

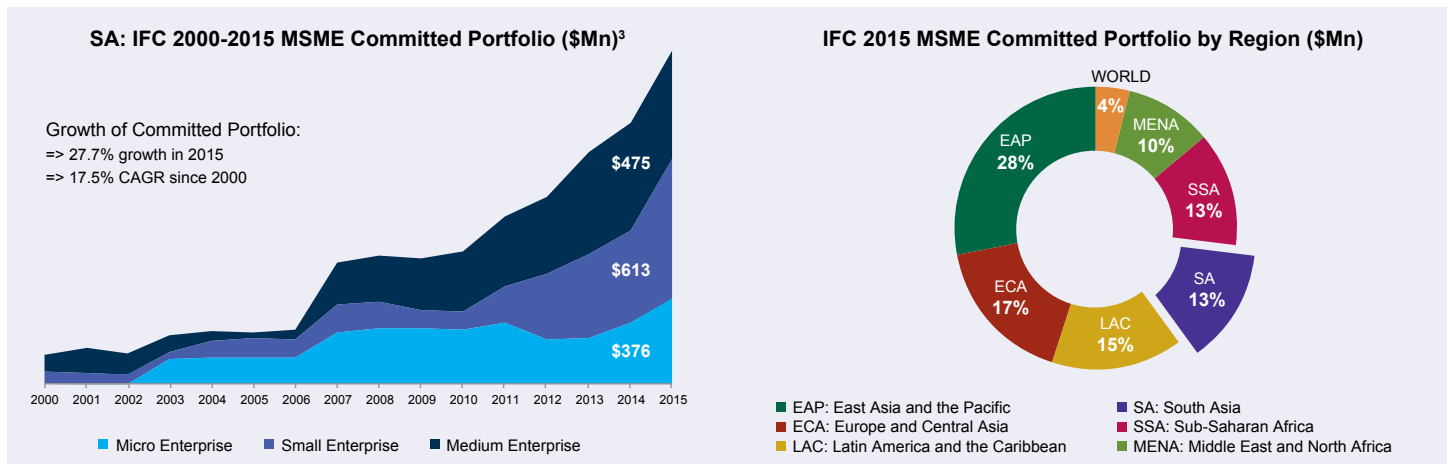
# SOUTH ASIA

## 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 50 financial institutions (FI) across 6 countries in South Asia (SA), 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 \$0.4 billion of long term finance to client FIs for MSME support in SA. As of the end of 2015 IFC's committed long-term finance MSME portfolio in SA was \$1.5 billion.

Chart 1. IFC Committed Portfolio



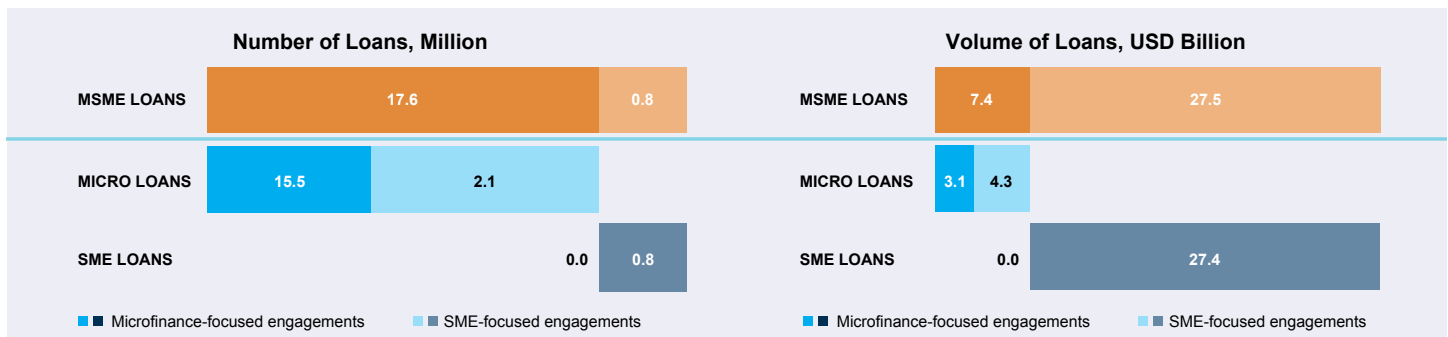
### SA: ANALYSIS OF MSME REACH SURVEY DATA FROM IFC FINANCIAL INSTITUTION CLIENTS

