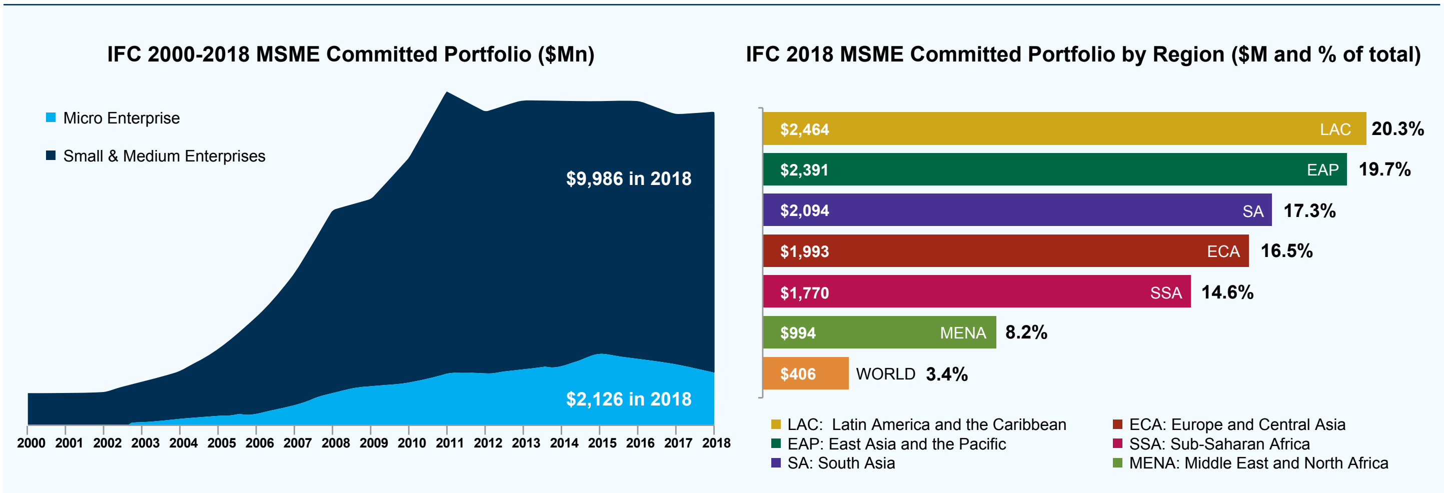
GLOBAL OVERVIEW

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 provided $2.8 billion of long-term finance to client FIs for MSME support. As of June 2018, IFC's committed long-term MSME-focused portfolio was $12.1 billion (see Chart 1). In addition, IFC had 129 MSME-related advisory projects with a total project value of $235.7 million.

