Banking on SMEs: Driving Growth, Creating Jobs

Global SME Finance Facility Progress Report

September 2022

UKaid from the British people

Government of the Netherlands

IFC International Finance Corporation WORLD BANK GROUP

ACKNOWLEDGMENTS

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ABOUT IFC

IFC, a member of the World Bank and the World Bank Group, is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2021, IFC committed a record $31.5 billion to private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity as economies grapple with the impacts of the COVID-19 pandemic.

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ACRONYMS

ABI	Atlantic Business International
BOA	Bank of Africa
CBN	Central Bank of Nigeria
Co-op Bank	Cooperative Bank of Kenya
FCDO	UK Department of Foreign, Commonwealth and Development Office
FCS	Fragile and Conflict-Affected Situations
GDP	Gross Domestic Product
GSMEF	Global SME Finance Facility
IDA	International Development Association
IFC	International Finance Corporation
KCB	Kenya Commercial Bank
MSMEs	Micro, Small and Medium Enterprises
NBI	National Bank of Iraq
SIB	Société Ivoirienne de Banque
SLGP	Small Loan Guarantee Program
SMEs	Small and Medium Enterprises
VSEs	Very Small Enterprises
WEOF	Women Entrepreneurs Opportunities Facility
World Bank	International Bank for Reconstruction and Development
WSMEs	Women-owned SMEs

Foreword

The Global SME Finance Facility (GSMEF) was conceived in response to the 2008 financial crisis, which highlighted the tremendous contribution of Small and Medium Enterprises (SMEs)[1] as the creators of over 90 percent of net job growth in developing economies,[2] as well as their vulnerability in the face of a crash. After the 2008 crisis, the governments of the United Kingdom and the Netherlands joined forces with the International Finance Corporation (IFC) in 2012 to establish GSMEF: a program that leverages IFC's capital, know-how and network to provide SMEs with essential financing and skills. Alongside our work with financial institutions, GSMEF also built-up the financial infrastructure (credit bureaus, collateral registries, and the associated regulations) to advance responsible SME finance in target markets, and conducted and disseminated applied research about banking SMEs.

Now, nearly a decade since GSMEF was launched, SMEs in emerging markets are again facing a global economic crisis — this time triggered by the COVID-19 pandemic. To effectively support our client financial intermediaries and their SME customers, and to adapt GSMEF strategically to the evolving economy, we first turned to GSMEF's rich portfolio for data-based insights. We sought to understand whether the interventions designed in response to the first crisis were successful, and how they should be modified. Also, with GSMEF funding, we conducted the COVID-19 Business Impact Survey to explore the business needs of over 2,000 Micro, Small and Medium Enterprises (MSME) borrowers of 42 IFC client banks in 10 African countries. Finally, we interviewed our clients and examined industry literature to inform our future efforts in support of the continued development of our clients' SME banking practices.

What did we learn? That the GSMEF interventions had been right on the mark: Financial intermediaries can be encouraged to bank SMEs successfully and profitably, and SMEs can grow over time, creating thousands of local jobs along the way. This holds true even in the most challenging, volatile markets and in difficult times. But there are important lessons from serving SMEs effectively. Join us as we tell the story of how to bank SMEs to drive their growth and create jobs.

Tomasz Telma
Financial Institutions Group
IFC

Aisha Williams
Blended Finance and Corporate Strategy
IFC

IFC defines SMEs as enterprises that have two of the following three characteristics: 10-300 employees; $100,000 - $15 million in assets; and $100,000 - $15 million in annual sales. MSMEs are defined as those that meet two of the following three characteristics: fewer than employees, less than a $100,000 in assets, and less than $100,000 in sales.

Today, small firms in developing countries are faced with multiple concurrent crises, and small business owners have had to become experts at navigating the range of challenges that have emerged from the global COVID-19 pandemic, the war in Ukraine, and the impact of climate change.

There are many examples — some highlighted in this report — where small business owners have demonstrated their remarkable ability to innovate and adapt in response to new challenges and were able to capitalize on new opportunities. Often this was made possible by having access to suitable financial products, demonstrating the need to close the financial access gap we know still exists for small businesses in developing countries, particularly those run by women.

And just as small business owners have had to continue to innovate and adapt through changing contexts, so do we as a global community committed to delivering greater access to financial products that are affordable, sustainable, and responsive to risks. We welcome this report as an opportunity to reflect on the successes of the GSMEF, and where things can and need to be done differently.

Looking ahead — we know that the financial markets of the future will be increasingly digital, and data driven and need to become greener too. Through the GSMEF, we have seen the benefits of supporting financial institutions to embed new data sources and tailor their products to suit the needs of SMEs. This also makes good business sense for the financial institutions involved.

Ten years after its original inception, the core objectives of the GSMEF remain the same. But arguably, the need for solutions that are tailored to helping SMEs overcome their financial access challenges has never been greater.

We look forward to our continued cooperation with our partners from the Netherlands and at the IFC on this important agenda.

Rachel Turner
Director, International Finance
Foreign, Commonwealth & Development Office (FCDO)
United Kingdom of Great Britain & Northern Ireland

SMEs are the driving force of economic growth in most countries. It is not a secret that these SMEs have problems obtaining the necessary finance for their activities. However, what is less commonly known is that SMEs in developing countries have more obstacles obtaining finance than those in developed countries. It is in these markets where the GSMEF proves its added value. And this is exactly the reason the Netherlands is an enthusiastic donor and supporter of the facility alongside our British partner.

The approach to encouraging local financial institutions to grow their SME portfolios — the well-known customers and underserved groups such as women-owned SMEs, very small enterprises, and SMEs in fragile contexts — has proven successful. It brings success for all: SMEs attract finance they would otherwise miss out on. And financial institutions grow faster, are not confronted with more defaults, and acquire a broader client base. The systemic impact on their business will continue, also after IFC's intervention ends.

A lot of good work has been done. This report, which takes stock of impacts already achieved, is a welcome initiative that gives the evidence we need to explain why we are on board. Much more work has yet to come: the effects of the COVID-19 pandemic have enlarged the finance gap of SMEs.

It goes without saying that we endorse the foreseen growing focus of the Facility on International Development Association (IDA) countries, fragile contexts, and underserved segments within these countries.

Keep up the good work!

Steven Collet
Director of the Sustainable Economic Development Department
Ambassador for Business and Development
Netherlands

Executive Summary

From a boutique noodle maker in Asia to a producer of hand sanitizers in Africa, SMEs are crucial to the creation of dynamic, competitive, and inclusive economies. They generate jobs and support economic growth in developing markets, playing an essential role in reducing poverty and promoting shared prosperity.

SMEs face significantly more constraints than larger firms in accessing finance, particularly in emerging markets. IFC estimates that about 43 percent of formal SMEs in developing countries have an unmet financing need of nearly $4.1 trillion. Without access to finance, SMEs cannot grow and create jobs.

IFC launched the Global SME Finance Facility (GSMEF) in 2012 to address the reluctance of financial institutions to serve SMEs in emerging markets following the 2008 financial crisis. GSMEF, which is funded by the governments of the United Kingdom and the Netherlands, has enabled IFC to induce financial institutions to serve SMEs, particularly SMEs that they do not normally reach, including women-owned SMEs, very small enterprises, or climate-smart SMEs. By blending these donor governments' funds with its own funds, IFC has structured innovative investments and delivered value-enhancing advisory services, thereby crowding in capital to help SMEs grow.

In this publication we reflect on what has worked, what can be improved, and where to focus future efforts. We seek to understand whether, with GSMEF's support, IFC's financial institution clients have indeed served more SMEs, thereby creating jobs and economic opportunity.

From analyzing these clients' portfolio data, we learned that the GSMEF-supported clients had better SME-related results when compared to IFC clients overall in the same regions during 2018 to 2020. Specifically, financial institutions that received GSMEF support:

- **experienced higher growth in their SME lending**
- **experienced the same level of defaults on their SME loans as the benchmark**
- **experienced higher growth in lending to women-owned SMEs without incurring higher defaults**
- **experienced higher growth in lending and made larger loans to SMEs in fragile countries, with lower defaults on their loans**

In sum, this analysis indicated that IFC clients receiving GSMEF support have indeed increased lending to SMEs at a higher rate, without experiencing higher rates of default (see infographic on next page, and the Portfolio Insights section for additional information). These data-based observations were affirmed by "stories of impact", accounts from IFC's financial institution clients and their SME borrowers. Insightful lessons have emerged from this analysis and these anecdotes.

The most important lesson is that financial intermediaries can be encouraged to increase their lending to SMEs, by blending donor funds with IFC's and clients' finance into carefully-structured investments, and by building their capacity to serve SMEs. Additionally, lending to SMEs is not as risky as banks expect; the actual SME default rates were on par with the average default rates experienced by all IFC clients in the same regions. This holds true even in fragile countries. With proper risk-management practices and training on how to leverage IFC's guarantees, banks' appetite for risk will expand, and their lending to SMEs will grow.

We also learned that increasing banks' lending to SMEs requires strategic interventions. First, banks need to identify and directly market to SMEs, which can be effectively achieved by offering SME-targeted financial products and integrated non-financial services. To reach more women-owned SMEs, banks must develop the capacity to track customers by gender. Encouraging banks to realize opportunities to finance climate-smart SMEs remains a challenge, though performance-based incentives can nudge banks to offer products designed for these and other SMEs. Finally, GSMEF has shown that, on a macro level, financial infrastructure (credit bureaus and collateral registries) needs to be strengthened to increase lending to SMEs, but adopting the associated legal reforms takes time and requires government commitment.

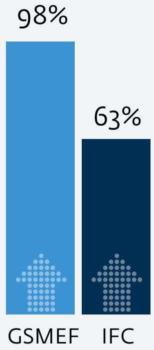
We are integrating these lessons to shape GSMEF's future strategy. Looking ahead, GSMEF aims to support SMEs' growth by continuing to bridge financial gaps in fragile countries and in the world's poorest countries. We are also aware of the need to enhance banks' non-financial services, including their need to offer multi-channel learning and training, and to increase financial literacy for borrowers. Additionally, GSMEF will continue to encourage financial intermediaries to increase access to finance for underserved segments, including women-owned SMEs and climate-smart SMEs. Finally, GSMEF will increase support for digitalization and supply chain finance.

This publication tells a story of innovation and impact, and of GSMEF's contribution to building financial institutions and infrastructure that better serve SMEs. It also identifies important trends and lessons, to pave the way for GSMEF's continued success in supporting SMEs' growth, prosperity, and ability to create jobs.

GSMEF Portfolio Insights

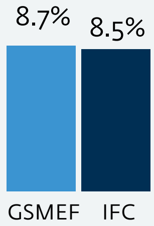
GSMEF encouraged Higher Growth of SME Loan Portfolio

On average, GSMEF's clients grew their outstanding SME loan portfolios more than all IFC's financial institution clients in the same regions.



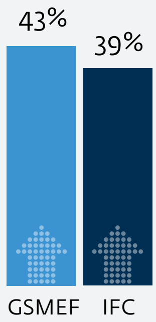
Sound Portfolio Quality

On average, GSMEF's clients' non-performing loan ratios match that of overall IFC financial institution clients in the same regions.



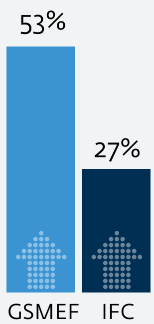
Higher Growth of WSME Loan Portfolio

On average GSMEF's clients grew their WSME portfolios more than all IFC financial institution clients in the same regions.



Higher Growth with Sound Portfolio Quality in FCS Countries

In FCS, on average GSMEF's clients achieved higher growth in their SME portfolios, made larger loans to SMEs, and experienced lower non-performing loan ratios when compared to all IFC financial institution clients in the same regions.*



* This finding is based on a small sample of IFC clients, hence no definitive conclusions can be drawn.

Why Help SMEs Grow

SMEs are crucial to the creation of dynamic, competitive, and inclusive economies. They generate jobs and support economic growth, particularly in developing markets, playing an essential role in eliminating extreme poverty and boosting shared prosperity. Strong SMEs directly contribute to the Sustainable Development Goals. Fostering an environment conducive to SME formation and growth is decisive for the health of local economies and has been the key area of focus for the GSMEF. Sustainable Development Goals, particularly: #1 End poverty in all its forms everywhere; #5 Achieve gender equality and empower all women and girls; and #8 Promote sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all.

SMEs are the engine of economic activity globally. Formal SMEs contribute up to 40 percent of Gross Domestic Product (GDP) in emerging economies.[3] With informal firms added, the entire SME sector is estimated to contribute as much as 60 to 70 percent of GDP. Informal firms, of which nearly all are MSMEs, can account for about one-third of total economic activity in the poorest countries.[4]

Globally SMEs Represent:

90% *of all firms*

more than **50%** *of global employment*

Whether a noodle maker in Cambodia, a hand sanitizer producer in Kenya, or a palm oil waste-processing plant in Côte d'Ivoire, SMEs account for most businesses worldwide (see their stories throughout this publication). They represent about 90 percent of all firms and more than 50 percent of employment globally.[5] SMEs are major job creators, contributing over 90 percent of net job growth in developing economies.[6] To keep up with population growth the global economy needs to generate 39 million new jobs annually between now and 2030.[7] This makes facilitating the creation and growth of SMEs a high priority in the fight against global poverty around the world and is the core mission of GSMEF.

SMEs are major job creators, contributing over 90 percent of net job growth in developing economies.

Do SMEs Have Ready Access to Finance?

Despite the important role of SMEs in global economic development and job creation, they face more severe financial constraints than larger firms. This is especially true in developing countries.

SMEs in emerging markets must contend with a particularly low supply of financing. IFC estimates that about 43 percent of formal SMEs in developing countries have an unmet financing need of nearly $4.1 trillion.[8] Low lending volumes in these economies indicate an opportunity for financial institutions to step up in serving SMEs.

Studies show that SMEs are less likely to secure bank loans than large firms.[9] Instead, they rely on internal funds or cash from friends and family to launch and run their enterprises. In developing countries, 50 percent of formal SMEs do not have access to formal credit, and the number goes up to 70 percent for all microenterprises.[10]

Access to finance is a strategic priority for GSMEF as it remains one of the main obstacles to SME growth and development. In addition to encouraging banks to finance all SMEs, GSMEF also focuses on certain types of SMEs that face particularly high barriers to finance.[11]

WSMEs	Represent about one-third of all SMEs in developing countries[12] and significantly contribute to household incomes. Research suggests that enabling women to access credit to grow their businesses could increase the annual incomes of Women-owned SMEs (WSMEs) in emerging markets by an average of 12 percent within the next 10 years.[13]
VSEs	Considered the nexus between microenterprises and SMEs. GSMEF has expanded its reach and focus to include Very Small Enterprises (VSEs) to better reach the underserved segments. We know that very small firms in developing economies tend to manage cash flow through short-term loans and basic savings accounts.[14] As VSEs grow, their financial needs expand to include long-term debt, current accounts, transfers, and payments, which represent additional business opportunities for financial institutions.
Climate smart SMEs	A new focus of some financial institutions. As governments launch initiatives to "go green", and as consumers demand more climate-friendly technologies and services, banks can finance SMEs active all along the value chain, from local manufacturers of eco-friendly technologies and "green" builders to sellers, installers, and buyers of small-scale energy efficient and/or renewable energy solutions. To learn more GSMEF's involvement, read *A Bank in Ghana That Makes House Calls* story.

