

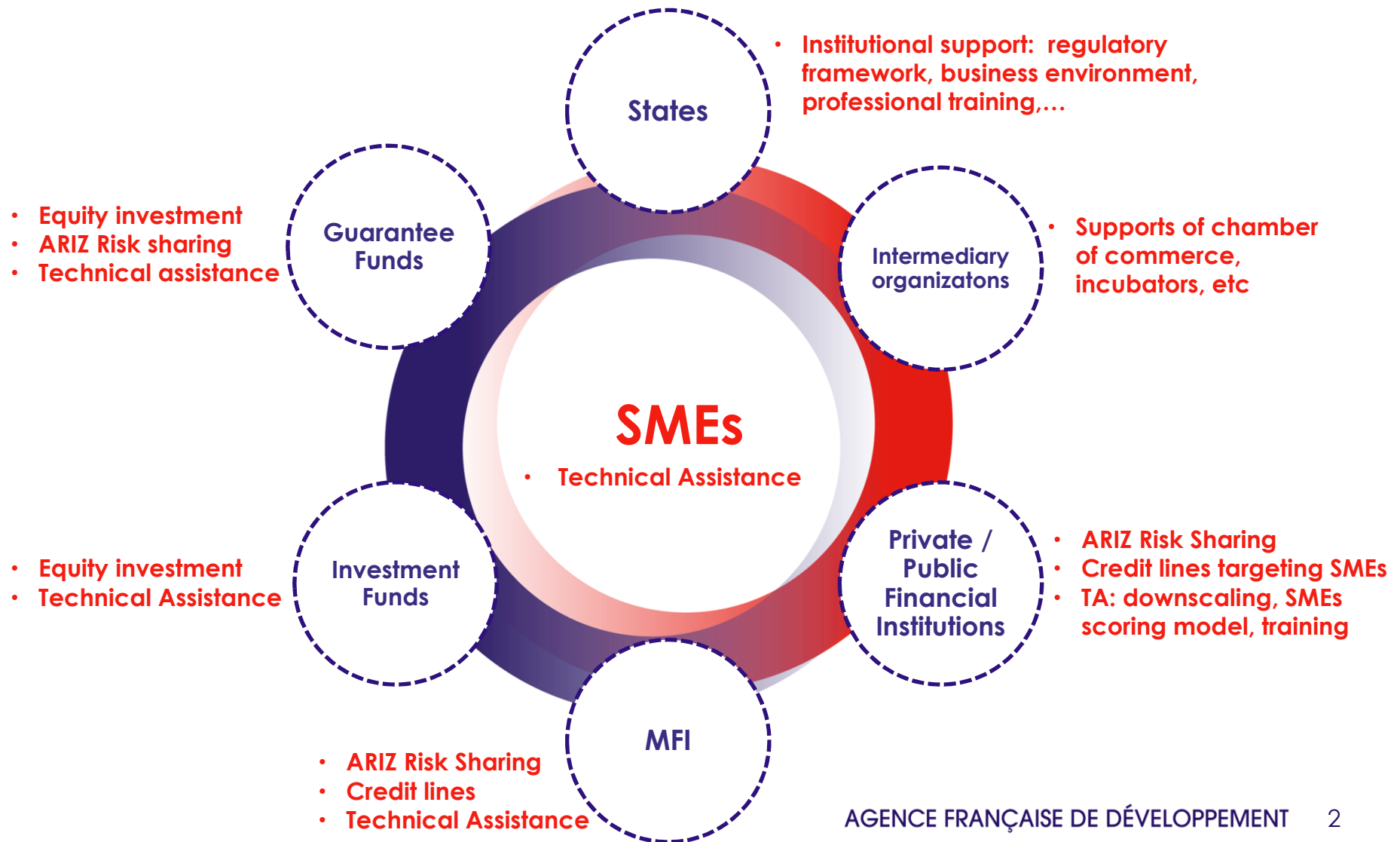


## **Access to Finance for SME**

# **AFD's lessons learned from 20 years of risk sharing**

# 01. ACCESS TO FINANCE FOR SME

## AFD GROUP TRIES TO ADOPT A HOLISTIC APPROACH



## 02. ACCESS TO FINANCE FOR SME

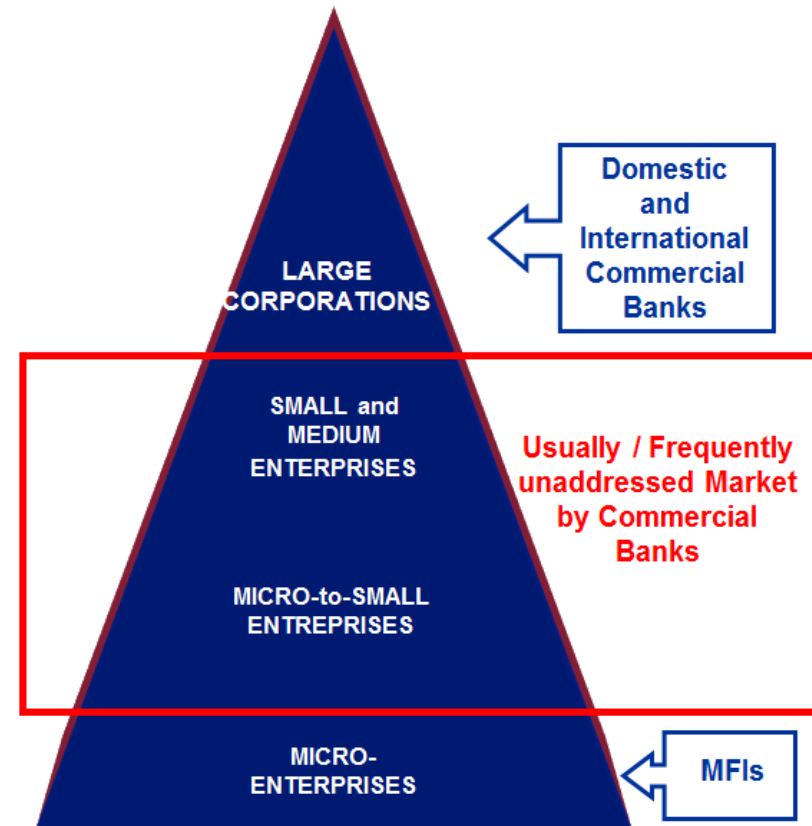
### CHALLENGES AT BOTH ENDS: SME & BANKS

- **SMEs :**

- Quality of information
- Management profile
- Long term visibility
- Strength of the balance sheet
- Few guarantees and collaterals