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



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 323 clients in 92 countries, which had over 334 million loans outstanding worth over $1.8 trillion in total lending. This included retail, micro, SME and corporate loans. Of these, 271[3] clients globally received financing for MSME-related activities. Using IFC's proxy SME loan definition,[4] it is estimated that these clients had **54.4 million micro and 8.3 million SME loans totaling $438.6 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 a different fiscal calendar.
3. Out of 271 MSME FI clients, 3 were extrapolated.
4. IFC categorizes its clients' sub-borrowers according to the following definitions:
   (1) micro enterprise if loan is <= $10,000 at origination;
   (2) small enterprise if loan is at $10,001 - $100,000 range at origination;
   (3) medium enterprise for loans between
   $100,001 and $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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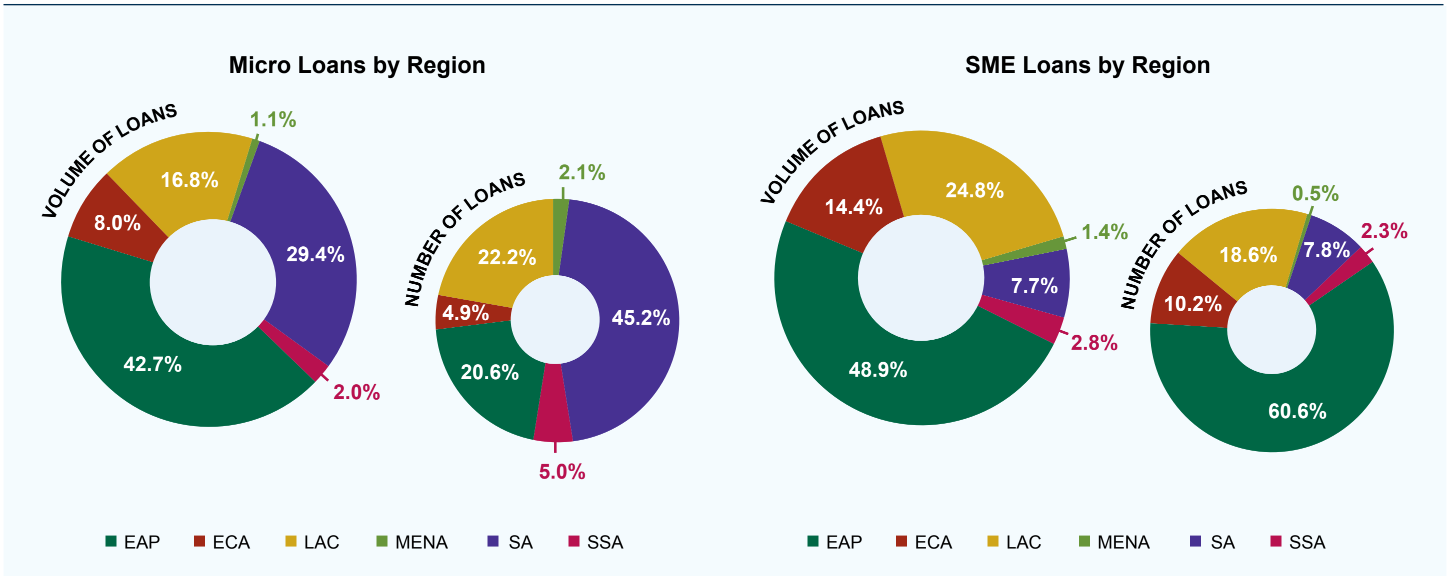
Table 1: IFC FI Clients' Micro and SME Outstanding Loan Portfolio by Region, 2017[6]

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



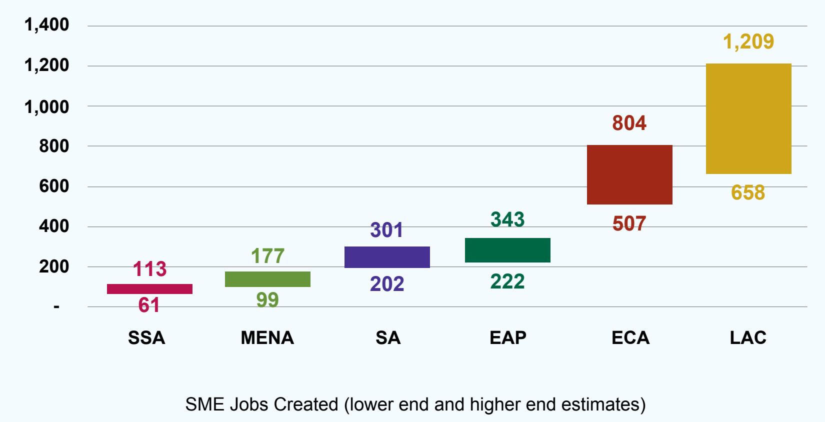
FOSTERING ECONOMIC GROWTH AND SOCIAL WELFARE: THE ESTIMATED IMPACT ON SME JOB CREATION

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.[7] 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 1.7 to 2.9 million additional permanent jobs (see Table 1 and Chart 3).

