

# Progress on the SME Finance Agenda

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# Outline

- Why focus on SMEs
- The SME finance gap
- The link between SMEs and jobs in emerging markets
- IFC has a leadership role in SME finance

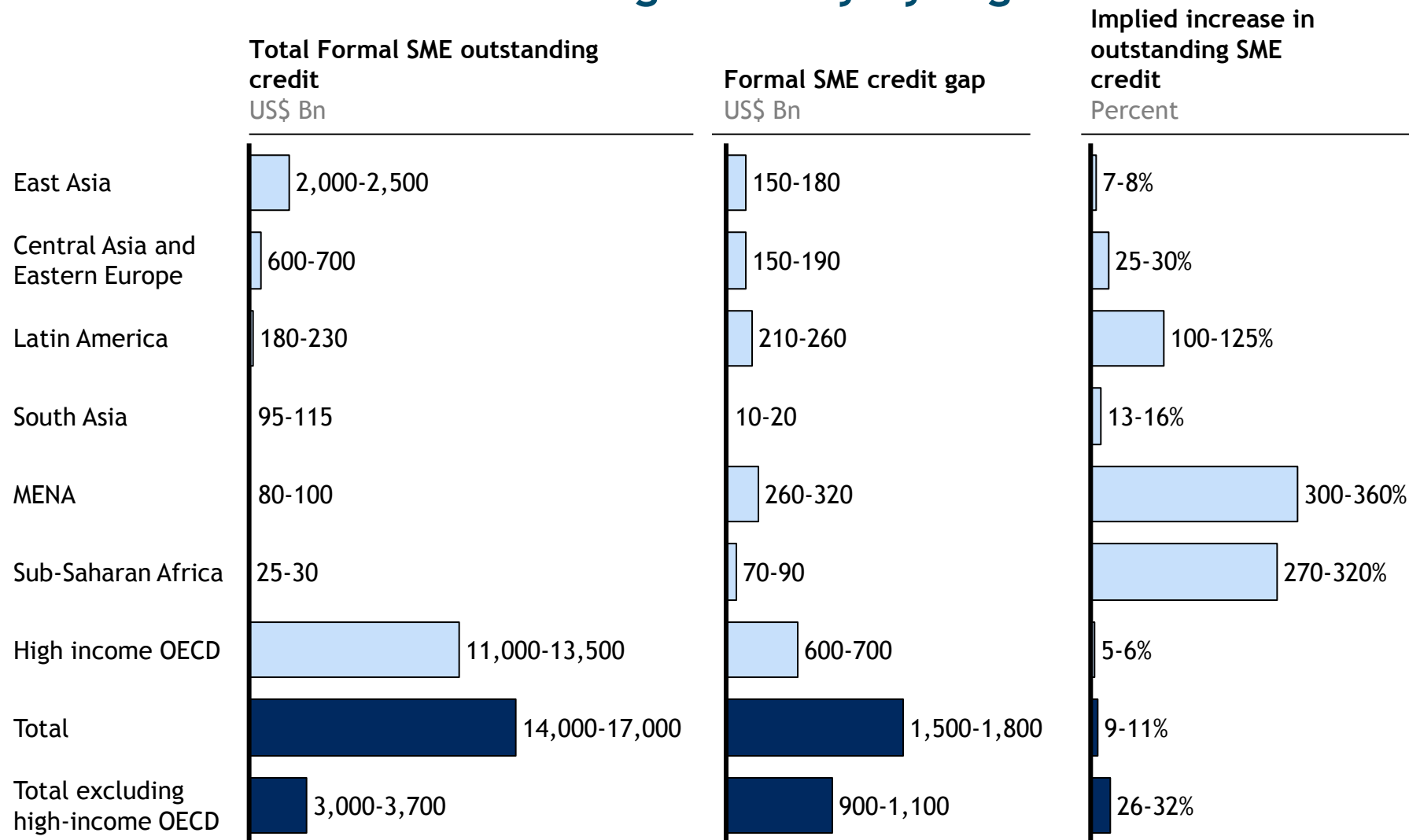
# Why focus on SMEs

- SMEs account for over 80% of net job creation and 67% of employment in developing countries, according to recent World Bank research<sup>1</sup>
- SMEs are a critical part of private sector solution in areas that IFC cares deeply about: climate change, gender, food security, crisis response, fragile and conflict affected states, youth unemployment, etc.
- SMEs have a significant contribution to GDP in emerging economies and by moving to greater formality SMEs can strengthen fiscal balances
- SMEs are a crucial part of the supply chain, providing materials, subassemblies, services and distributing goods of large enterprises
- SME agility fosters innovation, improves competition and facilitates labor migration to more productive sectors of the economy
- Strong SME sectors also contribute to social stability, growth of the middle classes, fairer income distribution and economic diversification
- Approximately 70-76% of all SMEs in emerging markets already have a bank account, including up to 80% of SMEs that have no formal credit (unserved)<sup>2</sup>

<sup>1</sup>Source: Ayyagari, Meghana, Demircuc-Kunt, Asli, Maksimovic, Vojislav. *Small vs. Young Firms across the World, Contribution to Employment, Job Creation, and Growth*. (WBG DEC)

<sup>2</sup>Source: “Two Trillion and Counting” (IFC and McKinsey & Co., October 2012)

