

IFC Financing to Micro, Small, and Medium Enterprises in East Asia and the Pacific

Key Highlights

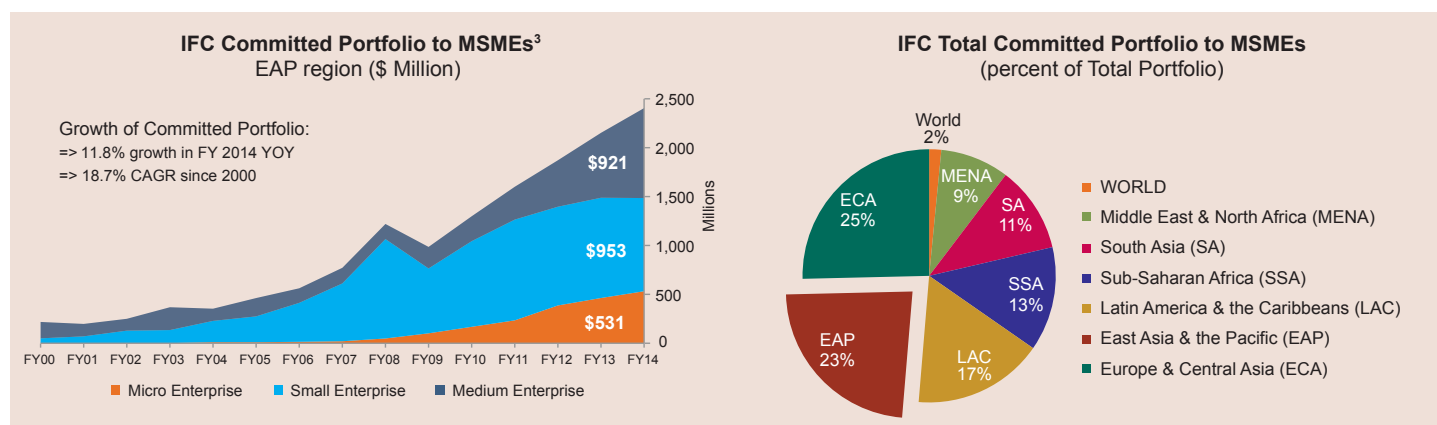
IFC is working to develop solutions to close the micro, small, and medium enterprise (MSME¹) financing gap, collaborating with 43 financial institutions (FIs) across 12 countries in the East Asia and the Pacific (EAP) region.

As of June 2014, IFC committed a total of \$3.0 billion to MSME finance in the EAP region², \$2.4 billion for long term finance (including \$156.9 million for funds supporting MSMEs), and \$402.1 million for trade finance. In fiscal year (FY) 2014 alone, IFC MSME commitments in the region

were \$1.5 million (up 2.2 percent from the level in FY2013), \$626 million of which was attributed to long-term financing.

By the end of calendar year (CY) 2013, IFC's MSME clients had 4.6 million micro loans outstanding in the East Asia and Pacific (up 39.0 percent from 3.3 million in CY2012), totaling \$5.2 billion (up 7.1 percent from \$4.5 billion in CY2012). Similarly, IFC's MSME clients had over 1.8 million small and medium loans outstanding by the end of CY2013 (up 55.8 percent from 1.1 million previous year), totaling \$100.9 billion in this region (up 38.1 percent from \$73.1 billion in CY2012).

MSME Financial Intermediary Portfolio, FY2014 (as of June 2014)



MSME Loans by Type of IFC Clients in EAP Region, CY2013

MSME Loans by Microfinance Institutions

IFC was able to survey or extrapolate outreach data from 23 clients - microfinance institutions (MFI) in 8 countries, 52 percent of these clients received advisory services from IFC.

	Number of Loans Outstanding	Outstanding Loan Portfolio in '000 \$	Average Loan Size	NPL percent ⁴
Micro Loans	4,212,462	\$4,708,617	\$1,118	1%
Small Loans	101,784	\$1,978,228	\$19,436	2%
Medium Loans	3,357	\$683,906	\$203,725	2%

MSME Loans by SME Financial Institutions

IFC was able to survey or extrapolate outreach data from 20 clients - small and medium enterprises (SME) FIs in 8 countries, 60 percent of these clients received advisory services from IFC.