6. South Asia region includes Afghanistan and Pakistan, which in previous years were grouped under the Middle East and North Africa region.
7. 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.

For reference, these estimated job creation numbers can be compared to the International Labour Organization's calculation of aggregate annual job creation in developing economies. In 2017, for example, developing countries created 27.7 million new jobs. As IFC client FIs' loan portfolio created about1.7 million to 2.9 million jobs in the same year, the IFC network accounted for 6.3 to 10.6 percent of the actual jobs created.[8] This is important in the broader context set out by the 2013 *World Development Report on Jobs*, which estimates that 40 million jobs per year must be created by 2020 to maintain the 2005 level of employment across developing countries. IFC and its clients are thus achieving tangible results and impact as a result of their efforts to promote SMEs, job creation, and poverty reduction.

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



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 87 microfinance and 184 SME-focused engagements. SME-focused clients funded 50.7 percent of the total number of micro loans representing 67.5 percent of the total funding for the microenterprises. Likewise, the microfinance focused clients actively crossed over to SME with 8.5 percent of the number of SME loans and 5.9 percent of the total volume. In addition, 42.5 percent of clients with microfinance-focused engagement and 30.4 percent of clients with SME focused engagement received advisory services.

Table 2: Microfinance-Focused Engagements[9]

	Outstanding Loan Portfolio		Average Loan Size	NPLs
Loan Type	# Millions	$ Billions	$	%
Micro	26.5	23.9	901.3	8.4%
SME	0.7	21.6	3,0838.2	5.7%
Total	**27.2**	**45.4**	**1,672.1**	**7.0%**

Table 3: SME-Focused Engagements[10]

	Outstanding Loan Portfolio		Average Loan Size	NPLs
Loan Type	# Millions	$ Billions	$	%
Micro	24.8	24.5	985.3	5.1%
SME	3.0	185.2	61,113.3	4.1%
Total	**27.9**	**209.7**	**7,525.9**	**4.2%**

Notably, SME-focused engagements reported lower NPLs, especially among the loans to SMEs. Overall the microloans provided have shown significant lower asset quality, when compared to loans to SMEs[11] (see Table 2).

8. This excludes jobs created by IFC's FI clients in China, Romania, Ukraine, Russian Federation, Belarus, Bosnia and Herzegovina, Georgia, and Latvia as these countries reported net job destruction according to the ILO database. While IFC's client FIs' SME operations may have created jobs in these countries, they will not be counted here.

9,10. Average Loan Size and NPLs do not include extrapolated data.

11. Microfinance institutions in India were responsible for large NPLs among MFI engagements.

PROMOTING GENDER EQUALITY IN FINANCIAL SERVICES: LENDING TO WOMEN-OWNED MSMES

Gender equality is an important 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.[12]

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, 153 IFC FI clients provided data for micro loans to women while 143 FI clients provided SME loans to women data. These clients provided 62.6 percent of total micro loans by number to women, and 17.8 percent of total SME loans by number to women-owned firms.[13] Although, women have been facing strong barriers to access credit, the data from IFC's clients has shown that loans to women have lower than average delinquency. Among the clients that reported non-performing loans (NPLs) to women, the delinquency rate is 41.5 percent lower (from 4.9 percent overall to 2.9 percent) for micro loans to women and 13.3 percent lower (from 4.2 percent to 3.7 percent) for SME loans to women (see Table 3).

