

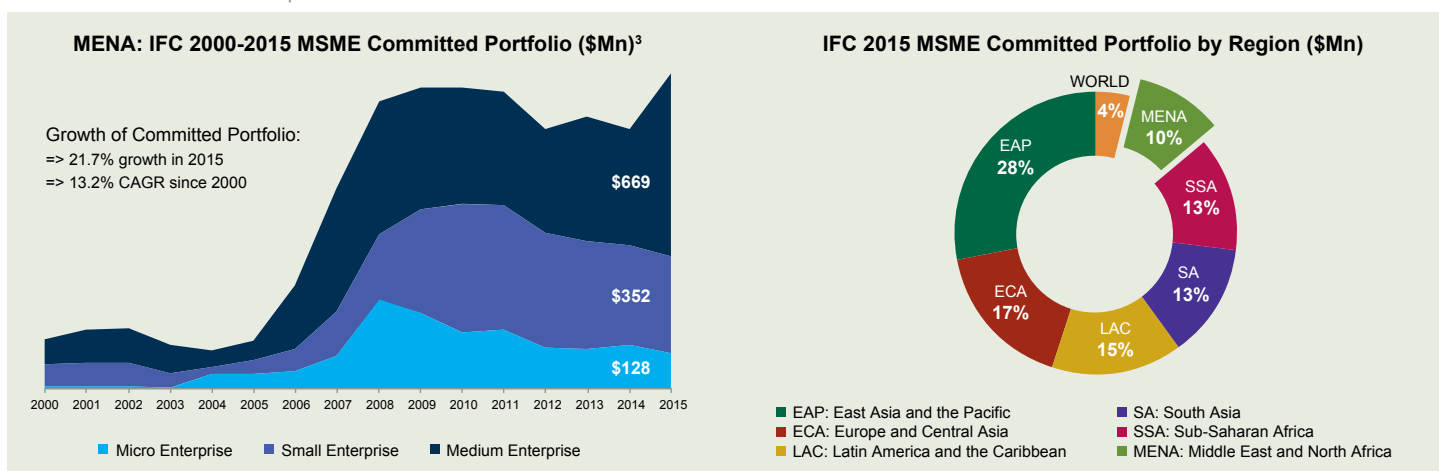
# MIDDLE EAST AND NORTH AFRICA

## 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.<sup>1</sup> IFC, through its network of over 60 financial institutions (FI) across 13 countries in Middle East and North Africa (MENA), 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,<sup>2</sup> IFC provided \$0.3 billion of long term finance to client FIs for MSME support in MENA. As of the end of 2015 IFC's committed long-term finance MSME portfolio in MENA was \$1.1 billion.

Chart 1. IFC Committed Portfolio



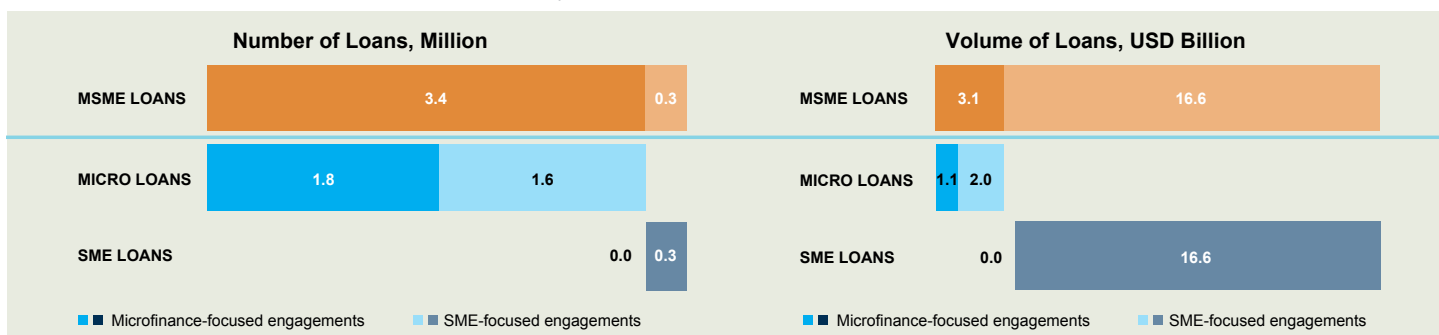
### MENA: ANALYSIS OF MSME REACH SURVEY DATA FROM IFC FINANCIAL INSTITUTION CLIENTS

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 46 clients<sup>4</sup> in 14 countries in MENA, which had over 7.7 million loans outstanding worth over \$150.7 million.<sup>5</sup> 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.<sup>6</sup> In 2014, 43 such clients in MENA had 3.4 million micro and 311.2 thousand SME loans totaling \$19.7 billion (see Chart 2).<sup>7</sup> Further analysis represents this group of clients.