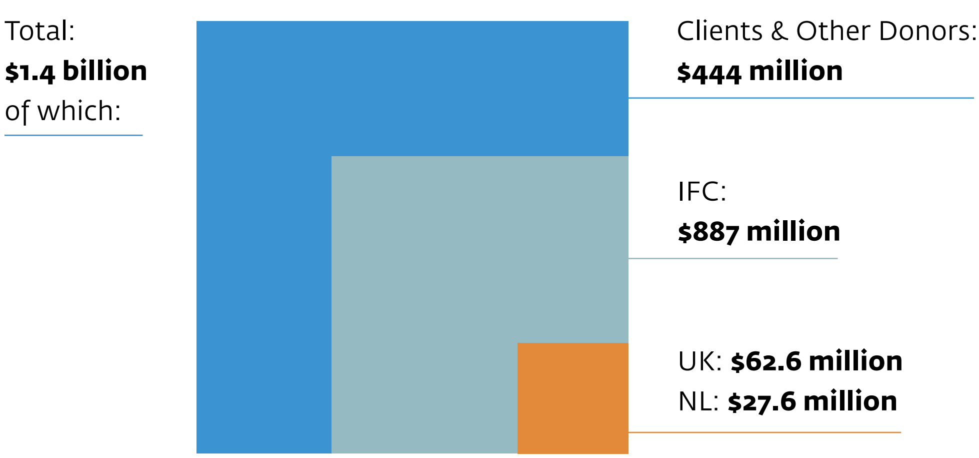
Crowding-in More Funds for SMEs with Blended Finance

Blended finance is the practice of combining concessional finance from donors or third parties alongside IFC's normal, own account finance, and/or commercial finance from other investors, to develop private sector markets, address the Sustainable Development Goals and mobilize private resources.

When deploying blended finance, IFC uses relatively small amounts of concessional donor funds to mitigate specific investment risks and help rebalance risk-reward profiles of pioneering investments that are unable to proceed on strictly commercial terms. IFC invests donor funds alongside its own funds, in accordance with the Blended Finance Principles,[15] which ensure using "minimum concessionality" to crowd-in private sector resources to develop commercially-viable markets that will produce social and environmental impacts even once the donor support has ended.

How do small amounts from donors leverage private capital to SMEs? In line with the Blended Finance Principles, IFC invests small amounts from donors, structured as concessional finance, together with often-larger investments of IFC's own funds, thereby encouraging other investors to make co-investments into projects that generate social and environmental benefits. The concessional finance can be structured in different financial instruments, including as loans on below-market terms, guarantees on risky investments, performance-based incentives, local currency financing, and other financial instruments. In GSMEF, for example, IFC invested $90 million of donor funds using concessional finance instruments. These IFC investments are expected to crowd-in, i.e. to leverage, $1.4 billion both from IFC's own funds and from client banks for on-lending to SMEs.

GSMEF's Leverage from Blended Finance-supported Projects



GSMEF's experience in reaching SMEs through guarantees was instrumental in influencing IFC to launch two additional blended finance programs to extend its reach to this market. First, the Women Entrepreneurs Opportunities Facility (WEOF)[16] is dedicated to promoting access to finance for WSMEs through financial institutions. Launched two years after GSMEF, and modeled after the facility, WEOF deploys many of the same instruments that GSMEF refined — most notably performance-based incentives — to encourage clients to serve more WSMEs than they otherwise would reach. Second, the Small Loan Guarantee Program (SLGP)[17] is IFC's flagship program for increasing financing to SMEs in countries[18] eligible for support from the International Development Association (IDA)'s Private Sector Window. SLGP offers financial institutions in eligible countries a partial guarantee on potential losses from on-lending to SMEs, to encourage them to go beyond their comfort zones and increase their lending to SMEs. In some projects, GSMEF has further increased SLGP's impact by coupling the guarantees with a performance-based incentive, which banks can earn if they meet targets for on-lending to certain underserved SMEs. Both programs build on GSMEF's experience to increase SMEs' access to finance.

Focusing on Underserved SMEs

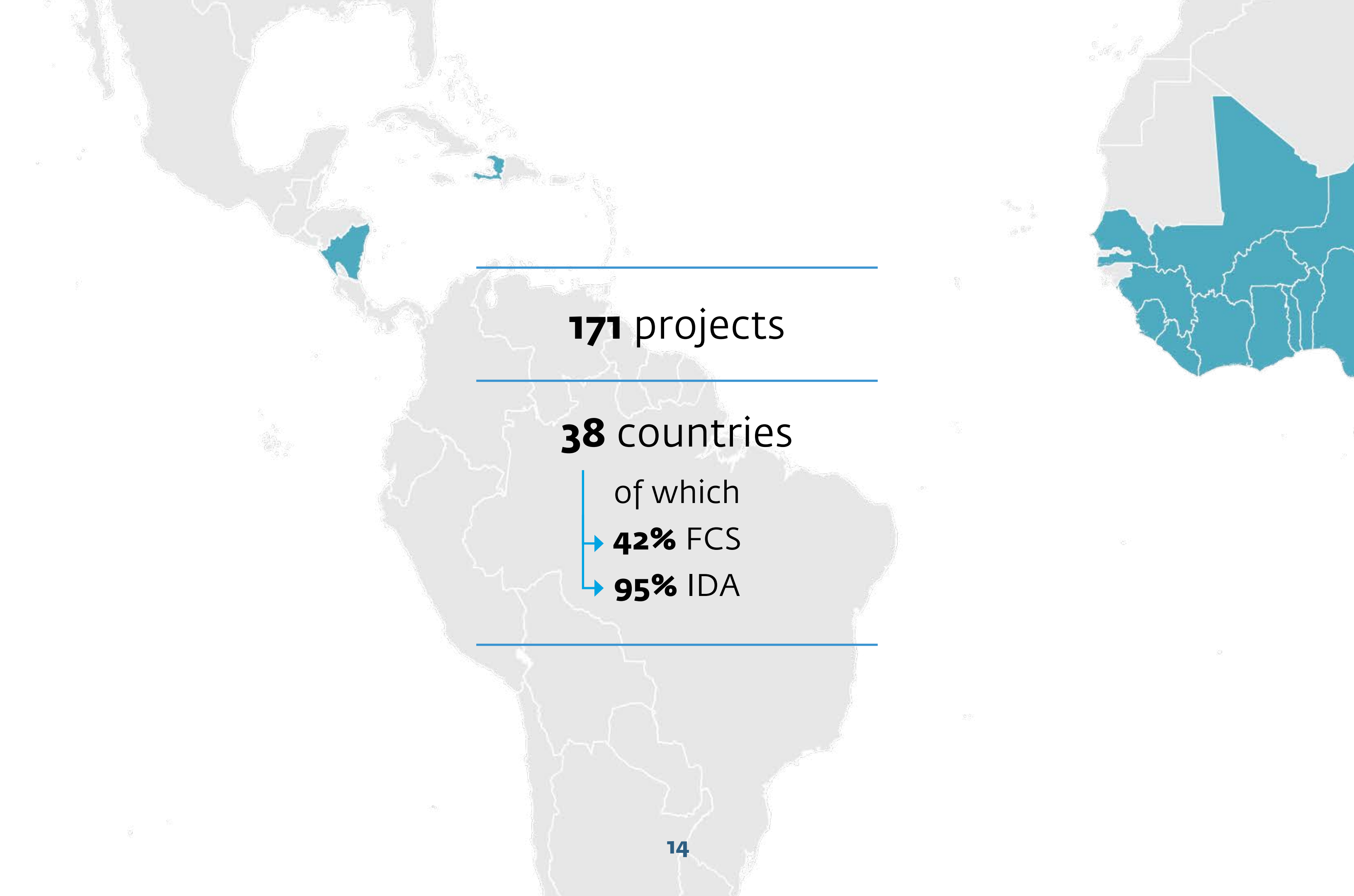
While GSMEF operates across all emerging markets, it focuses on markets where SMEs are most constrained in terms of access to credit and where the financing need is especially acute. In such countries as Ghana, Tanzania, Burkina Faso, and Malawi, for example, nearly seven out of 10 SMEs experience difficulties getting a loan or are completely left out of the formal credit system. More than half of SMEs are unserved or underserved[19] in Iraq, Nepal, Afghanistan, the Gambia, Mali, and Nigeria.[20] Not surprisingly, countries with the largest economies, such as India and Nigeria, have the largest SME finance gap in absolute numbers, with $221 billion and $92 billion, respectively. However, when looking at the SME finance gap as a percentage of GDP, SMEs are especially constrained in Kenya, where the gap is 29 percent of GDP, Iraq (22 percent), and Bangladesh (19 percent).[21] There is a great need for SME finance in countries where GSMEF operates, with the total SME finance gap[22] estimated at $470.6 billion.

GSMEF is actively trying to narrow the SME finance gap and successfully increased the amount of financing extended to SMEs in the markets it operates. In 2020 for example, our active clients[23] in Bangladesh were able to on-lend $4.8 billion in financing to SMEs, representing 13 percent of the total SME finance gap in the country. In the same year, GSMEF clients in Kenya extended over $1.9 billion in loans to SMEs, equivalent to 11 percent of the country's total SME finance gap. Notably, in India, the country with the largest gap, GSMEF's reach[24] in 2020 was $8.9 billion in SME loans or 4 percent of the total SME finance gap. In sum, GSMEF has been particularly active in the countries where SMEs most lack access to finance, with Kenya and Bangladesh ranking in the top three when we count the number of GSMEF projects per country.[25]

Why GSMEF Exists and Where It Works

GSMEF is a partnership focused on helping to close the financing gap faced by SMEs in emerging markets. By supporting IFC's investment and advisory services to financial institutions, GSMEF helps these clients expand lending to SMEs in challenging markets and sectors.

IFC launched GSMEF in 2012 to address the reluctance of financial institutions in emerging markets to serve SMEs in the wake of the 2008 financial crisis. Banks considered SMEs a risky market segment and offered limited financing to SMEs. To address these market failures, IFC partnered with the FCDO and the Netherlands Ministry of Foreign Affairs to setup GSMEF.[26] In GSMEF, IFC has been blending these donors' funds with its own funds in innovative investment structures, and delivering value-enhancing advisory services, thereby crowding-in capital to finance SMEs.



