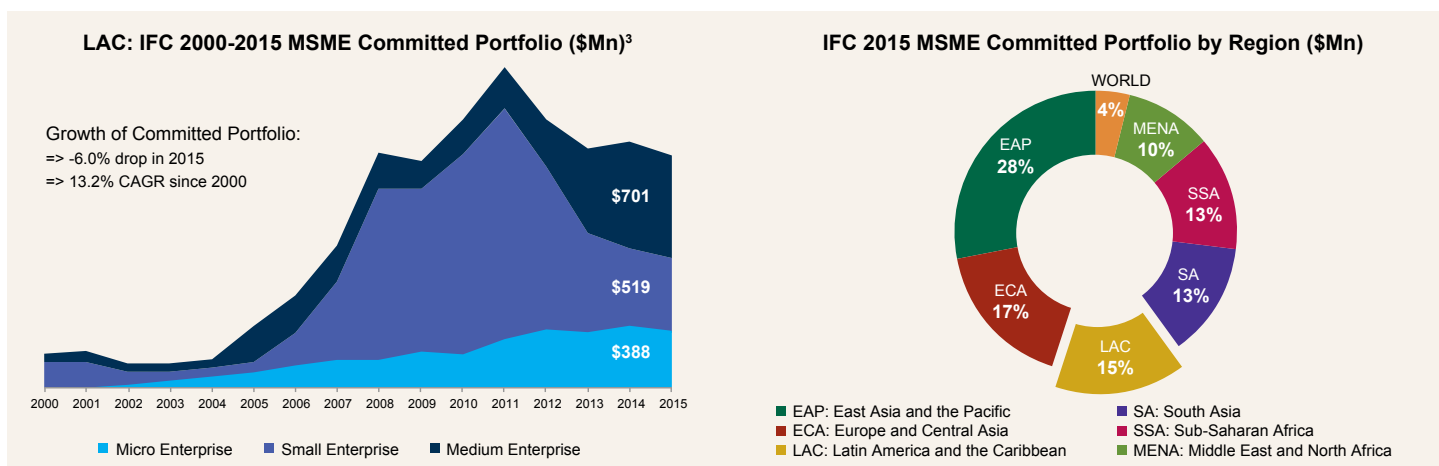
LATIN AMERICA AND THE CARIBBEAN

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 120 financial institutions (FI) across 21 countries in Latin America and the Caribbean (LAC), 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 \$0.4 billion of long term finance to client FIs for MSME support in LAC. As of the end of 2015 IFC's committed long-term finance MSME portfolio in LAC was \$1.6 billion.

Chart 1. IFC Committed Portfolio



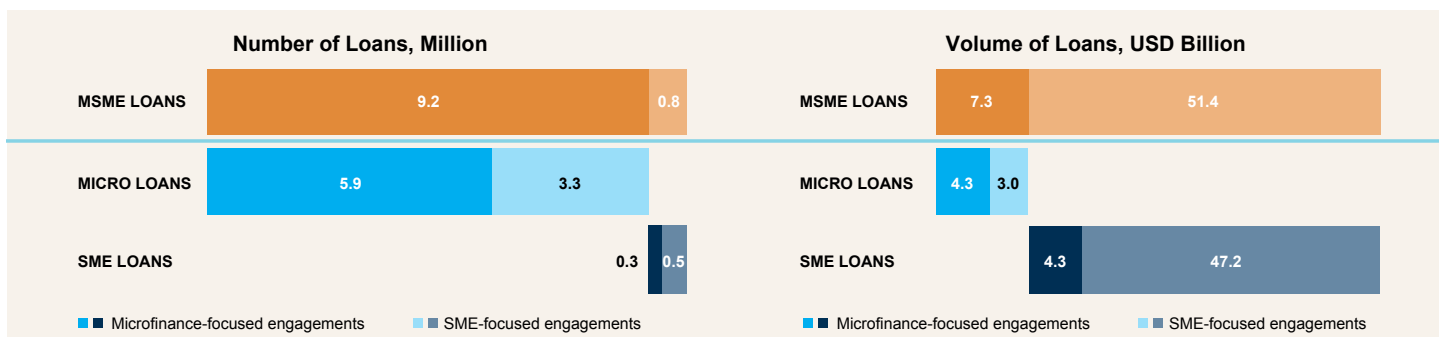
LAC: ANALYSIS OF MSME REACH SURVEY DATA FROM IFC FINANCIAL INSTITUTION CLIENTS

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 69 clients⁴ in 18 countries in LAC, which had over 80.1 million loans outstanding worth over \$209.3 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, 63 such clients in LAC had 9.2 million micro and 794.1 thousand SME loans totaling \$58.7 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. 96 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.