Chart 2. MENA: 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. 89 percent of these clients provided actual data. The missing data were extrapolated.

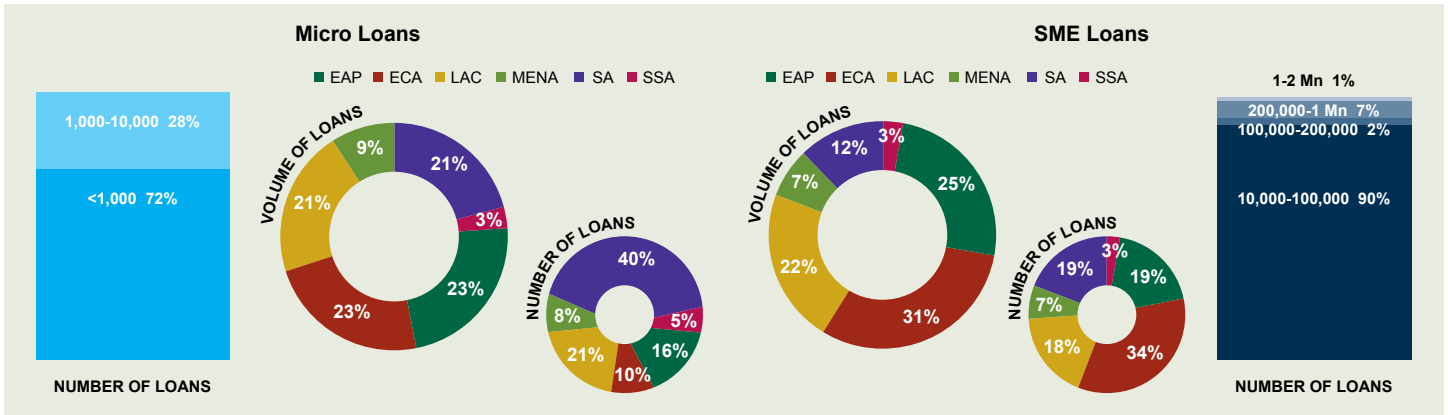
5. Reach Survey data is based on the calendar year cycle, which ends on December 31st, with the exception of a few clients that provide data based on different fiscal calendar.

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.



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



**MENA: 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 19 FI clients with microfinance-focused engagements in 10 countries, 42.1 percent of these clients received advisory services from IFC.

**SME FOCUSED ENGAGEMENTS**

In 2014, IFC was able to survey or extrapolate outreach data from 24 FI clients with SME-focused engagements in 11 countries, 41.7 percent of these clients received advisory services from IFC.

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

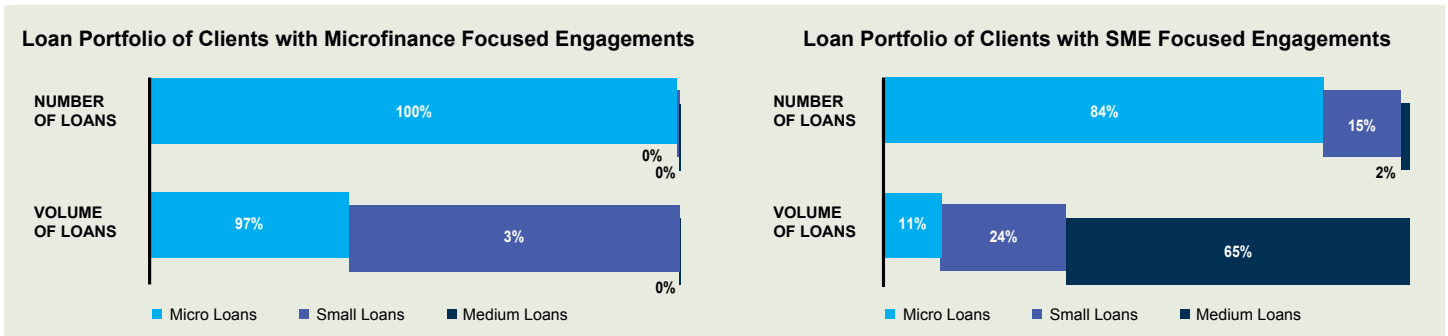


Table 1. Microfinance Focused Engagements in MENA: Detailed Loan Portfolio Breakdown, 2014