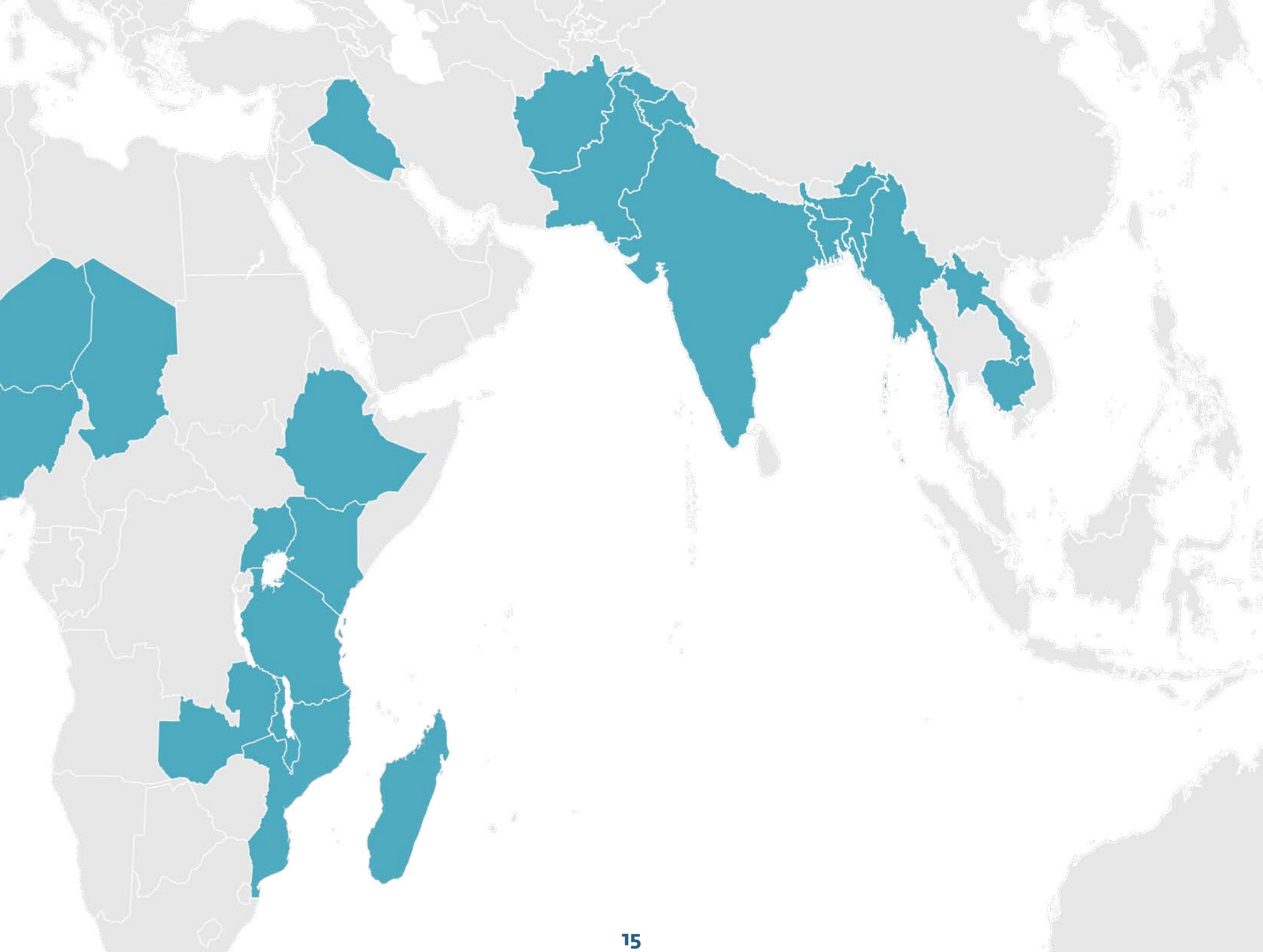
171 projects

38 countries

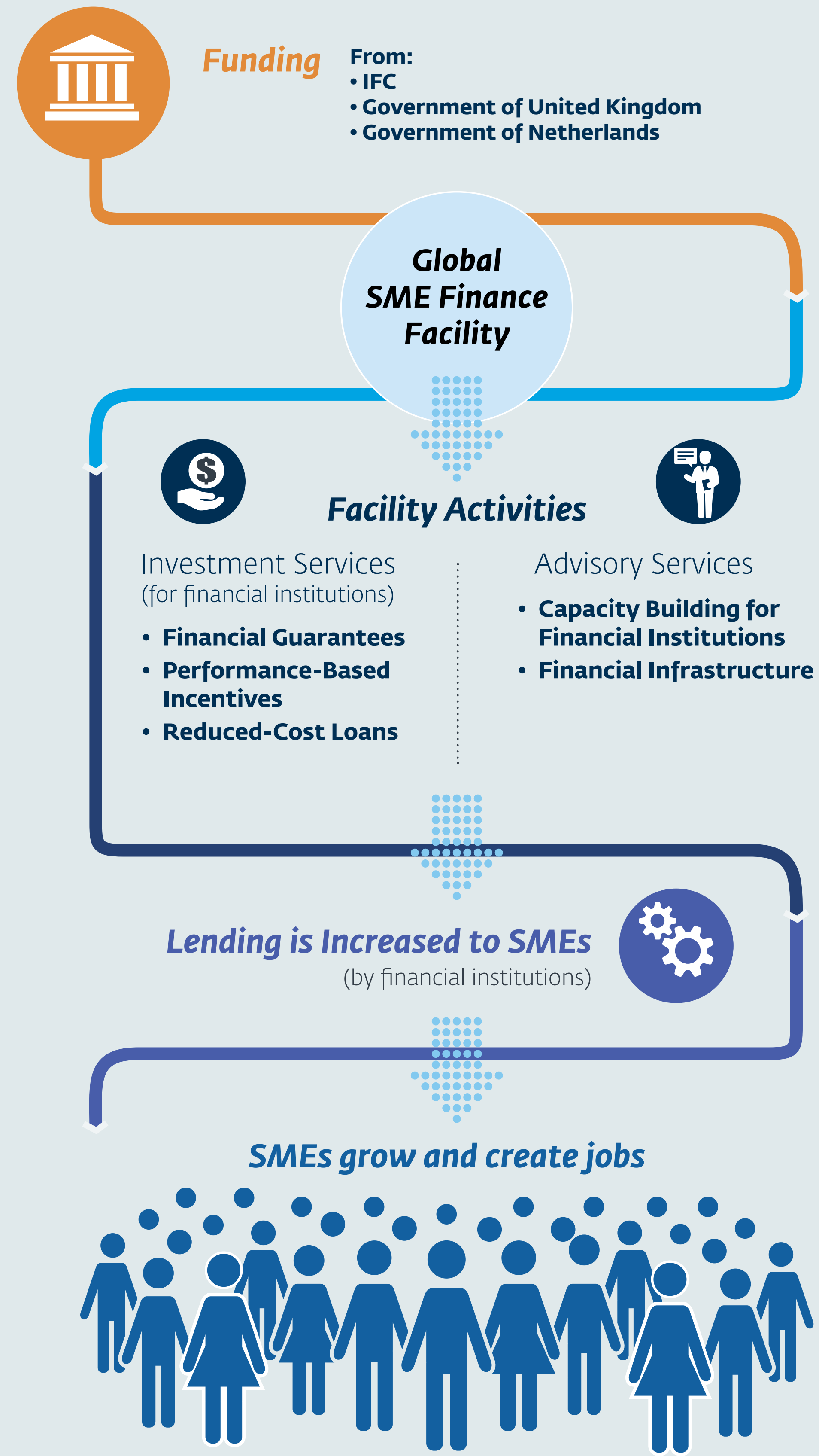
of which

- **42%** FCS
- **95%** IDA

GSMEF focuses on reaching SME segments that financial institutions do not normally reach in IDA countries, particularly in Sub-Saharan Africa and South Asia, in addition to countries in East Asia and Pacific and Middle East and North Africa.[27] Since its 2012 inception, GSMEF has incorporated learnings from clients' experiences and performance to continuously innovate its and IFC's investment and advisory services to maximize impact. Consequently, GSMEF's reach to SMEs in fragile countries, VSEs, climate-smart SMEs, and WSMEs has steadily increased. In fact, as of June 30, 2021, 42 percent of the 38 countries in which GSMEF operates were Fragile and Conflict-Affected Situations (FCS) countries. In addition, we help several emerging markets' governments to improve their financial infrastructure, thus enabling capital in the economy to flow more efficiently to SMEs. GSMEF has been successful in enabling and promoting financial access for SMEs, including job creation in IDA and FCS countries, with an estimated $47 billion financing to 732,000 SMEs and 1.2 — 1.7 million jobs created since its inception.



How GSMEF Impacts SMEs



GSMEF's Development Outcomes

Inception through June 30, 2021

$153 million in donor funds:
United Kingdom | Netherlands

128 GSMEF (Investment and Advisory) Clients:
104 Financial Institutions and 24 FinInfra clients

$ of SME Loans	# of SME Loans
$47.6 *billion*	732,485

$ of WSME Loans	# of WSME Loans
$2.7 *billion*	56,937

Jobs Created

1.2–1.7 *million*

Here is an example of how GSMEF's advisory services helped a partner financial institution build better systems that enabled increased lending to SMEs and facilitated their growth.

How GSMEF Helped Modernize a Bank in Bangladesh

In Bangladesh, where the demand for MSME financing was approximately $24 billion in 2015, IFC teamed up with GSMEF to support City Bank, a large private commercial bank, to evolve from a traditional, decentralized, branch-based business model to an international, best practice-based system of centralized management of operations. Despite being one of the oldest and largest banks in the country, the bank needed support to develop and build a successful SME business that better addressed client needs.

IFC's advisory services included helping the client provide increased access to financial services for SMEs while maintaining a strong portfolio of quality and profitability. The leading private commercial bank engaged IFC to develop and implement a high-level strategy that focused on five distinct areas, including delineating its retail and SME banking streams, targeting women customers, and transitioning to digital banking.

7-fold increase

in the VOLUME OF LOANS to women entrepreneurs

- **Small Business Banking:** IFC helped the bank create a separate Small Business Banking unit within retail banking and launch a new Small Business Loans product. Before IFC's intervention, the demarcation between the bank's SME and retail banking streams was unclear.

This resulted in low cross-sell and high costs per customer. The bank and IFC also introduced products such as unsecured and secured loans with flexible tenures for small business customers. Further, the introduction of credit templates and loan monitoring templates ensured that non-performing loans remained below 1 percent at the time of project completion (March 2020).

- **Banking for Women Customers:** With IFC, the bank introduced a product specifically catering to women customers, and integrated non-financial services with financial products that included savings, loans, digital channels, and training for women customers. It introduced flexibility in the loan eligibility criteria, including income requirements and the age of trade license, resulting in a seven-fold increase in the volume of loans to women entrepreneurs. The bank launched a Deposit Pension Scheme targeting women with a flexible terms designed to suit specific goals such as children's education or marriage expenses. The bank also offered non-financial services in the form of a certification program for women entrepreneurs, women-led SME fairs, and workshops on early childhood development, taxation, and stress management.

INCREASE IN USAGE
of online banking
from 16% 68%

- **Digital Infrastructure and Digital Banking:** Before partnering with IFC, the bank faced challenges with IT strategy, business alignment, IT project delivery and IT organizational setup, further complicated by legacy systems. To address these, the bank and IFC engaged in a technology and digital restructuring exercise that spanned two years. It also focused on cost optimization and reduced IT expenses by 11 percent between 2018 and 2019. The upgrade facilitated significant digital onboarding of walk-in customers on the mobile banking application. The bank saw an increase in usage of online banking from 16 to 68 percent, particularly during the early months into the COVID-19 pandemic.

The bank adopted more than 95 percent of IFC's recommended interventions, and by the end of IFC's advisory services engagement the project had contributed to increasing access to financial services by disbursing nearly 48,000 MSME loans and increased outstanding loan portfolio by over $285 million.

How GSMEF Works

GSMEF is a blended finance facility managed by IFC that incentivizes and enables banks and other financial institutions to provide better financial services for underserved SMEs via IFC's investment and advisory services.

Investment Services solutions: GSMEF combines small amounts of donor funds with IFC's commercially priced capital into a blended finance package that crowds-in IFC's and other investors' capital to financial institutions that lend to SMEs. GSMEF's investments are structured into the following financial instruments:

Financial Guarantees

Protect banks from potential losses, thus encouraging them to accept the risk of on-lending to SMEs. Blended finance support makes the guarantee affordable to IFC's clients, enabling them to on-lend on affordable terms

Bank of Africa (BOA), Ghana: SMEs in Ghana often lack assets that could serve as collateral, making it difficult for them to borrow from banks. With GSMEF's financial guarantee, IFC could partially cover BOA Ghana's expected losses from lending to SMEs. With this assurance, the bank has felt secure in extending credit to SMEs and has already increased its lending to underserved MSMEs. Read *A Bank in Ghana That Makes House Calls* story.

Performance-Based Incentives

Focus banks' attention on reaching underserved SME sub-segments such as WSMEs, climate-smart SMEs, and key SME sectors by rewarding banks for achieving growth targets in these segments that go beyond the bank's business-as-usual operations

Fullerton, India: In India, IFC provided a $75 million financing package to Fullerton India Credit Company, with an attractive performance-based incentive. If this non-bank financial intermediary on-lent one third of this $75 million to SMEs in low-income states or North Eastern states it could earn an incentive payment of up to $1.25 million. Without the performance incentive, this financial institution was only willing to use IFC's financing to on-lend to SMEs in the more affluent states, which are lower risk and have a lower development impact. Fullerton has earned the full performance-based incentive because it successfully met the targets for extending IFC's financing to the entrepreneurs who are most underserved.

Reduced-Cost Loans

Provide banks with lower-cost funding, enabling them to on-lend to SMEs on affordable terms; often linked to conditions requiring the banks to reach SMEs[28]

National Bank of Iraq (NBI): Fewer than seven percent of Iraq's formal SMEs have access to loans, while over 60 percent are fully or partially credit constrained. A key barrier to financing is local banks' interest rates, which are simply too high for SMEs to absorb and remain financially viable. However, with GSMEF's $2.3 million subsidy, IFC was able to lower the interest rate it charged on its $20 million loan to the NBI, as long as NBI increased its SME lending to meet predetermined targets. This interest-rate buydown is unlocking capital flows from IFC to NBI, enabling NBI to on-lend at affordable rates, thereby growing its SME portfolio towards the target of 1500 loans. Read *Developing and Scaling SMEs in Iraq* story.

Advisory Services solutions: GSMEF enables IFC to offer fee-based advisory services to help financial institutions improve their SME finance solutions for women-owned businesses, climate-smart small businesses, agribusinesses and other key sectors. Advisory services solutions also include strengthening financial infrastructure through working with credit bureaus and collateral registries.

Financial Infrastructure

Improves the enabling environment by creating and strengthening credit bureaus and collateral registries by supporting legal and regulatory reforms, with the goal to improve SME credit reporting and enable SMEs to secure loans using movable assets

Nigeria Financial Infrastructure Project: The Central Bank of Nigeria (CBN) embarked on a series of reforms in 2007 to facilitate access to credit for consumers and MSMEs and to reduce the high cost of credit and incidence of bad loans. With the support of the GSMEF, IFC and the World Bank launched a four-year program of advisory support and technical assistance to CBN to develop a credit reporting system, support the uptake of the existing credit bureaus in Nigeria, and enable financial institutions to give loans secured with movable assets by introducing the required regulatory reforms and launching a collateral registry. These engagements resulted in two new legal acts in 2017; namely, the Credit Reporting Act and the Secured Transaction in Movable Assets Act. Read *A fresh start for Nigerian Small Businesses by Accessing Credit* story.

Capacity Building for SME Banking

Strengthens the capacity of Financial Institutions to target and profitably serve SME customers

Atlantic Business International (ABI), West Africa: Access to financial services remains one of the most acute challenges for SMEs in Africa. ABI is one of the largest African banks that aims to grow its SME lending across West Africa. IFC, with the support of GSMEF, partnered with ABI to establish an SME Banking Unit and expand its subsidiaries' banking services to SMEs. Read the *Expanding Lending to Entrepreneurs in West Africa* story.

IFC's experience shows that building an SME banking business in a financial institution entails working across the organization, starting with providing long-term advisory services tailored to the strategic needs of the financial institution that goes beyond SME banking.

Financial institution clients demonstrate their commitment to growing the SME business by contributing to the costs of the advisory services. In addition to fees, clients signify their intent to strengthen and expand the SME business by investing in loan management systems, improving processes, and hiring and training staff.

Our advisory services build clients' institutional capacity in strategy, market segmentation, credit risk management, channel and product development (including digital products and channels), and non-financial services. Financial institutions often need capacity building to target specific SME sub-sectors such as women-owned businesses, SMEs in agri-finance, or climate-smart SMEs. Especially during the COVID-19 pandemic, financial institutions have resorted to non-financial services to retain and support their SME customers, innovating solutions that spur SME growth in response to market need.

Here is an example of how GSMEF, through its advisory services, partnered with a commercial bank to help them grow their SME segment.

With GSMEF's support, KCB expands SME services

Kenya Commercial Bank (KCB) Kenya, a commercial bank headquartered in Nairobi, is committed to serving SMEs in Kenya and views the segment as a key growth driver. IFC, with the support of GSMEF, is working with KCB Kenya to help the bank grow its SME segment, and build its capabilities to serve SMEs, particularly, through the COVID-19 pandemic. Advisory services to KCB Kenya have included facilitating capacity building of the bank's staff on customer management techniques and developing a wallet-sizing tool[29] for value-based segmentation and effective customer service.

KCB Kenya deployed a customer-centric approach, supported by IFC's comprehensive assessment of the bank's customer-management practices, which includes improvements in key areas of customer management, such as segmentation, acquisition, cross-sell and up-sell, activation and retention, and collections. The share of women entrepreneurs in KCB Kenya's portfolio grew to 22 percent in 2021 from nine percent in 2016. This growth was achieved by implementing IFC's recommendations on customer segmentation and the provision of non-financial services to women entrepreneurs on business skills, with networking and mentoring sessions.

Additionally, with IFC support, KCB Kenya has made significant improvements to its management information system, which enables the bank to report on its SME portfolio in a gender disaggregated way, providing the bank with a richer set of data about its customer segment and enabling the identification of greater opportunities for growth and outreach in the future.

Has GSMEF Helped SMEs Grow?

We sought to determine whether GSMEF has helped SMEs grow. Additionally, we wanted to mine GSMEF's rich portfolio for insights, identify lessons to apply to future projects and engagements with new clients, and shape our future strategy.

We have used a combination of data analytics and anecdotal observations to assess GSMEF's work with clients, but our study was not designed as an impact evaluation. The data analysis compares the GSMEF-supported clients (the sample) against IFC's clients in the same regions (the population). It seeks to determine whether, on average, clients in the sample (i) achieved higher growth rates in their SME and WSME portfolios than clients in the population, and (ii) experienced an acceptable, i.e. similar non-performing loan ratio as compared to the population. Non-performing loan level is a key indicator of banks' portfolio quality and affects their financial viability.

This comparison revealed four key insights, indicating that GSMEF's clients have indeed increased lending to SMEs at a higher rate than the IFC benchmark, without experiencing higher rates of default. These observations gleaned from the data are further confirmed via anecdotal evidence from GSMEF's clients, which are woven in between the data analyses and throughout this report via "Impact Stories." Within the limited scope of this study, our findings indicate that GSMEF contributed to these improvements in our clients' performance.

Data insights presented in this report are based on the data collected via IFC's Reach Survey of its financial institution clients. Through the Reach Survey, IFC collects information about these clients' loan portfolios, deposits, other business-related data, and outreach to their customers, including to SMEs. Thus, our universe of clients is IFC clients (with and without GSMEF support), narrowed down to the regions where GSMEF works to enhance comparability between the sample and population.

SME and WSME portfolio balances, average loan size, and non-performing loan ratios presented here are based on the 2020 Reach Survey, the most recent Survey available; this data was compared against data reported by the same exact clients in the 2019 and 2018 Reach Surveys. To maximize the sample size of GSMEF clients, we did not include Surveys from earlier years. Please see the Annex for the detailed methodology.

Portfolio Insight #1:
Higher Growth in SME Loan Portfolio

On average, in the last few years, IFC's financial institution clients who received GSMEF support grew their outstanding SME loan portfolios more than all IFC financial institution clients in the same regions.

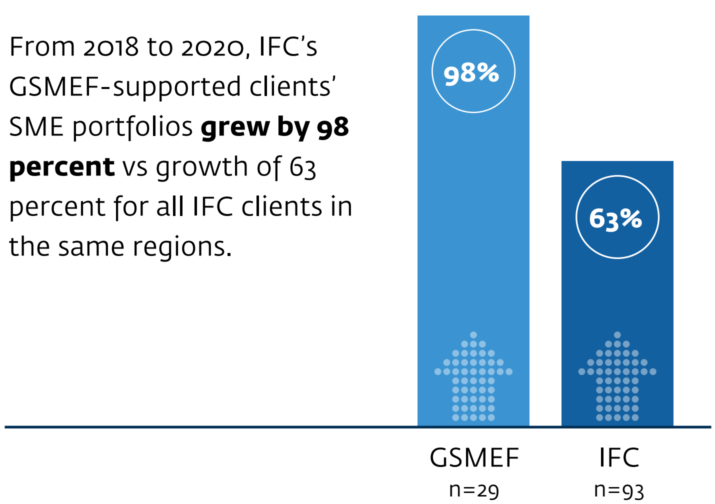
Of the IFC financial institution clients who reported on their SME portfolios during 2018 to 2020, nearly a third received GSMEF support, designed to increase their on-lending to SMEs. Sixty percent of these received GSMEF-funded investments, blended with IFC's own funds into financial guarantees, reduced cost loans, and performance-based incentives. With some overlap, 60 percent received advisory services to help them develop SME-focused strategies and products.

