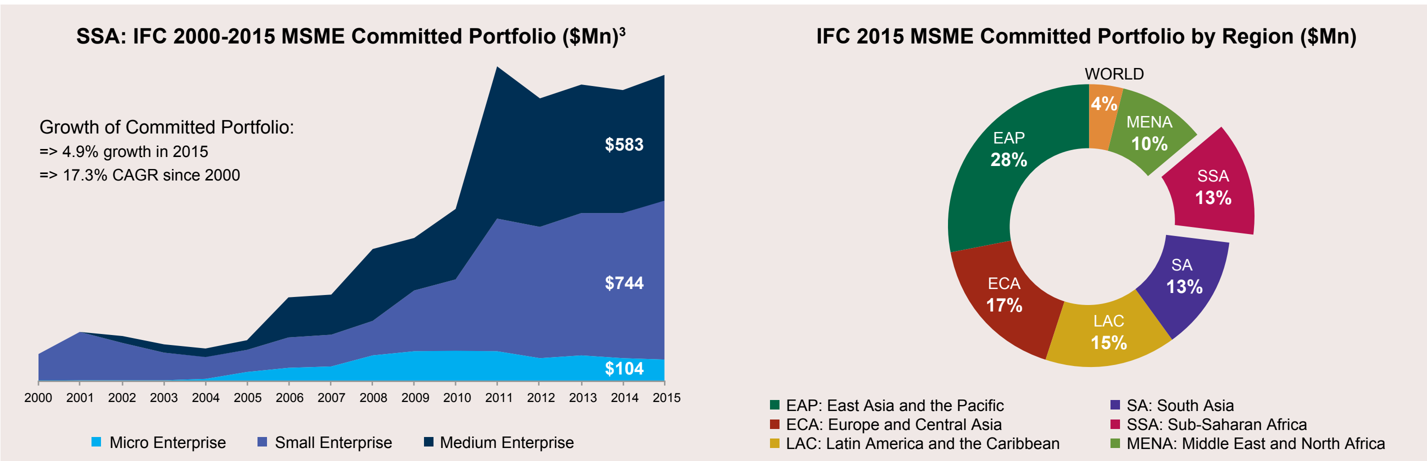
SUB-SAHARAN AFRICA

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 110 financial institutions (FI) across 30 countries in Sub-Saharan Africa (SSA), 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 $0.3 billion of long term finance to client FIs for MSME support in SSA. As of the end of 2015 IFC's committed long-term finance MSME portfolio in SSA was $1.4 billion.

Chart 1. IFC Committed Portfolio



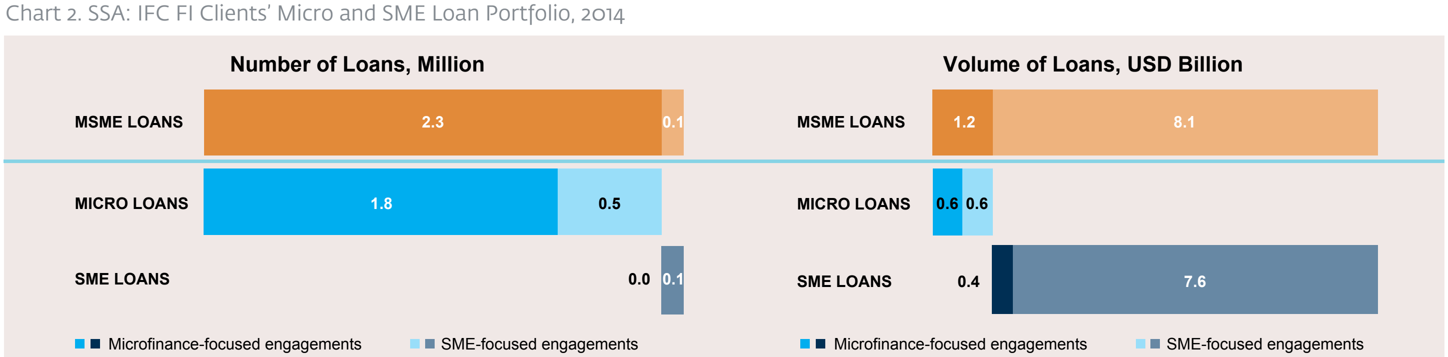
SSA: ANALYSIS OF MSME REACH SURVEY DATA FROM IFC FINANCIAL INSTITUTION CLIENTS

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 73 clients[4] in 20 countries in SSA, which had over 5.6 million loans outstanding worth over $59.5 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, 65 such clients in SSA had **2.3 million micro and 108.7 thousand SME loans totaling $9.3 billion** (see Chart 2).[7] Further analysis represents this group of clients.