# Credit gap relative to the outstanding SME credit remains large and varies significantly by region

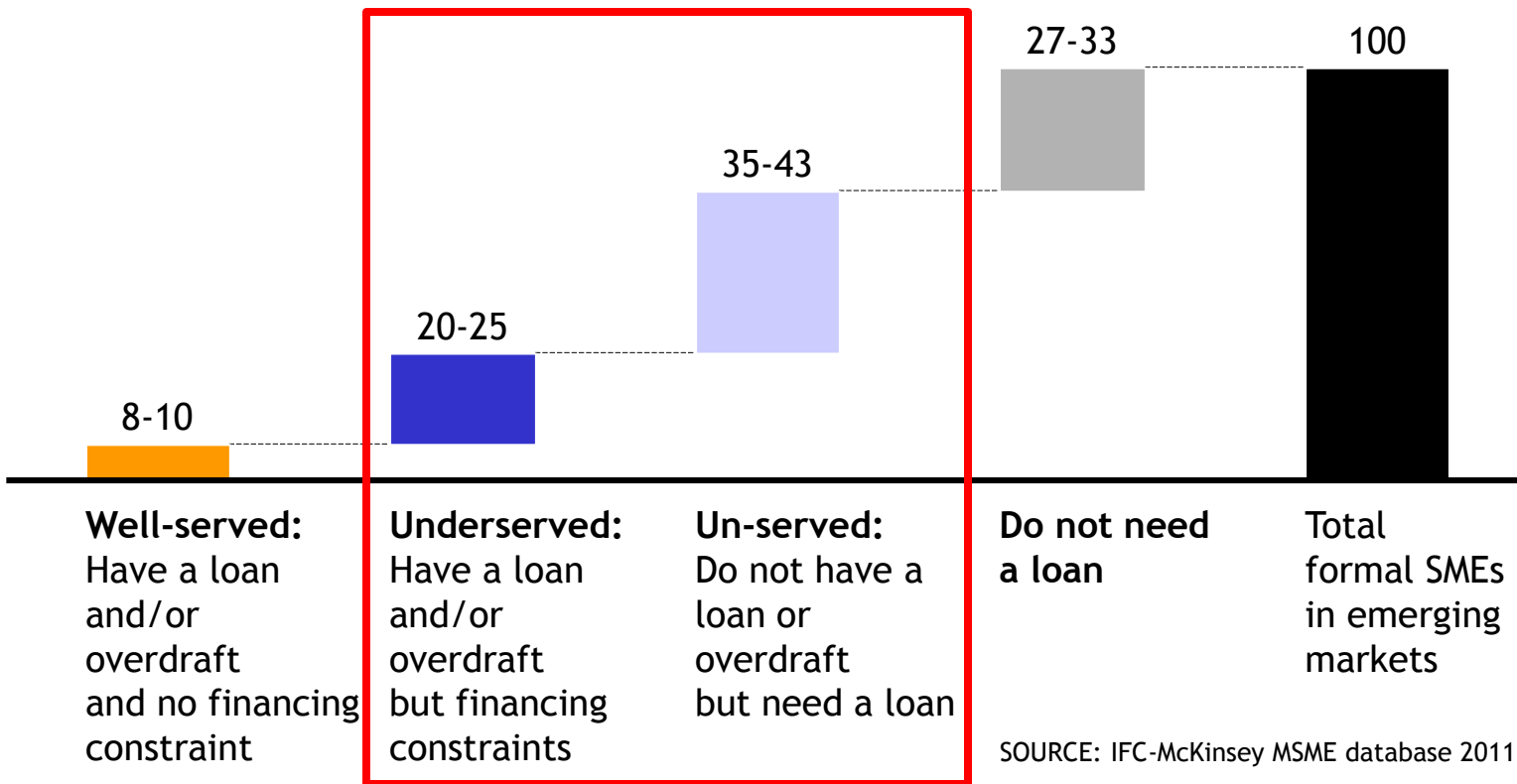


SOURCE: IFC-McKinsey MSME database 2011

# 55-68% of formal SMEs in emerging markets are either unserved or underserved

