IFC Financing to Micro, Small, and Medium Enterprises Globally (FY2013)

Lack of access to financial services is a key barrier to the growth of micro, small, medium enterprises (MSMEs). IFC is working to develop solutions to close the MSME financing gap, collaborating with 314 financial institutions (FIs) across 90 countries globally. By partnering with many types of financial intermediaries, including microfinance institutions (MFIs), commercial banks, leasing companies, and private equity funds, IFC reaches many more small and medium enterprises (SMEs) than it could directly.

IFC offers a wide range of financial products, including loans, equity and risk management solutions, to help FIs scale up and enter the MSME market. As of June 2013, IFC committed a total of $14.5 billion to MSME finance globally, $12.8 billion for long-term finance (including $2.3 billion for funds supporting MSMEs), and $1.7 billion for trade finance. In fiscal year (FY) 2013 alone, IFC MSME commitments globally were $6 billion (up 11.5 percent from $5.4 billion in FY2012), $2.6 billion of which was attributed to long-term financing.

By the end of calendar year (CY) 2012 IFC’s MSME clients had 22.9 million micro loans outstanding globally (up 16 percent from 19.7 million in CY2011), totaling $25.1 billion (up 27 percent from $19.8 billion in CY2011). Similarly, IFC’s MSME clients had over 5.8 million small and medium loans outstanding by the end of CY2012 (77 percent up from 3.3 million in CY2011), totaling $243.8 billion globally (up 35 percent from $181.2 billion in 2011).

MSME Financial Intermediary Portfolio, FY2013 (as of June 2013)

MSME Loans by Type of IFC Clients, CY2012

MSME Loans by Microfinance Institutions
IFC was able to survey or extrapolate outreach data from 113 MFIs in 53 countries, 51 percent of these clients received advisory services from IFC.

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>Outstanding Loan Portfolio Number</th>
<th>Average Loan Size</th>
<th>Number of Loans to Women</th>
<th>NPL %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Loans</td>
<td>14,404,382</td>
<td>15,558,202</td>
<td>1,080</td>
<td>60.9%</td>
</tr>
<tr>
<td>Small Loans</td>
<td>961,893</td>
<td>15,775,129</td>
<td>16,400</td>
<td>36.7%</td>
</tr>
<tr>
<td>Medium Loans</td>
<td>65,610</td>
<td>18,437,263</td>
<td>281,015</td>
<td>17.7%</td>
</tr>
</tbody>
</table>

MSME Loans by SME Financial Institutions
IFC was able to survey or extrapolate outreach data from 201 SME FIs in 72 countries, 45 percent of these clients received advisory services from IFC.

<table>
<thead>
<tr>
<th>Type of Loan</th>
<th>Outstanding Loan Portfolio Number</th>
<th>Average Loan Size</th>
<th>Number of Loans to Women</th>
<th>NPL %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Micro Loans</td>
<td>8,483,011</td>
<td>9,574,619</td>
<td>1,129</td>
<td>11.8%</td>
</tr>
<tr>
<td>Small Loans</td>
<td>3,318,753</td>
<td>48,237,516</td>
<td>14,535</td>
<td>16.6%</td>
</tr>
<tr>
<td>Medium Loans</td>
<td>1,500,669</td>
<td>161,340,433</td>
<td>107,512</td>
<td>14.6%</td>
</tr>
</tbody>
</table>

1. MSME firm size definitions: IFC’s Financial Institutions Group categorized 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 more advanced countries).
2. The share of committed loans to microfinance institutions in MSME committed portfolio increased from 18.8 percent in FY2012 to 19.9 percent in FY2013; small enterprises accounted for 48.6 percent in FY2013 (56.5 percent in FY2012); medium enterprises accounted for 31.5 percent in FY2013 (24.8 percent in FY2012).
3. The committed portfolio in MSME FIs below does not include commitments for commercial banking trade finance and collective investment vehicles.
4. Estimated percentage of outstanding loans to women in each loan size category. Data was reported by 54 MFIs and 35 SME FIs.
5. Nonperforming Loan (NPL) = > 90 days past due loans.
Volume of the loans grew consistently over time following the growth in number of IFC Partners. Number of MFI Partners increased by 21.5 percent in CY2012 which added $10 bln to the MSME loans portfolio since CY2011. While number of SME Partners increased by 15 percent, extending SME portfolio by $58 bln in dollar terms.