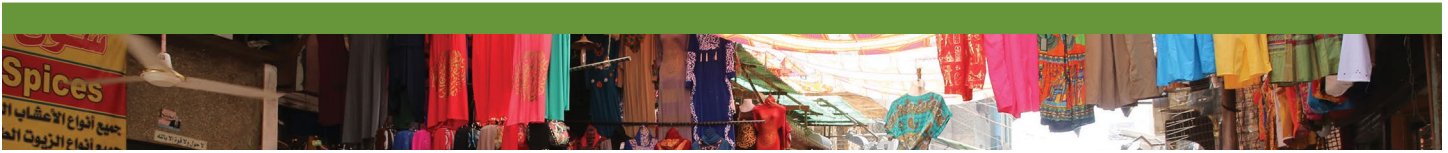
Loan	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women <sup>8</sup>	NPL percent <sup>9</sup>
	Number	'000 \$			
Micro	1,848,585	1,068,896	578	46.6%	1.0%
Small	2,171	34,199	15,753	21.8%	0.1%
Medium	2	326	162,874	0.0%	0.0%

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

Loan	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women <sup>8</sup>	NPL percent <sup>9</sup>
	Number	'000 \$			
Micro	1,587,116	2,000,637	1,261	6.6%	11.3%
Small	278,251	4,463,563	16,041	9.2%	9.8%
Medium	30,742	12,090,511	393,284	4.3%	8.1%

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 (46.6 percent of micro loans) and very low NPL levels. Clients with SME-focused engagements reported that about 4.3-9.2 percent of loans were issued to women entrepreneurs. The NPL level was at 8.1-11.3 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 16 clients with microfinance-focused engagements, and 2 clients with SME-focused engagements.  
 9. Nonperforming Loan (NPL) = > 90 days past due loans.



### MENA: MSME LOAN PORTFOLIO GROWTH AND DYNAMICS, 2004-2014

Volume of micro and SME loan portfolios of clients in MENA grew consistently over time. During 2004-2014, their MSME loan portfolio grew by more than twice by number, and by 85.9 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 32 existing clients grew by 20.8 percent, while the number of such loans increased by 50.1 percent over the year.

In 2014, 11 new IFC clients in MENA contributed to the wider MSME outreach with 511.3 thousand loan portfolio totaling in \$4.7 billion. At the same time, IFC exited investments (equity) or has been repaid (debt) by 6 clients with joint 151,8 thousand MSME loan portfolio worth \$1.8 billion in 2013. As a result of these factors, the volume of MSME loans increased by 39.0 percent, and the number of loans increased by 62.4 percent in 2014 compared to 2013.

A total of 26 MSME focused clients reported in 2012, 2013, and 2014. During this period, the number of MSME loans they provided grew by 22.9 percent and volume increased by 11.6 percent on a compounded basis.