## Formal SMEs use of financial institution loans and financing constraints<sup>1</sup>

Percent of total enterprises in emerging markets (i.e., excluding high-income OECD)

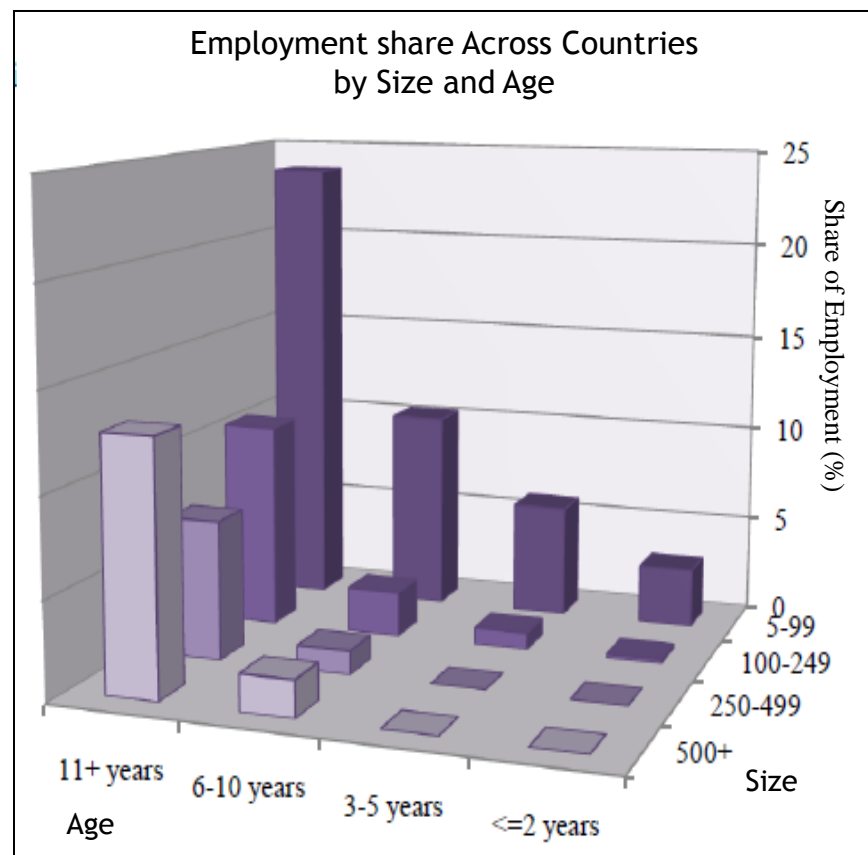


SOURCE: IFC-McKinsey MSME database 2011 and WB ES.