The product structure remains consistent: Micro Loans (60 percent of which are generated by MFIs) represent 9 percent of dollar portfolio in CY2012 and grew 26.7 percent since CY2011. SME Loans (86 percent of which were generated by SMEs) represent 91 percent of the entire MSME dollar portfolio and demonstrated improvement by 35 percent in dollar terms.

A total of 185 clients reported in CY2010, CY2011, and CY2012. During this period, the number of MSME loans they provided grew by 17.5 percent and volume increased by 19.1 percent.
**Trend Analysis of Compounded Annual Growth Rate (CAGR)**

**CAGR Trend - Micro Loans by MFIs Globally**

- 2004-2007: 34.7%
- 2008-2010: -2.6%
- 2011-2012: -2.8%

**CAGR Trend - SME Loans by SME FIs Globally**

- 2004-2007: 41.1%
- 2008-2010: 1.9%
- 2011-2012: 6.0%

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**Project Highlight: Global SME Finance Initiative**

**Background:**
More than 17 million formal SMEs in emerging markets have unmet finance needs. The formal SME finance gap is estimated to be between $900 billion and $1.1 trillion for SMEs in those markets. In response to Group of 20 (G20) recommendations to narrow the gap, the Global SME Finance Initiative ("Initiative") was created in March 2012 to act as a catalytic investment and advisory services platform over a 10-year period. The Investment Facility aims to provide financing to help financial institutions mitigate the risks of moving into challenging, underserved SME markets. The Advisory Services Component provides capacity building for Partner Financial Institutions (PFIs) to scale up SME portfolios, and supports financial infrastructure development, such as credit bureaus and credit registries.

**Funding/Structure:**
The Global SME Finance Initiative has been developed in partnership with governments and international and bilateral financial institutions. It seeks to provide comprehensive financing solutions for the SME sector. The United Kingdom (UK Aid through DFID) was the first contributor with GBP $75 million ($120 million) in March 2012, of which GBP $40 million ($64 million) for blended finance investments as part of the SME Finance Facility and GBP 35 million ($56 million) for Advisory Services, including support for G-20 activities to gather and disseminate knowledge on SME finance, in the form of grants for selected SME Finance Challenge winners and funding for the SME Finance Forum. In March 2012, IFC’s Board of Directors approved $200 million for the commercial tranche of the Investment Facility to leverage concessional funds. The European Investment Bank (EIB) has also committed $100 million through signing of the Facility Framework Agreement in July 2013 in Luxembourg.

This funding will be available only for Risk Sharing Facilities. The KfW, German government-owned development bank, is processing, for final internal approval, an initial participation of $75 million, and indicated interest in increasing its commitment after the initial $75 million is committed to current pipeline projects. Other IFIs are expected to join the Facility during FY2013-FY2014.

**Current Status:**
There are 41 active projects in 18 countries across Sub-Saharan Africa, South Asia, East Asia and Pacific, and Middle East and North Africa. Twenty six of these projects have requested IFC advisory assistance, fifteen were granted investment support. Current total value of the project is GBP $255.3 million ($409 million), including GBP$240.6 million approved investments and GBP $14.7 million active advisory projects. Current DFID contribution is GBP 20 million ($32 million), including GBP $11.3 million investments and GBP $8.7 million of advisory projects. In addition to projects already under the Facility, the Facility also has nine projects in investment pipeline and 15 projects in advisory pipeline that are expected to become active within six months. Furthermore, the Facility has 11 investment and 40 advisory projects in earlier stages of processing cycle in various regions, including Middle East and North Africa, East Asia and Pacific, South Asia, the Caribbean and Sub-Saharan Africa.

This is expected to increase reach of over 229,000 SMEs through loan (25,000 women SMEs) by March 2015 from current 27,000 SMEs (3,000 women SMEs); and raise loan value from current GBP $700 million to GBP $2.7 billion ($4.2 billion) including GBP 26.4M for women-owned SMEs.

In addition to making investments, IFC provides advisory assistance that strengthen and build capacity of FIs to effectively provide financial services to MSMEs. IFC Advisory Services range from developing new financial products to setting up full MSME banking operations in commercial banks. Much of IFC Advisory Services work is conducted by its regional teams, with client contribution and funding assistance from partnerships with donor governments and other multilateral institutions.

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7. Compounded annual growth rate (CAGR) from 30 reporting and repeated clients in the 2004-2007 period, 93 reporting and repeated clients in the 2008-2010 period, 132 reporting and repeated clients in the 2011-2012 period, excluding greenfield institutions and FIs that are closing their operations.