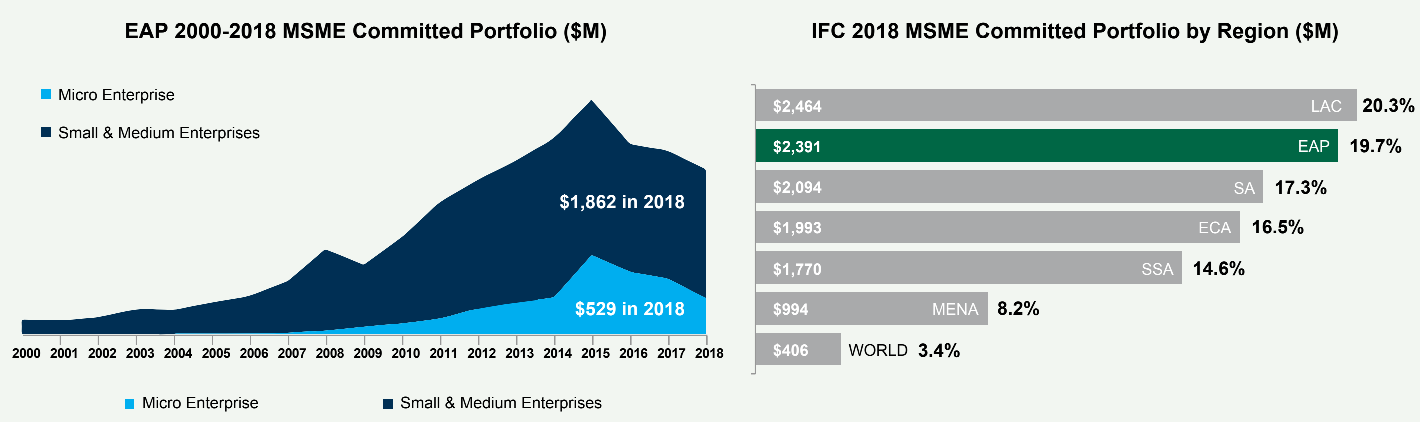
EAST ASIA AND THE PACIFIC
IFC Financing to Micro, Small and Medium Enterprises

IFC works globally through financial institutions (FIs) to provide much-needed access to finance for millions of individuals and micro, small, and medium enterprises (MSMEs). The lack of access to financial services is one of the key barriers to the growth of MSMEs, which make important contributions to sustainable development, in terms of contributions to economic growth, creation of decent jobs, provision of public goods and services, as well as poverty alleviation and reduced inequality.[1]

IFC offers a wide range of financial products and services to its client FIs, 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 fiscal year 2018, IFC in East Asia and the Pacific (EAP), provided $519 million of long-term finance to client FIs for MSME support. As of June 2018 in EAP, IFC's committed long-term MSME-focused portfolio was $2.4 billion (see Chart 1). In addition, IFC had 45 active MSME-related advisory projects valued at $54.1 million.

Chart 1. FY18 IFC MSME Committed Long-Term Finance Portfolio (USD $ millions)



EAP: DELIVERING FINANCE TO MSMES THROUGH IFC'S NETWORK OF FINANCIAL INSTITUTIONS

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

IFC collected and extrapolated 2017[2] data from 47 clients in 10 countries in EAP, which had over 27.1 million loans outstanding worth over $ 844.3 billion. This included retail, micro, SME and corporate loans. Of these, 43[3] clients received financing for MSME-related activities. Using IFC's proxy SME loan definition,[4] it is estimated that these clients had **11.2 million micro and 5.0 million SME loans totaling $209.7 billion.**[5] Table 1 and Chart 2 show regional distribution of micro and small loans by volume and number.

1. Report of the International Symposium on the Role of Micro-Small and Medium Enterprises (MSMEs) in Achieving the Sustainable Development Goals (SDGs) (2018).
2. 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.
3. Out of 43 MSME FI clients, 2 were extrapolated.
4. IFC categorizes its clients' sub-borrowers according to the following definitions: (1) micro enterprise have loan < $10,000 at origination; (2) small enterprise have loan $10,000 - $100,000 at origination; (3) medium enterprise have loan $100,000 - $1 million at origination ($2 million for more advanced emerging markets).
5. While numerous controls were performed on the data provided by clients, they are sometimes based on estimates and the understanding of the indicator definitions may vary among clients.