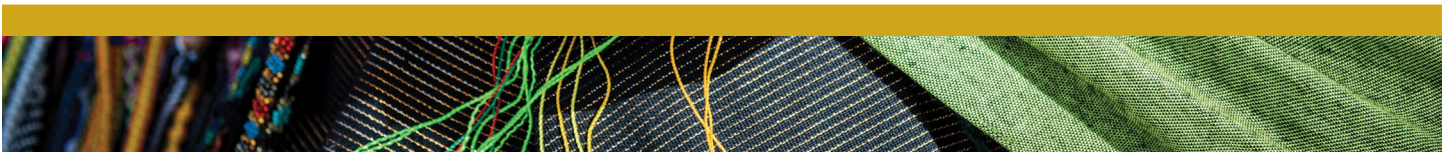
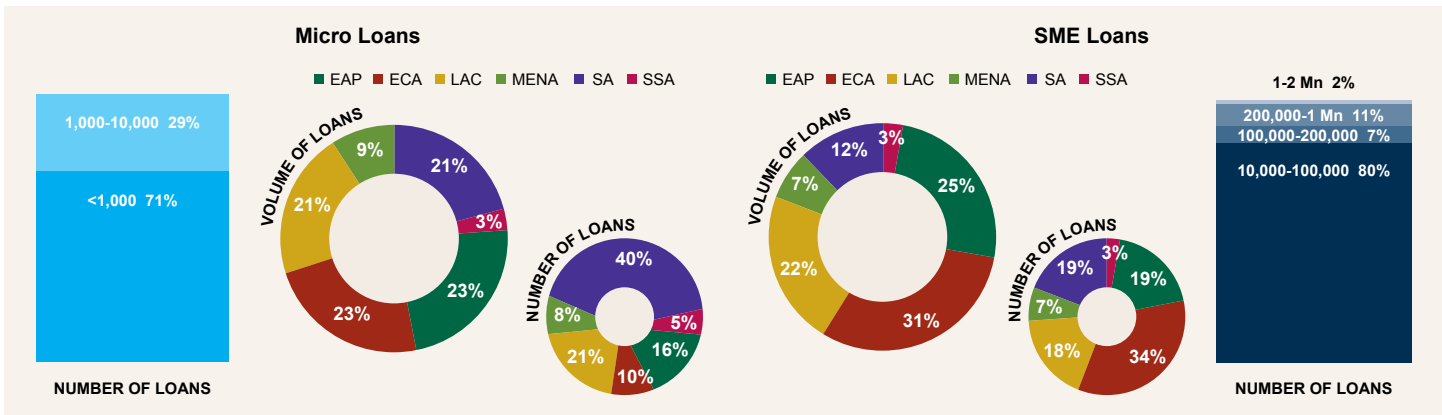


Chart 3. LAC: IFC FI Clients' Micro and SME Loan Portfolio by Region and Loan Size at Origination, 2014



LAC: 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 22 FI clients with microfinance-focused engagements in 12 countries, 18.2 percent of these clients received advisory services from IFC.

SME FOCUSED ENGAGEMENTS

In 2014, IFC was able to survey or extrapolate outreach data from 41 FI clients with SME-focused engagements in 16 countries, 17.1 percent of these clients received advisory services from IFC.

