

# IFC AND SMALL AND MEDIUM ENTERPRISES



## AT A GLANCE

- Small and medium enterprises (SMEs) account for about 90 percent of businesses and more than 50 percent of employment worldwide. They are key **engines of job creation and economic growth in developing countries, particularly following the global financial crisis.**
- Creating opportunities for SMEs in emerging markets is a key way to advance development and reduce poverty, and a strategic priority for IFC.
- Access to financial services for SMEs remains severely constrained in many emerging markets in the wake of the global financial crisis. Even as liquidity is restored to financial institutions, lending volumes are lower than before, and SMEs still have limited access to financing. More than 17 million formal SMEs in emerging markets have unmet credit needs. The gap is estimated to be between \$900 billion and \$1.1 trillion for SMEs in those markets.
- The World Bank Group works with private sector partners to target financial and knowledge bottlenecks to improve finance and business support for SMEs. The World Bank Group also works with governments to create a better investment climate for SMEs.
- **IFC has a leadership role in SME finance**, as a partner to the G-20 and through its innovative products and services that support SMEs in emerging and frontier markets.

## WHAT IFC IS DOING

- Enabling growth and ensuring that poor people can participate requires an environment where people are able to start and grow businesses, as well as create more jobs. **SMEs are drivers of competition, growth, and job creation**, particularly in developing countries where up to 80 percent of economic activity takes place in the informal sector. Barriers to entry into the formal sector include excessive bureaucracy and regulation. IFC, through its programs, promotes reforms that support and allow private sector development to flourish.
- **IFC provides investment and advisory services to SMEs in about 80 countries** and focuses on every phase of SME development: investment-climate reform, building management skills, access to finance, and access to markets. IFC's SME investment and advisory portfolio extends over six regions globally, with a focus on assisting SME development in low-

income and frontier countries. IFC has worked with clients in challenging environments such as Chad, Guinea, and remote areas of India.

- As of December 2011, **IFC's committed SME finance portfolio through financial intermediaries was \$9.6 billion, excluding trade finance.** By December 31, 2010, IFC investee banks had an outstanding SME portfolio of \$127.8 billion, comprising 1.7 million loans. In addition, in fiscal 2011, **IFC's trade finance included approximately \$3.4 billion in SME transactions. About 60 percent of IFC Advisory Services portfolio benefits SMEs.**
- Increasing access to finance for SMEs is a key focus for IFC. It is best achieved by increasing the depth and breadth of local financial markets and boosting competitiveness of the private financial sector. IFC is active through investments in existing financial intermediaries and accompanying advisory support.
- IFC's Global Trade Liquidity Program, launched in July 2009 to boost trade finance in emerging markets by supplementing bank liquidity, has supported \$20 billion worth of trade in developing countries. **A total of 80 percent of this financing supported SMEs.**
- IFC is developing a supply chain strategy with leading global corporations on better SME performance and sustainability practices through their supply chains, and innovative solutions to strengthen access to finance for SMEs within the supply chain.
- **IFC is a technical advisor to the G-20 on SME finance.** This includes providing leadership to the Global Partnership for Financial Inclusion, and managing the global SME Finance Innovation Fund that was announced by President Obama at the 2010 G-20 meeting in Seoul. IFC provides policy recommendations and financing, including through the SME Finance Fund, to increase access to finance for SMEs in a sustainable and scalable manner and supporting efforts to promote the spread of new modes of financial service delivery. Building on its experience in microfinance, IFC will scale up successful models of small-and-medium-enterprise financing.
- IFC is also leading the SME Finance Forum, announced at the G20 Summit in 2011. This is a knowledge-sharing platform for SME finance data, research, and good practice for agencies, funders, regional networks, and policy makers to improve the effectiveness of SME funding.

## CLIENT HIGHLIGHT

### Bank South Pacific Limited—Papua New Guinea

**Objective and Client Needs:** Bank South Pacific Limited (BSP) is Papua New Guinea's only indigenous bank and is its largest retail and commercial bank with 50 percent market share in loans and deposits. BSP's banking franchise is underpinned by an extensive branch network of 35 branches in Papua New Guinea and five overseas branches. Underpinning BSP's strategy is a commitment to improving access to finance for SMEs and the rural poor.

The Government of Papua New Guinea has a clear objective of growing the size and economic contribution of SMEs, which form the bulk of the domestic private sector in Papua New Guinea. World Bank Enterprise Survey data has indicated that only 18.1 percent of formal SMEs have access to financial services and 42 percent of SMEs are women owned SMEs. It is expected that SMEs will struggle to grow and take on potential opportunities, unless key constraints, particularly access to finance, are addressed. Partnering with strong local financial institutions such as BSP is critical to promoting this private sector-led growth and improving access to finance for SMEs.

**IFC's Involvement:** To implement its long term strategic goals of regional and product expansion and increasing access to finance for SMEs and the rural poor, BSP required a clear funding plan that included new capital and long-term debt financing, and technical assistance to expand its operational capacity.

IFC assisted BSP in implementing its goal of improving access to finance for SMEs and the rural poor in three key areas: (i) in June 2010, IFC provided BSP with a financing package that included new capital and long-term debt financing; (ii) IFC Advisory Services are working closely with BSP to improve access to financial services for SMEs and the rural poor through provision of technical assistance to its fully owned rural banking arm; BSP Rural to develop a technology based electronic/mobile banking initiative to increase outreach to up to 200,000 unbanked rural people.

And (iii) in June 2011, BSP committed to participate in the Papua New Guinea SME Risk Share Facility, an IFC-IDA Facility set up to promote SME lending by commercial banks by subsidizing the first loss on loans which are made under the facility, thereby encouraging banks to significantly expand their lending to SMEs both within and outside of the extractive industries sector. The Facility also offers technical assistance to participating financial institutions to strengthen their internal capacity to expand SME banking activities.

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