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 44 clients<sup>4</sup> in 6 countries in SA, which had over 49.1 million loans outstanding worth over \$218.4 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, 36 such clients in SA had 17.6 million micro and 814.3 thousand SME loans totaling \$34.9 billion (see Chart 2).<sup>7</sup> Further analysis represents this group of clients.

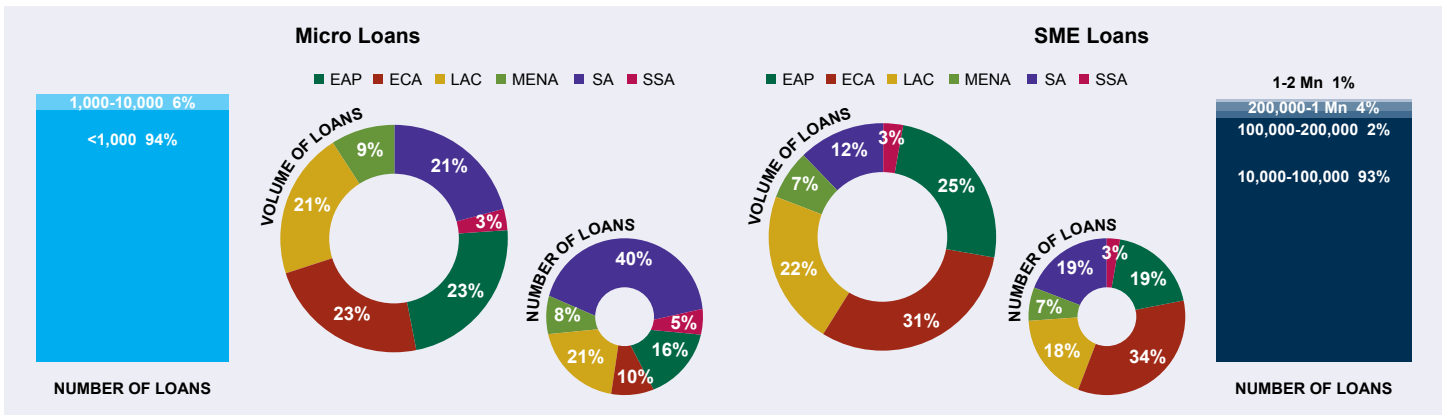
Chart 2. IFC FI Clients' Micro and SME Loan Portfolio, 2014



- Source: IFC Annual Report (2015).
- 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.
- The portfolio includes long-term financing to financial institutions, with the exception of commitments for trade finance and funds.
- 91 percent of these clients provided actual data. The missing data were extrapolated.
- 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.
- 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).
- 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. SA: IFC FI Clients' Micro and SME Loan Portfolio by Region and Loan Size at Origination, 2014



**SA: 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 14 FI clients with microfinance-focused engagements in 3 countries, 71.4 percent of these clients received advisory services from IFC.

**SME FOCUSED ENGAGEMENTS**

In 2014, IFC was able to survey or extrapolate outreach data from 22 FI clients with SME-focused engagements in 4 countries, 22.7 percent of these clients received advisory services from IFC.