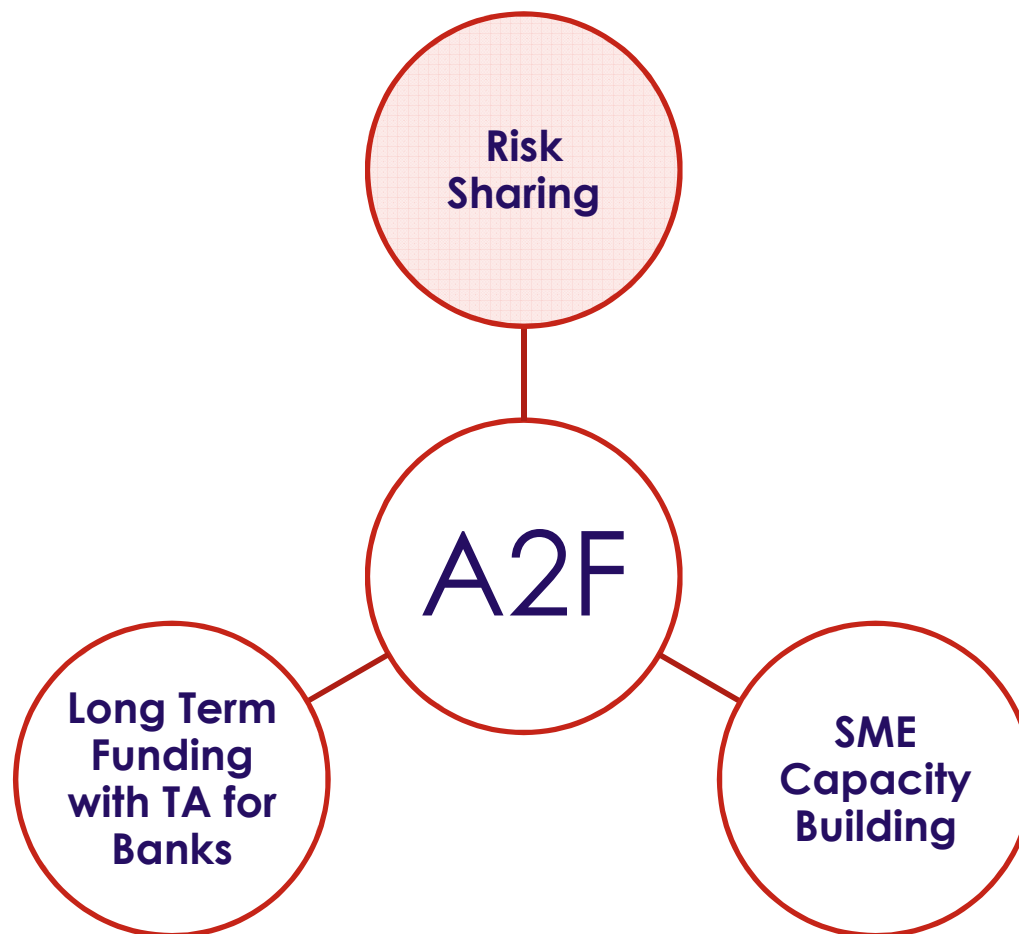
- **FINANCIAL INSTITUTIONS :**

- Capacity to analyze the risk profile
- Risk Appetite
- Costly collaterals enforcement procedures



