

Challenges for SME Finance in Latin America APEC Economies

Ary Naim, April 2015 – anaim@ifc.org



IFC

**International
Finance Corporation**

WORLD BANK GROUP

MSMEs, Core to IFC's Development Agenda



IFC
Est. 1956

- Promoting private sector development
- Private companies in member countries
- Capital / Loans
- Risk Management
- Technical assistance
- Mobilization

✓ Main international development institution dedicated exclusively to the **private sector**

✓ **US\$ 51.7bn** committed portfolio, annual commitments for **2014 US\$ 17.3bn + US\$ 5.4bn** mobilized from partners

✓ **750+** partner Financial Institutions and **150** PE Funds globally, all operating in Emerging Markets

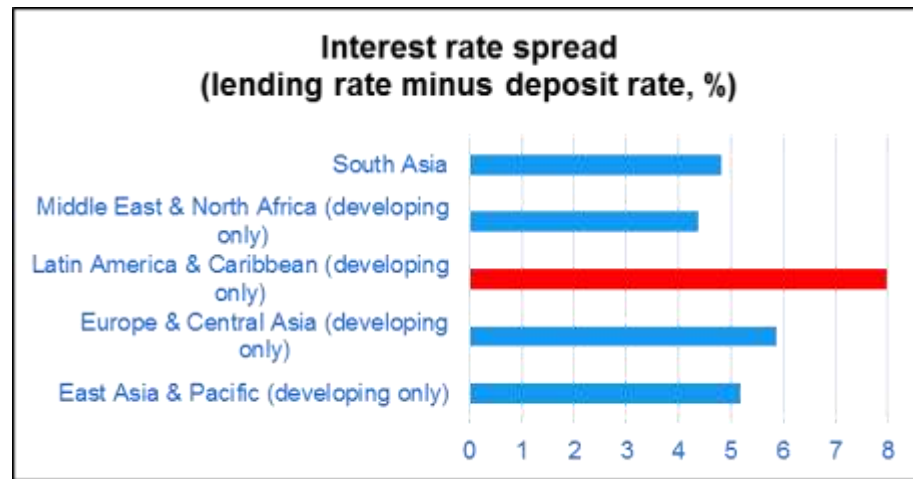
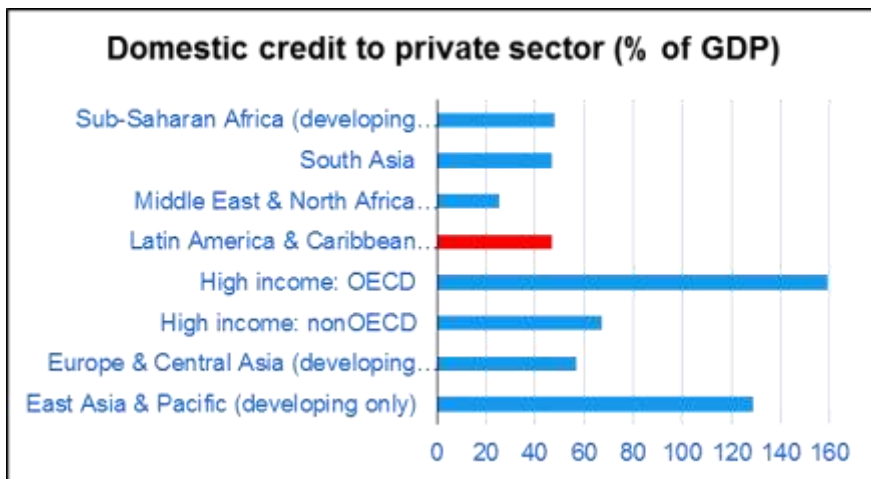
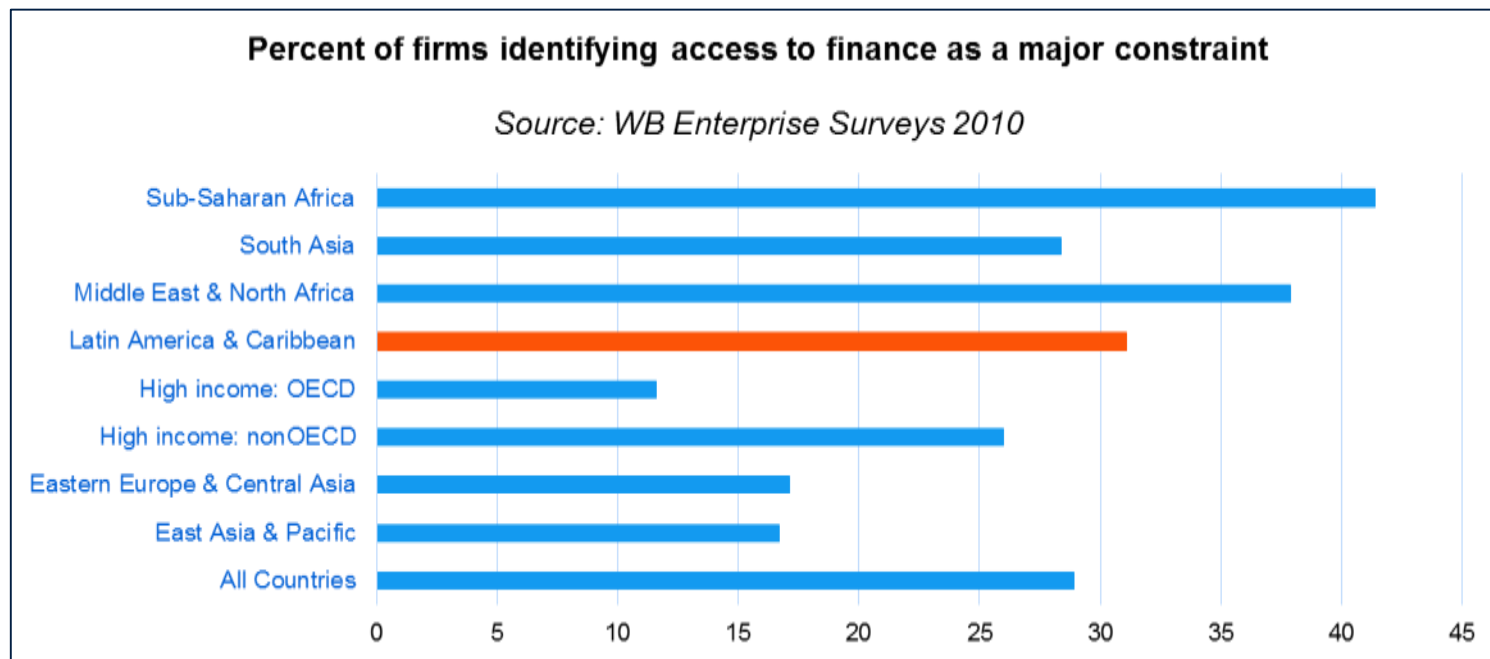
✓ **In Latin America**, IFC MSME portfolio includes 65 FIs across 20 countries, with total MSME portfolios of:

- **11.7 m** microloans for a total US\$ 8.5bn
- **0.9+ m** SME loans for a total US\$ 63.2bn

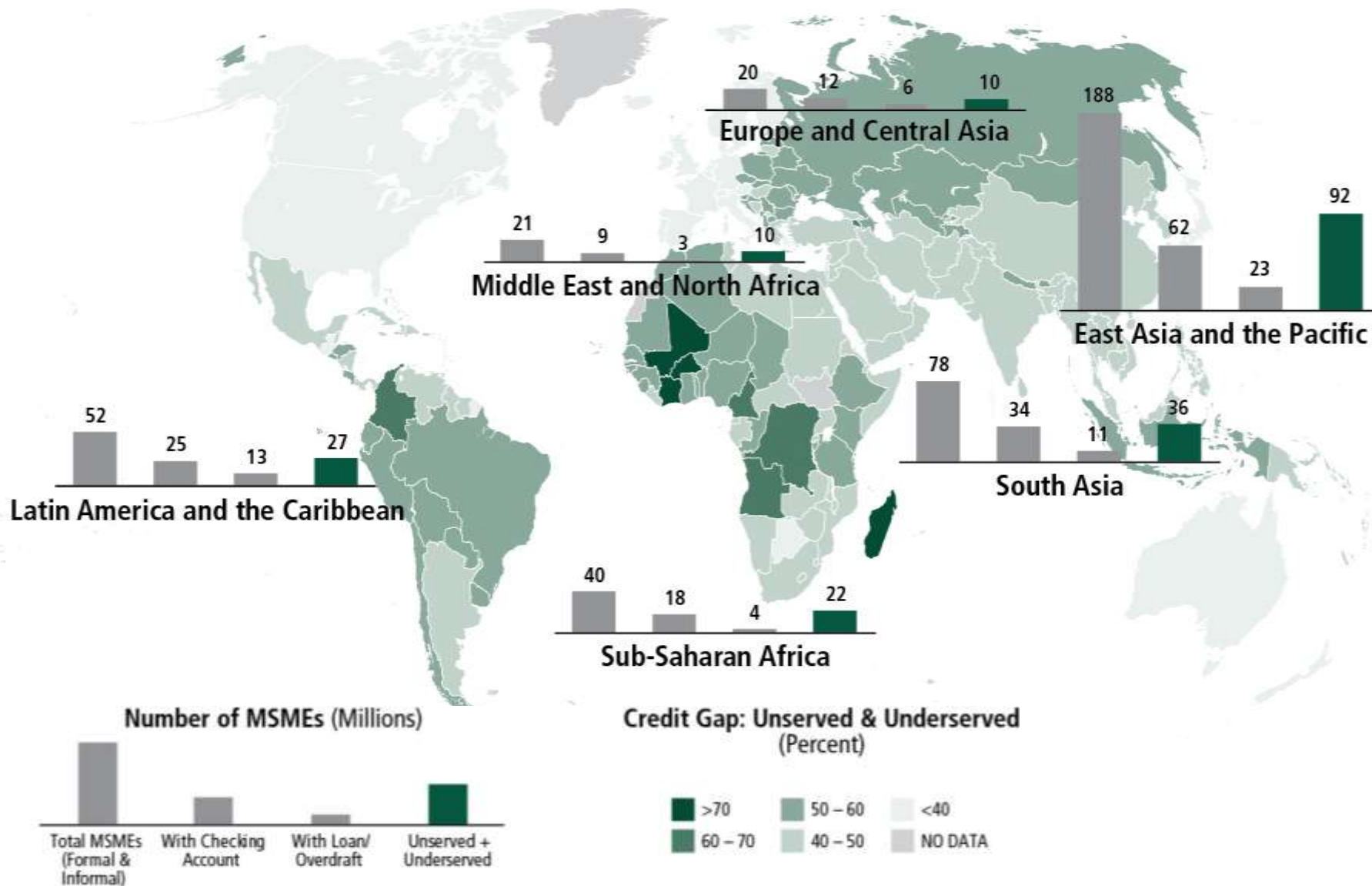
✓ In Developing Economies, formal firms with less than 500 staff account for 60% of formal jobs and up to 80% of formal job creation (*WB Enterprise Surveys*)

An Unprecedented Opportunity: Ending Extreme Poverty in One Generation

Access to Finance a Major Constraint to Doing Business



Total SME Credit Gap is Estimated \$2.1-2.6 Trillion



Source: IFC Enterprise Finance Gap Database (2011)

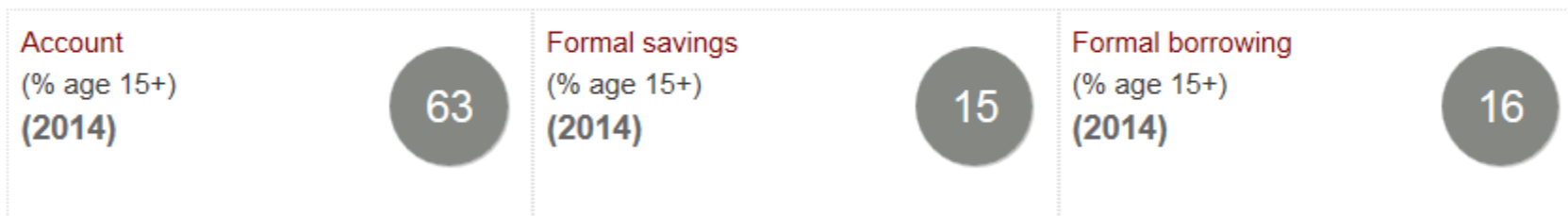
The SME Finance Gap in LAC APEC Countries

