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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(Mexico)
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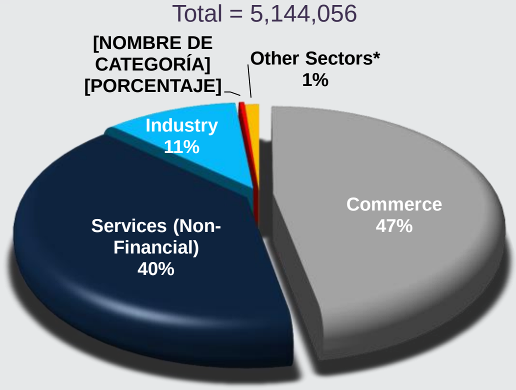
I. The Mexican context

Number of firms, by economic sector[1/]

Total = 5,144,056



Commerce and service sectors concentrate 87% of firms

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1/ Source: National Institute of Statistics and Geography (INEGI).
**Fishing, agriculture, construction, transport, mining, electricity, water and gas.*

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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:

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

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

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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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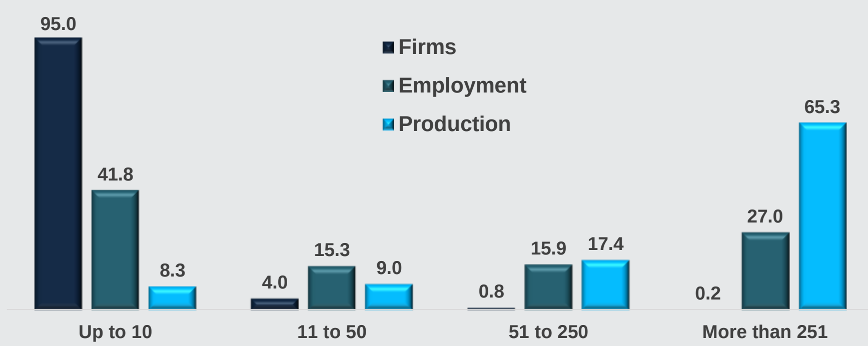
I. The Mexican context

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

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

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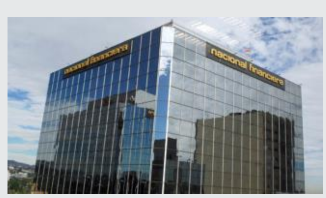
II. About NAFINSA

- 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.



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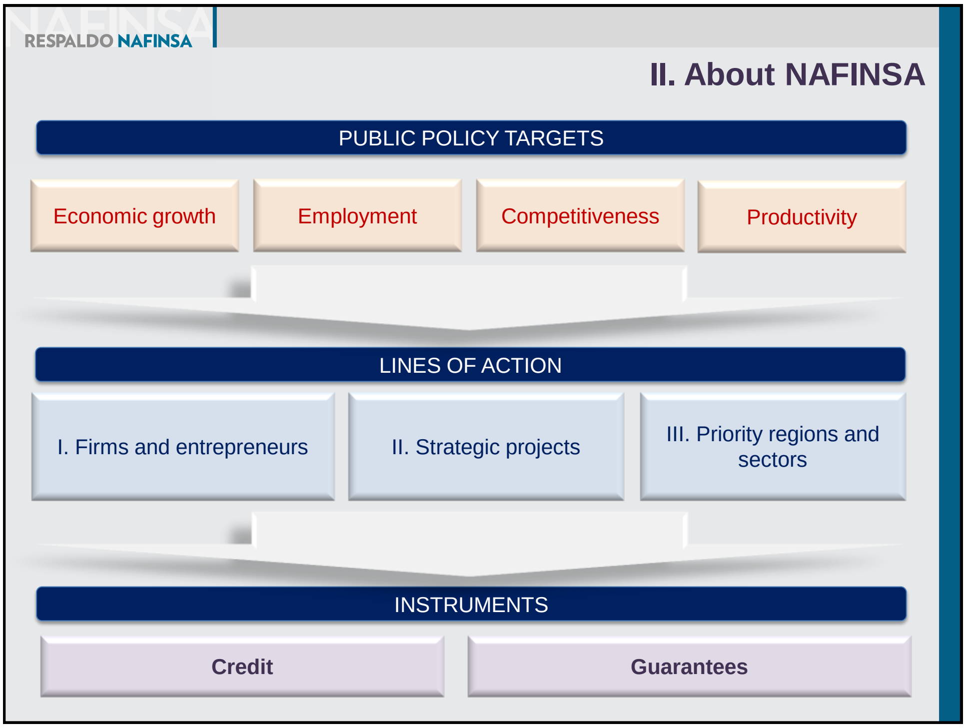
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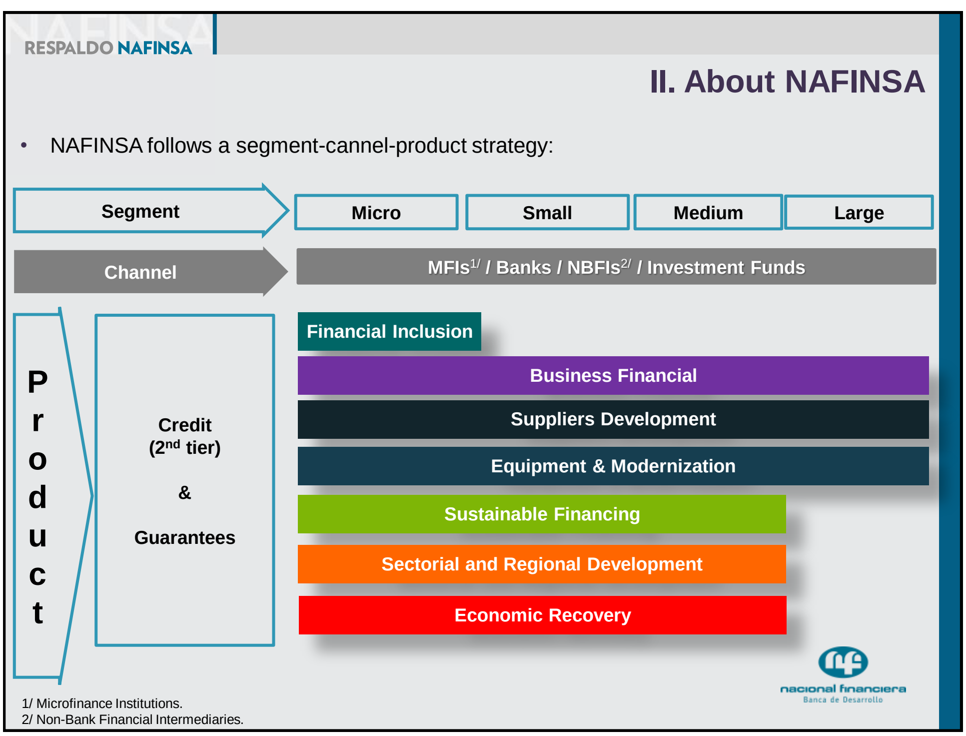
II. About NAFINSA
PUBLIC POLICY TARGETS
Economic growth
Employment
Competitiveness
Productivity
LINES OF ACTION
I. Firms and entrepreneurs
II. Strategic projects
III. Priority regions and sectors
INSTRUMENTS
Credit
Guarantees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II. About NAFINSA
• NAFINSA follows a segment-cannel-product strategy:
Segment
Micro
Small
Medium
Large
Channel
MFIs1/ / Banks / NBFIs2/ / Investment Funds
Product
Credit (2nd tier) & Guarantees
Financial Inclusion
Business Financial
Suppliers Development
Equipment & Modernization
Sustainable Financing
Sectorial and Regional Development
Economic Recovery
1/ Microfinance Institutions.
2/ Non-Bank Financial Intermediaries.