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

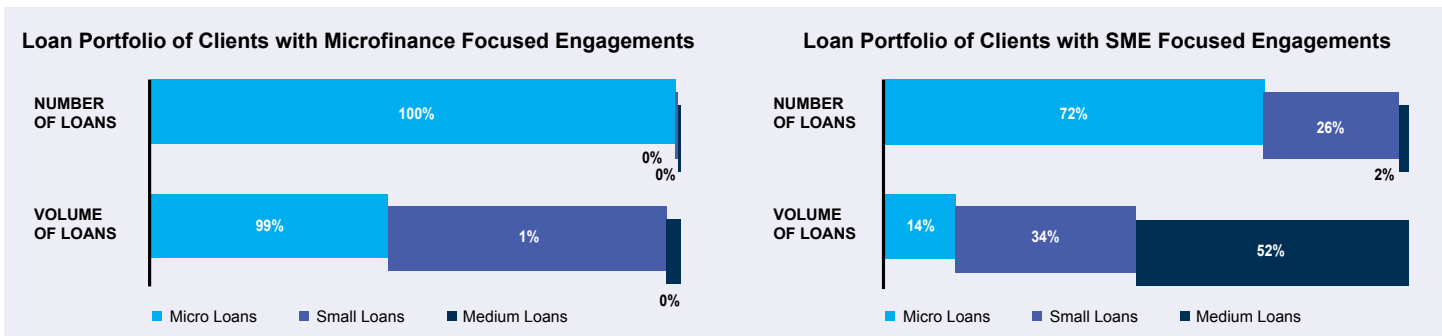


Table 1. Microfinance Focused Engagements in SA: Detailed Loan Portfolio Breakdown, 2014

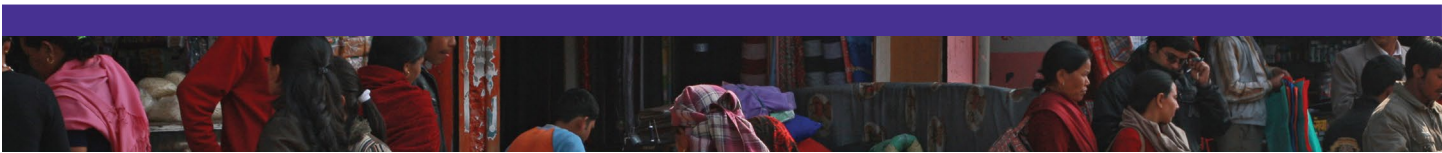
Loan	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women <sup>8</sup>	NPL percent <sup>9</sup>
	Number	'000 \$			
Micro	15,522,852	3,089,325	199	97.8%	0.3%
Small	2,239	40,830	18,236	97.4%	1.9%
Medium	8	2,313	289,187	0.0%	0.0%

Table 2. SME Focused Engagements in SA: 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	2,104,040	4,321,627	2,054	9.8%	9.0%
Small	755,130	10,849,181	14,367	16.0%	8.9%
Medium	56,890	16,563,136	291,142	49.0%	4.3%

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 and very low NPL levels. Clients with SME-focused engagements also reported significant reach to women entrepreneurs with medium size loans, although the medium loan reach to women has been reported only by 2 clients. The NPL level was at 4.3-9 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 5 clients with microfinance-focused engagements, and 6 clients with SME-focused engagements.  
 9. Nonperforming Loan (NPL) = > 90 days past due loans.



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

Volume of micro and SME loan portfolios of clients in SA grew consistently over time. During 2004-2014, their MSME loan portfolio grew by more than twice by number, and by 73.8 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 24 existing clients grew by 11.1 percent, while the number of such loans more than doubled over the year.

In 2014, 9 new IFC clients in SA contributed to the wider MSME outreach with 2.0 million loan portfolio totaling in \$1.6 billion. Only 5 from which IFC has exited investments stopped reporting. Their joint MSME portfolio counted 832.0 thousand loans worth \$727.5 million. As a result of these factors, the volume of MSME loans increased by 13.5 percent, while the number of loans increased by 174.8 percent in 2014 compared to 2013.

A total of 19 MSME focused clients reported in 2012, 2013, and 2014. During this period, the number of MSME loans they provided grew by 81.0 percent and volume increased by 11.2 percent on a compounded basis.