Chart 2. SSA: 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. 92 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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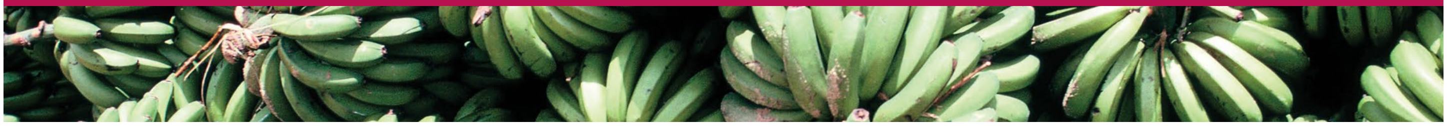
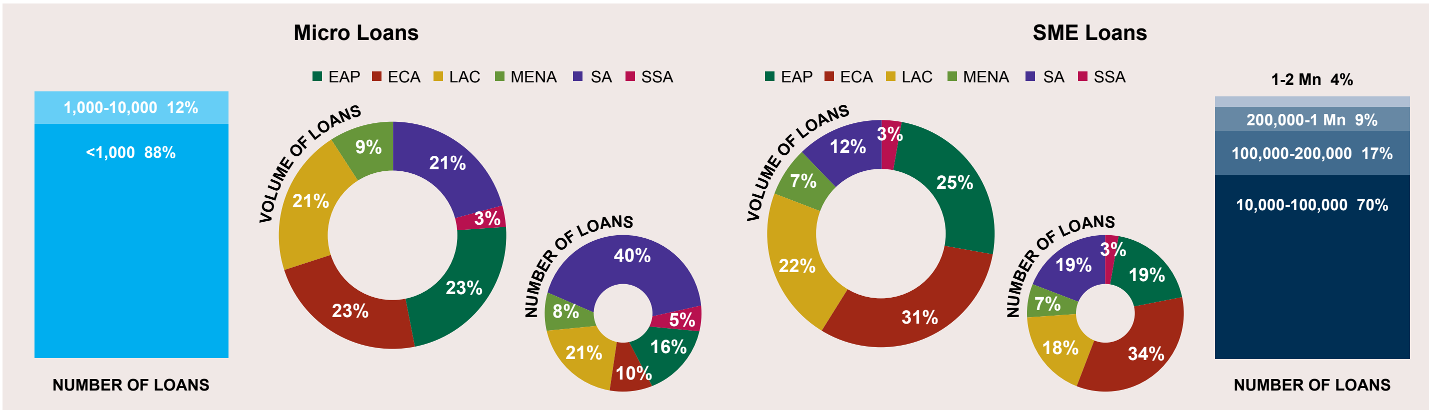


Chart 3. SSA: IFC FI Clients' Micro and SME Loan Portfolio by Region and Loan Size at Origination, 2014



SSA: 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 26 FI clients with microfinance-focused engagements in 12 countries, 57.7 percent of these clients received advisory services from IFC.

SME FOCUSED ENGAGEMENTS

In 2014, IFC was able to survey or extrapolate outreach data from 39 FI clients with SME-focused engagements in 17 countries, 53.6 percent of these clients received advisory services from IFC.