Source: WB Enterprise Surveys, IFC Financial Inclusion Database

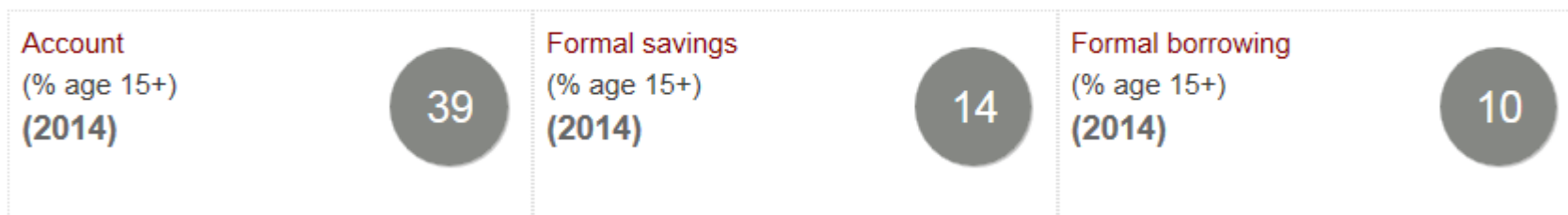
	CHILE	MEXICO	PERU
Estimated Number of Enterprises	1,870,000	11,204,000	2,371,000
Total credit gap, US\$, billions	39.6	63.6	17.5
<i>Domestic credit to private sector (% of GDP)</i>	70.49	25.99	26.41
% firms identifying A2F as a main constraint	17.60%	29.60%	31.0%
% firms with a bank loan/ line of credit			
Small (5 – 19)	72.5%	26.8%	52.5%
Medium (20 - 99)	83.5%	36.7%	85.9%
Large (100+)	81.7%	54.0%	92.7%
Interest rate spread (lending minus deposit rate, %)	3.74	3.96	16.35
ATMs (per 100,000 adults)	65.4	45.8	29.6
Commercial bank branches (per 100,000 adults)	17.5	14.9	58.7