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

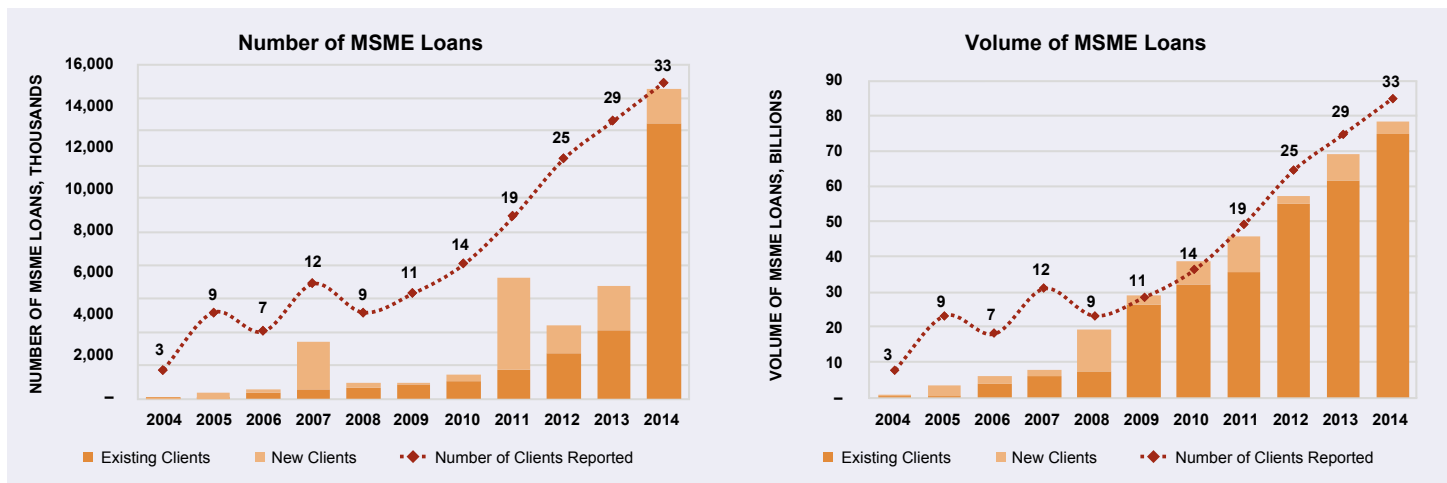
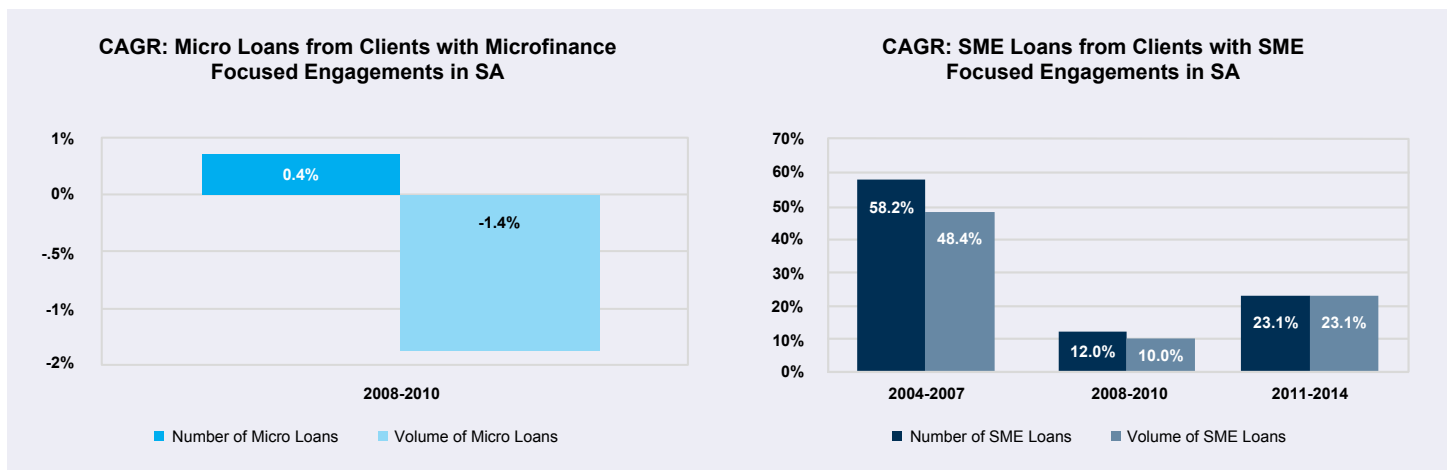