To assess whether the GSMEF-supported clients behaved differently as compared with all IFC financial institution clients in the same regions, we compared the SME portfolio growth rates of the former against the latter. Our analysis showed that the GSMEF-supported clients grew their SME portfolios by 98 percent, versus growth of only 63 percent by the benchmark.

It is likely that GSMEF's blended finance and advisory support contributed to the significantly higher growth in SME lending experienced by our clients. The blended finance instruments are designed to crowd-in funds for on-lending to SMEs on affordable terms and focus clients' attention on underserved SME segments. Additionally, advisory services build clients' capacity to build an SME pipeline, assess risk from potential borrowers, and efficiently manage their SME loan portfolios. Thus, GSMEF's interventions may have contributed to our clients increasing their lending to SMEs.

Figure 1: Average Growth in Outstanding SME Loan Portfolio

From 2018 to 2020, IFC's GSMEF-supported clients' SME portfolios **grew by 98 percent** vs growth of 63 percent for all IFC clients in the same regions.



IMPACT STORY

This is the story of an engineer-turned-entrepreneur, and the bank that steadfastly supports him as he converts waste into a multi-million dollar company.

Transforming Businesses and Creating Jobs in Côte d'Ivoire

As a part-time worker in a palm oil plantation in Sassandra, a small town located 300 kilometers from Abidjan in Côte d'Ivoire, Echiman Boeyele and a few others noticed that the palm oil plantation they worked in produced a lot of waste, and the factory lacked a transformation unit to convert its unused materials into palm oil. Also, the only palm processing unit in that area did not have the capacity to absorb all the planters' output. Boeyele realized that there was a chance to set up a factory to absorb the remaining produce and minimize production losses, estimated at 20 percent to 25 percent (approx. 30,000 tons) of production from the region.

Despite spotting an opportunity to improve industrial efficiency, Boeyele had never considered starting his own venture. In Côte d'Ivoire, most palm oil businesses were owned by large companies. Driven by the prospects of transforming the waste neglected by manufacturers around him into a valuable commodity, Boeyele decided to take a risk. Today Boeyele owns a palm oil business, Palm Sassandra, which has 120 employees and an annual turnover of 4.8 billion West African CFA francs ($8.7 million).

This growth required support. Boeyele began with five colleagues, all of whom, like he, had other jobs. They started from scratch in 2004 with only 20 employees, "and no clue on how to run a company and get financing," recalled Boeyele, an agribusiness engineer with experience in working in palm oil factories. They built a palm transformation unit to reverse 30,000 tons of production losses during regular palm oil processing.

Boeyele and his colleagues saw an opportunity with Palm Sassandra to improve process efficiencies and increase output through innovative changes in the palm oil business. Reinvesting their gains allowed them, over 11 years, to quadruple production from five tons an hour to 20. But as a business owner, Boeyele and his partners were constantly investing their own limited funds, which "wasn't good for [their] treasury."

For small businesses like Boeyele's, having a strong banking partner is vital to accessing the capital needed to grow and run a successful business. Boeyele found that support in Société Ivoirienne de Banque (SIB), the fifth largest bank in Côte d'Ivoire. SMEs in Côte d'Ivoire face an estimated $2.1 billion financing gap, and SIB has increasingly put SME finance at the core of its strategy. To assist entrepreneurs like Boeyele, IFC, with the support of the GSMEF, has provided several investments to SIB.

IFC's support to SIB comprises a partial guarantee on SIB's loans to SMEs, which will assist in scaling up SIB's SME and agribusiness value chain lending in Côte d'Ivoire. IFC is also providing advisory services to SIB to facilitate a differentiated approach to each targeted market segment and to strengthen performance monitoring, risk management, revenue generation and sales. Thankful for the partnership with IFC, Jerry Attissou, director of corporate operations at SIB, said, "IFC's guarantee has enabled SIB to take a bit more risk in terms of [the] type of SMEs it lends to." Attissou further said that the bank has successfully "created centers especially dedicated to SMEs," and they have "also introduced training on serving the SME segment in all branches."

Palm Sassandra had managed to scrape together enough capital among five shareholders to operate during the initial decade. However, to grow the business, the company needed more money and shopped for a loan in 2015. SIB was their bank of choice, and to date, Palm Sassandra has taken three loans from them. In 2015 and 2017, Palm Sassandra received its first loans to help increase capacity. But by 2020, the company's second-hand equipment was wearing down, so it took a third loan to order new machinery to modernize the plant. Boeyele is now requesting a fourth loan.

Looking back at Palm Sassandra's growth over almost two decades, Boeyele is proud of his journey. Even though he started his business from scratch with second-hand machinery, the loans from SIB provided the company with critical capital to buy machinery and equipment. This enabled the company to grow from 20 to 120 local employees and increase their supply chain, something that matters to Boeyele. Palm Sassandra has always had a strong

community focus. Working only with countryside plantations, as opposed to "industrial-sized ones," Boeyele said, "we have to keep our trust with the villagers." Along with his partners, he developed a program to help farmers improve their work conditions and increase plantation output.

Palm Sassandra also benefited from their relationship with SIB during the pandemic-induced disruptions. Boeyele said that "COVID-19 didn't really affect us; however, with the border closing, we did suffer important delays in equipment, three to four months." SIB helped by pressing ahead with 35 percent financing for the new orders, Boeyele added. Beyond the pandemic, Boeyele sees a future for Palm Sassandra that includes reducing the company's energy consumption. Hoping to collaborate with SIB again for a loan to implement energy efficiency measures, Boeyele says, "What's good about SIB is that they are good listeners. They help us solve our problems and propose tailored solutions."

> When we suffered due to delays in equipment during COVID-19, SIB helped us with 35 percent financing for new orders.

Portfolio Insight #2:
Sound Portfolio Quality

IFC's GSMEF-supported clients experienced similar non-performing loan ratios on their SME portfolios as the benchmark, despite expecting to take high risks.

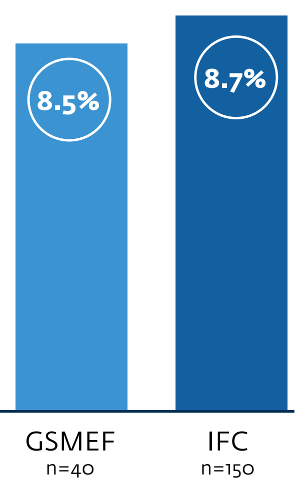
Some of IFC's clients were interested in increasing their SME lending but expected the associated non-performing loan ratio to be high. GSMEF's investment and advisory services were designed to address these clients' concerns. Key GSMEF interventions included financial guarantees to share clients' potential losses from non-performing loans; and advisory services to strengthen credit risk management practices.

To test whether our clients' expectations of higher non-performing loans had materialized, we compared the average SME non-performing loan ratios of IFC's GSMEF-supported clients against the average SME non-performing loan ratios of all IFC financial institution clients in the same regions. The latter group (i.e. the population) thus included IFC clients who were willing to on-lend to SMEs without GSMEF support.

Our analysis revealed that, in fact, the non-performing loan ratios of both groups were very similar. There are several possible explanations. First, it is possible that GSMEF clients' risk aversion was based on perceptions rather than on the SMEs' actual risk profiles. Some reasons for this include: inexperience in serving SMEs, lack of capacity to address the financing needs of SMEs, and limited market information. Second, it suggests that GSMEF's guarantees and advisory support were effective in mitigating risks from SME lending. Most importantly, our client interviews suggest that by putting in place the right loan acquisition and risk-management policies and practices, IFC's GSMEF-supported clients can continue to manage the risks associated with lending to SMEs sustainably.[30]

Figure 2: Average Non-Performing Loan Ratio in SME Loan Portfolio

In 2020, the SME loan **portfolio quality** of IFC's GSMEF-supported clients was similar, on average, to that of all IFC financial institution clients in the same region.



IMPACT STORY

This is the story of one GSMEF financial institution client in Africa that relied on the GSMEF-supported IFC guarantee to increase its risk appetite and on-lend to underserved SMEs that were previously perceived as risky.

A Bank in Ghana That Makes House Calls

BOA Ghana has a winning customer-oriented formula: if the customer cannot find the time to go to the branch, go to them. This customer-focused strategy caters to busy entrepreneurs running small businesses. The "go-getter stewards" of BOA Ghana approach potential customers at their business site, guide them through the process of opening a checking or savings account, and collect their data on a mobile app. Then the bank's relationship manager visits the customer to establish trust and obtain the additional details needed to open an account. Finally, the branch manager will meet with the entrepreneur to discuss the products that best fit with the customer's business needs. These engagements allow potential SME customers to access bank products including loans, ranging from the equivalent of $4,000 to $25,000. These are SMEs that otherwise have difficulty accessing finance.

"We make a conscious effort to support women. The fact of the matter is that [in Ghana] we have a lot more women in the SME sector than men," said Alex Agyei-Amponsah, Group Head of retail banking at BOA Ghana. Lending to women-led SMEs is not just about social responsibility; they are good customers. The bank says women are lower-risk clients and are more likely to repay their loans.

In 2018, IFC and BOA entered a $60-million agreement for a regional risk-sharing facility to support BOA in lending to smaller and riskier SMEs in nine African countries. IFC's GSMEF-supported seven-year investment covers as much as 50 percent of the risk on up to $120 million equivalent in loans to local SMEs in Burkina Faso, Côte d'Ivoire, Ghana, Madagascar, Mali, Niger, Senegal, Tanzania, and Togo; a tenth BOA affiliate, in Kenya, was recently added. BOA Ghana is part of BOA Group, and the facility supports its lending to SMEs.

While the facility is focused on lending to SMEs, BOA affiliates can earn a special incentive if a significant portion of their SME loans are made to "priority customers" like women-run businesses or for climate-related improvements, such as energy-efficient equipment upgrades, small solar or biomass systems, and climate-smart agricultural supply chains. This GSMEF-supported facility's objective is to reach over 5,000 underserved SMEs in Africa and to create the conditions for wider SME lending growth by BOA and the market.

"The success was mainly the guarantee. The fact that we have IFC's guarantee gives us the comfort of going to the market knowing that we have that backup," said Fatoumata Gakou, deputy managing director of BOA Ghana. If it was not for IFC's Risk-Sharing Facility supported by GSMEF, the bank says it could not extend such additional lending.

BOA Ghana's proactive method in reaching out to SMEs, establishing a relationship on-site, and collecting information about the business, has helped cut the bureaucracy of vetting and approving their loan applications. In an SME forum in Ghana in 2021, the bank's managing director Kobby Andah asked SMEs to keep proper and accurate records to show they are worthy of being considered for loans. "Most SMEs face difficulties in raising adequate and affordable credit from banks due to their inability to meet credit prerequisites," Andah said. "They end up borrowing mainly short-term and expensive funds which tend to limit their growth potential."

BOA Ghana was able to remove barriers to finance for some of the most underserved parts of the country's economy by painting an accurate picture of the SME target market and its performance. This mapping has not only helped BOA Ghana to lend to businesses that previously had little access to finance but has also debunked myths around the risk of doing business with some of them, like women-run SMEs.

> "Most SMEs face difficulties in raising adequate and affordable credit from banks due to their inability to meet credit prerequisites"

Portfolio Insight #3:

Higher Growth of WSME Loan Portfolio

IFC's GSMEF-supported financial institution clients achieved higher growth in their WSME lending than all IFC financial institution clients in the same regions, but did not experience higher non-performing loans on their WSME portfolios.

WSMEs comprise about one-third of all SMEs and play a crucial role in contributing to household income and job creation in developing economies. At the same time, WSMEs are financially underserved and have limited access to credit.

Studies show that women entrepreneurs are a profitable customer segment. The Financial Alliance for Women, which is a network of financial institutions, recently reported that 60 percent of the Financial Alliance for Women members' retail and business banking revenues is generated by women-centered financial products; the average rate of non-performing loans for women customers is 53 percent lower than for men; and 34 percent of private sector leaders see profits rise as a result of advancing women's financial power.[31]

However, many GSMEF-supported clients were not convinced about the business case for financing women entrepreneurs. Banks often shy away from financing women-owned businesses as they tend to be smaller, more informal, lack collateral and do not have audited financial statements. Banks expect loans to women-run enterprises to be more prone to default; thus, they have needed GSMEF's incentives and advice to focus on this market segment.

Our data analysis revealed that IFC's GSMEF-supported clients grew their WSME portfolios more than the benchmark. Additionally, WSME-related non-performing loan ratios were similar for all IFC clients (both with and without GSMEF support). These observations indicate that GSMEF support is effective in pushing IFC's clients to purposefully target WSMEs, and that serving this segment is profitable and sustainable (see Annex for additional details).

Figure 3: Average Growth in Outstanding WSME Loan Portfolio

From 2018 to 2020, IFC's GSMEF-supported clients' WSME portfolios posted slightly **higher growth** than all IFC financial institution clients in the same regions.

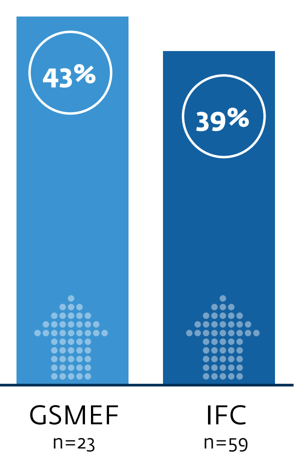
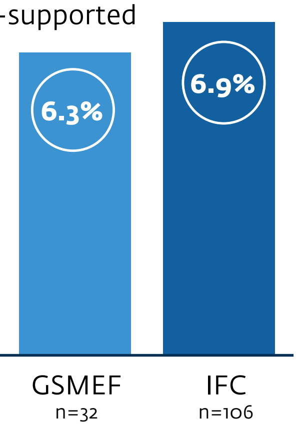


Figure 4: Average Non-Performing Loan Ratio in WSME Loan Portfolio

In 2020, the WSME loan portfolio quality of IFC's GSMEF-supported clients was similar to that of the all IFC financial institution clients in the same regions, with slightly lower non-performing loans.



IMPACT STORY

As markets bounce back from the pandemic, IFC's GSMEF-supported clients are expected to resume their higher rate of WSME lending. As this story of two women entrepreneurs in Cambodia shows, encouraging banks to finance WSMEs is a vast untapped market in some countries, and one that changes lives.

Cooking Up Solutions for Women Entrepreneurs in Cambodia

Chim Di knows the perfect recipe for a successful business. A 60-year-old entrepreneur in the Kandal province of Cambodia, she is hardworking, passionate, and treats her employees as family. Two decades ago, Di—along with her husband—set up a noodle company in her courtyard with less than 10 employees.

Since then, for the last 20 years and until recently, Di started her day by working from around midnight to 5 a.m. Once the noodles were ready, her staff delivered them to retail stores and restaurants. The second shift was between 6 a.m. and 2 p.m., and by the time the evening shift started at 3 pm, Di and her staff were busy making the dough for the next day's batch, working round the clock. As to work-life balance, Di quips, "We had no time to do anything but make noodles."

Twenty kilometers away, 32-year-old Touch Yamarady runs a Wing Cash Xpress—an outlet that offers money transfers, bill payments, cash deposits, and money exchange in the capital city of Phnom Penh. Eight years ago, Yamarady, an accounting professional, quit her job to start her business after she and her husband inherited a house in a popular neighborhood. "My husband's mobile business wasn't doing very well. I had a sick father at home, and we wanted to start a family business. So, we decided to pool our resources and run the money exchange business from home," she recalls.