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

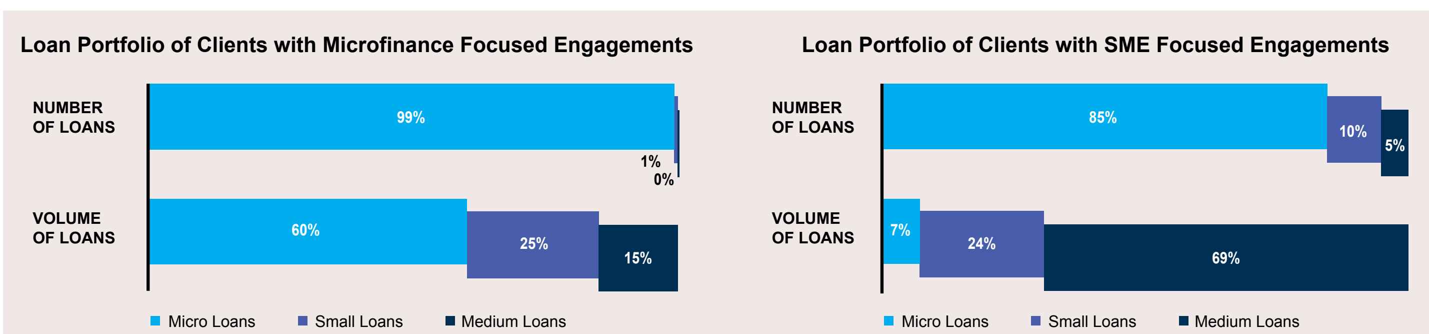


Table 1. Microfinance Focused Engagements in SSA: Detailed Loan Portfolio Breakdown, 2014

	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women[8]	NPL percent[9]
Loan	Number	'000 $	$	%	%
Micro	1,765,993	643,892	365	32.8%	1.8%
Small	13,904	265,512	19,096	22.3%	1.7%
Medium	1,028	159,812	155,459	8.1%	2.6%

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

	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women[8]	NPL percent[9]
Loan	Number	'000 $	$	%	%
Micro	519,028	562,701	1,084	25.4%	11.0%
Small	63,424	1,954,380	30,815	18.6%	10.4%
Medium	30,346	5,674,657	187,000	14.2%	7.0%

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 (32.8 percent of micro loans) and low NPL levels. Clients with SME-focused engagements reported that about 14.2-25.4 percent of loans were issued to women entrepreneurs. The NPL level was at 7.0-11.0 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 12 clients with microfinance-focused engagements, and 24 clients with SME-focused engagements.
9. Nonperforming Loan (NPL) = > 90 days past due loans.

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

Volume of micro and SME loan portfolios of clients in SSA grew consistently over time. During 2004-2014, their MSME loan portfolio grew by 99.1 percent by number, and by 48.9 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 55 existing clients grew by 0.2 percent, while the number of such loans increased by 7.8 percent over the year.

In 2014, 10 new IFC clients in SSA contributed to the wider MSME outreach with 486.3 thousand loan portfolio totaling in $1.5 billion. At the same time, 9 clients that exited IFC portfolio (repaid or sold), slightly moved the overall MSME portfolio down. In 2013, these clients jointly held portfolio of 149.6 thousand MSME loans worth $688.3 million. As a result of these factors, the volume of MSME loans increased by 9.2 percent, the number of MSME loans increased by 24.7 percent in 2014 compared to 2013.

A total of 42 MSME focused clients reported in 2012, 2013, and 2014. During this period, the number of MSME loans they provided grew by 11.1 percent and volume increased by 8.6 percent on a compounded basis.