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

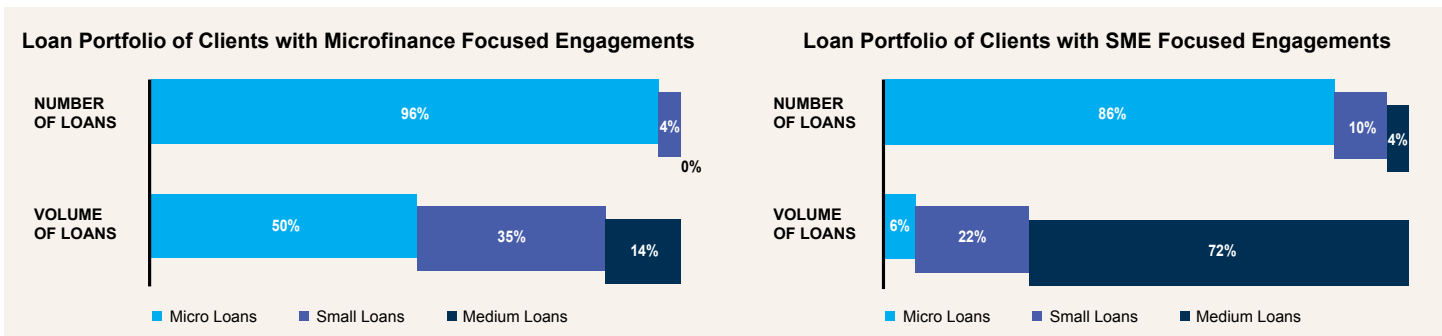


Table 1. Microfinance Focused Engagements in LAC: Detailed Loan Portfolio Breakdown, 2014

Loan	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women ⁸	NPL percent ⁹
	Number	'000 \$			
Micro	5,921,361	4,295,155	725	55.9%	3.5%
Small	246,730	3,024,558	12,259	32.1%	2.7%
Medium	9,694	1,228,633	126,743	17.4%	2.6%

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

Loan	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women ⁸	NPL percent ⁹
	Number	'000 \$			
Micro	3,265,526	2,976,864	912	20.5%	5.2%
Small	387,151	10,846,003	28,015	13.3%	3.7%
Medium	150,561	36,304,911	241,131	5.1%	2.3%

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 (especially among micro loans 55.9 percent loans to women), NPL levels were below 4 percent. Clients with SME-focused engagements reported that about 5.1-20.5 percent of loans were issued to women entrepreneurs. The NPL level was at 2.3-5.2 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 11 clients with microfinance-focused engagements, and 5 clients with SME-focused engagements.
 9. Nonperforming Loan (NPL) = > 90 days past due loans.



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

Volume of micro and SME loan portfolios of clients in LAC grew consistently over time. During 2004-2014, their MSME loan portfolio grew by 29.3 percent by number, and by 47.0 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 50 existing clients decreased by 0.7 percent, while the number of such loans decreased by 11.5 percent over the year.

In 2014, 12 new IFC clients in LAC contributed to the wider MSME outreach with 898.7 thousand loan portfolio totaling in \$14.2 billion. At the same time, 13 exited clients pushed the overall MSME portfolio volume down. Specifically, IFC's exit from its equity investments in one of the large clients in Brazil, which held \$23.5 billion MSME loan portfolio last year, significantly affected the overall portfolio. As a result of these factors, the volume of MSME loans decreased by 18.4 percent, and the number of loans decreased by 21.4 percent in 2014 compared to 2013.

A total of 38 MSME focused clients reported in 2012, 2013, and 2014. During this period, the number of MSME loans they provided grew by 4.9 percent and volume increased by 0.2 percent on a compounded basis.