Chart 6. SA: IFC Clients' Micro and SME Loan Portfolio Growth (CAGR), 2004-2014<sup>10</sup>



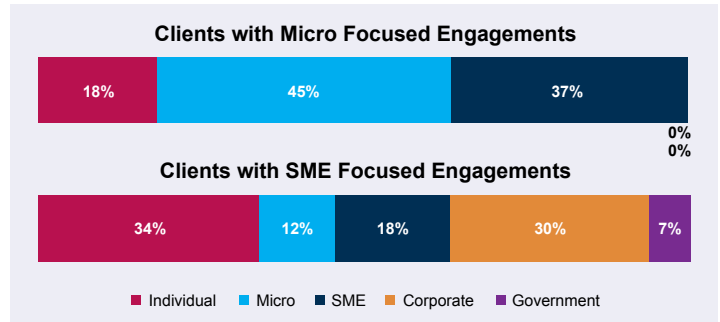
10. Compounded annual growth rate (CAGR) in SA is calculated based on the data from one reporting and repeated client in the CY2004-CY2007 period, three reporting and repeated clients in the CY2008-CY2010 period, nine reporting and repeated clients in the CY2011-CY2014 period, excluding greenfield institutions and FIs that are closing their operations.

## SA: 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 SA



## CLIENT HIGHLIGHT: YES BANK, INDIA

### ABOUT THE CLIENT

YES BANK (“the Bank”) is one of the India’s largest commercial banks with strong focus on sustainable banking targeting the SME and agricultural sectors as its key engine of growth. Of its 430 branches, 20 percent are in rural and semi-urban areas and 25 percent are in low income states (LIS).

### ENGAGEMENT WITH IFC

IFC is partnering with YES Bank in various endeavors. Its engagement with IFC in the advisory space is focused on the PPP markets in the agri sector, while the Bank has also signed a Memorandum of Understanding with IFC to explore investment opportunities in the North East, especially to support the SME sector.

With IFC’s objective of reaching more than 85,000 SMEs, particularly women-owned SMEs and SMEs in the LIS, IFC provided a \$150 million loan to YES Bank to increase its SME portfolio. The loan includes a performance incentive, to be disbursed annually, conditioned on YES Bank reaching a target number of women-owned SMEs and SMEs in the LIS, and maintaining the same through the tenor of the loan. YES Bank achieved the target in January 2015.

In July, 2015, IFC disbursed US\$50 million to be invested in Infrastructure Bonds issued by YES Bank. These Infrastructure Bonds are classified as Green Bonds and proceeds of the investment will be on lent to eligible projects in the renewable energy sector.

IFC has also recently sanctioned a new loan to YES Bank through the Women Entrepreneur Opportunity Facility, indicating that the Bank valued the relationship forged through the initial deal done under the Global SME Finance Initiative. As part of the investment, IFC included a blended finance portion to encourage YES Bank to reach a larger number of women-owned SMEs and SMEs in low income states. This engagement serves as a support to close the existing financing gap for women-owned SMEs.

### DEVELOPMENT RESULTS

At a time when there is almost no USD funding in the markets, IFC helped YES Bank to mobilize long term funding through syndications from its global network. IFC financing, accompanied by a capacity building program for MSME lending enabled the Bank’s expansion into MSME market. YES Bank significantly increased the number of SME loans outstanding and the value of its SME assets. SME lending is core to YES Bank’s strategy and the bank is consistently growing its SME portfolio. In addition, the bank has experienced significant growth in their lending to women-owned SMEs. Growth of the bank’s SME clientele in LIS has kept pace with its overall growth. For the Bank additional reach into LIS was a key strategic growth path.

11. In CY2014, 34 MSME-focused FI clients in SA 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.