Di and Yamarady may be worlds apart, but they are both among the ever-growing number of women entrepreneurs joining Cambodia's workforce. The country has among the highest rates of female labor force participation in the world and in terms of WSMEs. While at 62 percent, women do own a majority of MSMEs in the country—only three percent of women entrepreneurs have access to formal credit. According to IFC, the unmet demand for credit from formal and informal Cambodian women-owned MSMEs is estimated at $4.2 billion.

The COVID-19 pandemic has widened the finance gap for Cambodian businesses, especially MSMEs, disrupting cash flows and causing operational challenges. As a result, it is estimated that around 20 percent of the nation's total employment faced job or income losses due to the pandemic.

To support the country's MSMEs, with IFC's support, Amret Microfinance Institution, among other local financial institutions, has increased its working capital lending to Cambodian smaller businesses — especially women-owned ones. This will help them stay afloat and continue operations during and after COVID-19. The additional funding complements payment relief that Amret—the third largest microfinance deposit-taking institution in Cambodia—has already offered to its borrowers.

IFC's funding in 2020, part of its COVID-19 fast-track financing support package, provided Amret with liquidity to continue lending to MSMEs that have been impacted by the pandemic, particularly those in the hard-hit garment, tourism, and construction sectors. Specifically, IFC encouraged the institution to use at least 30 percent of the funding for lending to women-owned businesses, thanks to the performance-based incentive provided by GSMEF.

This incentive enabled Amret to extend affordable loans to more women entrepreneurs despite the economic challenges of a pandemic. "IFC's support has incentivized Amret to reach more women with diversified products. Despite COVID-19, we have been able to make loans more affordable, helping vulnerable women entrepreneurs maintain traditional income-earning activities," says Chhay Vichhay, Senior Credit Officer at Amret.

In recent years, the need for finance to expand business and increase income has been growing among Cambodian borrowers—especially women entrepreneurs. In a country with an estimated 2.3 million borrowers, official data from the Credit Bureau of Cambodia show the average loan size in the microfinance sector grew by 80 percent between 2015 and 2017, raising concerns about over-heating and issues revolving around over-

> In Cambodia, the unmet demand for credit from women entrepreneurs is estimated at $4.2 billion.

indebtedness and responsible financing. In response, Amret, with IFC's support, enhanced responsible finance practices and improved credit risk management to strengthen its institutional culture and business operations. It is one of the first few microfinance institutions in Cambodia to be certified by the independent, third-party evaluator SMART Campaign in 2016 for adopting Client Protection Principles and practices that aim to ensure prudent, transparent, and respectful treatment of clients. Sector wide, IFC engagements with industry regulators and players focus on improving financial infrastructure and literacy. This helps develop responsible lending guidelines and build risk management capacity, among others, to reduce over-indebtedness and mitigate risks for borrowers, particularly women and rural segments in Cambodia.

Amret's new loans and relief measures for their MSME clients impacted by COVID-19 helped Yamarady get through a challenging time. "During the pandemic, my business declined by 30 percent, and I was concerned I would not be able to repay my loan. However, my credit officer worked with me so that I only had to make interest payments," she says.

Di took a loan from Amret to buy a noodle-making machine, which transformed her business radically. "The machine doubled our daily noodle production to two tons, and our team grew from less than 10 to 18 employees," she says. Automation helped Di and her staff work shorter days and stick to two regular shifts: 6 to 10 a.m. and 2 to 5 p.m.

Since she doesn't have to work through the night any longer, Di and her husband can afford to get a good night's sleep and enjoy their breakfast together before heading to work.

Di and Yamarady are among thousands of women entrepreneurs who have weathered COVID-19 with support from Amret. To date, IFC's funding to Amret has helped about 4,000 MSMEs, 56 percent of which are women led.

Yamarady can't believe that only 10 years ago, she was struggling to buy food and clothes. Today, her business is doing well, and she managed to survive through the pandemic. "I own properties, send my daughter to a private school, and can afford health insurance. Indeed, Amret is behind the success of my business," she says.

While Yamarady is excited about her future, Di looks forward to mentoring her daughter to take over her business, and retire in a few years. Reflecting on her journey, Di believes Amret has made it more enjoyable. "Just like salt, which enhances all other flavors in a recipe, Amret is the right ingredient for the success of my business."

> IFC's funding to Amret has helped about 4,000 MSMEs, 56 percent of which are women led.

Portfolio Insight #4:

Higher Growth with Sound Portfolio Quality in FCS Countries

In FCS, initial observations suggest that on average, IFC's GSMEF-supported financial institution clients have extended more and larger loans to SMEs, and had lower non-performing loan ratios when compared to IFC clients.

Supporting stability and growth in fragile markets is a top priority for IFC. These economies need investments that will create jobs and spur economic growth. However, enabling investments in SMEs in FCS locations is particularly challenging. FCS economies are more volatile leading to greater scarcity of financial resources, the operating environment for entrepreneurs is more difficult, and the capacity of regulators, banks, and business owners is more constrained.

In these markets, blended finance can be deployed to encourage commercial banks and financial service providers to target and finance SMEs. GSMEF's financial instruments, including support to guarantees, can mitigate the elevated risks associated with lending to SMEs. Reduced-cost loans and performance-based incentives can further enable and incentivize banks' to focus on SMEs. Finally, GSMEF-supported advisory services can create the required capacity to sustainably service SMEs.

Initial results indicate that, on average, GSMEF-supported clients in FCS markets have indeed achieved higher growth of their SME loan portfolios, extended more and larger loans to SMEs, and experienced lower non-performing loan ratios than all IFC financial institution clients in the same regions. This may be partially because the blended finance-supported guarantees or reduced-cost lending and GSMEF's incentives encouraged them to grow their portfolios faster and/or make larger loans to SMEs, despite the high perceived risks. However, due to the small number of IFC clients in FCS markets and even smaller number of GSMEF-supported clients within this group, it is still too early to draw definitive conclusions that explain GSMEF's success.

Figure 5: Average Growth in Outstanding SME Loan Portfolio in FCS

From 2018 to 2020 in FCS countries, IFC's GSMEF-supported clients showed **higher growth** in their SME loan portfolio than all IFC financial institution clients in the same regions.

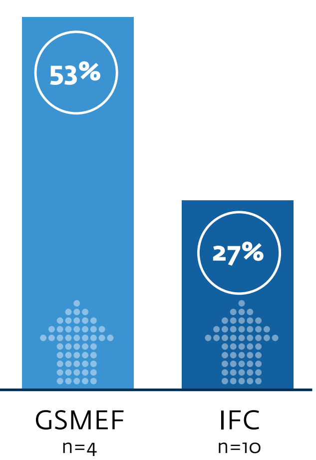


Figure 6: **Average Loan Size in SME Loan Portfolio in FCS (in USD)**

In 2020 in FCS countries, IFC's GSMEF-supported clients had higher average **SME LOAN SIZES** than IFC financial institution clients in the same regions.

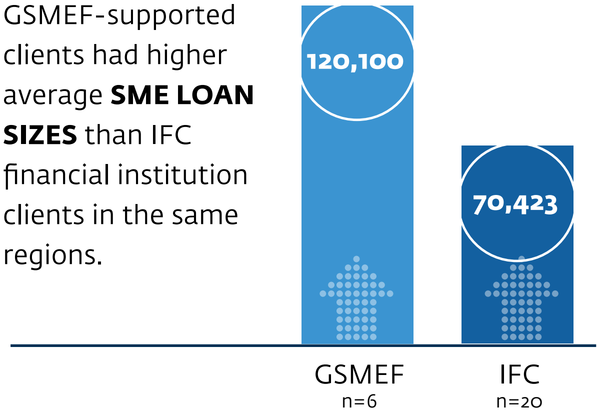
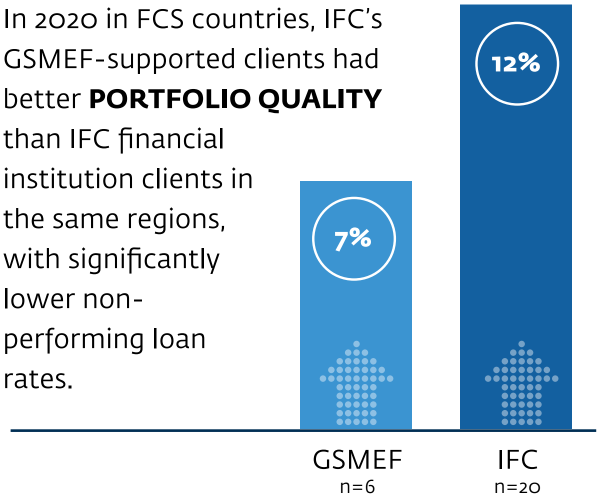


Figure 7: **Average Non-Performing Loan Ratio in SME Loan Portfolio in FCS**

In 2020 in FCS countries, IFC's GSMEF-supported clients had better **PORTFOLIO QUALITY** than IFC financial institution clients in the same regions, with significantly lower non-performing loan rates.



This is an example of how GSMEF is encouraging the NBI to on-lend to SMEs at affordable rates.

Developing and Scaling SMEs Finance in Iraq

GSMEF flexibly adapts its product offerings to meet the needs of client financial institutions in FCS. In Iraq, GSMEF is encouraging NBI, a public shareholding company established in 1995 and listed on the Iraq Stock Exchange, to finance SMEs at affordable rates.

Iraqis are typically very cautious about banking with local private banks, entrusting most of their deposits with state-owned banks, and maintaining only about 10 percent of their deposits with the roughly 70 private banks. With such a modest deposit base, NBI and other private banks in Iraq have limited liquidity and capacity to finance SMEs. NBI says it is common for entrepreneurs to open a bank account for the first time, and simultaneously request a loan. This inability to provide financing makes it even harder for NBI to attract deposits.

Despite this, Iraq's recent economic stability has boosted growth in its banking system. However, this has not translated into greater availability of financing for SMEs. Fewer than 7 percent of the country's formal SMEs have access to loans and over 60 percent are fully or partially credit constrained, with an overall SME financing gap estimated at $38 billion.[32] Nearly 90 percent of private sector jobs in Iraq are generated by smaller businesses, With better access to credit, SMEs can generate employment opportunities to absorb the young labor market entrants (Iraq has one of the youngest populations in the world) thus diversifying Iraq's economy away from oil and promoting sustainable growth.

This is where IFC and GSMEF come in. In 2020 and 2021 IFC provided two loans of $10 million each to NBI for on-lending to SMEs. IFC's funds were blended with GSMEF's funds to reduce NBI's borrowing cost, thereby enabling NBI to on-lend to SMEs at an affordable interest rate, as long as NBI significantly grows its SME lending. Simultaneously, GSMEF's advisory services is helping NBI develop and scale up its SME lending operations, through better portfolio segmentation, new SME product development, and sound credit-management processes. With this support package, NBI hopes to triple its lending to SMEs in five years, providing an additional $40 million in loans to an estimated 1500 SMEs.

NBI is already making steady progress toward these goals. Ayman Abu Dhaim, CEO of NBI, adds, "IFC's full-service support has helped NBI navigate the challenging banking infrastructure in Iraq. By collaborating with IFC, we have dedicated financing and advisory services to both existing and new SMEs in Iraq. Our partnership with IFC has allowed us to gain the trust and confidence of our customers and offer them financial products that meet their needs, which is critical in such a fragile environment."

Financial Infrastructure for SME Growth

Financial infrastructure, meaning the underlying foundation for the financial system including institutions (e.g., credit bureaus and collateral registries), technology, regulations and standards, is crucial for enabling private sector finance to flow to SMEs.[33] Gaps in financial infrastructure constrain banks' ability to properly assess the creditworthiness of SMEs, especially when these SMEs lack traditional collateral such as land or buildings. Credit information systems, secured transactions and asset-based lending frameworks reduce the information asymmetries and legal uncertainties, thereby lowering lenders' risks and increasing the flow of finance to SMEs. Lack of adequate credit infrastructure can curb SME lending, lead to low portfolio quality, and increase systemic risks.

However, credit information systems, secured transactions and asset-based lending frameworks reduce the information asymmetries and legal uncertainties, thereby lowering lenders' risks and increasing the flow of finance to SMEs. Thus, strong financial infrastructure helps not only address the lending risks, it also enables financial institutions to scale lending to SMEs more affordably.

GSMEF's advisory services focus on creating and strengthening financial infrastructure in emerging markets. Credit reporting and credit information sharing systems help improve SMEs' visibility in the financial system and supply lenders with critical data for assessing SME loan applicants' creditworthiness. Secured transactions and asset-based lending infrastructure enables SMEs' access to finance by putting in place the appropriate legal and institutional framework that allows and facilitates the use of movable assets, such as machinery, livestock, and inventory, as collateral for SME loans.

IFC, with support from GSMEF, delivers systemic, market-wide impact by helping governments strengthen existing legal and regulatory frameworks that govern credit information systems and secured transactions. In markets where no such legal frameworks exist, GSMEF-funded IFC projects, in close collaboration with the World Bank, help governments pass new laws as well as establish new credit bureaus and collateral registries, or to strengthen existing ones. To achieve a meaningful and lasting impact, close collaboration between various stakeholders is required, and IFC is uniquely positioned to create such partnerships between the financial sector, donor countries, SMEs, and other private and public sector participants. *The Annex has details about the results from GSMEF-funded FinInfra projects.*

IMPACT STORY

A story of GSMEF's support in building a credit reporting system, increasing the uptake of the existing credit bureaus in Nigeria, and launching a collateral registry.

A Fresh Start for Nigerian Small Businesses Through Improved Access to Credit

Although SMEs in Nigeria are a well-known economic powerhouse, small businesses have traditionally struggled to gain access to finance to grow and prosper. A key constraint was the absence of a robust credit infrastructure to support the country's financial system. Weak credit reporting systems limited the ability of financial institutions to extend finance to small businesses. As lenders were not able to obtain reliable credit history on SMEs, they could not make informed decisions on whether or not to approve SME loans and in many cases chose not to. Nigerian SMEs also experienced significant challenges in accessing credit facilities due to lack of acceptable collateral. As a result, while 80 percent of Nigerian SMEs indicated the need for financing,[34] only 10 percent actually applied for a loan or line of credit and of these applicants only about 30 percent were approved.[35]

To address these barriers, the CBN embarked on a series of reforms to facilitate access to credit by consumers and MSMEs and to reduce the high cost of credit and incidence of bad loans. In 1998, CBN established the Credit Risk Management System. The success of Credit

Risk Management System led the CBN in 2008 to issue guidelines for the licensing of private credit bureaus. Thus, three private credit bureaus were licensed: First Central Credit Bureau Ltd, CRC Credit Bureau Ltd, and CR Services Credit Bureau Plc.

In 2014, the World Bank Group entered into a technical agreement with the CBN to strengthen the financial infrastructure. The agreement's objectives were to build CBN's capacity and strengthen the legal frameworks governing credit reporting and secured transactions, thereby overcoming the impediments to credit creation. With the support of GSMEF, IFC and the World Bank launched a program comprising advisory support and technical assistance to CBN and other key stakeholders, including credit bureaus and lenders. The program aimed to build out the credit reporting system, support the uptake of the existing credit bureaus in Nigeria, and enable financial institutions to give loans secured with movable assets by introducing the required regulatory reforms and launching a collateral registry.

To complement these efforts, IFC, through its advisory services, launched a campaign to increase financial literacy and specialized training for banks and other financial institutions. Key features included awareness raising and media campaigns for the general public on credit reports and on how to access embedded benefits. Peer-to-peer learning for credit bureaus and stakeholders also played a significant role in the success of these projects by informing them about banking reforms and products introduced in similar countries. This model has been replicated in other countries in Sub-Saharan Africa.

