

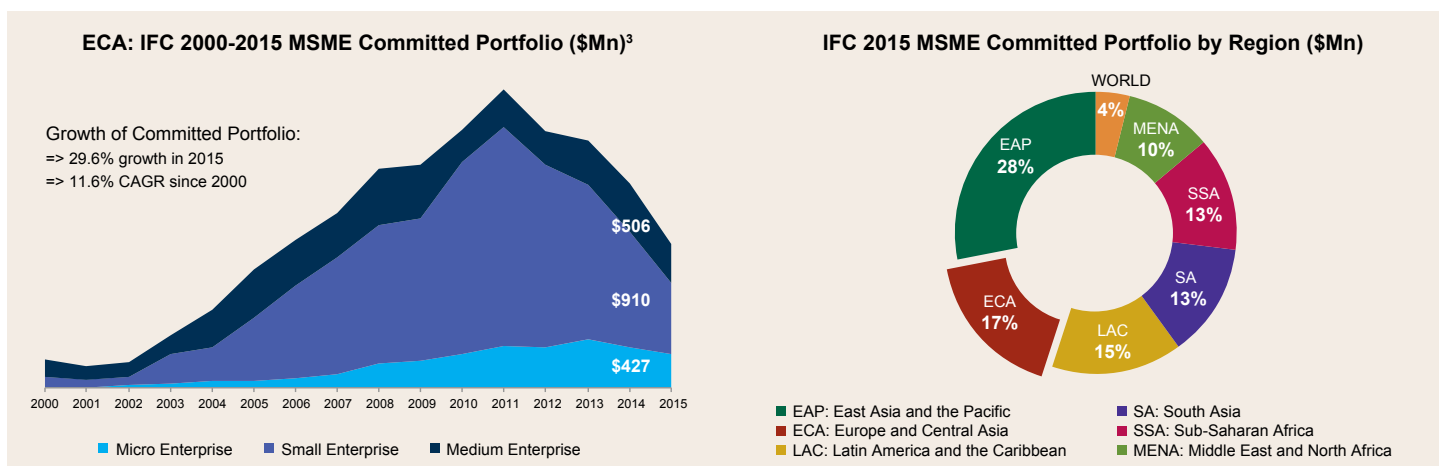
EUROPE AND CENTRAL ASIA

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.¹ IFC, through its network of over 110 financial institutions (FI) across 24 countries in Europe and Central Asia (ECA), 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 2015,² IFC provided \$0.3 billion of long term finance to client FIs for MSME support in ECA. As of the end of 2015 IFC's committed long-term finance MSME portfolio in ECA was \$1.8 billion.