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

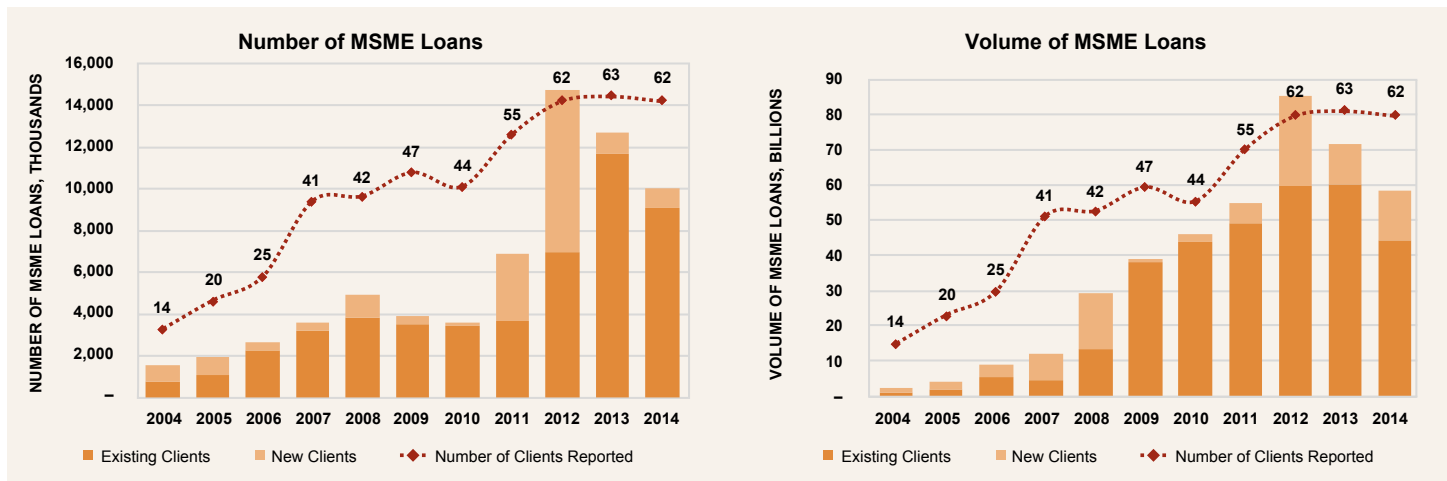
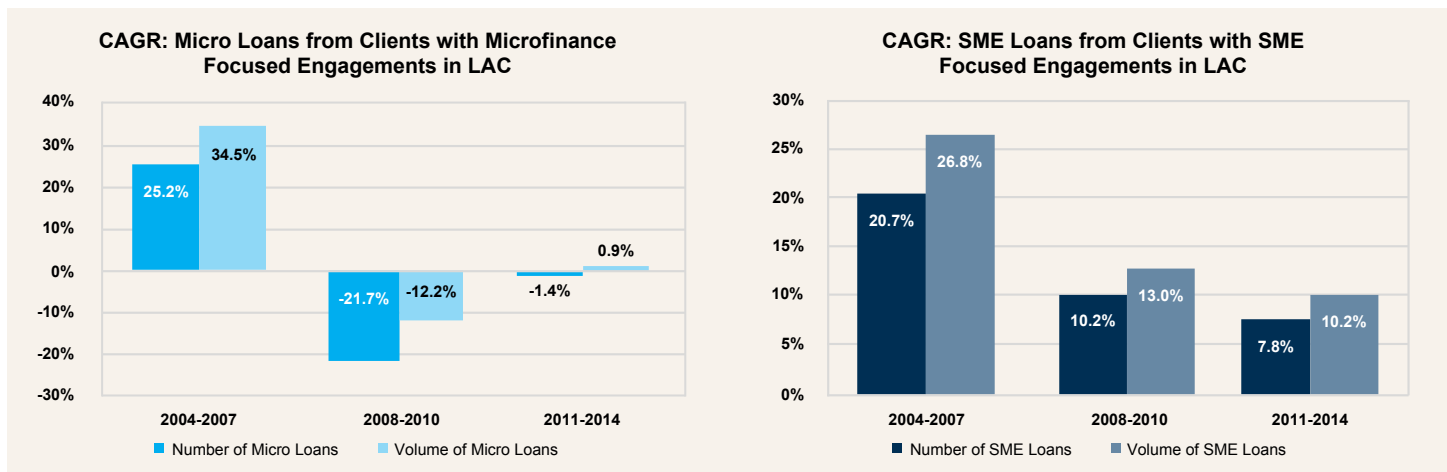


Chart 6. LAC: IFC Clients' Micro and SME Loan Portfolio Growth (CAGR), 2004-2014¹⁰



10. Compounded annual growth rate (CAGR) in LAC is calculated based on the data from seven reporting and repeated clients in the CY2004-CY2007 period, 20 reporting and repeated clients in the CY2008-CY2010 period, 29 reporting and repeated clients in the CY2011-CY2014 period, excluding greenfield institutions and FIs that are closing their operations.