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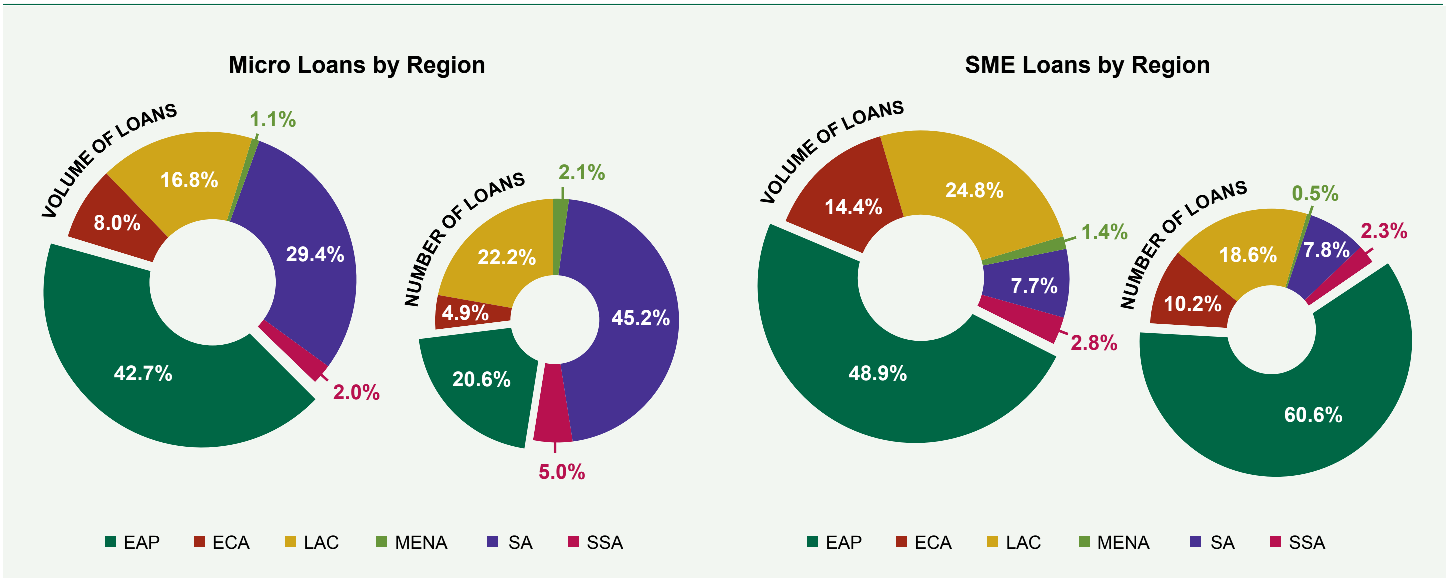
Table 1: IFC FI Clients' Micro and SME Outstanding Loan Portfolio by Region, 2017

Region	Micro Loans		SME Loans		MSME Loans	
	# Millions	$ Billions	# Millions	$ Billions	# Millions	$ Billions
East Asia and the Pacific	**11.21**	**31.51**	**5.05**	**178.19**	**16.26**	**209.69**
Europe and Central Asia	2.68	5.94	0.85	52.56	3.53	58.51
Latin America and the Caribbean	12.08	12.41	1.55	90.62	13.63	103.03
Middle East and North Africa	1.15	0.81	0.04	5.10	1.19	5.91
South Asia	24.58	21.71	0.65	27.96	25.23	49.68
Sub-Saharan Africa	2.72	1.47	0.19	10.32	2.91	11.79
Total Loans	**54.42**	**73.86**	**8.32**	**364.75**	**62.74**	**438.60**

Chart 2: IFC FI Clients' Micro and SME Outstanding Loan Portfolio Distribution (%), 2017