Chart 1. IFC Committed Portfolio



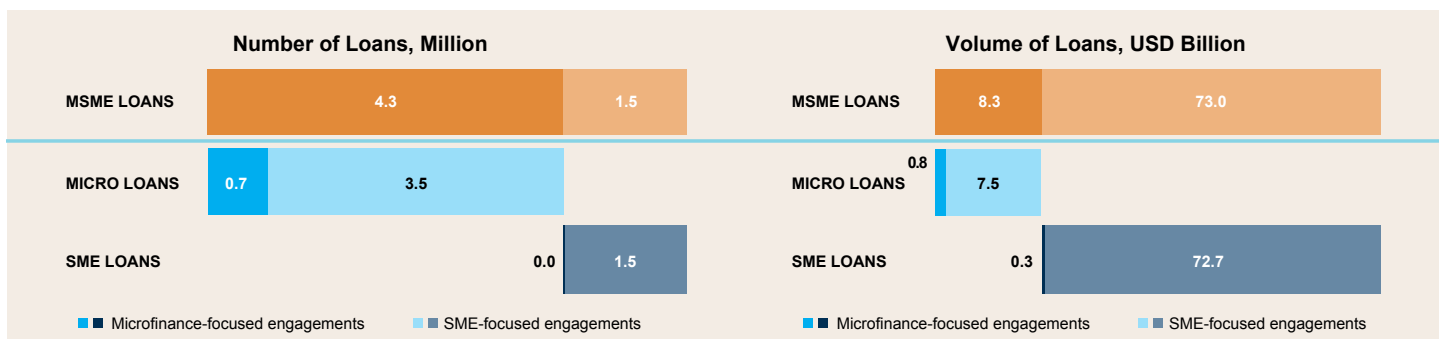
ECA: ANALYSIS OF MSME REACH SURVEY DATA FROM IFC FINANCIAL INSTITUTION CLIENTS

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 90 clients⁴ in 20 countries in ECA, which had over 43.6 million loans outstanding worth over \$285.5 million.⁵ 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.⁶ In 2014, 84 such clients in ECA had 4.3 million micro and 1.5 million SME loans totaling \$81.3 billion (see Chart 2).⁷ Further analysis represents this group of clients.

Chart 2. 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. 98 percent of these clients provided actual data. The missing data were extrapolated.

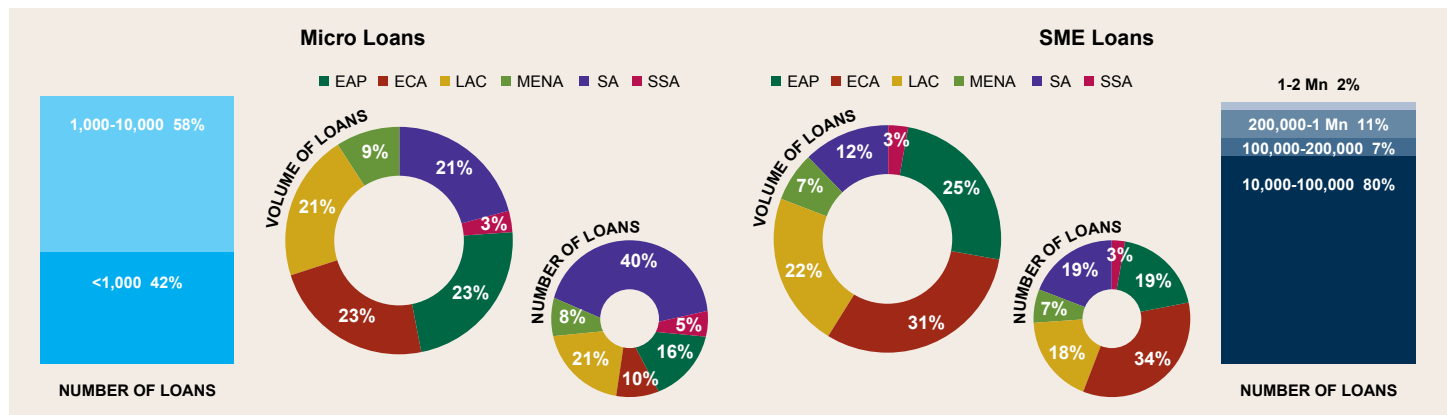
5. Reach Survey data is based on the calendar year cycle, which ends on December 31st, with the exception of a few clients that provide data based on different fiscal calendar.

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. ECA: IFC FI Clients' Micro and SME Loan Portfolio by Region and Loan Size at Origination, 2014



ECA: 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 7 countries, 57.1 percent of these clients received advisory services from IFC.

SME FOCUSED ENGAGEMENTS

In 2014, IFC was able to survey or extrapolate outreach data from 70 FI clients with SME-focused engagements in 20 countries, 31.4 percent of these clients received advisory services from IFC.