Financial Inclusion is also still Work In Progress

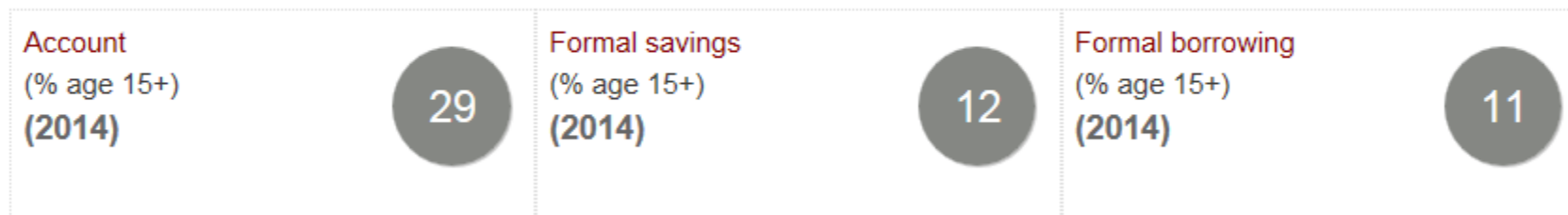
Key Indicators CHILE



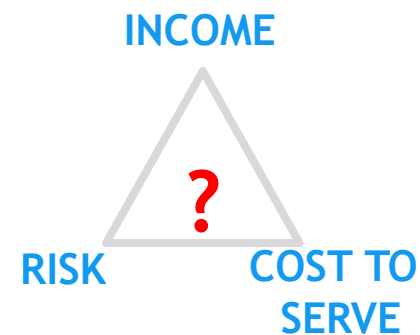
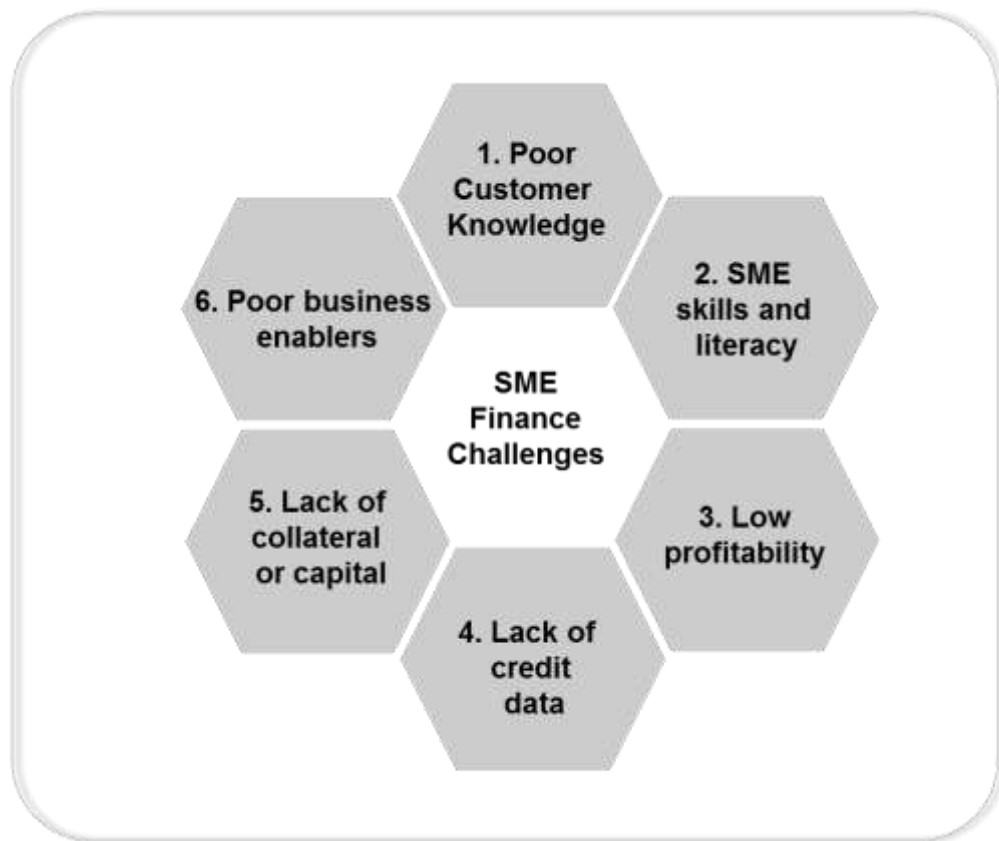
Key Indicators MEXICO