## 03. ACCESS TO FINANCE FOR SME

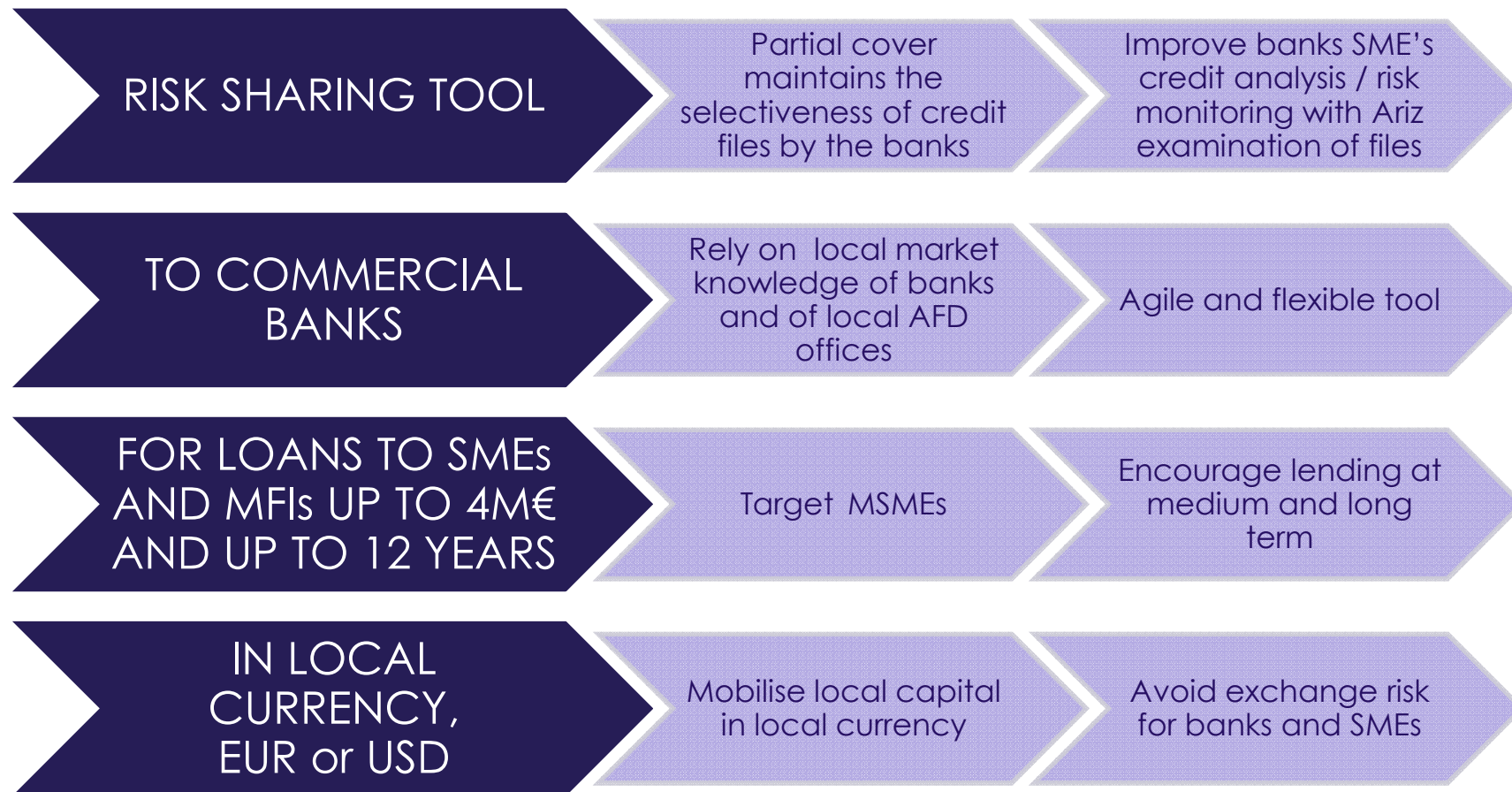
### 3 EXAMPLES OF HOW AFD TRIES TO CONTRIBUTE



## 04. ACCESS TO FINANCE FOR SME

### RISK SHARING – ARIZ: CLOSE TO 20 YEARS OF TRACK RECORD

**ARIZ WAS DESIGNED TO BRIDGE THE GAP OF THE « MISSING MIDDLE FINANCE »**



## 05. ACCESS TO FINANCE FOR SME ARIZ : THE BUSINESS MODEL

- **ARIZ WAS DESIGNED TO BE FINANCIALLY SUSTAINABLE WHILE NOT FOR PROFIT**

- Created in 1999, ARIZ expanded in 2008 with an “endowment” mechanism reaching 250 M€
- Guarantee fees + endowment fund incomes should cover operational costs and claims on guarantees
- Leverage effect of 7,5x (1€ in the endowment fund helps finance 7,5€ of investment)

- **TWO MAIN INSTRUMENTS**

- Up to 300kEUR : PORTFOLIO GUARANTEES
- Up to 2MEUR : INDIVIDUAL GUARANTEES
- Covering up to 50% (75% for IMF) of loans to SMEs/IMFs financing medium term investments

## 06. ACCESS TO FINANCE FOR SME

### ARIZ : ACHIEVEMENTS OVER THE PAST 10 YEARS - 2007-2016

- **1 500 GUARANTEES (830 M€) PROVIDED IN 10 YEARS**
  - 80% ON A INDIVIDUAL BASIS AND 20% THROUGH A PORTFOLIO APPROACH
  - 25% AGRICULTURE, 17% MICROFINANCE, 46% PRODUCTIVE SECTOR
- **CURRENT OUTSTANDING : 430 M€ IN 37 COUNTRIES - 90% IN AFRICA**
- **REACH:**
  - LOANS DISBURSED TO SMES >1,8 BN€
  - AVERAGE SIZE OF LOANS GUARANTEED : 240 K€
  - >6 000 SMES SUPPORTED AND 72 MFI
  - > 200 000 JOBS SUPPORTED
- **SUSTAINABILITY:**
  - GUARANTEES CALLED FOR 5% OF LOANS COVERED (7% LARGE SMES AND 4,5% MSMES)
  - THESE LOANS REPRESENT 1,5% OF ALL FUNDS DISBURSED
- **SUSTAINABLE ON A NOT FOR PROFIT BASIS**





## **07. ACCESS TO FINANCE FOR SME** **ARIZ LESSONS LEARNED**

**1/ A POSITIVE EXPERIENCE OVERALL (REACH, ECONOMIC MODEL, FEEDBACK)**

**2/ MEASURING IMPACTS AND ADDITIONALITY REMAINS A CHALLENGE**

**3/ NEW INSTRUMENTS MIGHT BE USEFUL TO INCREASE THE REACH WHILE A TRADE OFF SHOULD BE FOUND BETWEEN FINANCIAL SUSTAINABILITY AND ADDITIONALITY**