<sup>1/</sup> The number of SMEs unserved or under-served is calculated based on SMEs' access to bank loans and overdraft only (i.e., not including SMEs' access to trade financing, leasing, factoring and other forms of credit)

# SMEs provide 2/3 of formal jobs in the private sector in emerging markets

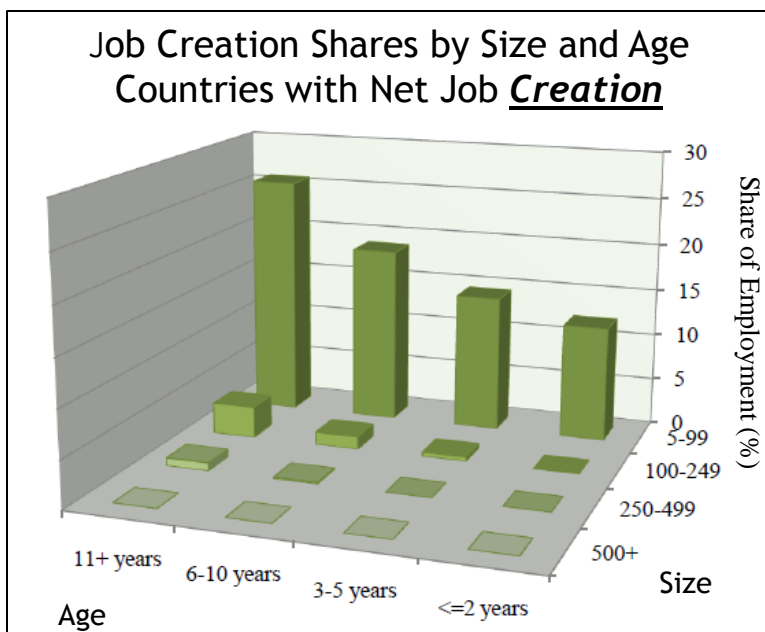
- Nearly half of formal jobs are in firms with 5-99 employees and 2/3 in firms under 250 employees.
- Mature firms (>10 years) employ half of the formal sector in low-income countries and 3/4 in high income countries
- Young firms (<=2 years) employ a small share of the formal sector (7%), but have a larger role in LICs (10%)
- Young firms are also critical in fragile states: E. Timor 40%; Afghanistan 21%; Angola 25%



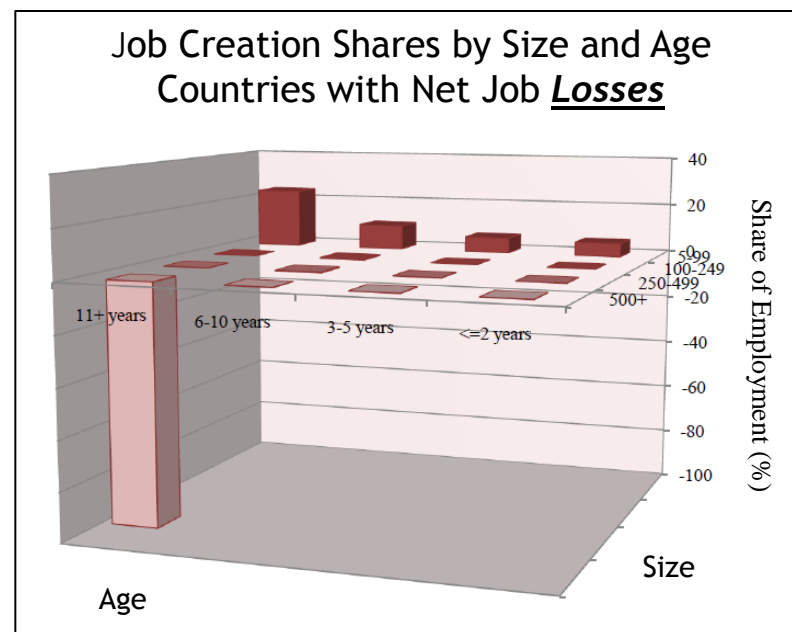
Source: *Small vs. Young Firms Across the World: Contribution to Employment, Job Creation and Growth*, World Bank Policy Research Working Paper #5631, April 2011 by M. Ayyagari, A. Demirguc-Kunt and V. Maksimovic