IFC's engagements resulted in two new legal acts in 2017: the Credit Reporting Act and the Secured Transactions in Movable Assets Act. With the legal framework in place, an online National Collateral Registry was created, allowing lenders to determine the existence of any prior security interests and register new security interests over movable assets offered as collateral.

By December 2019, transactions secured by movable assets totaling over $5 billion had been registered at the National Collateral Registry. As a result, nearly 11,000 SMEs and over 100,000 micro-enterprises were able to obtain loans using their movable collateral. The improved regulatory environment and the establishment of a modern collateral registry facilitated over $700 million in financing to SMEs. As a result of the credit reporting project, more than 1,000 institutions are now providing data to the credit bureaus in Nigeria (compared to only nine institutions in 2009). Most importantly, the project brought the entire microfinance sector, which includes over 900 institutions, into the credit reporting system. At IFC's project completion in December 2017, cumulative data inquiries surpassed 6 million and over $9.7 billion of total lending was achieved as a result of the credit information shared. This translates to over 1.2 million firms, including SMEs, being reported in the credit reporting system with over 95,000 businesses getting access to $7.8 billion in financing as a result of the credit reporting project.[36]

Haruna Mustafa, Director of Banking Supervision, CBN, is very optimistic on the impact of the reforms. He shares, "We are seeing remarkable improvements in the loan portfolio of banks and financial institutions as borrowers' behavior and lenders' practices change with the institutionalization of credit reporting."

As a result of the credit reporting project over 1.2 million firms, including SMEs, were reported in the credit reporting system with over 95,000 businesses getting access to $7.8 billion in financing.

Supporting SMEs during Covid-19

Helping Banks Meet SME Needs

In March 2020, in response to the COVID-19 crisis, IFC launched a $2 billion Working Capital Solutions funding envelope. The Working Capital Solutions envelope was designed to make short-term working capital loans to client banks via an expedited approval process. It included a carve-out of $865 million for loans to banks operating in low-income countries and an incentive for banks to on-lend to women and women-led SMEs, supported by several blended finance facilities, including GSMEF. GSMEF focused its support on helping women-owned SMEs, because they were disproportionately affected by the pandemic, but their needs were unlikely to have been a top priority for the Working Capital Solutions-funded banks. Accordingly, GSMEF offered performance-based incentives to banks who on-lent a minimum of 20 percent of the IFC loans' proceeds to WSMEs. Since this envelope was launched, GSMEF has committed performance-based incentives in five transactions to banks in Cambodia and Nicaragua, and these have steadily grown their WSME portfolios.

On the advisory services side, GSMEF supported IFC's launch of short, cost-effective surveys to understand the pandemic's impact on small businesses. IFC surveyed MSME borrowers from 42 IFC client banks in 10 African countries. The COVID-19 Business Impact Survey reviewed the business needs of 2,373 MSMEs, revealing detailed information about how the pandemic has affected all aspects of these MSMEs' operations. It concluded that what they most need is capacity building and long-term financing. The study's findings were shared with IFC's client banks, to enable them to best adapt their services to meet their clients' needs.

In addition, GSMEF supported the design and implementation of a study: COVID-19 and Women-Led Micro, Small and Medium Enterprises in Sub-Saharan Africa. The study's key objective was to understand how the COVID-19 pandemic has affected MSMEs, especially those led by women. This study surveyed 2,207 MSMEs, 34 financial institutions, and 13 supporting organizations across 13 countries in Sub-Saharan Africa. The study found that over a quarter of the surveyed MSMEs could not continue operating during the crisis, over half needed to adapt their business models to continue operations, and almost 90 percent faced revenue losses. Women-led MSMEs have been especially hard hit by the global pandemic, mainly due to their smaller size and concentration in heavily affected sectors, such as trade, hospitality, and manufacturing. To help SMEs adapt, GSMEF will build knowledge and make investments that strengthen its clients' offerings in digital financial services, supply chain finance, climate finance, and financing for WSMEs.

IMPACT STORY

The COVID-19 pandemic created a global health crisis followed by an economic one. Some businesses though turned the threat into an opportunity. This is the story of how one small business in Kenya pivoted its production to weather the storm and help the local economy.

Kenyan Bank Supports Entrepreneurs' Response to the Pandemic

In March 2020, as the world shut down to the COVID-19 pandemic, Elex Products worked round the clock to develop and manufacture hand sanitizers. A married couple, Gabriel Muli and Ruth Muindi, started this small Kenyan company in the outskirts of Nairobi in 2002. Before the start of the COVID-19 pandemic, Elex Products was already manufacturing and distributing cleaning and sanitation products for both industrial and domestic use, but at the time, hand sanitizers were not a part of their offerings. Muli said that their company started developing hand sanitizers the moment the pandemic hit Europe. "We knew Africa was next. The day the first COVID-19 case was announced in Kenya, it was a frenzy, and hand sanitizers were sold out within an hour," said Muli. But Elex Products was prepared. For the next few weeks, customers formed long lines outside their factory starting at 5am.

The pandemic was a paradoxical time for Elex Products: on the one hand, they were able to create a new product line and supply an essential disinfectant at a time of severe need; yet the company was also hurt by COVID-19. Supply chain disruptions had increased prices of raw materials, which directly impacted Elex Product's ability to purchase supplies, spurring the company to diversify its product base. "We limited manufacturing to 20 percent in each product segment," said Muli.

Elex Products made quick decisions and adapted its business practices in response to the pandemic. First, they tapped into local communities to create distribution networks. "We realized many people were jobless or at home with half pay. We established home distribution methods and recruited locals that had lost their jobs due to the pandemic to deliver [our products]," said Muli.

Second, they started using digital technology by relying on mobile banking and using social media to advertise their products. "In Africa, most consumers trust the big names. To differentiate ourselves, we look at market needs that the multinationals are not able to address. We can't advertise like our large competitors because it is expensive; so, we do product demonstrations. But during the pandemic, that wasn't an option, and we started using social media." Third, they got a bigger space, which was outside the industrial area, but cheaper. At the beginning of the pandemic, the company stored their raw materials outside in the open as they needed the space inside the factory for manufacturing hand sanitizers.

"Simply put, the pandemic was an opportunity to serve our community by providing sanitizers and empathizing with locals that had lost their jobs by creating employment opportunities." Muli further added, "We were able to adapt our business practices and make quick decisions because we had support." One of the reasons Elex Products was agile and stable during the pandemic was the support they received from Co-op Bank the third-largest bank in Kenya. Founded in 1968 as a cooperative society, Co-op Bank focuses on expanding financial services to clients like Gabriel Muli and Ruth Muindi, who run small businesses.

For Co-op Bank, outreach to SMEs is a priority, and the bank doubled its efforts during the pandemic by increasing online engagements with its SME customers. "We reached out to our customers to determine what support they required to weather the pandemic. Our engagements helped us assess how we could assist struggling customers by restructuring loans and implementing moratoriums," said Moses Gitau, head of business banking at Co-op Bank.

"IFC's support during the pandemic was instrumental in developing and implementing various webinars and workshops. We conducted over 40 customized SME webinars during the pandemic covering topics critical to our customers," he said.

IFC, with the support of the GSMEF, has been working closely with Co-op Bank during the pandemic to help the bank and its customers navigate through the crisis. In response to the pandemic, IFC has focused on expanding access to finance for SMEs through commercial banks that typically have less capital for their day-to-day operations, making them more vulnerable to global shocks.

Co-op Bank's relationship with IFC goes back to 2012 when IFC supported the Kenyan bank to develop targeted services for its SME clients, including women-led and women-owned enterprises. Since then, through its investment and advisory services, IFC has partnered with Co-op Bank to expand services to SMEs. Co-op Bank developed initiatives with IFC that focused on better customer segmentation and customer value proposition, sales and customer management, products and services, credit risk management, data analytics, and non-financial services. From 2018 to date, Co-op Bank has served over 130,000 SME clients and increased their deposit holdings to 110 billion Kenyan shillings. Funding from GSMEF for investment services has been earmarked to boost IFC's efforts in financing and providing customized support to growing SMEs.

This is exactly the kind of support Elex Products needed to grow. Gabriel Muli and Ruth Muindi started small by using their own savings to launch their company. Today Elex Products has 54 employees (of which 32 are women), about 30 part-time employees, and several young apprentices who eventually may have an opportunity to become full-time employees. They also have 600 pop-up vendors in their distribution network. Co-op Bank's timely support to Elex Products assisted the company to grow. In eight years of banking with Co-op Bank, Elex Products has taken out loans for asset finance, overdraft and insurance finance. Muli said that Co-op Bank was their preferred choice for a bank because of its customer relations and geographical distribution with 156 branches, they are located everywhere in Kenya, making it easy for Elex Product's vendors and customers to conduct transactions. "Co-op Bank is very approachable and friendly. We felt even more so during the pandemic. At the beginning of the year, we applied for insurance finance for 10 months. It was approved in three days. It was magic!" he said. "It matters to us that the bank is being proactive so that we receive support at critical junctions in our business. Co-op Bank is the go-to bank for us as their support at critical times has allowed us to grow our business steadily."

> Gabriel Muli and Ruth Muindi started small by using their own savings to launch their company. Today Elex Products has 54 employees (of which 32 are women).

Sharing Knowledge and Thought Leadership

GSMEF contributes to innovation in the SME finance space through thought leadership and knowledge products. IFC helped clients adapt alternative credit scoring algorithms, predominantly used in consumer lending, for lending to SMEs. With the support of GSMEF, IFC recently collaborated with an East African client bank to deliver an innovative, data-driven algorithm to support new lending and cross-selling to MSME borrowers. The results have been very promising. The client's efforts to increase SME lending were supported by the newly developed alternative credit scoring method, and in over just three months, the bank registered a growth of about $31.7 million in their SME loan book.

GSMEF has also been instrumental in pioneering the creation of IFC's SME jobs estimation model. The methodology, which essentially converts the value of loans made to SMEs into an estimated number of jobs created in developing economies, is detailed in a report "Small Business, Big Growth: How Investing in SMEs Creates Jobs." One of GSMEF's main priorities has been to support job creation by SMEs. Building on previous research, the job estimation model found a correlation between access to finance and job growth. It concluded that every $1 million loaned to SMEs in developing countries is associated with an average of 16.3 direct jobs created over two years.[37]

Additionally, to maximize GSMEF's operational effectiveness, IFC is planning a firm-level study with key GSMEF clients to analyze how financing from financial institutions affects SMEs and WSMEs. The study will also highlight the role of GSMEF's financing to financial institutions for on-lending to SMEs, especially for underserved segments. Insights from the study will allow the IFC team to further refine and validate the jobs methodology by updating some key assumptions on the average number of jobs created by SMEs and WSMEs, as well as the average number of loans taken out by a typical WSME. Through this process, the study will address current knowledge gaps about end beneficiaries of GSMEF financing, including: a closer examination of the profile and composition of jobs created by SMEs; disaggregated analyses on which sectors have shown resilience and have growth potential; and insights into the drivers of revenue and business growth for SMEs.

This story tells how one of Africa's largest banking group is focusing on reaching SMEs, particularly in the agriculture sector.

Expanding Lending to Entrepreneurs in West Africa

Access to financial services remains one of the most acute constraints for SMEs in Africa. Recognizing this as an opportunity, ABI — one of the continent's largest banks with subsidiaries across eight West African countries including Benin, Burkina Faso, Côte d'Ivoire, Guinea, Mali, Niger, Senegal and Togo — aims to expand its SME lending. IFC, with the support of GSMEF, partnered with ABI to strengthen its SME banking offerings by establishing an SME Banking Unit to lead and support its subsidiaries' activities in their local markets.

IFC's advisory services team worked with the company to address strategy, business model design, sales and delivery capabilities as well as enterprise risk management. IFC implemented 10 modules to support ABI's SME lending, which included developing a strategy and business model that helped them formalize their SME customers by establishing a dedicated SME Unit. ABI is now building a separate SME banking business, distinct from the corporate banking and retail banking departments.

The newly created unit has its own strategy and manages a new line of SME-focused products, leading local SME centers and relationship managers.

Further, IFC worked with three ABI subsidiaries — in Côte d'Ivoire, Burkina Faso, and Senegal — to boost human resources capabilities, design customer value propositions, develop SME products and manage credit risk. In Mali, IFC's partnership resulted in an increase in financing to maize and sesame agri-value chains, and in Côte d'Ivoire an increase in financing cocoa agri-value chains. In Burkina Faso, IFC helped ABI increase financing to the cotton agri-value chains, by piloting a strategy and product to capture agri money flows. This has been done by developing innovative products and solutions that will contribute to improvements to ABI's agri-finance activities. Through the transformational project and approach, ABI is now well positioned and equipped to support SMEs in West Africa.

Lessons in Banking SMEs

The IFC Reach Survey data and client testimonials clearly show that IFC's GSMEF-supported clients have grown their SME portfolios at a faster rate than IFC's clients who did not receive GSMEF support, and that they are serving SMEs without experiencing higher defaults than the benchmark. Furthermore, GSMEF clients have grown their underserved SME portfolios (including women-led SMEs and/or SMEs in FCS countries) faster than non-GSMEF clients. These data-based observations, enhanced by performance information from additional GSMEF projects, also point to the interventions that are most effective, and to areas where more can be done to increase reach. Below are our most important lessons in how to effectively increase financing to SMEs, as well as areas that need to be strengthened.

Lending to SMEs is not as risky as perceived, if properly managed

GSMEF clients expected the losses from lending to SMEs to be too high to be worthwhile financing, and thus were unwilling to serve this sector without GSMEF's support. However, performance data showed that these clients' actual non-performing loan ratio was on par with non-performing loans in the SME portfolio of all of IFC's financial institution clients in the same regions. This, along with client interviews, suggests that GSMEF clients' SME borrowers are less risky than perceived by their lenders. With the right mix of SME market knowledge, customer-centric solutions, risk-management practices and tools, and blended finance instruments SME lending can be profitable.

Proper risk management helps financial institutions better manage their SME lending

To keep the non-performing loan ratio from SME lending low, financial institutions must put in place proper risk management policies and practices. With GSMEF's support, IFC has provided risk-management advisory services across 24 GSMEF-funded advisory projects in over 16 countries. This has helped banks strengthen client acquisition, credit underwriting, portfolio supervision, and non-performing loan management capacity. Even in an FCS country such as Burkina Faso, efforts to build a strong risk-management framework have enabled a GSMEF client to maintain its non-performing loan ratio below that of its peers.

Accompany guarantees with training

Guarantees to protect against losses from borrowers' non-repayment are powerful agents for changing banks' risk appetite and thus increasing their SME lending. However, bank loan officers do not always know how to translate such guarantees into accepting higher risk in their credit decisions, and thus did not significantly increase their SME lending. Thus, in some instances risk-sharing facilities were not fully utilized, so the bank did not increase its SME lending. To mitigate this risk, IFC must accompany the guarantee product with training to the bank staff, and the training should be delivered regularly due to staff turnover at banks.

Integrated non-financial services expand bankable SME pipeline

Many financial institutions in developing countries lack a robust pipeline of bankable SMEs. By offering SMEs non-financial services that complement their core product offering, banks can develop such a pipeline. A recent IFC study has shown that a well-integrated non-financial services program for SMEs and WSMEs yields a positive Return on Investment within one to two years.[38] During the global pandemic, many banks have recognized the importance of non-financial services and have launched or adapted their non-financial services to help SME clients weather uncertainty and build resilience.