**4/ LOCAL PRESENCE IS KEY**

**5/ NEED TO STRENGTHEN LEGAL AND REGULATORY FRAMEWORKS**

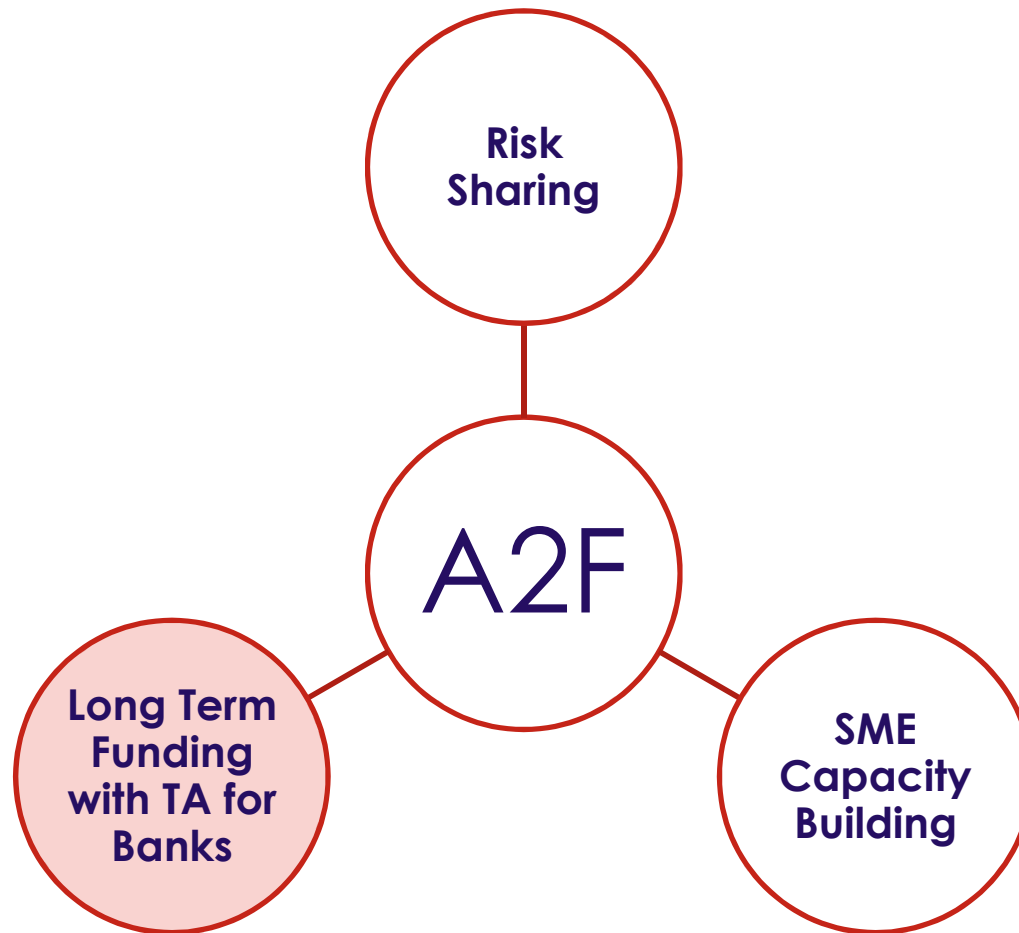


# Thank you

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## 08. ACCESS TO FINANCE FOR SME

### 3 EXAMPLES OF HOW AFD TRIES TO CONTRIBUTE



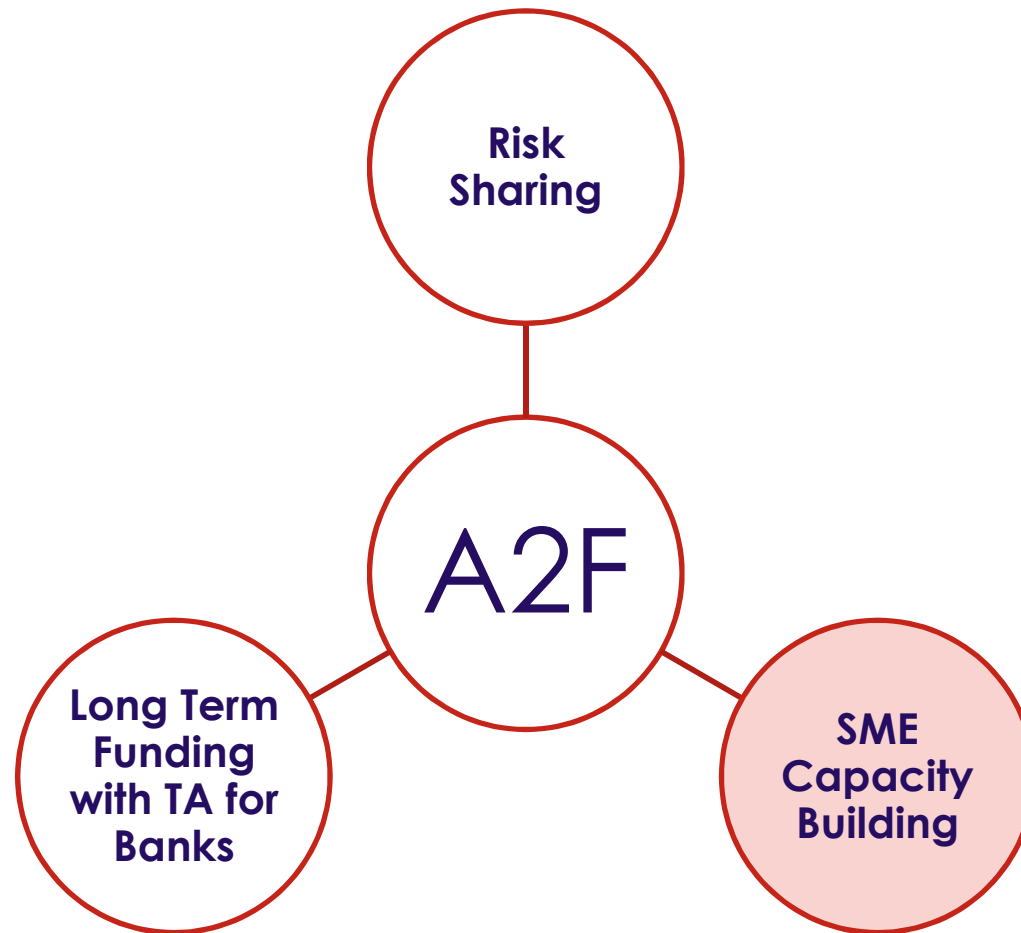
## 09. **SME ACCESS TO FINANCE**

### LONG TERM FUNDING WITH TECHNICAL ASSISTANCE

- **TECHNICAL ASSISTANCE IS PROVIDED IN PARALLEL TO CREDIT LINES TO HELP FINANCIAL INSTITUTIONS DEVELOP A RANGE OF FINANCING TOOLS ADAPTED TO SMES**
  - To enhance the emergence of an offer adapted to SMES either for banks (downscaling) or MFI (upscaling)
- **2 EXAMPLES / LESSONS LEARNED**
  - Crédit Agricole Maroc (CAM) : scoring and marketing tools dedicated to SMEs
  - PAMESO project (Benin): creation of a team dedicated to SMEs, training, specific tools
- ❖ Downscaling in a long term involvement and investment (profitability not before 2-3 years), need the bank strategy be in line during all this period
- ❖ Financing SMEs is a real change of paradigm for the banks and a constant challenge

# 10. ACCESS TO FINANCE FOR SME

## 3 EXAMPLES OF HOW AFD TRIES TO CONTRIBUTE



# 11. SME ACCESS TO FINANCE

## SME CAPACITY BUILDING

- **CAPACITY BUILDING FOR SME**

Addressing weaknesses of firms (production, management, financial capacities, formalization) in order to improve their competitiveness and their business model