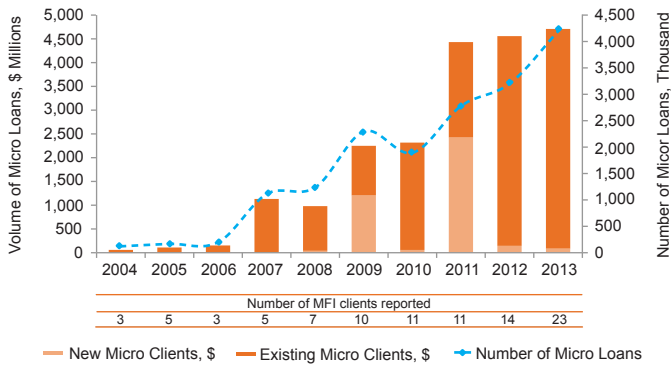
	Number of Loans Outstanding	Outstanding Loan Portfolio in '000 \$	Average Loan Size	NPL percent ⁴
Micro Loans	402,699	\$470,767	\$1,169	9%
Small Loans	1,104,536	\$29,149,551	\$26,391	5%
Medium Loans	576,827	\$69,084,535	\$119,766	5%

- MSME firm size definitions: IFC's Global Financial Markets categorizes its clients' sub-borrowers according to the following definitions: (1) microfinance institution if loan < \$10,000 at origination; (2) small enterprise if loan < \$100,000 at origination; (3) medium enterprise if loan < \$1 million at origination (\$2 million for advanced countries).
- The share of committed loans to microfinance institutions in the MSME regional committed portfolio increased from 21.5 percent in FY2013 to 22.1 percent in FY2014; small enterprises accounted for 39.6 percent in FY2014 (47.6 percent in FY2013); medium enterprises accounted for 38.3 percent in FY2014 (30.9 percent in FY2013).
- The committed portfolio in MSME FIs below does not include commitments for commercial banking trade finance and collective investment vehicles.
- Nonperforming Loan (NPL) = > 90 days past due loans.

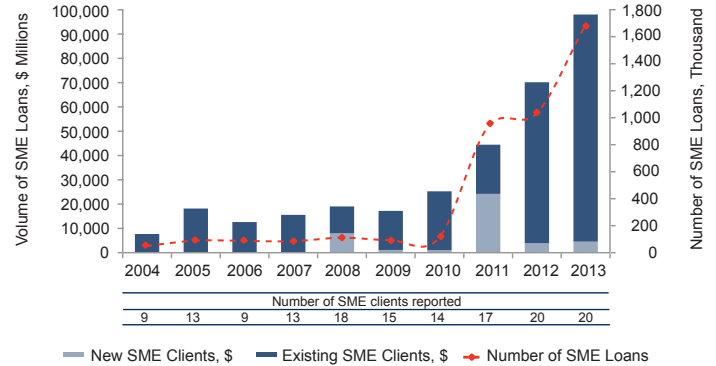


Growth Trends of Loan Volume by Type of Institution in EAP Region, CY2006-CY2013

Volume and Number of Micro Loans by MFIs



Volume and Number of SME Loans by SME FIs

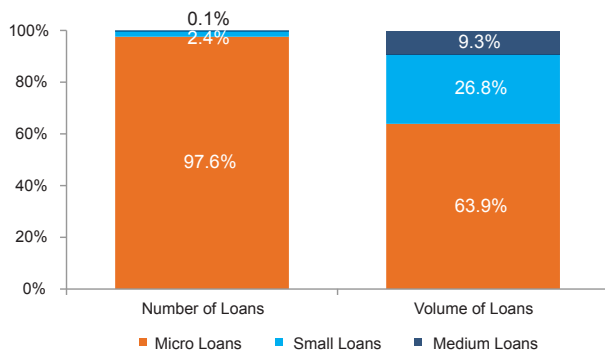


Micro loans portfolio demonstrated smooth growth over the last several years. Large swing in number and volume of micro loans in CY2011 was fostered by acquiring new clients in Indonesia, which accounted for 55 percent of MFI regional portfolio in CY2011. The drop in number of micro loans in CY2010, followed by the terminating business with a large Indonesian client which accounted for 30 percent of CY2009 micro loans volume in the region, was partially compensated by new entrants in IFC portfolio and scaling up of existing clients' portfolios. In CY2013 the micro loan portfolio of MFIs increased by 31 percent in number and 3 percent in volume terms. This growth was driven by growing the existing portfolio and adding 6 new clients in China, 3 new clients in Indonesia and large client in Vietnam.