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

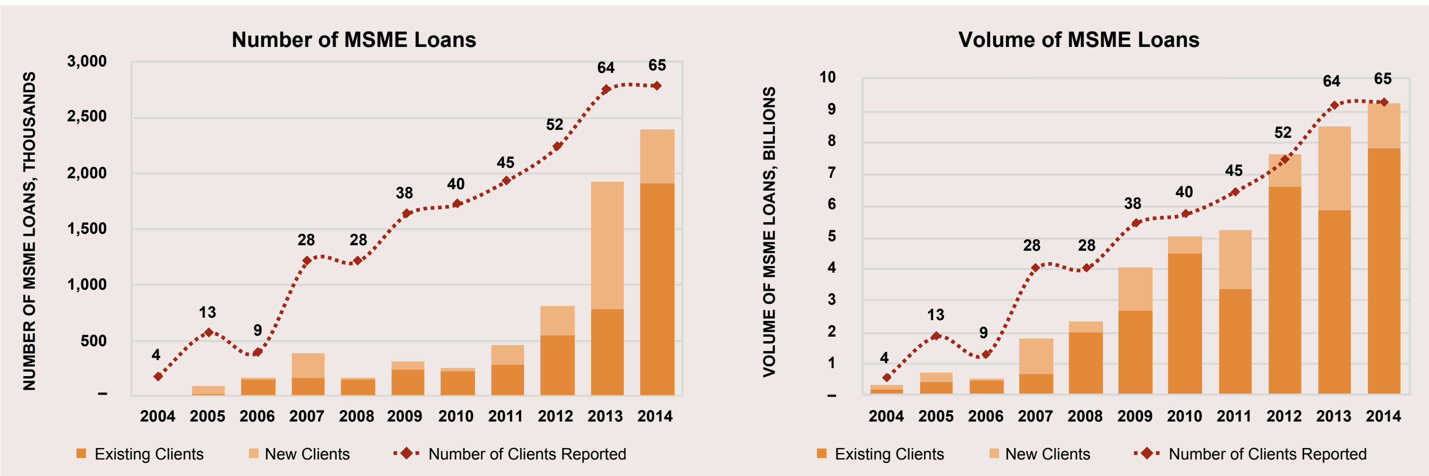
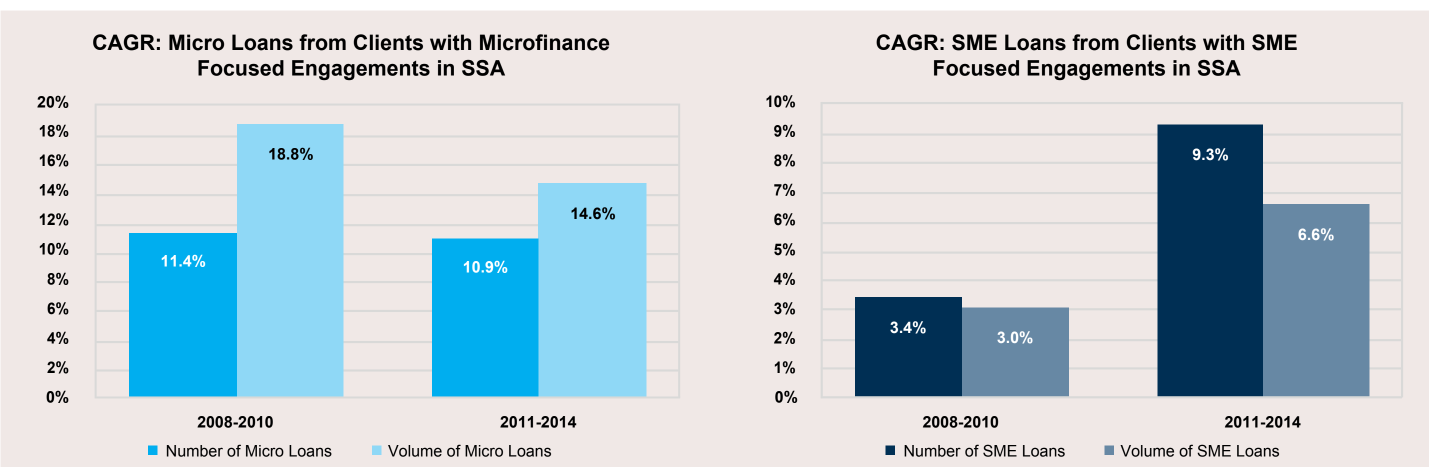
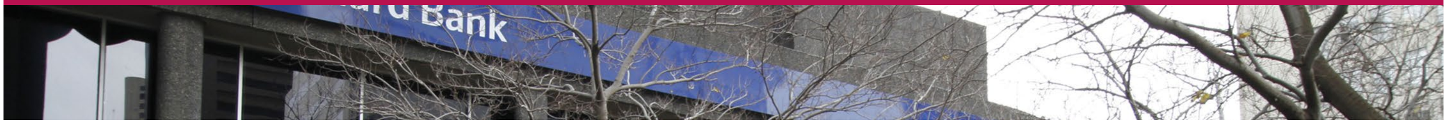


Chart 6. SSA: IFC Clients' Micro and SME Loan Portfolio Growth (CAGR), 2004-2014[10]



10. Compounded annual growth rate (CAGR) in SSA is calculated based on the data from 10 reporting and repeated clients in the CY2008-CY2010 period, 25 reporting and repeated clients in the CY2011-CY2014 period, excluding greenfield institutions and FIs that are closing their operations.