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

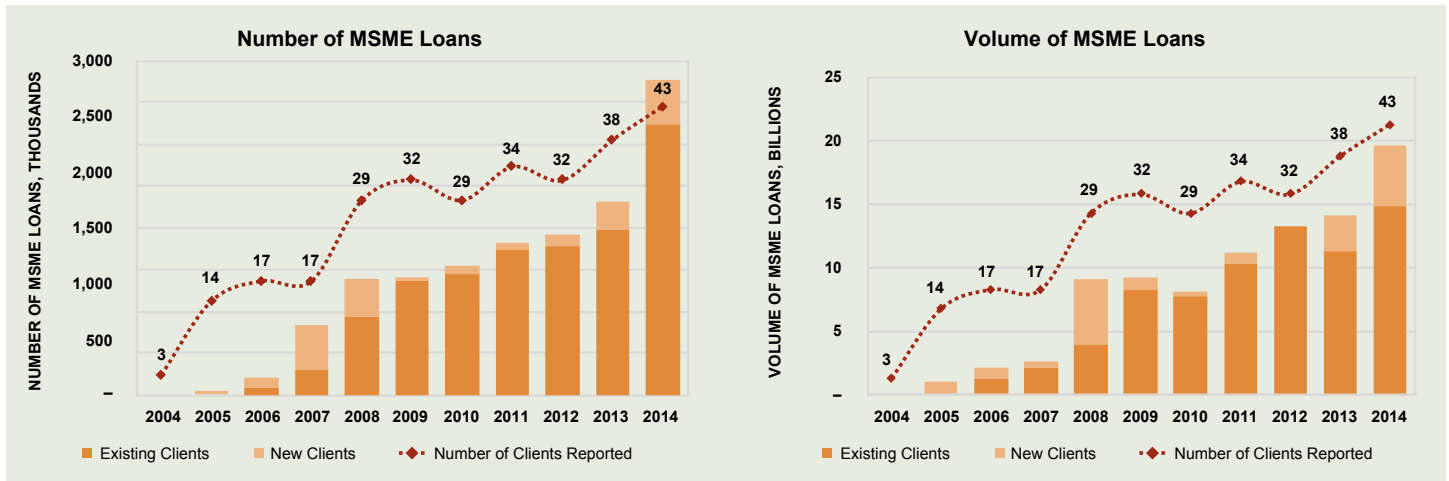
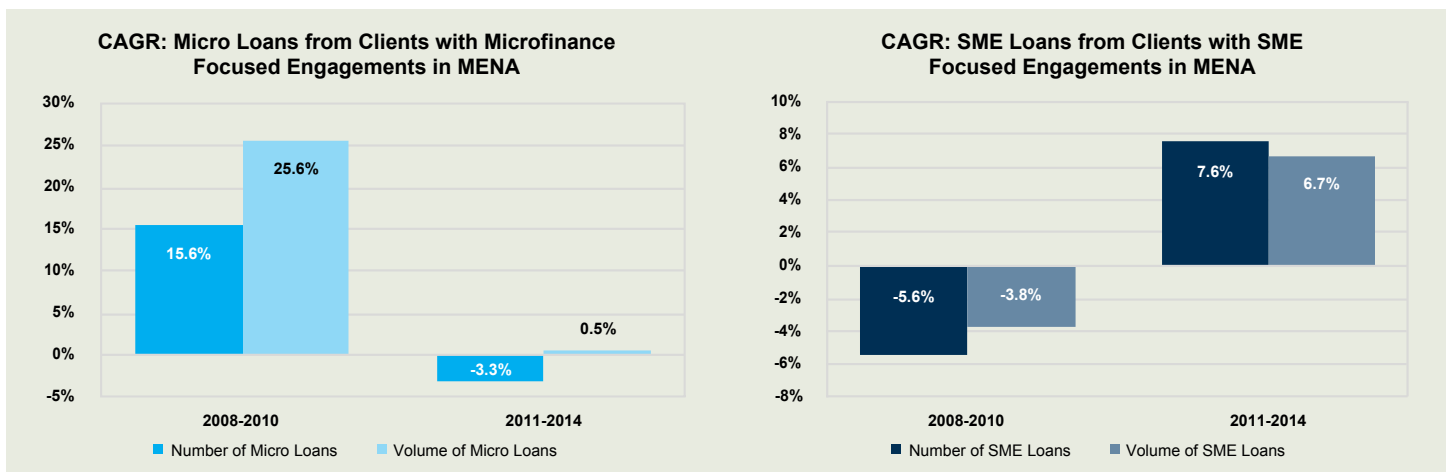


Chart 6. MENA: IFC Clients' Micro and SME Loan Portfolio Growth (CAGR), 2004-2014<sup>10</sup>



10. Compounded annual growth rate (CAGR) in MENA is calculated based on the data from 13 reporting and repeated clients in the CY2008-CY2010 period, 12 reporting and repeated clients in the CY2011-CY2014 period, excluding greenfield institutions and FIs that are closing their operations.