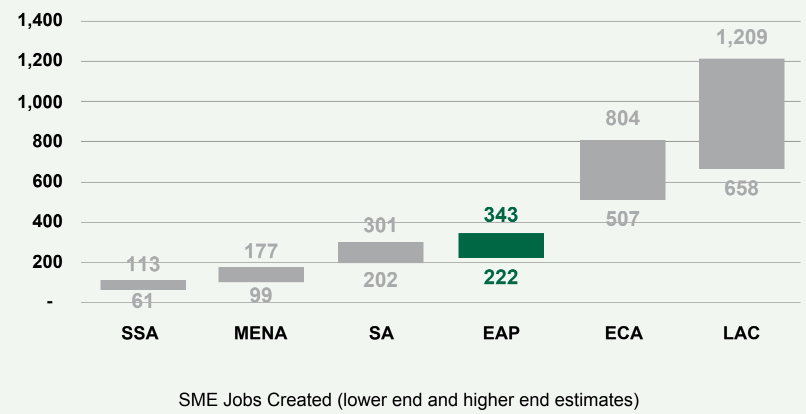


FOSTERING ECONOMIC GROWTH AND SOCIAL WELFARE: THE ESTIMATED IMPACT ON SME JOB CREATION

According to IFC's in-house econometric model, every million dollars loaned to SMEs in developing countries created an estimated average of 16.3 additional permanent jobs over two years, when compared to firms that did not have access to finance.[6] In addition to the Reach Survey data, this model uses primary data collected by IFC during SME surveys and the World Bank Enterprise Survey data. Extrapolating IFC's estimate to its own client financial institutions suggests that in 2017, due to their SME lending activities, the availability of financing resulted in the creation of about 222,000 to 343,000 additional permanent jobs in East Asia and the Pacific (see Table 1 and Chart 3).

6. Job creation estimates capture the number of additional permanent jobs added by SMEs only who receive financing, compared to similar SMEs who do not have access to financing. The model relies on the growth of the SME loan portfolio as the key input. The range is based on different assumptions about loan disbursement.

Chart 3. SME Jobs Created in 2017 ('000s)



EAP: AN OVERVIEW OF OUTCOMES FOR IFC ENGAGEMENTS: MICROFINANCE AND SME

IFC places its MSME clients in two categories: FIs supported by IFC in the area of microfinance – clients with microfinance-focused engagements; and FIs supported by IFC in the area of SME financing – clients with SME-focused engagements.

In 2017, IFC collected or extrapolated data from 19 microfinance and 22 SME-focused engagements in EAP. SME-focused clients funded about 57.8 percent of the total number of micro loans representing 93 percent of the total funding for the microenterprises. Likewise, the microfinance focused clients actively crossed over to SME with 2.9 percent of the number of SME loans and1and 1.2 percent of the total volume.

In addition, 36.7 percent of clients with microfinance-focused engagement and 36.4 percent of clients with SME-focused engagement received advisory services.

Table 2: Microfinance-Focused Engagements in EAP[7]

	Outstanding Loan Portfolio		Average Loan Size	NPLs
Loan Type	# Millions	$ Billions	$	%
Micro	4.7	2.2	463.9	1.1%
SME	0.1	2.1	14,652.4	1.7%
Total	**4.9**	**4.3**	**888.0**	**1.4%**

Table 3: SME-Focused Engagements in EAP[8]

	Outstanding Loan Portfolio		Average Loan Size	NPLs
Loan Type	# Millions	$ Billions	$	%
Micro	6.5	29.3	4,519.4	0.8%
SME	4.9	176.1	35,933.4	1.6%
Total	**11.4**	**205.4**	**18,037.1**	**1.5%**

Notably, the microfinance-focused clients reported low NPL levels, especially for the micro loans. Among the SME-focused engagements, large institutions reported very low NPLs which contributed to NPL level at 0.2% (see Tables 2 and 3).

7,8. Average Loan Size and NPLs do not include extrapolated data.

EAP: IFC CLIENTS' LOANS TO WOMEN AND WOMEN-OWNED MSMEs

Gender equality is a fundamental condition for a prosperous and sustainable world; however, in many countries women have lower access to education, employment, business opportunities and financial services, as well as unequal social status and rights. The annual estimated credit gap for women-owned MSMEs is about $1.7 trillion.[9]

To address this challenge, IFC launched in 2012 the Banking on Women Program that promotes financing for women-owned SMEs. In addition, recently IFC requested clients to report on their loan portfolios to women-owned enterprises. In 2017, 31 IFC FI clients provided data for micro loans to women while 27 FI clients provided SME loans to women data. These clients provided 80.2 percent of total micro loans by number to women, and 40.6 percent of total SME loans by number to women-owned firms[10] (see Table 4).