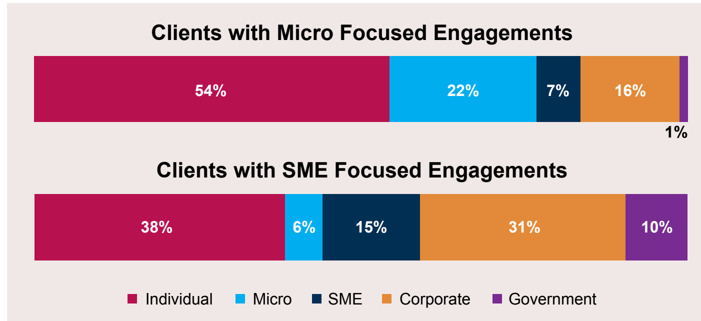


SSA: DEPOSIT AND OTHER TRANSACTIONAL ACCOUNTS[11]

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 SSA



CLIENT HIGHLIGHT: LAPO MFB, NIGERIA

ABOUT THE CLIENT

LAPO Microfinance Bank (LAPO MFB) was created in 2010 by the acquisition of assets from LAPO NGO - the sponsor of the company which began offering microfinance services to low-income Nigerians (particularly to women) in 1988. LAPO MFB received the first national MFB license from the CBN and now operates across more than 27 of Nigeria's 36 states. It offers several MSME loan products including its core group loan product and basic savings services to current and former borrowers. As of 2012 it had begun building its deposit mobilization capabilities to reach non-borrowers as well.

ENGAGEMENT WITH IFC

IFC started its partnership with LAPO MFB in 2012, when it first provided a $5 million loan (in local currency equivalent) to LAPO MFB for the purposes of microfinance onlending. In 2015 IFC provided another $10 million loan denominated in the local currency. IFC also signed a cooperation agreement with LAPO MFB in April 2014 to help the institution prepare the business case and financial projections to roll out agent banking. Upon successful completion of this initial project, LAPO MFB and IFC are expected to soon sign another agreement to continue their work together on piloting and rolling out an agent banking network, which will be a first for a microfinance institution in Nigeria. Drawing on its internal expertise, as well as the presence of a Resident Advisor, the project is expected to help LAPO MFB put in place a network of almost 5000 agents and to bring in new clients, especially saving clients, to allow LAPO MFB to reach nearly 5 million clients by the end of 2017.

DEVELOPMENT RESULTS

IFC engagement with LAPO MFB has a strong development impact by expanding access to credit for low-income micro entrepreneurs. As the leading MFB in Nigeria, LAPO MFB and its continued partnership with the IFC is expected to deepen the level of professionalism among local institutions and lead them to follow LAPO's transformational model towards a microfinance bank. IFC brings along extensive microfinance and mobile financial services expertise and a relatively unique combination of investment and advisory services. These contributions support the bank's ability to initiate operations, effectively scale up and build local staff/management capacity. IFC supports LAPO MFB's ongoing transformation into a regulated, commercial financial institution, as it continues to improve its governance and risk management structures, while funding its expansion and enabling it to develop new products and new delivery channels, including on-demand savings accounts. The long-term nature of IFC's participation, which is generally not available to microfinance institutions in Nigeria, will support LAPO MFB's ability to provide longer tenors to its clients. Also, IFC's long-term funding will support the continued institutional development of the company and help broaden the mix of loan products available to its clients. IFC's expertise and continued support on developing an agent network is expected to support LAPO MFB to reach its ambitious growth targets and to retain its position as a market leader and pioneer of Nigerian microfinance.

LAPO MFB has reached more than 1.7 million clients (incl. deposit only), including more than 730 thousand microenterprise borrowers at 1H15. As of June 2015 (Dec 2014 in parenthesis) LAPO had $198.2 million gross loan portfolio ($181.2 million), 766,564 active loans (800,611), $112 million deposits ($111 million), 1,728,996 active deposit accounts (1,414,964) and 2.27% PAR>30 (2.35%).

11. In CY2014, 53 MSME-focused FI clients in SSA 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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