Key Indicators PERU



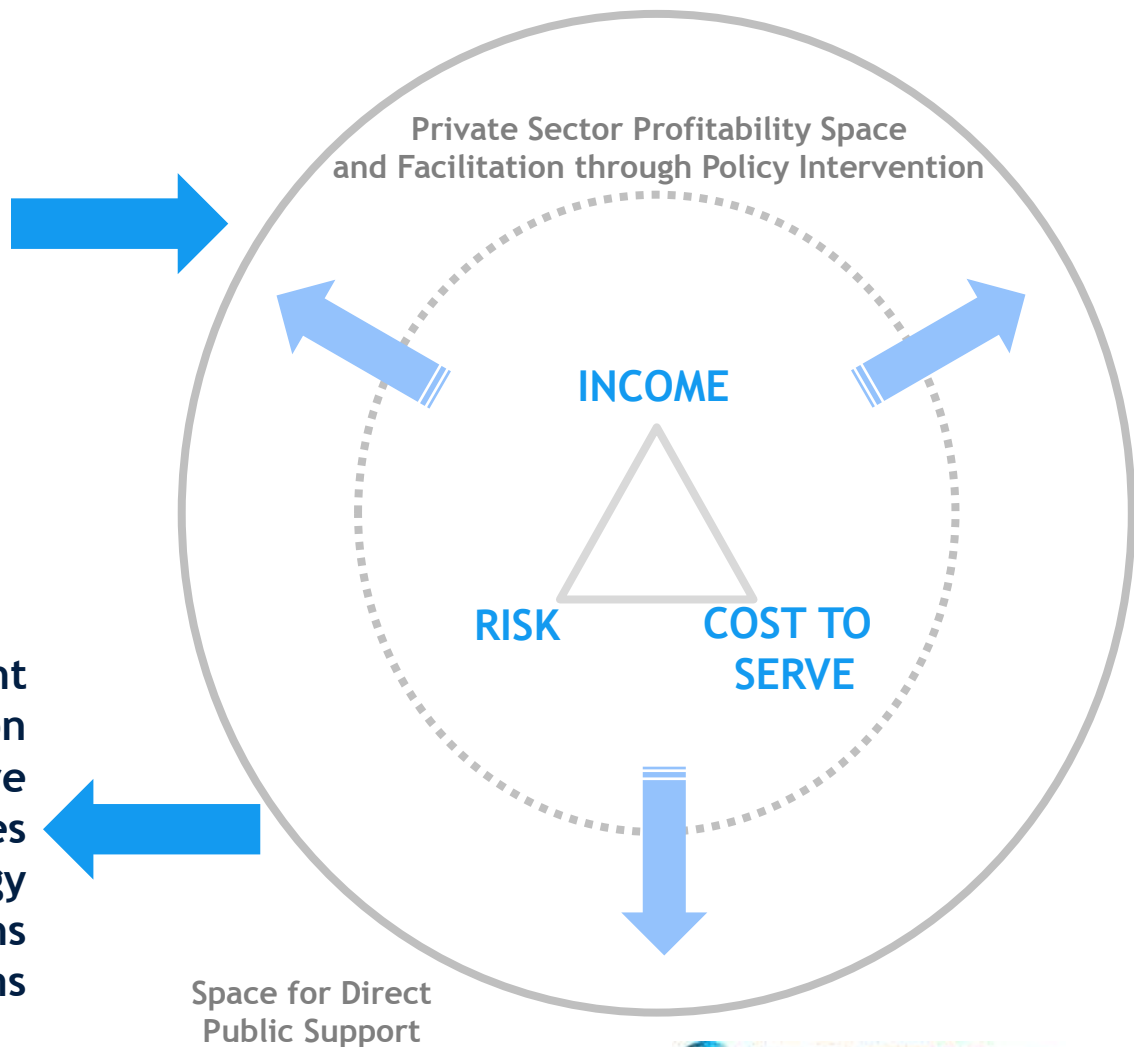
Typical Challenges for SME Finance – Financial Institutions



Typical Challenges for SME Finance – Public Policy



Expanding the Profitability Space



- ✓ Conducive Business Environment
 - ✓ Formalization
 - ✓ Financial Infrastructure
- ✓ Targeted Financial Services
 - ✓ Use of Technology
 - ✓ Conducive FS Regulations
- ✓ Targeted Public Support Mechanisms

Space for Direct Public Support

How Do the Latin American APEC Economies Differ?



CHILE

33

41

71

4

6

44.7

8.8

MEXICO

61

39

12

8

8

0

100

PERU

65

65

12

8

8

33.5

100

WEF Global Competitiveness Index 2014-2105

WBG Doing Business Ranking 2015

DB "Getting Credit"

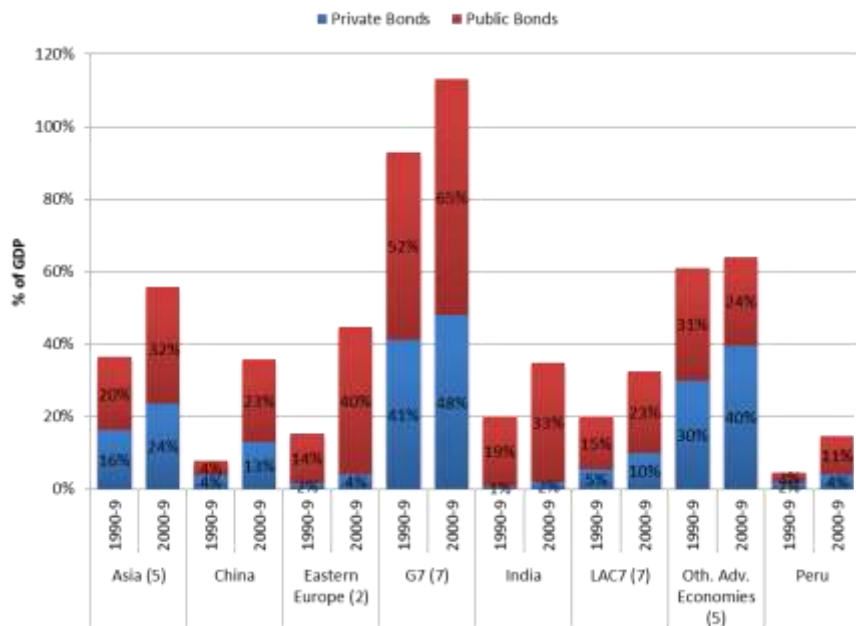
Strength of legal rights index (0-12)