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

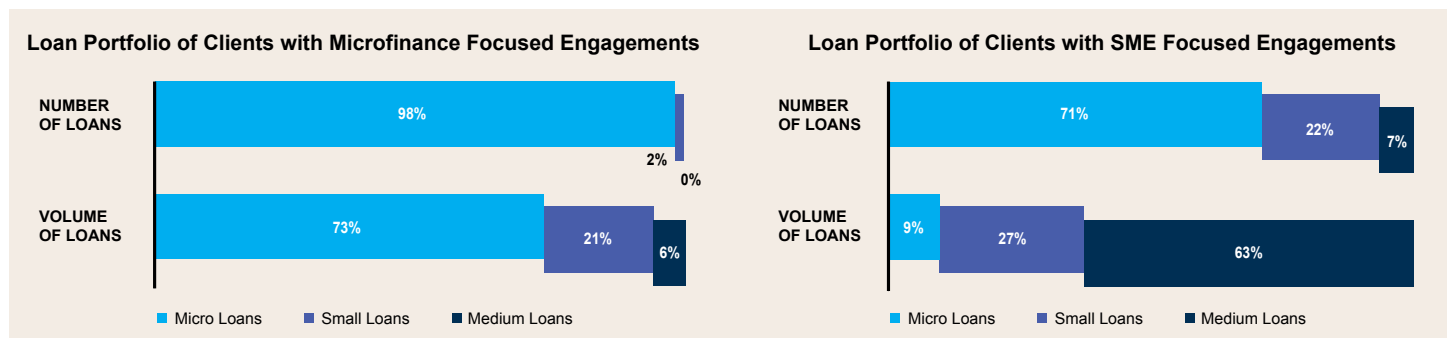


Table 1. Microfinance Focused Engagements in ECA: Detailed Loan Portfolio Breakdown, 2014

Loan	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women ⁸	NPL percent ⁹
	Number	'000 \$			
Micro	723,677	844,732	1,167	32.8%	1.8%
Small	13,362	236,607	17,708	22.3%	1.5%
Medium	369	70,376	190,720	8.1%	1.1%

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

Loan	Outstanding Loan Portfolio		Average Loan Size	Number of Loans to women ⁸	NPL percent ⁹
	Number	'000 \$			
Micro	3,528,459	7,480,151	2,120	25.4%	11.3%
Small	1,110,051	21,969,351	19,791	18.6%	9.1%
Medium	343,585	50,701,398	147,566	14.2%	7.8%

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 (32.8 percent of micro loans) and very low NPL levels, (below 2 percent). Clients with SME-focused engagements reported that about 14.2-25.4 percent of loans were issued to women entrepreneurs. The NPL level was at 7.8-11.3 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 12 clients with microfinance-focused engagements, and 24 clients with SME-focused engagements.
 9. Nonperforming Loan (NPL) = > 90 days past due loans.



ECA: MSME LOAN PORTFOLIO GROWTH AND DYNAMICS, 2004-2014

Volume of micro and SME loan portfolios of clients in ECA grew consistently over time. During 2004-2014, their MSME loan portfolio grew by 42.2 percent by number, and by 37.9 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 74 existing clients grew by 36.8 percent, while the number of such loans increased by 24.6 percent over the year.

In 2014, 9 new IFC clients in ECA contributed to the wider MSME outreach with 187 thousand loan portfolio totaling in \$1.8 billion. At the same time, 23 exited clients pushed the overall MSME portfolio volume down. Specifically, IFC's exit from its equity investments in one of the large clients in Romania, which held \$3.3 billion MSME loan portfolio last year, significantly affected the overall portfolio. As a result of these factors, the number of MSME loans increased by 30.2 percent, and the volume of loans increased by 14.1 percent in 2014 compared to 2013.

A total of 66 MSME focused clients reported in 2012, 2013, and 2014. During this period, the number of MSME loans they provided grew by 29.4 percent and volume increased by 17.3 percent on a compounded basis.