- **2 EXAMPLES / LESSONS LEARNED**

- Upgrading program in Senegal : from pilot project to public policy
- Cluster and upgrading programs in Palestine
- ❖ The timeframe of projects is not necessary sufficient to accompany the firms towards a bankable/profitable model
- ❖ SMEs can remain reluctant to go to banks : investment decisions influenced by many factors (economic perspectives, business environment, cultural context, etc.), the switch from informal to formal can remain costly,
- ❖ More difficult to reach A2F objectives if the project does not include a support to demand component since the beginning. But difficult to articulate both support to demand and offer in an appropriate timeframe



# Thank you

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## **Helping SME's go Global – Moving forward in SME Finance**

**Presentation for G20 Workshop**

**Financing for the Majority Unit -- Area for Development Products and Programs  
February 2017**

# I. CABI IN BRIEF: SUBREGIONAL DEVELOPMENT BANK



- **About CABI:**

- a. Multilateral development bank for Central America
- b. Founded in 1960
- c. Member countries: 13
- d. Headquarters in Tegucigalpa, Honduras
- e. Figures 2016:
  - Assets: US\$ 9,266.0 millions
  - Portfolio: US\$ 6,115.2 millions
  - Equity: US\$ 2,719.0 millions
  - Disbursements: US\$ 1,481.6 millions
- f. Ratings: Moody's (A2), S&P (A), FITCH (A)

- **About its importance**

- a. Role as a pioneers in new instruments/products
- b. Influential advocacy role
- c. In countries without national development banks
- d. Support to integration of SMEs in global value chains



## II. Challenges of MSMEs in Central America

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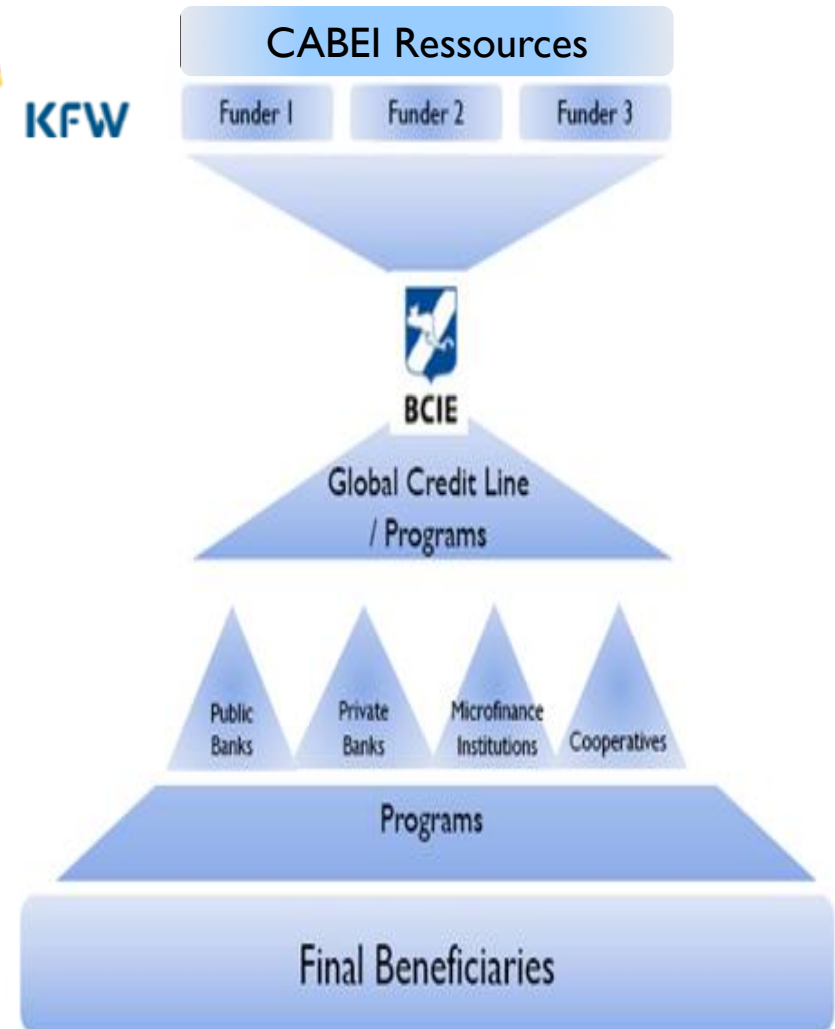
The sector faces some important challenges, which can be classified into three main groups:

- Access to financial services challenges
- Environment challenges
- Enterprise productivity and competitiveness challenges

### III. CABEL Experience

#### ► MSME Programs:

- Agribusiness
- Biodiversity
- Factoring
- **Green MSME Initiative:  
Energy Efficiency &  
Renewable Energy**
- Entrepreneurs
- MSME led by women



## IV. Results: up to 2016



### 1. Sustainable and Transparent Production.

Supported over 711,873 enterprises which employs 1,219,980 people; applying environmental, social and governance (ESG) standards.

### 2. Impact monitoring.

- i. Progress opportunities to low-income households provided; deepening their efforts with loans averaging US\$884.7 microenterprise and US\$6,999.1 for SME's.
- ii. Managed to channel up to US\$632 million towards productive activities in rural areas, of which US\$181.0 million have been related to agriculture and livestock.
- iii. Of the total of supported employment (1,219,980), 60% are women, which have managed to significantly improve their safety, autonomy, self-confidence and livelihood (**SDG 5 on Gender Equality**).

## IV. Results: up to 2016

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### 3. Diversification of financial products.

- i. Commercial banks often lack of know-how and experience of working with SMEs (down scaling).
- ii. Green MSME Initiative has promoted new financial products (energy efficiency and renewable energy in small projects).
- iii. Some products need to be complemented by additional products (e.g. guarantees & TA).
- iv. Capacity development provided for local financial institutions (technical assistance).
- v. Microfinance Institutions has an important role for microenterprise and SME.