Performance-based incentives accelerate clients' behavior change

Effective performance-based incentives are aligned with the client's strategy. They incentivize clients to go beyond business as usual to accelerate the growth of their overall SME lending and/or to increase lending to a particular SME sub-sector (such as WSMEs or climate-smart SMEs). However, GSMEF's earliest projects have shown that performance-based incentives intended to launch a bank into a new market segment that is not aligned with its strategy and supported by its senior management will not, on their own, be sufficient to change the bank's practices.

Build client capacity to report on gender-disaggregated data

Clients who disaggregate their portfolios by gender and data-mine the information can better target and profitably finance WSMEs. Gender-disaggregated portfolio data helps financial institutions to (i) size the gap between financial services provided to men vs. women-owned/led businesses, (ii) establish a strong business case for targeting the excluded segments, and (iii) establish a baseline to monitor progress in reaching more women entrepreneurs. GSMEF's targeted assistance can build banks' capacity to better mine their portfolios and thus serve WSMEs more effectively.

Cracking the nut of financing climate-smart SMEs

Encouraging financial institutions to finance climate-smart SMEs in IDA countries has been a challenge for multiple reasons. Banks are reluctant to accept small, off-grid renewable energy technologies as collateral for loans to their SME installers. On the other hand, interest rates on unsecured loans to rural consumers render these technologies unaffordable. There are some companies that import and/or install and/or purchase energy-efficient equipment that would qualify as medium-sized businesses, but it is difficult for banks to build a sufficiently-large portfolio that would need dedicated financing. Finally, financial intermediaries often simply do not recognize opportunities for climate-smart investments in certain sectors in which SMEs are active, so struggle to develop a pipeline. GSMEF continues to experiment with effective approaches to incentivize financial institutions to increase their SME climate lending.

Measuring GSMEF's contribution to creating jobs

While we can track the change in clients' SME portfolios, measuring the jobs created from this increased lending is more challenging. However, research and consultations within the World Bank Group have yielded the Jobs Creation Methodology (refer to *Sharing Knowledge and Thought Leadership* section). Though initially developed for GSMEF, it has now also been rolled-out to IFC's non-GSMEF clients. This methodology is currently being enhanced; its findings about projects' performance will continue to refine IFC's future projects that support job creation.

Supporting clients in FCS markets requires patience, resilience and flexibility, yet success can be elusive.

GSMEF has provided support to projects in several FCS countries across the world, notably: Afghanistan, Iraq, Myanmar, Nigeria, Democratic Republic of Congo, Ethiopia, Burkina Faso, Liberia and Haiti. However some engagements have not yielded success. In Afghanistan, IFC helped develop a leasing law and introduce leasing solutions to private sector financial institutions. IFC's persistence yielded progress, but the 2021 political upheaval has eroded these gains. Similarly, IFC has worked in Myanmar for many years to establish a credit bureau, a collateral registry and to strengthen SME banking capacity in multiple commercial banks. With the regime change in January 2022, GSMEF-supported engagements that had been highly impactful were abruptly halted. In these situations, IFC takes a long-term view. If conditions are favorable and opportunities present themselves, the facility will consider re-engaging to help rebuild the financial sector and strengthen financial institutions, employing patience, resilience and flexibility.

Introduction and adoption of financial infrastructure reforms take time and require commitment from the government, the client, and financial institution stakeholders

Developing a robust financial infrastructure requires capacity building and hands-on engagement for an extended period (three to five years after the infrastructure has been deployed) to drive home and embed the reform.[39] The expected timeline for implementing the legal reforms should include the time needed to expand financial literacy, raise public awareness, and obtain 'buy-in' from various stakeholders, to achieve the adoption of the new regulation. A follow-up advisory engagement can help sustain the momentum that a transformational financial infrastructure project has created. In peer-to-peer learning, IFC clients share their experience with peers in other countries, so they learn first-hand how banking reforms and products were introduced in similar countries.

IMPACT STORY

This is a story of how a GSMEF supported Fintech company scaled its business to provide working capital loans to underserved SME segments through supply chain finance.

Expanding Credit to Indian Entrepreneurs through Digitized Supply Chain Finance

Months into COVID-19, supply chain challenges were still disrupting activities in most countries. While the pandemic revealed the already existing fragilities and interdependency in the global supply chain, the rapid penetration of digital technology and mass-market consumer adoption of digital payment accounts and services resulted in an opportunity: to digitally integrate traditional retailers and suppliers, including previously underserved MSMEs and households in emerging markets, with distributors and manufacturers in supply chains.

Financial institutions are innovating and leveraging technology to reimagine financial services. Mintifi is a tech-driven financial institution in Mumbai that is addressing supply chain gaps through a customized online lending platform to provide unsecured working capital to MSMEs. "The traditional supply chain financing model resulted in issues for both lenders and borrowers. As lenders rely on direct selling agents to onboard customers, sourcing of MSME customers tends to be prohibitively expensive. Loans are secured with collaterals due to poor reporting standards of MSMEs. As lenders prefer to onboard higher ticket customers, supply chain programs don't consider the needs of MSMEs. The pandemic further magnified crevices in the supply chain," says Anup Agarwal, co-founder and CEO of Mintifi.

"We use an online lending platform to implement hi-tech, data-driven and new-age credit models to assess customer creditworthiness. The target customers are MSMEs that act as dealers or distributors for small and mid-size corporates that have been in business for over a year."

Founded in 2017, Mintifi, with the support of IFC, has partnered with over 50 leading companies in India who collectively provide products and services to over 1 million distributors/dealers and retailers. Mintifi uses machine learning and data science to extract the underlying transaction data between corporate partners and MSMEs to analyze business profiles, credit histories, and cash flows, thereby eliminating issues that plague the traditional underwriting process. This helps the company provide financing for their network of small distributors, dealers, and retailers all over India. There are an estimated 8,000 corporate anchor institutions in India with revenues greater than $15 million, Mintifi's business model could not be more relevant. Only 150 of these institutions have a formal supply chain finance program, and only 10 percent of their distributor partners are covered by bank supply chain finance programs. As a result, there is a $76 billion working capital financing opportunity to improve cash flow throughout the supply chain.

IFC, with funding from GSMEF, supports institutions like Mintifi to leverage information from the interactions of buyers and sellers within a supply chain, to improve efficiencies and lower the cost of providing finance to supply chain participants. In 2019, IFC invested equity in Mintifi to help the company grow and scale its business and effectively reach underserved segments through uncollateralized small-sized working capital credit to MSMEs. An associated IFC advisory engagement included carrying out a gap analysis on Mintifi's current data management and data analytics infrastructure, based on which recommendations were provided for customer-centric data management using data science, analytics, and customer scoring models. IFC also conducted a Credit Scorecard Validation for 1,400 loans underwritten by Mintifi and provided strategic recommendations to improve data storage and quality and refine the analytical scorecard.

Mintifi customers include MSMEs operating primarily in education, home furnishing, kitchenware, apparels, paints and travel segments. One hundred percent of its customers have adopted digital payments. On a cumulative basis, Mintifi has disbursed approximately 3,500 loans to around 2,400 MSMEs since its launch and aims to grow its borrower base to over 40,000 MSMEs over the next five years.

Agarwal is optimistic about Mintifi's funding platform for MSMEs and how the company continues to adapt to market needs. "When we started, we realized that most small businesses didn't have access to fancy phones or applications to manage their books. So, we created a single platform on WhatsApp, which is widely used in India, where our customers can manage all their transactions. By digitizing supply chain financing, Mintifi is bringing MSMEs into India's supply chain ecosystem. During the pandemic, when corporations were trying to move to the cash-and-carry model and MSMEs didn't have access to capital, Mintifi was the bridge between both parties."

> By digitizing supply chain financing, Mintifi is bringing MSMEs into India's supply chain ecosystem.

What's Next for GSMEF?

There are six areas in which GSMEF will focus its future activities to further support SMEs and their growth:

Support for Digitization and Innovation

With the onset of digital transformation, there is a real need and opportunity to scale and accelerate access to finance with a focus on digital technology. One way is financing tech-enabled SME lending, which include opportunities for GSMEF to support traditional institutions to expand into the fintech space. IFC investments supported by GSMEF incentives to fintech lenders (and to funds that on-lend to fintech lenders) need to be further explored. The potential to invest in platforms and embedded finance providers (for example, e-commerce, agri-platforms, and mobile money operators) also needs to be further explored. Another way is enabling digital transformation of banks where GSMEF is deepening advisory capacity to support our financial institution clients' digital transformation to better enable them to deploy the new channels, products, and processes needed to serve SME clients.

Expanding Non-Financial Services

The non-financial services solutions that IFC, with GSMEF support, offers to clients aim to help them become more customer-centric and to combine digital platforms and virtual offerings tailored to the context and customer needs. These solutions include a multi-channel learning and training model that combines in-person and virtual learning sessions, online tools, and mentoring; digital business and financial management tools that help small businesses automate accounting, invoicing, and inventory management; and marketplace and platform-led SME upskilling through technology platforms such as e-commerce that offer value-added services, including financing and non-financial services.

Closing the Financing Gap in Underserved Segments: WSMEs

Women-owned or led enterprises comprise more than a third of SMEs in emerging markets and have demonstrated exemplary SME portfolio performance for banks—including lower non-performing loan ratios. However, COVID-19 has been disproportionately challenging for women-led businesses, which are already less resilient—they are more likely to be informal, smaller, less digitally enabled, and have less access to finance or support networks.

Potential areas for GSMEF support include: (i) expanding financing for women-led SMEs by digital financial services companies; (ii) mainstreaming gender finance into other IFC product areas such as trade finance, insurance, housing finance and climate finance; and (iii) continuing to offer advisory services to financial institutions on gender intelligence, product design, sales force effectiveness, as well as non-financial services for women customers and tailored programs with client financial institutions on gender-disaggregated data and reporting.

Financing Climate-Smart SMEs

GSMEF is committed to using IFC's advisory and investment tools to help financial intermediaries increase their financing to climate-smart SMEs. Advisory services can help banks identify promising market segments and create tools and products to meet these sectors' needs. GSMEF's investment services can help mitigate banks' risk of financing new technologies and businesses. Several banks in GSMEF's portfolio are already actively pursuing SME borrowers for energy-efficiency improvements, eager to earn the GSMEF performance-based incentive. IFC has deep experience with blended finance tools to encourage banks to finance sustainable energy companies and projects while achieving very low non-performing loan ratios. We can deploy this experience for financing all climate-smart SMEs.

Exploring Opportunities in Supply Chain Finance

Building upon banks' relationships with supply chain "anchors" is an effective way to reach many SMEs. GSMEF will explore opportunities to incentivize banks to offer financing to SMEs in their clients' supply chains — SMEs that are both suppliers to and distributors of these "anchors". In parallel, GSMEF is helping banks develop technology platforms to efficiently process disbursements and repayments related to supply chain transactions.

Bridging Financial Gaps in Middle East and North Africa, FCS, and IDA Countries

SMEs in FCS, IDA countries, and the Middle East and North Africa region face even steeper barriers to finance in the aftermath of COVID-19. The pandemic has further tightened banks' risk appetite. Historically, GSMEF has supported IFC's guarantees to unlock capital for SMEs in IDA countries. Now that IFC can also access funds from the IDA Private Sector Window, GSMEF will continue focusing investors' capital on the most underserved SME segments, using innovative blended finance instruments that complement the IDA funds and deliver maximum impact in the markets where support is needed most.

Closing Remarks

SMEs often lack established accounting records and collateral assets that can be used as collateral. I have experienced first-hand, as a commercial banker who worked in Asia for several years, how difficult it is for financial institutions to lend to SMEs and offer them banking services. Their financial needs cannot be standardized as done for retail customers in credit cards or mortgage loans. This information asymmetry makes it difficult for banks to finance SMEs, and they are often left underserved.

As I joined IFC to work on development finance, I realized why we need to make financing more accessible for SMEs. They create jobs and contribute to the resilience and inclusion of the local economy. For the past 18 years at IFC, I have worked on multiple programs across many countries, programs dedicated to providing access to finance for SMEs — from helping regulators develop financial infrastructure such as credit bureaus and collateral registries to projects that make a direct equity investment in or offer loans to financial institutions to increase their lending to SMEs.

What most motivates our team at IFC is seeing local SME owners and managers talking passionately about their products, plans, and aspirations for the future. We are heartened when we hear SME employees talk of their hopes and how they can put food on the family table and send their kids to school. This inspires us even when programs and projects face challenges, difficulties, and shocks such as COVID-19 or political strife.

We believe GSMEF has successfully achieved its goals of driving growth and creating jobs by increasing financial access for SMEs in developing markets, particularly in IDA countries and FCS. But there is more to do, and we can do it with the generous support from the governments of the United Kingdom and the Netherlands.

The COVID-19 pandemic and its ensuing economic crisis will further widen SMEs' financing gap. As risks increase, banks shy away from the SME segments that are challenging, costly to serve, and riskier in troubled times. Trends such as the supply chain crisis induced by the pandemic, rising inflation worldwide, and the increasing presence of digital financial players — with innovative tools and platforms — require us to be agile and innovative. GSMEF aspires to adjust and efficiently deploy its valuable resources to further address the SME financing gap in the future.

Hanh Nam Nguyen
GSMEF Facility Manager, IFC

Annex

GSMEF Data Analysis Methodology

Client Analysis Methodology: To assess the performance of GSMEF-supported clients, we sought to compare them to a relevant benchmark. Hence, we compared the GSMEF-supported clients (the sample) to all IFC financial institution clients (the population), including the GSMEF-supported clients. Furthermore, we included in the population only clients in regions where GSMEF may operate. The clients in both the sample and population are comparable because both are: (i) regulated financial institutions, of good repute, and in sound financial position; (ii) operate in the same regions; and (iii) report to IFC on their operations using the same survey instrument, namely the IFC Reach Survey. While all clients extended financing to SMEs, the population may have included financial institutions who did not specifically focus on SME lending. Additionally, some clients in both the population and the sample may have received support from other sources (including other blended finance programs) to grow their SME lending. In other words, it was not possible to compare the performance of clients who did, versus did not, receive any blended finance nor any SME-focused support.

Data Source: IFC administers the annual Reach Survey to its financial institution clients, thereby collecting information about their loan portfolios, deposits, other business-related data, and outreach to their customers, including to SMEs.[40] In 2020[41], IFC collected data from 300 clients globally. From this group we excluded clients working in regions in which GSMEF may not operate. Thus, our analysis included data from 172 financial institution clients who responded to the 2020 IFC Reach Survey. Of these, 41 had received GSMEF support ("the GSMEF Clients" or "the sample"). The GSMEF Clients who reported in the 2020 IFC Reach Survey included both currently active as well as past recipients of GSMEF support.

To arrive at our Portfolio Insights, we compared the performance of the sample against the population on several key indicators, such as "non-performing loan Ratio" and "Average SME Loan Size in FCS Countries". Additionally, we calculated the GSMEF Clients' "SME/WSME Outstanding Loan Portfolio Growth Rate" by comparing the same clients' 2020 portfolio balances against their 2018 and 2019 balances, as reported in those years' Reach Surveys. We used the 2020 client data, because it was the latest Reach Survey data available as of this report's writing. We selected 2018 as the earliest year to maximize the number of observations available, thereby improving the reliability of the observed trends. Using Reach Survey data from earlier years would have substantially reduced the number of GSMEF clients in the sample, particularly in Sub-Saharan Africa, where the majority of the GSMEF portfolio is located.

Measuring Growth in SME and WSME Portfolios: To calculate the average growth in lending to SMEs and WSMEs, we looked at the growth rate of the outstanding SME and WSME loan portfolios between 2018 and 2020 for each of the GSMEF Clients. We then took a simple average of the individual clients' growth rates to arrive at the overall growth percentage for GSMEF vs. IFC Clients. Our analysis revealed that, on average, the GSMEF-supported IFC clients grew their outstanding SME portfolio balance at a significantly faster pace than the average growth rate achieved by all IFC clients in the same region. GSMEF-supported IFC clients also grew their WSME portfolios faster than all IFC clients, but the differential was not as significant. The higher WSME growth in the population could partially be due to the WSME-focused blended finance support (not from GSMEF) that some clients in the population received.