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

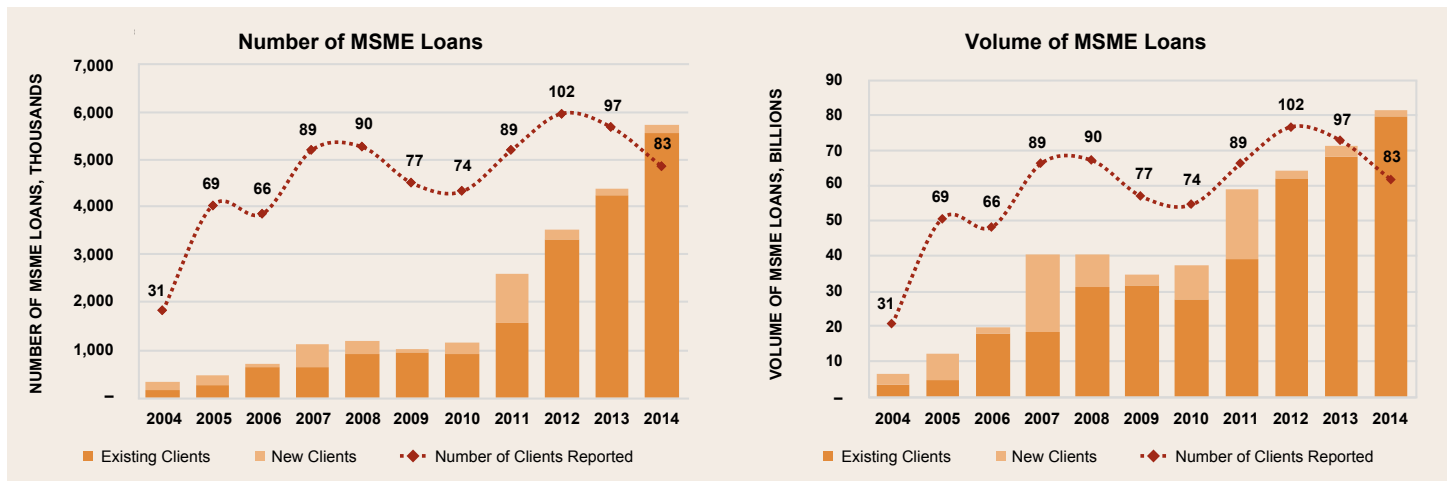
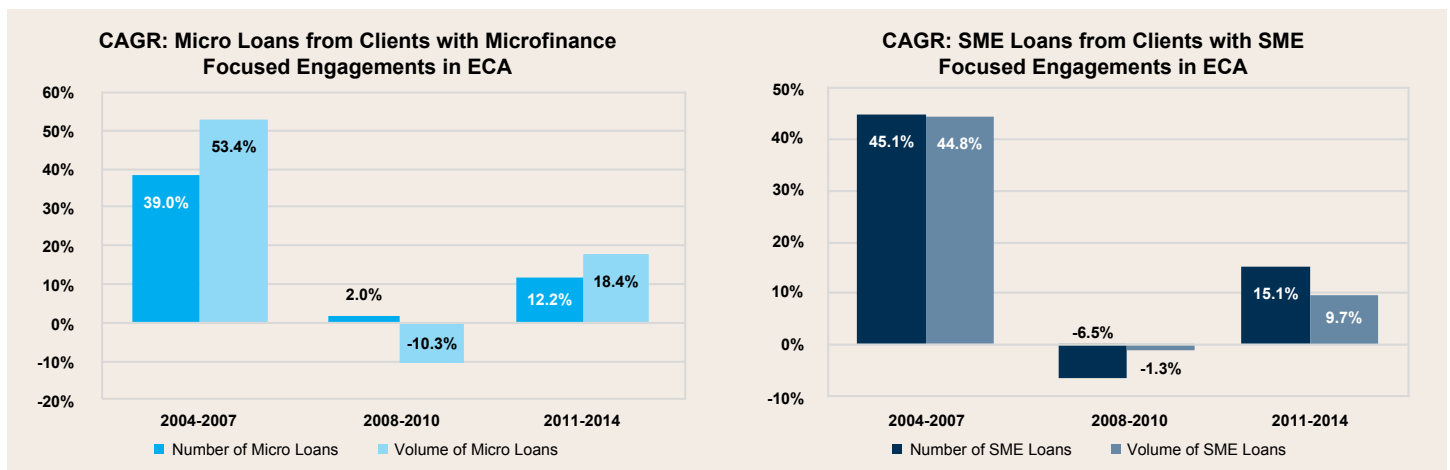


Chart 6. ECA: IFC Clients' Micro and SME Loan Portfolio Growth (CAGR), 2004-2014¹⁰



10. Compounded annual growth rate (CAGR) in ECA is calculated based on the data from 16 reporting and repeated MSME focused clients in the 2004-2007 period, 40 reporting and repeated clients in the 2008-2010 period, 48 reporting and repeated clients in the 2011-2014 period, excluding greenfield institutions and FIs that are closing their operations.