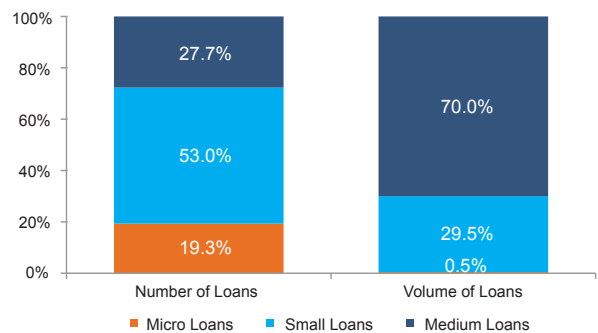
The major driver of significant growth in number (8.7 times) and volume (76 percent) of small and medium loans provided by SME FIs in CY2011 was the acquisition of new large clients in China, Vietnam and Philippines, which jointly accounted for 53 percent of SME portfolio in CY2011. Less steep but still fast growth in CY2012 was attributed to significant growth in volume (3 times) and number of loans (2.7 times) of one of IFC partners in China. This client accounted for 53 percent of this segment portfolio in CY2012. SME loan portfolio by SME focused IFC clients grew by 64 percent in number and 40 percent in volume terms in CY2013. Of this growth, 84 percent was dedicated to the growth of existing portfolio and remaining 16 percent to the new clients acquired during the year.

MSME Portfolio Composition by Loan Category in EAP Region, CY2013

Loan Portfolio of MFIs

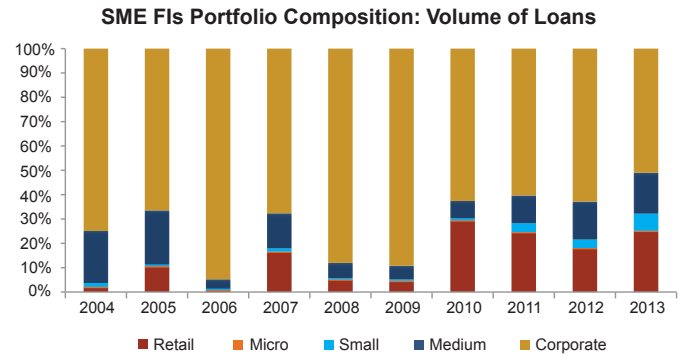
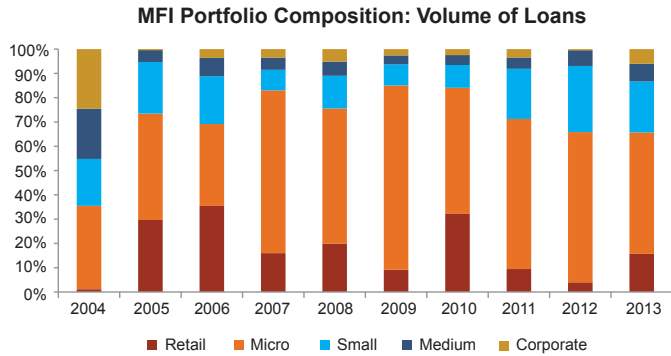