## V. Important Lessons Learned

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The most important lessons learned so far can be mentioned as follows:

1. Integrate private sector into international standards will benefit SME and their employees.
2. Limited geographical coverage. Impact monitoring was crucial.
2. Urban concentration. New products were required.
3. Technical Assistance addressed to Financial Institutions becomes relevant in order to provide capacity development and to meet unexplored markets.



# CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION



**THANK YOU VERY MUCH FOR YOUR ATTENTION!**

**Financing for the Majority Unit -- Area for Development Products and Programs  
February 2017**

# »» Access to Finance for African SME – selected approaches of KfW

G 20 Workshop

24 February 2017, KfW

Dr. Thomas Duve

Director, Southern Africa and Regional Funds

Bank aus Verantwortung

**KfW**

# »» Access to Finance for African SMEs

## Micro Enterprises: Support via the Microfinance Sector



### REGMIFA – Long-Term Funding for African MFIs

#### › Rationale:

- › MFI in SSA lack access to long-term debt funding, in particular in local currency

#### › Structure:

- › Structured fund (Luxemburg), founded in 2010
- › Provision of mid- to long-term loans, in particular in local currency
- › Spanish government as largest investor, KfW (BMZ) as large, AFD as smaller, and other DFIs as Co-investors

#### › Volume

- › Net Asset Value of 143 mUSD
- › Of which 73 mUSD in a first loss tranche
- › Portfolio: Loans to 50 MFI in 18 countries, approx. 121 mUSD
- › Complementary technical assistance facility

#### › Development impact targets (achieved)

- › Loan portfolio 180 mUSD (121 mUSD) in at least 12 countries (18)
- › Share local currency loans min. 85 % (83%)
- › Share of problem loans < 5 % (6.7%)
- › Max. average size of sub-loans 5,000 USD (650 USD)

#### › Outlook 2017

- › Additional 13 mUSD equity from KfW
- › Signal to other investors
- › Tackling crisis elements, e.g. in Nigeria

# »» Access to Finance for African SMEs

## SMEs: Direct funding and advisory support

### GROFIN SGB Fund– Direct financial and consulting support to African SMEs

#### › Rationale:

- › Business consulting and “patient loans” (mezzanine) for MSMEs too large for MFIs but too small for banks or private equity funds.

#### › Structure:

- › Unlimited, structured fund
- › Total commitments approx. 95 mUSD, of which 15 mUSD from KfW (BMZ)
- › Investors: KfW (BMZ), Shell Foundation, the Dutch Good for Growth Fund, Skoll Foundation, Calvert Foundation and Norfund

#### › Volume / Portfolio

- › At present 21 mUSD invested in 9 countries and 51 SMEs, of which 5 start-ups
- › Approx. 60 other SMEs have received business advisory services

#### › Development impact targets (achieved)

- › By 2019 creation of 4,200 new jobs (260)
- › By 2019 preservation of 20,500 jobs (5,000)
- › Min. 75 investments p.a. (2015: 58)
- › Min. 500 beneficiaries of business advisory services p.a. (2015: 122)

#### › Outlook 2017

- › Additional 3 mEUR investment bei KfW (BMZ)
- › Replication of concept in MENA region

# »» Access to Finance for African SMEs

## Support to **agricultural value chains**

### AATIF – Promotion of African Agriculture and Trade

#### › **Rationale:**

- › Lack of access to finance for agriculture and trade in SSA

#### › **Structure:**

- › Structured fund (Luxemburg), founded in 2011
- › Provision of senior debt, mezzanine or guarantees

#### › **Volume**

- › 76 mUSD first loss tranche from BMZ and CFC, 104 mUSD A- and B-shares from KfW, Deutsche Bank and other private investors
- › 6 mEUR TA Facility
- › Investments of approx. 140 mUSD (9 investments in 7 countries; both direct investments and financial institutions)

#### › **Development impact targets**

- › Employment
- › Increase of productivity, production and turnover
- › Income generation (farmers/employees)
- › Food security

⇒ Verified via impact studies

#### › **Outlook 2017**

- › 6 further investments with volume > 45 mUSD in pipeline
- › Implementation of politically agreed EU first loss tranche of 30 mEUR
- › Achievement of fund target size > 200 mUSD

# AATIF Investments

*Well Diversified across Countries and Sectors*

## Wienco

Intermediary, Ghana

AATIF loan: USD 20m, Term 3 years

- Distributor of inputs, off-taker of cocoa, maize & cotton
- Collaboration with smallholder farmers (cocoa, cotton, maize)

## GADCO

Direct Investment, Ghana

AATIF loan: USD 1,3 m, Term 5 years

- Ghanaian rice producer
- Partnership with smallholders

## ETG

Intermediary, Pan Africa, 26 countries

AATIF loan: USD 30m, Term 5 years

- Supply chain manager of agricultural commodities
- Connecting smallholder farmers to global commodity markets

## Balmed

Direct Investment, Sierra Leone

AATIF loan: USD 0.25m, Term 5 years

- Blockfarming and trading
- Strengthening of local cocoa and coffee value chain

## Chase Bank

Financial Institution, Kenya

AATIF loan: USD 10m, Term 5 years

- Kenyan commercial bank focused on SMEs
- On-lending activities target investments along the entire agricultural value chain

## BancABC

Financial Institution, East Africa

AATIF loan: USD 25m, Term 5 years

- Supporting growth of local agric funding
- Credit protection in the form of risk sharing