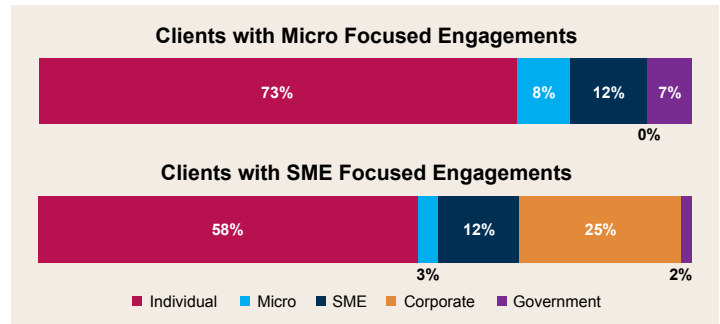


ECA: DEPOSIT AND OTHER TRANSACTIONAL ACCOUNTS¹¹

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 ECA



CLIENT HIGHLIGHT: ARNUR CREDIT, KAZAKHSTAN

ABOUT THE CLIENT

Arnur Credit (Arnur) is the second largest MFI in Kazakhstan, which provides financial services to rural entrepreneurs and has a strong regional focus in the Southern Kazakhstan area with a network of 61 branches. Arnur was established in 2001 by three individuals as a rural Credit Partnership to provide loans only to its members. Successful operational performance and high demand for microfinance products allowed Arnur to expand its clientele base through transformation into a Microcredit Organization in 2003 and a Microfinance Organization in 2015.

ENGAGEMENT WITH IFC

Despite the fact that the financial system in Kazakhstan is considered to be more developed than in many other post-Soviet countries, bank credit remains inaccessible to many entrepreneurs, especially in rural areas. An efficient and effective microfinance industry has the potential to play an important role in addressing the many social and economic challenges Kazakhstan is currently facing especially in the provinces. IFC engagement with Arnur aimed to contribute to an increased outreach in access to finance in the Southern Kazakhstan, a frontier region per IFC classification, specifically, to support Arnur Credit's dynamic growth and expansion plans. In 2012 IFC had provided a senior loan to Arnur Credit of \$3 million denominated in Kazakh tenge for three years to help Arnur to meet its growth plans. In addition, IFC approved cross-currency swaps for the total notional amount of US\$22.6 million in 2012, 2013 and 2014, thus helped Arnur Credit to mitigate FX risks and better manage its assets and liabilities. In addition, since October 2013 IFC is providing advisory support to strengthen Arnur Credit's institutional capacity. Specifically, IFC designed a comprehensive advisory engagement to support Arnur's growth strategy, including: Loan Officer Recruitment and Training, Corporate Governance Improvement, Branch Network Management and Strategic and Business Planning. To date, the project has:

- Strengthened Human Resource Management with recommendation in HRM policy and procedures that were accepted by the BoD.
- Trained 24 loan officers.
- Developed recommendations in improvement of Corporate Governance of the company.
- Signed an advisory agreement on Strategic and Business Planning.
- Developed a proposal on Branch Network Management.

DEVELOPMENT RESULTS

Arnur Credit's vision is to meet the financing needs of micro and small businesses in the southern part of Kazakhstan and engagements with IFC have helped Arnur in reaching its strategic goals. Arnur Credit's loan portfolio has grown from \$12 million as of December 2011 to almost \$39 million as of December 2014. The number of clients has grown from 6,600 in December 31, 2011 to 15,576 clients in June 2015. NPLs based on PAR 30 days were 3.5% in June 2015 (3.2% as of December 2014). Net Profit has reached about \$1.7 million in June 2015 (\$2.3 million in June 2013) due to additional loan loss provisions created.

11. In CY2014, 81 MSME-focused FI clients in ECA 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.