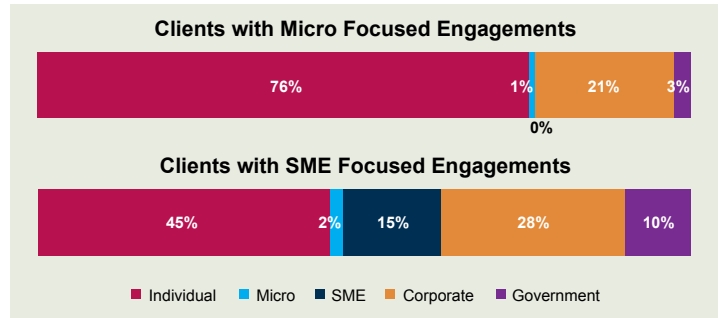


## MENA: DEPOSIT AND OTHER TRANSACTIONAL ACCOUNTS<sup>11</sup>

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 MENA



## CLIENT HIGHLIGHT: ALFALAH, PAKISTAN

### ABOUT THE CLIENT

Bank Alfalah Limited (“BAFL” or the “Bank”) is the fifth largest private sector bank in the country. It has a network of 648 branches that includes 157 Islamic Banking Branches. BAFL has an asset base of US\$7.7 billion, deposits of \$5.9 billion and an equity base of \$471 million as of Jun-15 with a ~6% market share (based on total assets). It also has presence in Bangladesh, Afghanistan and UAE and is listed on the Karachi, Islamabad and Lahore Stock Exchanges. The Bank has the fourth largest Islamic banking set up in the country in terms of branches that are spread across Pakistan. The Bank is majority owned by the Abu Dhabi Group comprising members of the Al Nahyan family, (one of the ruling families of the UAE) and leading businessmen and associates based in UAE.

### ENGAGEMENT WITH IFC

IFC’s relationship with BAFL started in 2007 through the GTFP program with an original limit of US\$20 million that was later enhanced to \$40 million. On the advisory side, IFC completed a SME advisory program with the Bank related to the market research, capacity building of its SME banking operations, credit process re-engineering & risk framework, Organization and Network Support and non-financial services including deployment of IFC SME toolkit on Bank Alfalah website. The project has been completed as of June 30, 2014 and the bank has implemented most of the major recommendations/action points. The newly established SME unit is housed within the Retail and Middle market group, which is the mainstay of the SME business model. This engagement paved the way for an equity opportunity in the Bank and IFC made an equity investment of \$66.7 million for a 15% stake in 2014. IFC is now engaged with the Bank on other advisory discussions including agri financing and digital finance.

### DEVELOPMENT RESULTS

IFC advisory support has helped Alfalah to determine the framework for serving SMEs, develop SME unit structure, set up KPI framework, and identify the coverage and staffing needs. BAFL has made changes in their existing SME product programs, as per IFC review and recommendations. The credit process was re-engineered for small loans and simplified across the business and risk functions, with a new Credit risk approval metric for the entire Retail and Medium markets group. Non-Financial Services for SMEs were also introduced for the first time in Pakistan. Bank Alfalah is hosting IFC SME toolkit on its website and also conducting seminars and knowledge sharing events for SMEs across Pakistan.

Bank Alfalah has disbursed 36,760 new loans to SMEs worth \$3.4Bn including funded and non-funded facilities and opened 53,324 new SME deposit accounts from Sept 2012 till June 30, 2015. In addition, the bank has reached out to 9,168 SMEs through IFC’s SME Toolkit.

The advisory and GTFP engagements were followed by an equity investment, which provided critical capital support to the Bank. IFC’s investment will support the Bank in growing its conventional and Islamic banking operations, increase penetration into priority areas like SME banking and agri finance helping improve access to finance.

While this is a relatively new investment and its results are yet to be seen. Some of the benefits of this investment are as follows:

- IFC’s equity investment provided critical capital support enabling the Bank to continue with its growth trajectory.
- IFC has nominated Efstratios Georgios (Takis) Arapoglou on the Board of BAFL, elected on May 27, 2015. The nominee brings extensive global knowledge of the financial sector and will provide guidance to help the Bank achieve its strategic objectives.
- The GTFP facility helped BAFL finance trade commitments of more than US\$365 million since inception, supporting trade of essential commodities such as oil and gas, agricultural products, chemicals and others.
- BAFL has developed an environmental and social management system and has started implementing it across its portfolio that is expected to have a demonstration effect and will help in making sustainable lending a sector wide trend.
- IFC continues to engage with the Bank to help it identify and strategize to enter new growth areas such as digital finance.

11. In CY2014, 41 MSME-focused FI clients in MENA 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.