APFF Roundtable on Financing Micro, Small and Medium Enterprises in the Asia-Pacific Region

Session 2: Completed, Ongoing and Planned Policy Measures to Promote MSME Finance in Latin America

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1/ Source: National Institute of Statistics and Geography (INEGI).

*Fishing, agriculture, construction, transport, mining, electricity, water and gas.
I. The Mexican context

• Enterprises in Mexico are classified into four sizes\(^1\) depending on the economic sector, their number of employees and their annual sales:

<table>
<thead>
<tr>
<th>Size</th>
<th>Economic sector</th>
<th>Number of employees</th>
<th>Annual sales (USD millions)</th>
<th>Maximum weighted score*</th>
</tr>
</thead>
<tbody>
<tr>
<td>MICRO</td>
<td>Secondary and tertiary</td>
<td>Up to 10</td>
<td>Up to $0.3</td>
<td>1.2</td>
</tr>
<tr>
<td>SMALL</td>
<td>Tertiary</td>
<td>11 to 30</td>
<td>Over $0.3 and up to $6.5</td>
<td>8.8</td>
</tr>
<tr>
<td></td>
<td>Secondary</td>
<td>11 to 50</td>
<td></td>
<td>10.8</td>
</tr>
<tr>
<td>MEDIUM</td>
<td>Tertiary (commerce)</td>
<td>31 to 100</td>
<td>Over $6.5 and up to $16.2</td>
<td>24.6</td>
</tr>
<tr>
<td></td>
<td>Tertiary (services)</td>
<td>51 to 100</td>
<td></td>
<td>39.6</td>
</tr>
<tr>
<td></td>
<td>Secondary</td>
<td>51 to 250</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Weighed score = 0.1 x (number of employees) + 0.9 x (annual sales)

\(^1\) Source: Ministry of the Economy (SE). Calculated with an exchange rate of 15.3891 MXN per 1 USD as of April 15, 2015.

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I. The Mexican context

**Contribution of firms to key variables, by number of employees**

- 95% of firms generate 41.8% of total employment and 8.3% of gross production
- Whereas 0.2% of firms generate 27% of employment and 65.3% of gross production

1/ Source: National Institute of Statistics and Geography (INEGI).
II. About NAFINSA

- Established in 1934, NAFINSA (Nacional Financiera) is one of the six Mexican Development Banks.

- Its main activities are promoting development and modernization of micro, small and medium enterprises (MSMEs) and entrepreneurs; stimulating the growth of financial markets, and operating as a financial agent of the Federal Government (main shareholder) in negotiating, contracting and managing credits from abroad.

- It carries out its operations according to regulation applicable to credit institutions, and operates as a second-tier intermediary, thus channeling its funds and guarantees mainly through commercial banks and non-banking financial intermediaries.

- Its sources of resources are loans from international development institutions, lines of credit from banks and the placement of securities in the foreign and domestic markets.
II. About NAFINSA

PUBLIC POLICY TARGETS

- Economic growth
- Employment
- Competitiveness
- Productivity

LINES OF ACTION

- I. Firms and entrepreneurs
- II. Strategic projects
- III. Priority regions and sectors

INSTRUMENTS

- Credit
- Guarantees

NAFINSA follows a segment-channel-product strategy:

**Segment**

- Micro
- Small
- Medium
- Large

**Channel**

- MFIs\(^1\) / Banks / NBFIs\(^2\) / Investment Funds

**Product**

- Credit (2nd tier)
- Guarantees

1/ Microfinance Institutions.
2/ Non-Bank Financial Intermediaries.
III. The guarantees scheme

The guarantees scheme is a risk-sharing mechanism aimed to the following:

- To promote financial access
- To remove barriers to credit access
- To improve financing conditions for MSMEs
- To increase competition among Financial Intermediaries
- To finance working capital and equipment
- To develop attention windows and diversify credit products for MSMEs

Risk sharing not only allows to spread credit into well-known portfolios, but it is also an efficient mechanism to deepen financing into new markets.
III. The guarantees scheme

The guarantees scheme works as a public-private partnership and represents an efficient allocation of public resources:

- **Define public policy**
- **Cover risk on a first-loss basis**
- **Act as sponsors**

- **Reduces risk**
- **Improve credit conditions**

### NAFINSA has developed two guarantees models:

- **Pari Passu**
  - This is the traditional guarantee model and it operates since 1997. Its main purpose is to maintain and equal risk share between NAFINSA and Financial Intermediaries (FI's).
  - In this model NAFINSA covers a pre-established percentage (most commonly 50%) of each loan granted by FI's.
  - Key features:
    - Alternative percentages (up to 100% in natural disaster recovery programs)
    - Focus on priority sectors (up to 80%)
III. The guarantees scheme

NAFINSA has developed two guarantees models:

• This is the most recent model and operates since 2005.

• In this scheme, NAFINSA covers first losses of the portfolio, up to the amount equivalent to the reserved resources (around 5%).

• First losses model does not cover the unexpected loss of the FI's.

• This model is designed for FI's that know the behavior of their portfolios.

Guarantees programs have also proved to be useful schemes to address credit to those economic sectors considered strategic:

- Innovative, tailor-made credit products, addressed to priority sectors which have been underserved by traditional financing channels (for example due to the lack of collaterals or to be perceived as high-risk activities)

- Examples of sectorial projects include:
  - Businesswomen
  - Young entrepreneurs
  - Microenterprises entering formality
  - Economic recovery (natural disasters)
I. The Mexican context

II. About NAFINSA

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IV. Concluding remarks

Our facts:

• Commercial banks have grown their portfolio almost 4 times in the last 5 years.

• 45% of the credit granted by commercial banks to MSMEs is backed by NAFINSA's guarantee.

• Despite this growth, there is still a large market share yet to be served

Our trends:

• We are committed to contribute to financial inclusion, to incentivize microbusinesses to move away from informality and to support those sectors considered as a priority for economic development.