Table 4: IFC FI Clients' Loans to Women and Women-owned MSMEs[14]

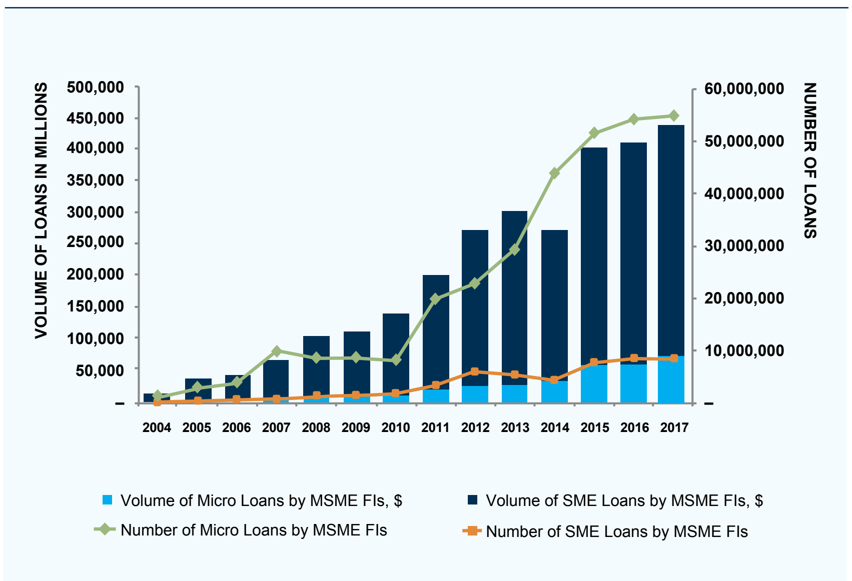
	Number of Loans to Women	Total Volume of Loans to Women	Number of Loans to Women	Total Volume of Loans to Women	NPLs (Loans to Women)	NPLs (All Loans)
Loan Type	# '000	$ Millions	% Of total	% Of total	%	%
Micro	25,494.4	11,302.4	62.6%	31.3%	2.9%	4.9%
SME	339.4	11,437.7	17.8%	11.4%	3.7%	4.2%

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 the overall 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 and stop reporting to us. 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 18.2 percent by number, and 13.9 percent by volume of loans on a compounded annual growth rate (CAGR).

During 2016-2017, the volume of MSME loans increased by 6.5 percent, and the number of loans increased by 1.2 percent, despite a slow economic growth and currency devaluation in many developing countries (Chart 4).

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



12. IFC MSME Finance Gap (2017). http://www.smefinanceforum.org/data-sites/msme-finance-gap
13. 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.
14. NPLs figures include clients that have reported NPLs for Loans to Women-owned MSMEs only: 19 clients for micro loans and 111 for SME loans.

FINANCIAL INCLUSION THROUGH DEPOSIT AND OTHER TRANSACTIONAL ACCOUNTS

IFC is committed to the World Bank Group goal of achieving universal access to finance by 2020. 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, 197 clients reported $1.6 trillion in deposit accounts, which include current/transactional accounts, interest-bearing deposits, and e-money accounts. One year before, 202 clients reported $2.5 trillion in deposits and other transactional accounts. Specifically, large clients in China, who left the IFC portfolio 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 accounts hold about half of the total deposits volume among IFC's clients.