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III. The guarantees scheme

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

Objectives

- 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.

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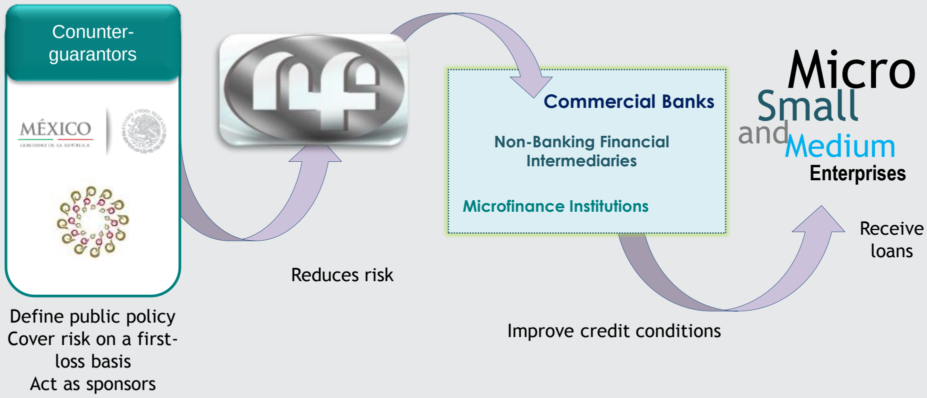
III. The guarantees scheme

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



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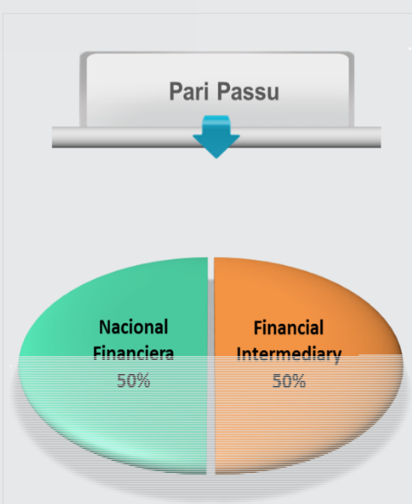
III. The guarantees scheme



NAFINSA has develop two guarantees models:

- 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%)

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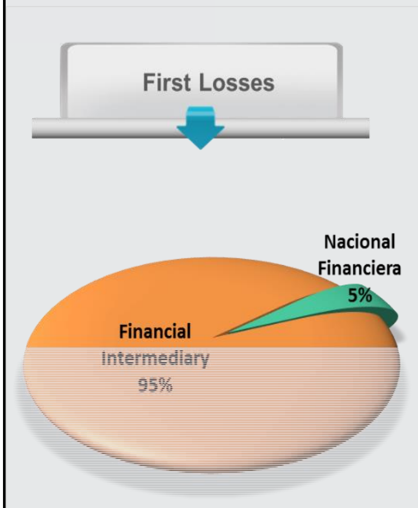
III. The guarantees scheme



NAFINSA has develop 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.

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III. The guarantees scheme

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

Sectorial projects	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)

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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 incentive microbusinesses to move away from informality and to support those sectors considered as a priority for economic development.

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