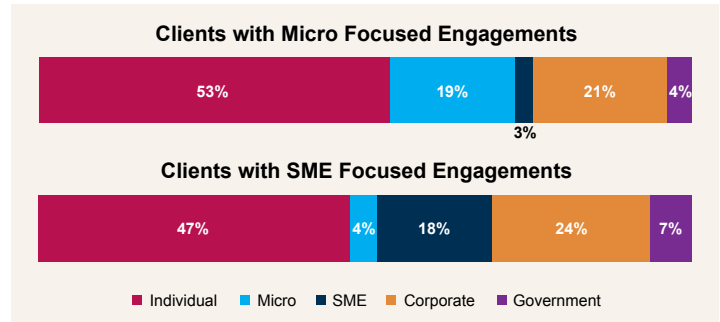


LAC: DEPOSIT AND OTHER TRANSACTIONAL ACCOUNTS¹¹

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 LAC



CLIENT HIGHLIGHT: BHD LEON, DOMINICAN REPUBLIC

ABOUT THE CLIENT

Banco BHD Leon is the result of the merger of Banco BHD and Banco Leon. The Bank is owned at 98% by Centro BHD Leon, a holding company comprising 11 financial subsidiaries whose activities include commercial banking, pension funds, insurance, capital markets, investment management and trust funds. Banco BHD Leon is headquartered in Santo Domingo with 132 branches and 4,266 staff expected after the integration is finalized. It is DR's second largest private-owned bank with approximately US\$4.4 billion in assets, US\$418 million in equity and US\$116 million in annualized net income as of June 2015.

ENGAGEMENT WITH IFC

IFC's relationship with BHD dates back to 2003 when IFC first supported BHD in the middle of the worst financial crisis the country has ever experienced, with an investment that included a US\$10 million subordinated loan and a US\$10 million credit line which was subsequently converted into a subordinated loan in 2007. In 2008, IFC became a shareholder of Centro Financiero BHD, the holding company of the Bank, through a US\$33 million equity investment for a 9% ownership, half of which has been subsequently sold to the sponsor, Grupo BHD in early 2014. In 2010, IFC committed a US\$20 million loan for energy efficiency financing which was accompanied by advisory services to support the Bank in generating a pipeline; US\$15 million were disbursed in 2011. In 2012, IFC made a US\$25 million subordinated debt investment in the Bank through the IFC Capitalization Fund, the first AMC [fund management subsidiary of IFC] transaction in the Dominican Republic. More recently, IFC has engaged in an advisory project to support BHD Leon in developing its digital financial services and its value proposition for women clients. In November 2014, IFC and BHD-Leon signed a mandate letter for a DOP 2,150 million (US\$50 million equivalent) senior loan to fund SMEs in the Dominican Republic, where IFC would assist through a "Taino Bond", a fund raising in the local market where IFC would issue a local bond denominated in pesos which will then be onlent to Banco BHD-Leon.

DEVELOPMENT RESULTS

By providing BHD with long-term funding for on-lending to viable middle-market companies and advisory services in the areas of SME banking, digital finance and gender, IFC helps the Bank to further penetrate an under banked segments in Dominican Republic. Through its environmental requirements for sub-projects, IFC enhances the Bank's ability to assess and mitigate environmental risk, while impacting favorably on sub-borrowers' environmental management capability and awareness. BHD Leon has been working with the national Bankers' Association to implement the Green Climate Fund in the Dominican Republic, and presently the Bank has the only Green Climate Fund-ready environmental safeguards team in the country. Over the past two years of IFC-BHD collaboration, the Bank reached significant results: by the end of CY2014, the Bank increased the number of loans by 30 percent, and loan volumes by 16 percent (on a compounded basis since CY2012). Total lending portfolio was above \$2 billion, with over \$600 million attributed to the SME sector, NPLs (over 90 days past due) were only 1.7 percent as of CY2014. Microcredit loans nearly tripled between 2012 and 2015, from \$6.7Mn to \$19.7Mn. Furthermore, in 2014 Centro Financiero BHD Leon pioneered the implementation of Banking Agents in the Dominican Republic by establishing an open platform available to all the country's banks. Within one year, Banco BHD Leon's 242 banking agents exceeded its branches nearly 2:1, facilitating bankarization in remote areas. As a result of IFC's advisory engagement, BHD Leon has launched health, education, mobility and SME value propositions incorporating bank and insurance products.

11. In CY2014, 60 MSME-focused FI clients in LAC 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.