## PTA Bank

Financial Institution, COMESA\*

AATIF loan: USD 30m, Term 5 years

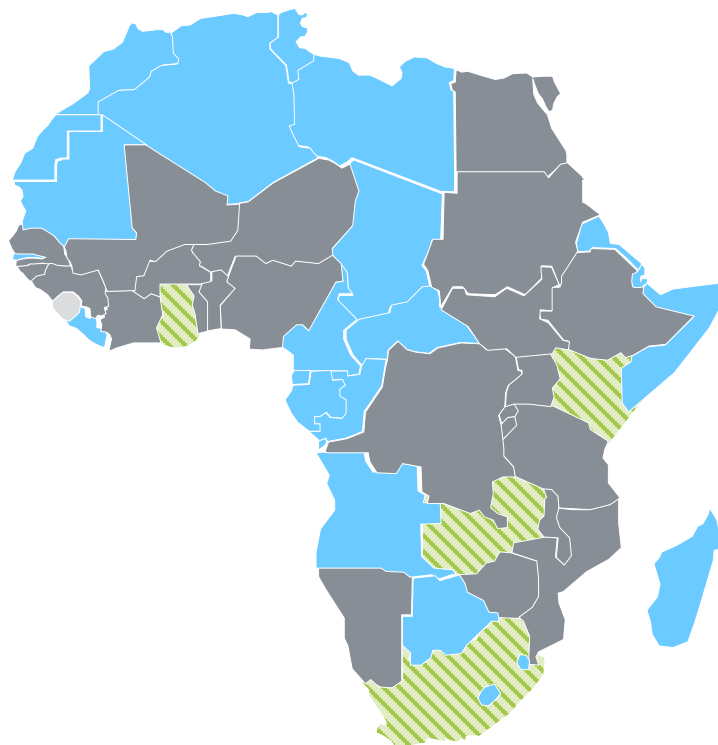
- Multilateral development bank
- Private sector related trade and project/infrastructure financing

## Agrivision Africa

Direct Investment, Zambia

AATIF loan: USD 10m, Term 5 years

- Wheat, maize and soy farm
- Vertical integration into wheat and maize processing via a captive mill



■ = Indirect Investment / Financial Institution    ■ = Direct Investment

»» Thank you for your kind attention!

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**KFW**



# Helping SMEs Go Global

## - Moving Forward in SME Finance

MR. AJAY KUMAR KAPUR  
DY. MANAGING DIRECTOR, SIDBI

# Contents

- ▶ About SIDBI
- ▶ Institutional Support
- ▶ MSME Sector in India & Challenges
- ▶ Model of Delivery
- ▶ Credit Plus
- ▶ Micro Finance
- ▶ MUDRA
- ▶ Startup Support
- ▶ Handholding Support
- ▶ Facilitating Timely Payments
- ▶ Green Finance
- ▶ Credit Guarantee

# About SIDBI

## ► **Constitution :**

- A DFI set up under SIDBI Act, 1989

## ► **Mandate :**

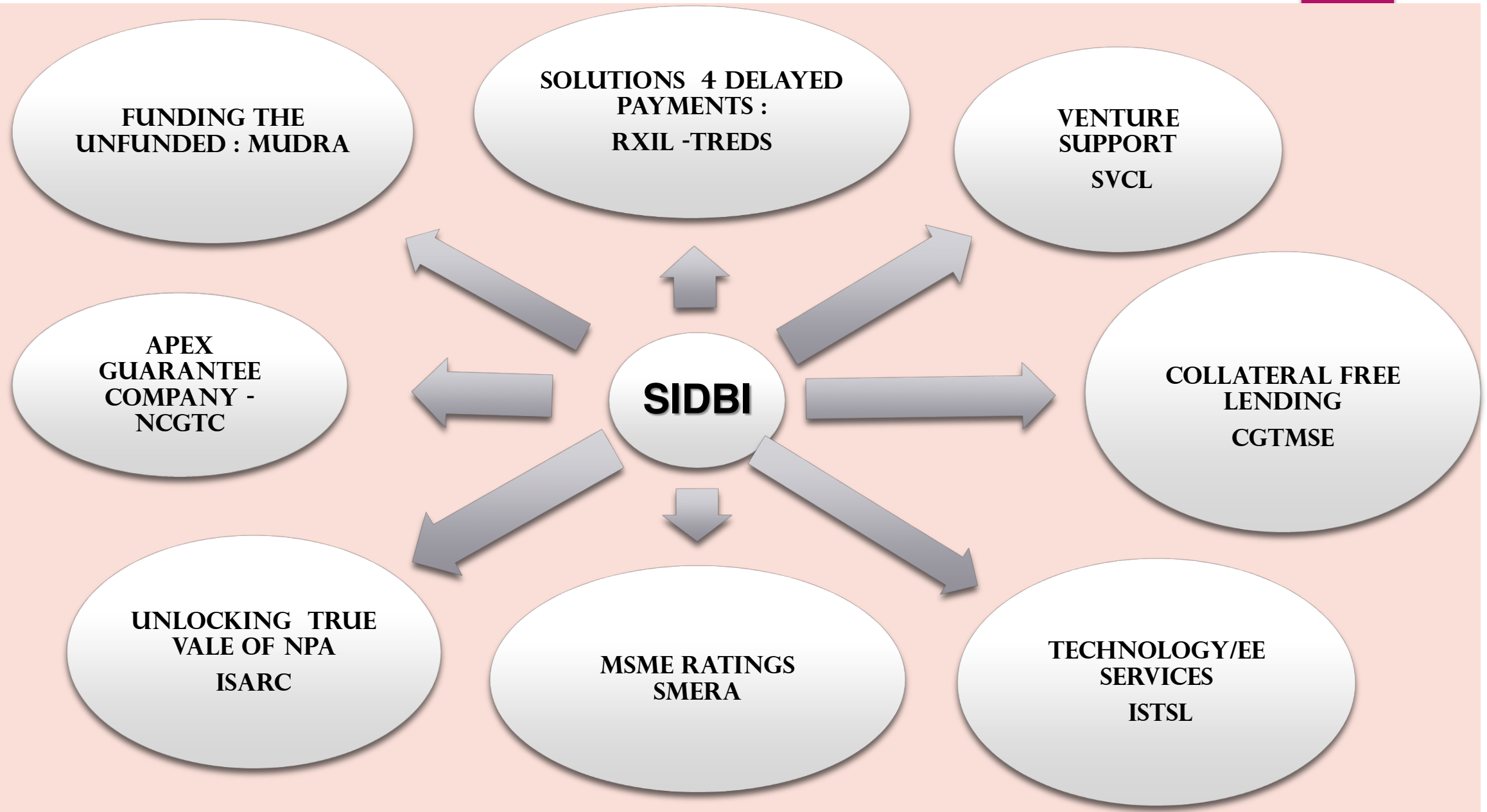
- Promotion, financing and development of MSME sector
- Co-ordinate functions of various institutions serving the sector