Different Sample Sizes: Some GSMEF and IFC Clients did not provide complete data on each indicator in the Reach Survey. Additionally, the total number of IFC and GSMEF clients who reported on their performance via Reach Surveys differed from year to year. Thus, the number of observations in each year, as well as across the Insights, varied. For example, under Insight # 1, of the 41 GSMEF Clients who responded to the Reach survey in 2020, only 32 clients had also reported in 2019, and only 29 had responded to the Reach survey in 2018, and only 25 had reported in all 3 years. For these reasons, the size of the GSMEF and IFC sample varies from Insight to Insight, and from year to year.

Measuring Non-Performing Loan Ratios: To calculate the average non-performing loan ratios of GSMEF and IFC Clients in 2020, we followed the same methodology used to measure the growth in SME and WSME portfolios (see above). Specifically, we calculated the non-performing loan ratios for each individual client included in the analysis by expressing the SME and WSME loans past due over 90 days as a percentage of total SME and WSME outstanding loans of these clients. We then took a simple average of the individual clients' non-performing loans to arrive at the overall non-performing loan ratios for GSMEF vs. IFC Clients.

Data Outliers: IFC or GSMEF Clients who reported growth of over 1,000 percent were excluded from the analysis to avoid skewing portfolio averages. Specifically, two financial institutions with growth exceeding 1,000 percent were excluded from the analysis in Insight #1, and one client was excluded in Insight #3.

Definitions of Terms: In Insight # 4, we applied the IFC's fiscal year 2020 definition of FCS countries. SME and WSME loan data reported by IFC and GSMEF Clients in Reach Surveys and used in this report were defined according to the official IFC definitions of the targeted sectors.[42]

Analysis of Clients in Select Regions

As previously noted, the GSMEF Clients were compared against the IFC Clients (including those supported by GSMEF and other blended finance facilities) in the same regions in which GSMEF operates. Specifically, GSMEF's operations span four regions: Sub-Saharan Africa, South Asia, Middle East and North Africa, and East Asia and Pacific. Due to a lack of historical data in certain regions (i.e., GSMEF client(s) in Middle East and North Africa) and limited GSMEF presence in FCS countries, three out of four Portfolio Insights were based on client data from three GSMEF regions, as follows:

- **Insights #1 and #3** included client data from three regions (Sub-Saharan Africa, South Asia, and East Asia and Pacific). Middle East and North Africa region was excluded, due to lack of data for GSMEF Clients in this region. Specifically, GSMEF had only one client in Middle East and North Africa who reported in the 2020 Reach Survey. Because this client was not previously an IFC client and thus did not report in the previous two years, it could not be included in the trend analysis, and thus the Middle East and North Africa region was excluded.
- **Insight #2** was based on client data from all four regions (Sub-Saharan Africa, South Asia, East Asia and Pacific, and Middle East and North Africa).
- **Insight #4** analyzed the performance of the GSMEF Clients in FCS countries, which were only present in three regions — Sub-Saharan Africa, East Asia and Pacific, and Middle East and North Africa. We then compared the non-performing loan ratios and average SME loan sizes of GSMEF clients in FCS countries in those three regions against the same metrics reported by IFC clients in FCS countries in the same regions. But, due to the lack of historic data for GSMEF clients in the Middle East and North Africa region, only two regions (Sub-Saharan Africa and East Asia and Pacific) were included when comparing SME loan portfolio growth (as measured by the volume — in United States dollars — of outstanding SME loans).

Results from GSMEF-funded Financial Infrastructure Projects

Per IFC's Results Measurement methodology, the number and value of loans to SMEs and WSMEs resulting from the operations of collateral registries and credit bureaus, created or improved by IFC's projects, is calculated as follows:

Secured Transactions/Collateral Registries (STCR) and Asset Based Lending projects: Calculated per the value of SME loans that have been secured with movable property.

Credit Information System (CIS), including credit bureaus: Calculated as: (20% X total number of credit inquiries by a participating financial intermediary X average SME loan size in the country).

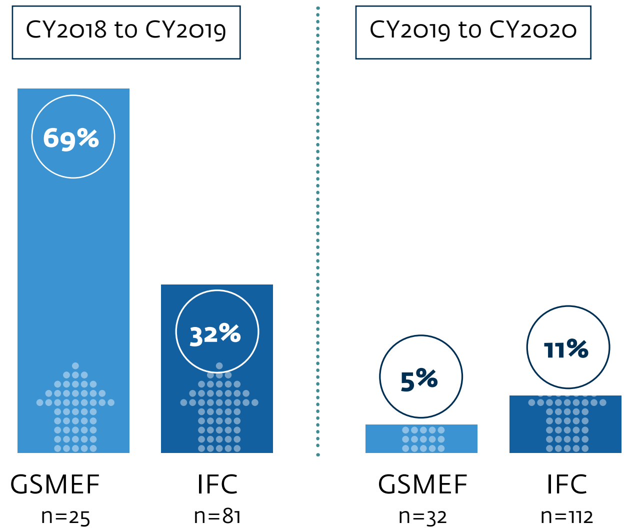
Increased access to finance for SMEs resulting from GSMEF-supported financial infrastructure projects, from inception to June 30, 2021, is:
$ of SME Loans: $33.9 Billion of which $ of WSME Loans: $1.9 Billion
# of SME Loans: 559,560 of which # of WSME Loans: 41,600

Additional Data Supporting the Portfolio Insights

Insight #1

The SME portfolio growth of the GSMEF Clients was largely achieved during 2019, when the SME loan portfolios of GSMEF clients grew by 69 percent from 2018 levels, vs. average growth of only 32 percent by IFC Clients during the same period. The slowdown in growth in 2020 in both the GSMEF and overall IFC portfolios is likely attributed to the effects of the COVID-19 pandemic.

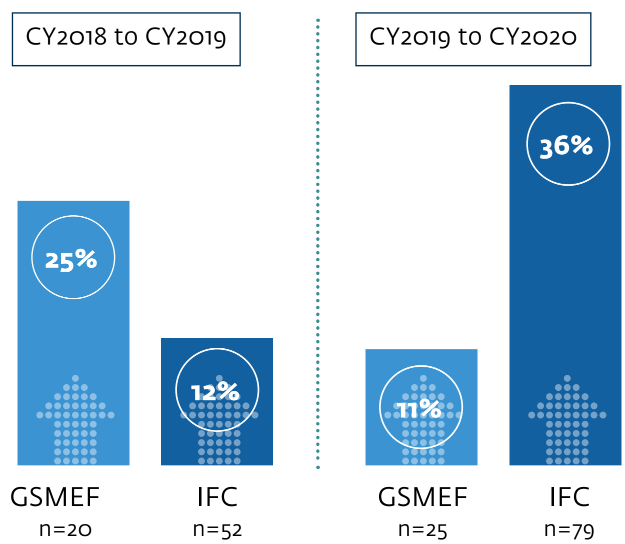
Average SME Loan Portfolio Growth per Year (Volume measured in USD)



Insight #3

The WSME growth rate was especially marked in 2019, where the GSMEF Clients' WSME portfolios grew by 25 percent vs. the 12 percent growth in the overall IFC portfolio. In 2020, the COVID-19 pandemic significantly slowed down the growth of the GSMEF Clients' WSME portfolio, though it still grew by 11 percent[43]. Overall results indicate that GSMEF-supported banks on-lent to WSMEs slightly more than non-GSMEF supported clients during 2018-2020 (see Insight #3 for more details).

Average WSME Loan Portfolio Growth per Year (Volume measured in USD)



Endnotes

1 https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors

2 Aga, Francis, Rodriguez Meza. SMEs, Age, and Jobs. A Review of the Literature, Metrics, and Evidence. WBG. November 2015

3 https://www.worldbank.org/en/topic/smefinance

4 M. Ayyagari, A, Demirguc-Kunt, and V. Maksimovic, SME Finance (Policy Research No. 8241), Washington, DC: 2017.

5 GPFI. 2016. "G20 Action Plan on SME Financing. Implementation Framework: Credit Infrastructure Country Self-Assessment."

6 Aga, Francis, Rodriguez Meza. SMEs, Age, and Jobs. A Review of the Literature, Metrics, and Evidence. WBG. November 2015

7 IFC. 2021, Small Business, Big Growth. How Investing in SMEs Creates Jobs

8 MSME Finance Gap Database (https://www.smefinanceforum.org/data-sites/msme-finance-gap)

9 Gvetadze, S., Kraemer-Eis, H., Lang, F., Prencipe, D., Signore, S., Torfs, W. 2018. "EIF SME Access to Finance Index." European Investment Fund. Luxembourg

10 World Bank Group. 2018. "Financial Inclusion, Infrastructure & Access." Washington DC

11 For the purposes of this report, VSEs are defined as: receiving loan sizes of $5-10,000, or having 5-10 employees, and total assets and annual sales of $50-$100,000. As per IFC definitions, an enterprise qualifies as a woman-owned enterprise if it meets the following criteria:
(a). ≥ 51% owned by woman/women; or
(b). ≥ 20% owned by woman/women; and (i) has ≥ 1 woman as CEO/COO/President/Vice President; and (ii) has ≥ 30% of the board of directors composed of women, where a board exists.

12 MSME Finance Gap database (https://www.smefinanceforum.org/data-sites/msme-finance-gap)

13 Stupnytska, Anna; Kathryn Koch; Amy MacBeath; Sandra Lawson and Kathy Matsui. "Giving credit where it is due—How closing the credit gap for women-owned SMEs can drive Global Growth. Goldman Sachs Global Markets Institute. February 2014.

14 J. Glisovic and M. Martinez. 2012. "Financing Small Enterprises: What Role for Microfinance Institutions?" Washington, DC.

15 https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/bf/bf-details/bf-dfi

16 https://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/bf/focus-areas/bf-sme/bf-weof

17 https://www.worldbank.org/en/about/partners/brief/ida-private-sector-window-support-for-the-small-loan-guarantee-program

18 https://thedocs.worldbank.org/en/doc/f686041a96ba821fceab02d97a2e43c6-0410012020/original/psw-eligible-countries.pdf

19 Partially or fully constrained in terms of access to finance.

20 Based on the data collected in the MSME Finance Gap database (Updated Oct 2018) - https://www.smefinanceforum.org/data-sites/msme-finance-gap. Figures represent data available for 30 out of 38 countries where GSMEF operates.

21 Ibid.

22 SME finance gap is estimated as the difference between current supply and potential demand which can potentially be addressed by financial institutions (see https://www.smefinanceforum.org/data-sites/msme-finance-gap for additional details).

23 Includes GSMEF financial institution and financial infrastructure clients who were considered active (i .e., active GSMEF projects) in calendar year 2020 (CY2020). The results are based on the volume (in USD) of outstanding SME loans reported in CY2020 Reach Survey by the GSMEF's financial institution clients in Bangladesh, Kenya, and India. These results were combined with the project-level results for CY2020 for financial infrastructure clients in India and Kenya. Country-level SME Finance Gap data was taken from the MSME Finance Gap database (Updated Oct 2018) - https://www.smefinanceforum.org/data-sites/msme-finance-gap

24 Here, as with the examples highlighted above, the GSMEF reach is measured by the volume (in USD) of outstanding SME loans reported by the GSMEF financial institution clients via the CY2020 Reach Survey. Financial infrastructure results were obtained through project-level reporting.

25 As of June 30, 2021, the top three countries with the greatest number of GSMEF-funded projects include: Kenya (16 projects), Cote d'Ivoire (15 projects), and Bangladesh (14 projects).

26 The European Investment Bank also contributed to GSMEF in its initial years. At its creation GSMEF had partnered with DFID (Department for International Development), the predecessor of FCDO.

27 IDA eligible countries are defined here: https://ida.worldbank.org/en/about/borrowing-countries

28 "Lower cost" refers to lower than the commercial rate commensurate with the client's risk profile.

29 Wallet sizing is a methodology/tool used to estimate the maximum potential value of an existing or potential client (or client segment or even an entire market) for financial services given all their latent needs, for example, the bank's potential revenues earned from the client or the client's banking wallet. The tool enables a bank to drive SME banking business profitably in an efficient manner by identifying high value customers as measured by customer wallet. Once the bank identifies these customers (bucketed into segments) it can deploy specific customer management strategies to drive profitability in a very efficient manner.

30 Non-performing loan ratio is defined as loans past due over 90 days expressed as a percentage of total outstanding loans.

31 https://financialallianceforwomen.org/the-opportunity/

32 MSME Finance Gap Database 2017, SME Finance Forum, https://www.smefinanceforum.org/data-sites/msme-finance-gap.

33 The term " financial infrastructure" refers to the set of laws and institutions that enable efficient access to finance, financial stability, and socially responsible economic growth through payments systems, credit information systems (CIS), secured transactions and asset-based lending, and insolvency and debt resolution. IFC and GSMEF focus on two critical components of financial infrastructure: credit reporting, and secured transactions and collateral registries. Our work on credit information systems includes supporting the development and strengthening of standards, technologies, and institutions that enable sharing of credit and other information relevant for creditworthiness assessment (for example credit bureaus). The term "secured transactions" refers to credit transactions where a creditor holds an interest in a debtor's movable property (collateral) to secure a loan or a debt obligation. Land and buildings are widely accepted as collateral for loans, but the use of movable collateral (such as inventory, accounts receivable, and equipment) is often restricted by outdated laws and registries. IFC's and GSMEF's work in this space includes the support in reforming the legal framework for movable collateral lending with the goal to ultimately enable SMEs to access finance they need to grow by leveraging firms' movable assets.

34 The World Bank's 2008 Investment Climate Assessment (ICA)

35 Joint CGAP and World Bank diagnostic study conducted in January 2009

36 Firms include Large, Medium, Small and Micro firms

37 Specifically, the analysis considers the following characteristics for the model: firm-level characteristics (such as size, age, and female ownership status); country-level variables that can affect employment changes (including inflation and GDP growth); country or region fixed effects; and year fixed effects.

38 https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/banking_on_women/ifc-fmo-nfs-gender

39 Financial infrastructure refers to the laws and institutions that enable efficient access to finance, financial stability, and socially responsible economic growth through payments systems, credit information systems (CIS), secured transactions and asset-based lending, and insolvency and debt resolution

40 Details on the IFC Reach Survey can be found here: https://www.smefinanceforum.org/data-sites/ifc-financing-to-msme

41 Refers to calendar year 2020 (CY2020), which is the latest Reach Survey data available as of writing this report.

42 For additional details on the IFC's Definitions of Targeted Sectors see: https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/priorities/ifcs+definitions+of+targeted+sectors#:~:text=Use%20of%20proceeds%20of%20IFC's,related%20projects%20and%20housing%20finance

43 36 percent growth in WSME portfolio of IFC clients in 2020 was driven by the South Asia region, with three clients reporting over 500 percent growth from 2019.

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The Global SME Finance Facility (GSMEF) is a blended-finance partnership focused on helping to close the financing gap faced by SMEs in emerging markets. By providing investment and advisory services to financial institutions, the Facility helps them expand lending to SMEs in challenging markets and segments. The Facility focuses on the most underserved SME segments that are not normally reached by financial institutions.

International Finance Corporation, a member of the World Bank Group, is the largest global development institution focused exclusively on leveraging the power of the private sector to tackle the world's most pressing development challenges. Working with private enterprises in more than 100 countries, IFC uses its capital, expertise, and influence to help eliminate extreme poverty and promote shared prosperity.

For more information, **www.ifc.org/GSMEF**

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