Table 4: EAP: IFC FI Clients' Loans to Women and Women-owned MSMEs

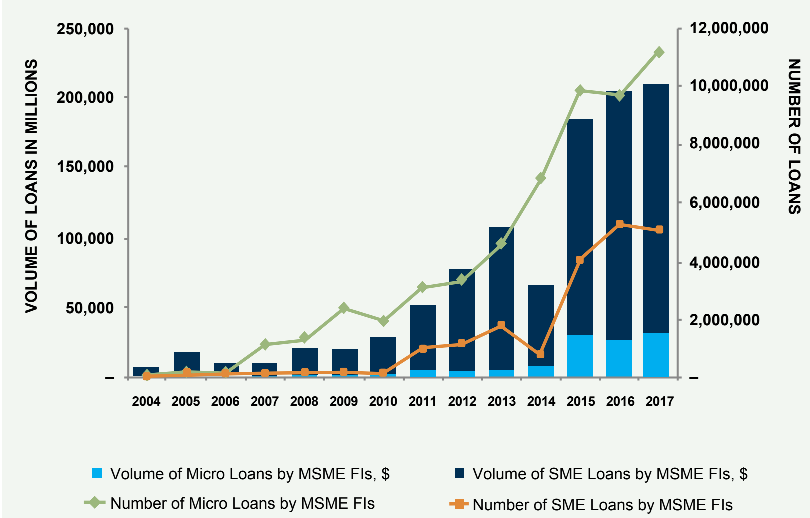
	Number of Loans to Women	Total Volume of Loans to Women	Number of Loans to Women	Total Volume of Loans to Women	NPLs (Loans to Women)	NPLs (All Loans)
Loan Type	# '000	$ Millions	% Of total	% Of total	%	%
Micro	6,727.3	2,175.4	80.2%	35.2%	1.5%	0.8%
SME	132.3	3,435.1	40.6%	19.0%	1.7%	1.9%

EAP: HISTORICAL GROWTH AND DYNAMICS OF IFC CLIENTS' MSME PORTFOLIO

The volume of micro and SME loans by IFC's portfolio of MSME client FIs has grown consistently over time. Three main factors influence MSME loan portfolio growth: 1) changes in the MSME portfolio among existing IFC clients, 2) entries of new clients, and 3) exits of existing clients, when, for example, IFC clients fully repay their loans. The dynamics of these factors determines the MSME reach growth trends from year to year. Thus, in the post-financial crisis period (2011-2017), the MSME loan portfolio increased 31.8 percent by number, and 32.4 percent by volume, on a compounded basis.

During 2016-2017, the volume of MSME loans increased by 2.4 percent, and the number of loans increased by 8.4 percent.

Chart 4. EAP: IFC Clients' MSME Loan Portfolio Growth, 2004-2017



9. IFC MSME Finance Gap (2017). http://www.smefinanceforum.org/data-sites/msme-finance-gap
10. IFC defines women-owned SME as a firm with (a) > 51 percent ownership/stake by a woman/women; or (b) > 20 percent owned by a woman/women AND 1 woman as CEO/COO (President/Vice-President) as well as 30 percent of the board of directors being women where a board exists; and which received loans from $10,000 to $1 or 2 million at origination.

EAP: FINANCIAL INCLUSION THROUGH DEPOSIT AND OTHER TRANSACTIONAL ACCOUNTS

Universal financial access is one of the strategic development goals for the World Bank Group. Financial access may include loans, but can also simply mean someone has access to alternative financial channels (i.e. mobile banking, internet banking) or deposit/saving accounts. The growth of savings accounts is also important because deposits are a major funding source for deposit-taking institutions and a safe place for their clients to store cash.

In 2017, 24 clients reported 1.1 trillion in liability accounts, which include current/transactional accounts, interest-bearing deposits, and e-money accounts. One year before, 34 clients reported $2 trillion in liability accounts. Specifically, large clients in China, who did not report in 2017, contributed to the significant change in the last two years.

Chart 5 demonstrates the distribution of the deposits and other transactional accounts by the type of the account owner. Individual and MSME accounts hold about 71.0 percent of the total deposits volume among SME focused engagements and 92.2 percent among micro engagements.