Loan Portfolio of SME FIs





Portfolio Composition by Loan Category in EAP Region, CY2004-2013

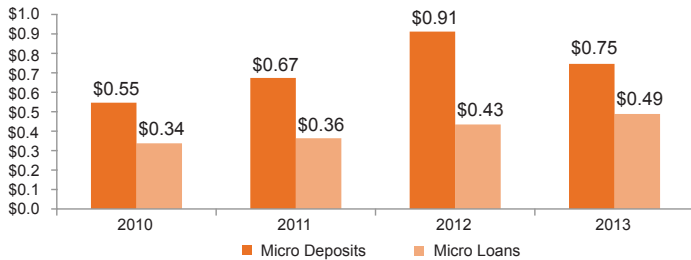


Deposits versus Loans Comparison CY2010-CY2013⁵

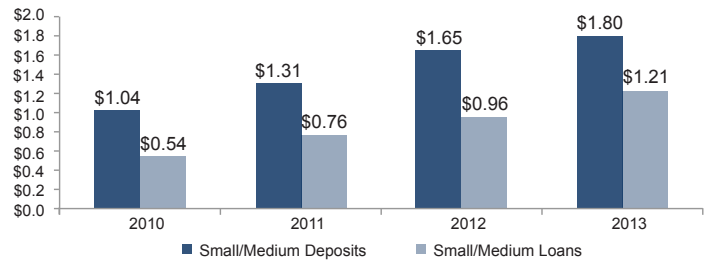
In order to understand the strengths of the IFC clients' portfolios it is important to analyze the trends in assets and liabilities of client financial institutions. The dynamic trends can be assessed by comparing the loan and deposit portfolios of the sampled microfinance institutions and banks. Over the last several years the deposits received by MFIs in EAP region demonstrated stable growth, with a slight decrease in 2013 by 18 percent followed by decrease in deposits volume of one of the clients in Cambodia (by 37 percent). This resulted in the smaller, but still strong funding base of the sampled institutions. Larger in size deposits placed

with MFIs (small and medium sized deposits) demonstrated the steady growth over the last 4 years, resulting in 20 percent compounded annual rate since 2010. The deposits held by SME FIs had an inconsistent trend over the last four years with the slight drop in 2011, followed by significant decrease in deposits volume held by one of the clients in Papua New Guinea from \$1 bln in 2010 to \$4 mln. In 2013 both micro and small/medium deposits grew by 21 percent and 26 percent respectively, largely overweighting the loan portfolio by \$5.9 billion.

Volume of Micro Loans and Deposits by MFIs in EAP Region (\$ Billion)



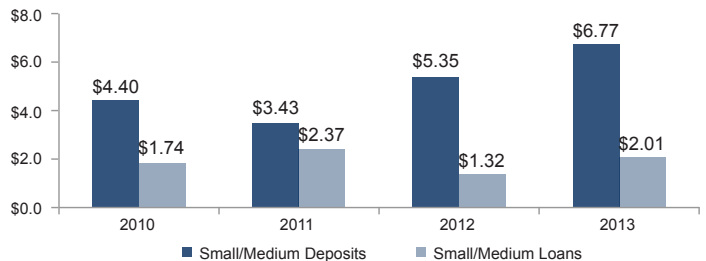
Volume of Small/Medium Loans and Deposits by MFIs in EAP Region (\$ Billion)



Volume of Micro Loans and Deposits by SME FIs in EAP Region (\$ Billion)



Volume of Small/Medium Loans and Deposits by SME FIs in EAP Region (\$ Billion)

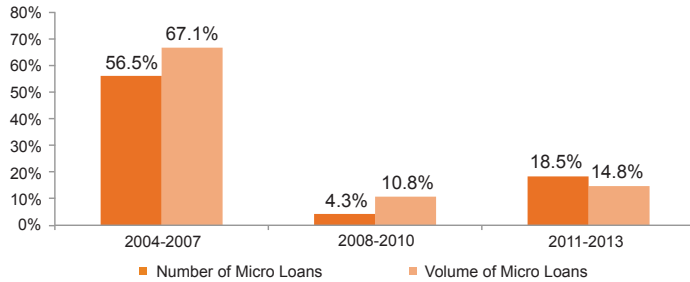


5. Micro and Small/Medium deposits classification is based on the deposit size and irrespective of the recipient (retail/commercial). The classification was done in accordance with definition of the relevant loan size noted in footnote 1.