# Small firms are the biggest job creators in the formal sector in emerging markets

- Small firms create the most jobs in the formal sector: 95% in LICs to 70% in MICs<sup>1</sup>
- In countries with net job losses SMEs are the only firm category that creates jobs - though not enough to offset losses from job-destroying large firms



Ayyagari (2011)



Ayyagari (2011)

<sup>1</sup>Data is only for surviving firms and excludes startups (1 years) so may misstate job growth rates for very young firms, but holds up against anemic large company data

# IFC has a leadership role in SME Finance

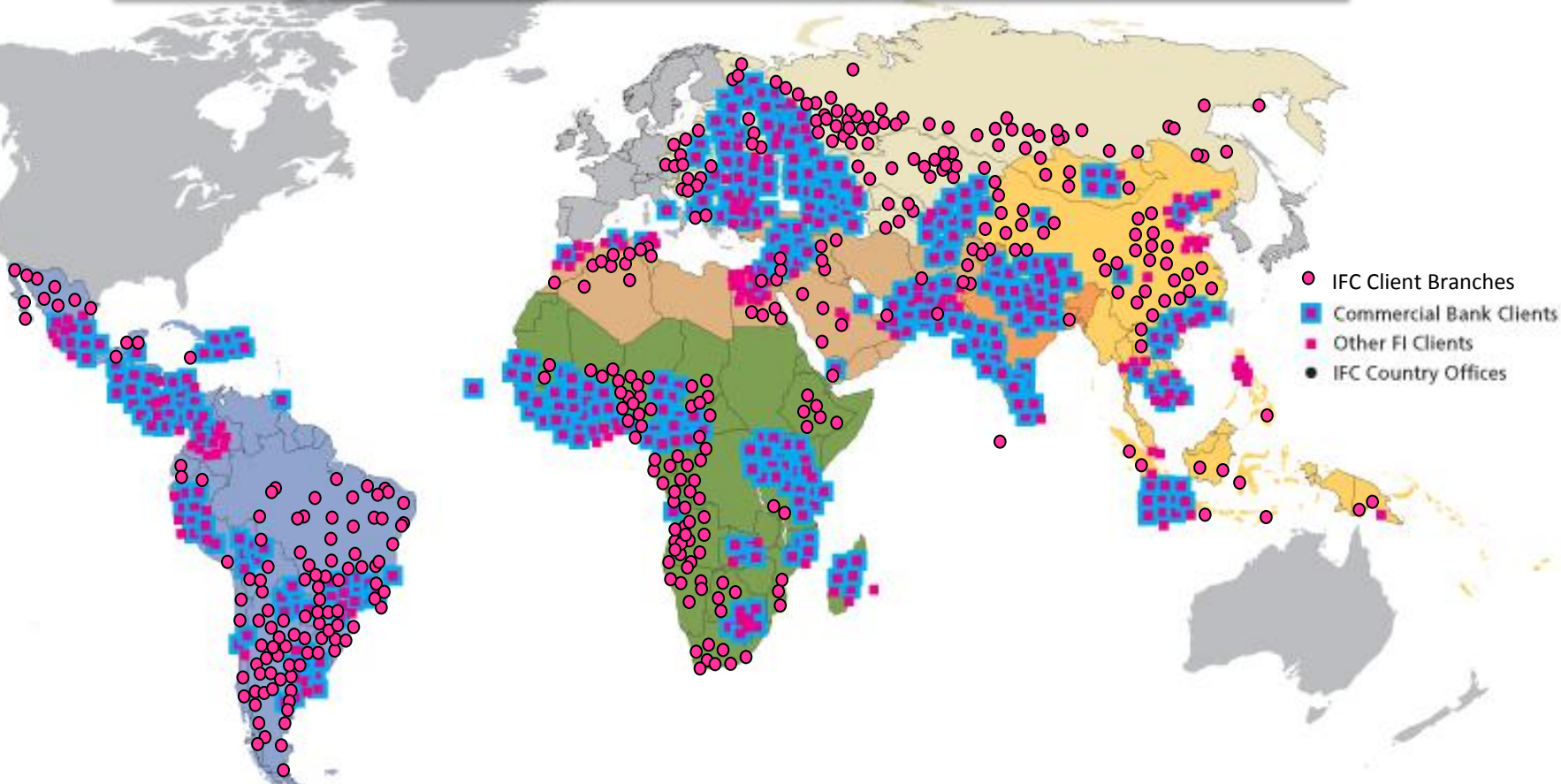
- Leadership role in SME Finance, as a partner to the G-20, and through its innovative products and services that support SMEs.
- Investment and advisory services at every phase of SME development: investment climate reform, governance, access to finance and markets, etc.
- Client base of over 500 SME-focused financial institutions globally, with SME commitments reaching nearly \$5.5B in fiscal year ending June 2012
- By the end of 2011, IFC and its financial institution clients reached 3.3 million SMEs for a total of \$181.3B outstanding loan portfolio\*