## ► **Services :**

- Refinance, direct finance and different financial services through subsidiaries & associates

## ► **Group Entities rendering :**

- Micro-loans, MSME ratings, venture capital, credit guarantee, technology related services, asset reconstruction, receivable finance (TReDS)



# MSME Sector in India

- Contributes more than 38% of India's GDP
- With 40 million enterprises, it employs around 100 million, next only to the agriculture sector
- It contributes around 45% of total manufacturing output & about 40 % of India's total exports
- Manufactures over 6000 products

# Challenges Confronting SMEs

- ❑ Information asymmetry
- ❑ Access to adequate & affordable credit
- ❑ Receivable collection
- ❑ Technology
- ❑ Access to market
- ❑ Management & skill availability

# Model of Delivery

- ❑ Indirect Credit : Banks NBFCs & MFIs
- ❑ Direct Support to MSMEs in niche areas:
  - Risk Capital
  - Green Finance
  - Receivable Finance
  - Structured Products
- ❑ Fund of Funds for Equity:  
Start-Ups & MSMEs

# Handholding SMEs : Credit Plus

- ❑ Enterprise Promotion & Development
- ❑ Energy Efficiency Solutions
- ❑ Cluster Development Support
- ❑ Skill Development Initiatives
- ❑ Advisory Services
- ❑ Financial inclusion and Women Empowerment
- ❑ Coordination & Policy Advocacy

# Financial Inclusion : Microfinance

- SIDBI is pioneer in introducing MFI model for inclusive growth.
- Provides both Equity, Debt & Transformation Loan
- Advocates & Implements Responsible lending Practices
  - Code of Conduct
  - Lenders' Forum
  - Capacity Assessment Ratings
  - Code of Conduct Assessment
  - India Micro Finance Platform (MIX)
  - Nurturing & Capacity Building of MFIs
  - 34.5 million beneficiaries, mostly women and 73% from Backward Classes (69% women own business & 23% contribute to income.

# Financial Inclusion : MUDRA

- It is estimated that there are 57.7 million small/ micro units in India, employing around 120 million people.
- Mostly individual proprietorship / 'Own Account Enterprises'
- Over 60% of units owned by persons from vulnerable sections.
- Majority are outside formal banking system – borrow from informal sources, use own funds.
- Micro Units Development & Refinance Agency (MUDRA) creates Last Mile Credit Delivery to micro units in partnership with banks / Non-Bank Finance Companies / Regional Rural Banks / cooperative banks, etc. by increasing access to finance for the unbanked.
- 65 million beneficiaries provided credit support of USD 36 billion so far

# Nurturing Entrepreneurs : SIDBI's Startup Support

- SIDBI supports VCs under Fund of Fund which invest at least twice the contribution from SIDBI or 50% of drawable corpus, whichever is higher, in MSMEs.
- ▶ A unique model piloted by SIDBI wherein govt./public resources & private capital are pooled together.
- ▶ It is leveraged for equity capital investment in MSMEs to meet their growth requirements.
- It helps VCs to expand reach to MSMEs & Startups facing challenges through traditional banking channels.
- SIDBI has so far committed \$490 million to 111 VC Funds. It has resulted in investment of \$ 721 million to 670+ MSMEs and Startups.

# Udyamimitra: Handholding MSMEs

- SIDBI has launched [www.udaymimitra.in](http://www.udaymimitra.in), an enabling platform that leverages IT architecture to fulfill MSME's financial & non-financial needs.
- It provides access to financial (125000 bank branches) & non financial services (17000+ handholding agencies) with 3 distinct features viz. (i) Seek Handholding support; (ii) select & apply for loans to preferred banks; (iii) enables faster loan processing.
- It replaces manual operations with electronic platform & standardizes pre-sanction process & bankers compete themselves in loan delivery.
- It is designed to obtain application forms, gather & provide information, enable registration, provide links for handholding & assists in tracking request for handholding or loan.

# TReDS- Receivable Exchange of India Ltd. (RXIL): Facilitating Timely payments to MSMEs

- ▶ Is a catalyst for MSMEs by bringing transparency, alleviating issue of delayed payment & lowering credit cost for MSMEs through competitive auction bidding & price discovery.
- ▶ RXIL is a venture promoted by SIDBI & other institutions.
- ▶ It enables discounting of invoices/bills of exchange of MSME Sellers against large Corporates through auction, to ensure prompt realisation of trade receivables at competitive market rates.

# SIDBI's Initiatives in Green Finance for MSMEs

- ▶ Introduced concessional financing EE & Cleaner Production projects in MSMEs in India .
- ▶ Developmental initiatives including WB-GEF Project, energy audits and pilot interventions through End to End Energy Efficiency Project and Partial Risk Sharing Facility project etc.
- ▶ Developmental Support also through Cluster focused Awareness & Capacity Building Programmes for MSMEs, Industry Associations, Bankers and other stakeholders.
- ▶ Strategic partnership with World Bank, DFID, JICA, KfW, GIZ & AFD for promoting & financing clean & EE investments in MSMEs.

# National Credit Guarantee Trust Corporation : SIDBI's Initiative for Giving Wings to Dreams

- To play a developmental role in supporting India's economic development agenda by assisting students & enterprises in obtaining finance from member lending institutions (MLIs).
- Provides credit guarantee to MLIs for their loans:
- For Education (to encourage higher education for youth, especially those who cannot afford );
- For Vocational Skill Development Loans (to enhance skill of workers / poor students for better productivity);
- For Factored debt (to help MSMEs overcome problems of delayed payments).

# Credit Guarantee Trust for Micro and Small Medium Enterprises: Collateral Free Lending

- To encourage banks & financial institutions to extend credit without any collateral /third party guarantee to new & existing MSEs.
- It guarantees loans up to INR 20 million. Guarantee cover is available to the extent of 75% / 80% of sanctioned amount.
- Guarantee coverage is more for entrepreneurs belonging to women and under developed areas .
- 2.3 million credit proposals of USD 16 billion have benefited out of which 15% belong to women and 22% belong to other disadvantaged sections of society.



Thank  
you

VISIT US AT [WWW.SIDBI.IN](http://WWW.SIDBI.IN)