Depth of credit information index (0-8)

Credit registry coverage (% of adults)

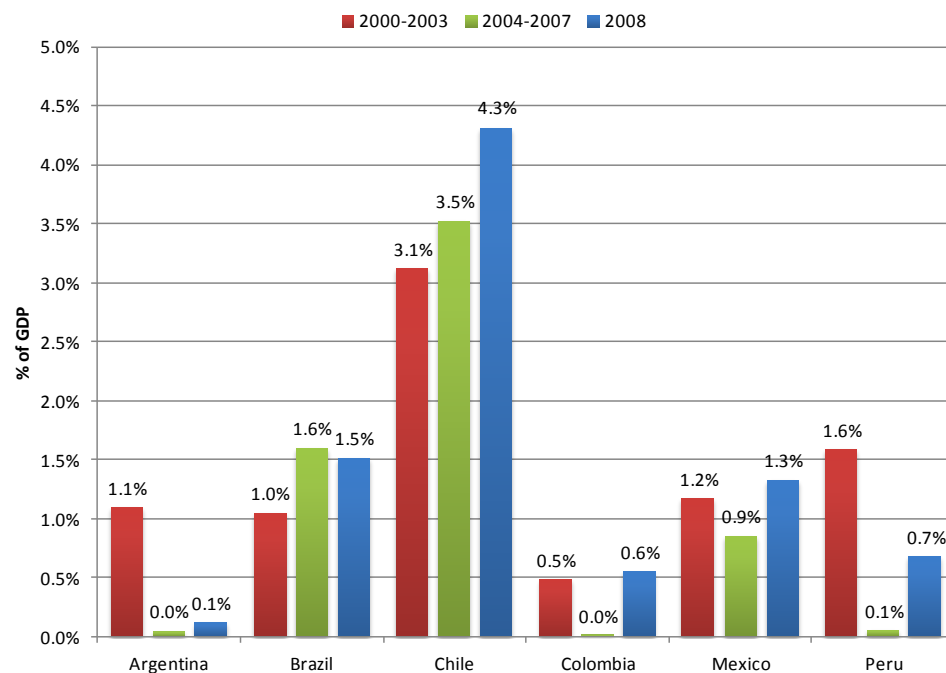
Credit bureau coverage (% of adults)

A key difference: Local Capital Markets Development



Composition of Bond Markets, % of GDP

Total Amount of New Issues per Year as % of GDP



Source: Didier, Tatiana; Schmukler, Sergio L.. 2013. *Financial development in Latin America and the Caribbean : stylized facts and the road ahead*. Policy Research working paper ; no. WPS 6582. Washington, DC: World Bank

Conclusion: Fostering Increased Financial Sector Competition

- **Financial Sector Competition** is critical as a major *incentive* for Banks and Financial Institutions to expand their operations to new and complex underserved segments such as MSMEs
- Amongst the many Public Policy interventions that have been commonly identified as key to fostering SME Access to Finance, at least two remain to be better explored:
 - **Role of Local Capital Markets Development**
 - ✓ Foster disintermediation and loss of corporate banking volume
 - ✓ Provide long term local financing to deposit-taking FIs
 - ✓ Protect the Financial Sector against maturity and currency mismatches
 - **Role of State-Owned Development Finance Products**
 - ✓ Need for more detailed economic impact evaluation
 - ✓ Focus on products that crowd-in the private financial sector
 - ✓ Focus on the outside of the Profitability Space