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,

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

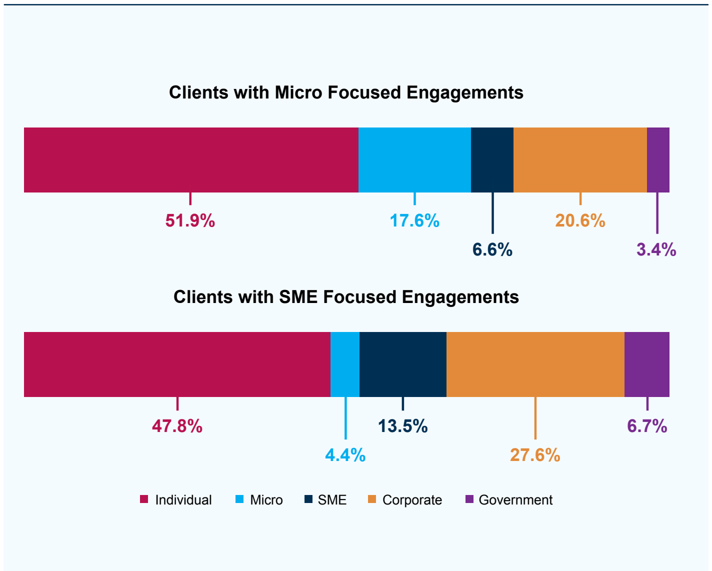
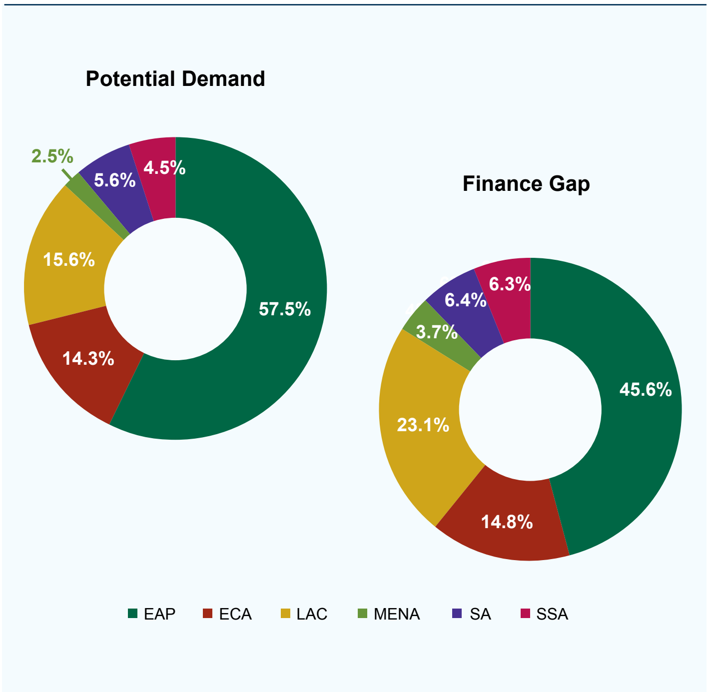
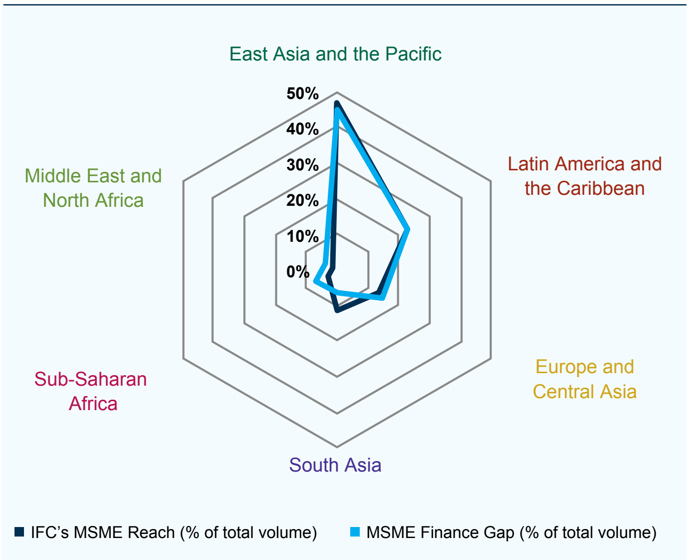


Chart 6: Regional Distribution of MSME Potential Demand and Finance Gap (%)



respectively). 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.