\*Source: IFC Annual Report 2012



# IFC's network of global FI partners enables its expansive SME reach

729 Global Relationships: 542 FIs, 187 PE funds  
More than 30,000 distribution points



IFC engages its FI clients in various financial and non-financial services for SMEs in the areas of agri-finance, cash flow lending, finance for women owned businesses, leasing, risk management, SME banking advisory and capacity building, trade finance, value chain finance, sustainable energy finance and SME capacity building through non financial services.

# IFC supports SME Finance through innovative initiatives (I)

## 1. Established the **Global SME Finance Initiative**:

- Catalytic investment and advisory platform for up to \$1.4B; launched April 2012.
- Includes the **Global SME Finance Facility** which combines IFI and DFI funding to strengthen SME lending in women-owned businesses, in sustainable energy and climate change, and in fragile states of Africa and South Asia; Facility is expected to expand into Asia.
- Advisory services for FIs targeting SMEs include capacity building and development of financial infrastructure.
- Initial contributors: UK-DFID (\$115M) and IFC (\$200M). Expected contributors: EIB, KfW and OFID.

## 2. Financing winners of the **2010 SME Finance Challenge**:

- 13 innovative projects receiving parallel funding from DFIs (\$77M provided and \$124M expected).
- Donors - Committed: Canada (\$20M), USAID (\$4M), DFID (\$3.5M), Korea (\$700K), Netherlands (\$2M).

# IFC supports SME Finance through innovative initiatives (II)

## 3. Established the **SME Finance Forum**:

- Global platform for inclusive knowledge sharing and collaboration on SME finance data, research and best practices.
- Launched at joint OECD/GPFI SME Finance event in Paris (April 2012).
- Donors - Committed: UK-DFID (\$1M), Korea (\$300K), Netherlands (\$1M).

## 4. Published Flagship Reports:

- Comprehensive **SME Finance Policy Guide**: Reference for governments/regulators on developing Financial Inclusion strategies and action plans
- Report on **Women Entrepreneurs**: Focus on financial/non-financial barriers for women, and opportunities through scalable models
- Report on **Agricultural SME Finance**: Guidelines for developing regulatory framework for increasing access to finance in the sector

# Thank you!