THE MSME FINANCE GAP AND OPPORTUNITIES FOR FIs TO ADDRESS CREDIT CONSTRAINTS

The World Bank Group report, "MSME Finance Gap: Assessment of the Shortfalls and Opportunities in Financing Micro, Small and Medium Enterprises in Emerging Markets", estimates that in the developing economies surveyed, the potential demand for MSME finance is $ 8.9 trillion. The finance gap attributable to formal MSMEs in developing countries is valued at $ 5.2 trillion, which is equivalent to 19 percent of the gross domestic product (GDP) of the 128 countries. This in turn amounts to 1.4 times the current level of MSME lending to these countries.

Moreover, the study estimates that there are 65 million formal micro, small and medium enterprises that are credit constrained, representing 40 percent of all MSMEs in the 128 reviewed countries.

Regional analysis of potential MSME demand demonstrates that it is highest in the East Asia and The Pacific (EAP) region – with almost 58 percent of the total global potential demand (see Chart 6). This is mainly driven by the large demand and supply in China ($4.4 trillion and $2.5 trillion, respectively).

Chart 5. EAP: IFC Clients' Volume of Deposits and Other Transactional Accounts, 2017 (Average Volume Percentage Distribution)

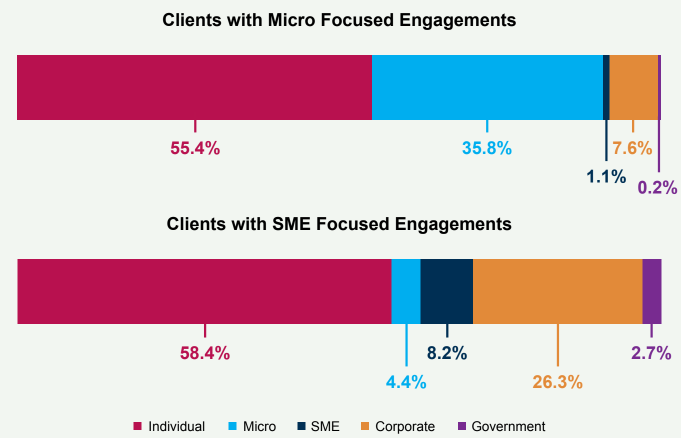
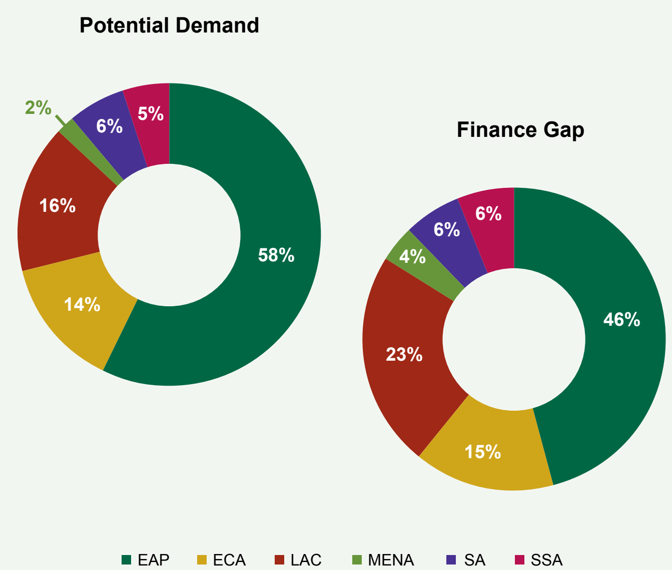
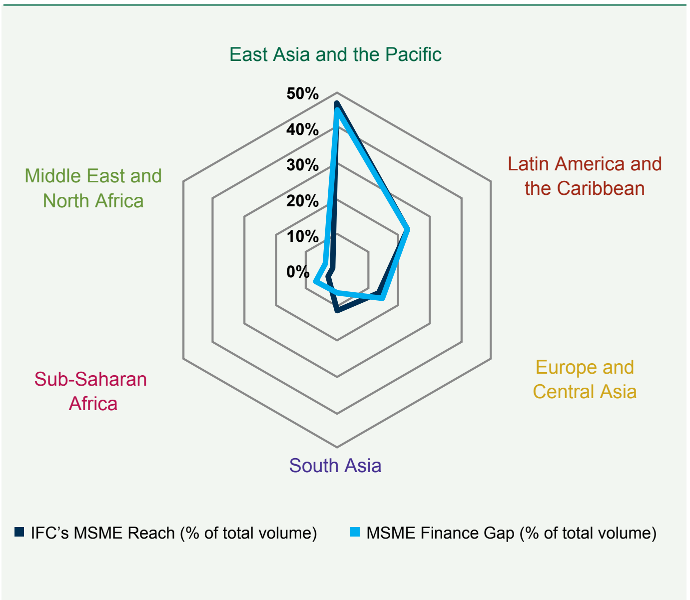