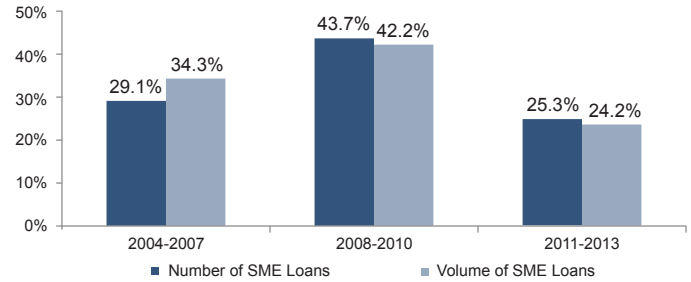
Loan-Deposit analysis are done on the basis of repeated clients, which means that the data used for comparison of Micro/SME loans and deposits are comprised only of those clients that reported each of the last 4 years all 4 data series (Micro deposits, SME deposits, Micro Loans, SME Loans). Globally IFC had 72 such clients, 31 of which are in IDA countries, 7 of such clients reside in EAP.

Trend Analysis of Compounded Annual Growth Rate (CAGR)⁶

CAGR Trend – Micro Loans by MFIs in EAP Region



CAGR Trend – SME Loans by SME FIs in EAP Region



Client Highlight: The CARD SME Bank, Philippines

About the client

Started in 1986, CARD MRI is a group of 11 mutually reinforcing development institutions committed to alleviating poverty in the Philippines and empower economically challenged Filipinos to become responsible citizens for their community. As of July 2014, CARD MRI had 2.5 million clients served, among which 1.3 million are the clients with loans. CARD MRI provides services through its 205 branches and 1,263 office units in 71 provinces. As of July 2014, total asset of CARD MRI were more than US\$410 million with a total staff complement of 7,247.

The CARD SME Bank Inc. (the Bank) was incorporated in the Philippines on October 4, 1961. In 2011 The Bank was converted into a regular thrift bank and changed its major purpose from that of rural banking to thrift banking with focus on SMEs. The Bank offers a wide range of products and services such as deposit and loan products mainly to the consumer and SME markets, using appropriate credit evaluation methodology and cash flow based lending so that borrowers are not necessarily required to have hard collateral. As of October 2014 Card SME Bank had 219 thousand clients served, 134 thousand of which are borrowers with US\$25.7 million loans outstanding.

Engagement with IFC

In 2009, CARD SME Bank engaged IFC to provide assistance in developing their SME business segment. The SME project concluded in June 2011, and as of December 2013, total loans of CARD SME Bank amounted to US\$21 million.

IFC has started the agrifinance project (capacity building) with CARD SME in July 2013, making it the first project partner within the regional Philippine AgriFinance program. IFC conducted value chain studies in the regions covered by CARD SME's branches to assess the key crop sectors and the related farmer risk profiles. Based on these studies,

IFC recommended CARD to start financing sectors evaluated as low risk, namely piggeries pig farms and egg layerslaying chickens. As CARD builds expertise, they can expand their lending appetite to other sectors.

Implementation of the CARD SME project continued with a 3-week training in February 2014 for agri loan and credit officers on crop and livestock production, finance & risk analysis including the use of risk assessment and cash flow tools for agri lending and field coaching designed to start farmer visits to kick off the pilot program. Also a 2-day training on agri risk assessment and cash flow tools was provided to the SME team in June. The entire SME team participated to allow all loan officers to be exposed to agri finance and understand the entire process. The IFC team emphasized the need to implement standard processing times and strategic marketing strategies for agri lending. IFC also provided inputs in drafting the lending policy and operational manuals for agri lending.

CARD SME Bank started the pilot of agri lending in April 2014 and is currently in negotiations with IFC for IFC to provide technical assistance for the full roll-out of the agrifinance program.

Development Results

The engagement with IFC on SME development helped CARD SME to scale up its portfolio of outstanding loans from US\$1 million in 2011 to US\$21 million by the end of 2013.

CARD SME's partnership with IFC in agrifinance space will allow agribusiness players, especially farmers, to grow their businesses and pursue other opportunities that would normally be beyond their reach. Farmers can have better access to resources and agricultural inputs, which will improve their productivity and profitability, and increase their participation in the country's economic development.

6. Compounded annual growth rate (CAGR) from 6 reporting and repeated clients in the 2004-2007 period, 7 reporting and repeated clients in the 2008-2010 period, 17 reporting and repeated clients in the 2011-2013 period, excluding greenfield institutions and FIs that are closing their operations.