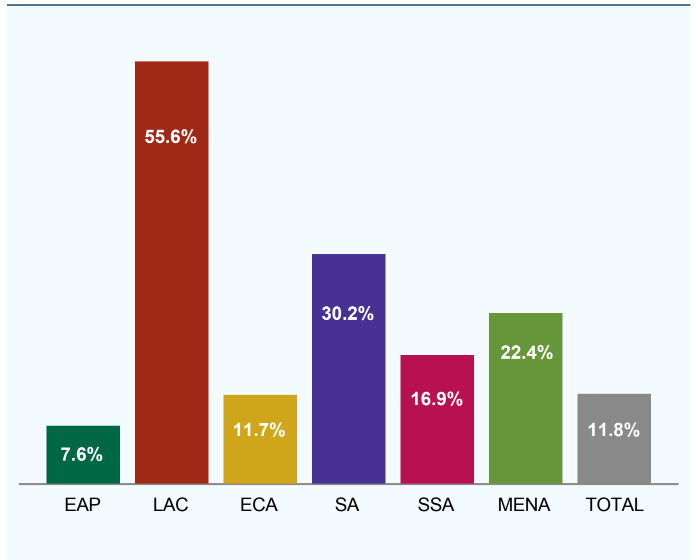
Chart 7: IFC FI Clients' MSME Outstanding Loan Portfolio Distribution (%) and MSME Finance Gap Distribution (%), 2017



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).

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



CLIENT HIGHLIGHT: AMRET, CAMBODIA

ABOUT THE CLIENT

Amret is a leading microfinance institution in headquartered in Phnom Penh, Cambodia, serving micro, small and medium enterprises and low-to-middle-income populations with a focus on agriculture, rural areas, district and provincial cities. Currently, 94 percent of its borrowers live in the villages.

Amret was launched in 1991 and obtained a license to operate as a deposit-taking MFI in 2009. Today, it provides a wide range of loan and deposit services to Cambodian men and women, farmers, small businesses, and households across 25 provinces throughout the country.

ENGAGEMENT WITH IFC

The relationship between Amret and IFC started in 2014, when IFC provided an equity investment of 17.3 million for 19.99 percent stake along with a senior A loan of $10 million to support the MFI's growth strategy with potential transformation into a commercial bank and contribute to increase access to finance for micro clients.

Subsequently, in 2016, IFC provided another senior loan facility of $60 million which is composed of $10 million on IFC's own account and $50 million from B lenders to support Amret to expand further its lending program to microfinance borrowers in Cambodia.

Recently, IFC invested in the form of a syndicated loan of $45 million, of which $10 million is for IFC's own account and $35 million for the account of participants to support increasing financial access for MSMEs in Cambodia. By investing, the project had also an important impact on the Cambodian financial market's performance: Amret is the second largest MFI in Cambodia and adopts industry-leading corporate governance and risk management platforms and is committed to responsible finance.

In addition to investment engagement, IFC has also been engaged with Amret on advisory services, including projects on overall risk management assessment, bank transformation analysis, strategy to mitigate interest rate cap, and credit risk management enhancement.

DEVELOPMENT RESULTS

Amret is recognized as an inclusive business by IFC due to the Company's reach to the base of the pyramid borrowers. Amret has been able to reach unbanked segments in Cambodia with long-term financing from IFC. Between 2015 and 2017, Amret's number of SME outstanding loans grew at a 53.2 percent CAGR and its SME loans volume grew by 68.9 percent. During those years, aggregate growth for volume of micro loans reached a CAGR of 2.9 percent. In 2017, total lending portfolio attributed to the MSME sector was $501 million among 206 thousand loans.

The MFI has also developed a significant strategy for women empowerment. Currently 77.4 percent of micro loans are directed to women. In addition, SME loans portfolio targeting women increased from 53.3 percent in 2015 to 55.3 percent of total SME loans in 2017. Amret also has offered deposit products since autumn 2009, and currently have about 404 thousand deposit accounts, which 56 percent are held by women.

Amret is also very active in other sectors, such as housing and agri-finance. Since 2015, the number of housing loans has increased 20.4 percent on a compound basis to 38 thousand loans in 2017. The MFI engages in agri-finance mainly through its microfinance services and several tailored products, such as group and bio digester loans. In addition, Amret has been developing the staff's agricultural lending skills and enhancing service delivery to reach remote farmers and rural populations.

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

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Alla Khodakivska | akhodakivska@ifc.org
Adel Meer | ameer@ifc.org

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