Chart 6: Regional Distribution of MSME Potential Demand and Finance Gap (%)



The finance gap in Latin America and the Caribbean (LAC) is the second largest after the East Asia region, and is mainly driven by Brazil ($0.6 trillion). India is another big contributor country, with a finance gap of $230 billion, representing 68 percent of the total gap in the South Asia region.

Chart 7: IFC FI Clients' MSME Outstanding Loan Portfolio Distribution (%) and MSME Finance Gap Distribution (%), 2017

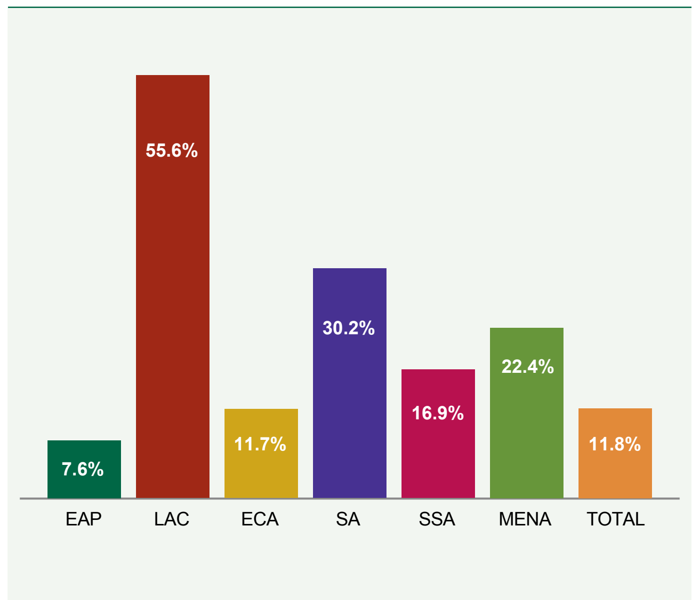


A comparison of distributions between MSME finance gap and the recent IFC's MSME Reach shows that IFC operations have been focused on the areas with the largest need of improvement in MSME lending (see Chart 7). Together EAP and LAC regions account for about 69 percent of global MSME finance gap and about 71 percent of total MSME lending portfolio among IFC's clients.

Considering supply of finance, IFC has made significant contribution to financing MSMEs through its network of financial institutions. As of 2017 IFC Reach accounted for 11.8 percent of total supply of MSME finance worldwide. In LAC, IFC has achieved above half of total supply in part because of the relationship with large institutions in the region. Differently, in EAP, large state-owned banks provide subsidized credit to MSMEs through various schemes and as a result IFC's private sector clients contribution to supply finance is currently at 7.6 percent (Chart 8).

In EAP, Micro, small, and medium enterprises (MSMEs) are one of the strongest drivers of employment and economic development. However, access to finance is frequently identified as a barrier to growth for MSMEs. According to IFC research, 3.9 million or 45% of formal MSMEs in East Asia and the Pacific have unmet financing needs. The MSME finance gap in the region is estimated to be $2.4 trillion, compared to the current volume of $2.8 trillion of MSME funding. FIs are well positioned to address this issue because they are active in their local markets and can more readily act on the growth opportunities in MSMEs. Thus, FIs that address the MSME finance gap can create opportunities for MSMEs in East Asia and the Pacific and thus promote development and reduce poverty.

Chart 8: IFC FI Clients' MSME Outstanding Loan Portfolio share of MSME Supply Finance



For regional MSME data and data visualization, please visit SME Forum: http://smefinanceforum.org/data-sites/ifc-financing-to-msme

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