

SMALL LOAN GUARANTEE PROGRAM (SLGP)

A mechanism to enhance financing for SMEs |



Creating Markets, Creating Opportunities



SLGP provides financial institutions with an innovative Risk Sharing Facility structure that adds value by providing risk mitigation to help build their SME portfolios.

Context

- Small and medium enterprises (SMEs) play a central role in the creation of dynamic, competitive and inclusive economies and are important net job creators in emerging markets. SMEs accounts for 80% of net job creation and 67% of employment in developing countries.
- SMEs are considered a key engine of economic growth and are critical suppliers to corporates in value chains. They often serve the poor and underserved markets given their local ownership structure and their operational agility allows them to address smaller market needs.
- SMEs in emerging markets identify insufficient access to finance as one of their biggest obstacles, limiting their growth and profitability.
- IFC estimates that there is a US\$4.5 trillion SME financing gap in emerging markets. The finance gap in IDA countries is now estimated at over US\$155 billion, equivalent to more than 15% of their combined gross domestic products (GDPs). Addressing this gap will help new SMEs invest, grow and contribute to economic growth and job creation.



What is the Small Loan Guarantee Program (SLGP)?



The Small Loan Guarantee Program (SLGP), **aims to make a meaningful contribution to financial inclusion, job creation and bridging the SME finance gap** by supporting the financing needs of SMEs in vulnerable macroeconomic environments, where SMEs and banks are beset by highly uncertain and volatile market conditions, high cost of doing business and a lack of infrastructure.

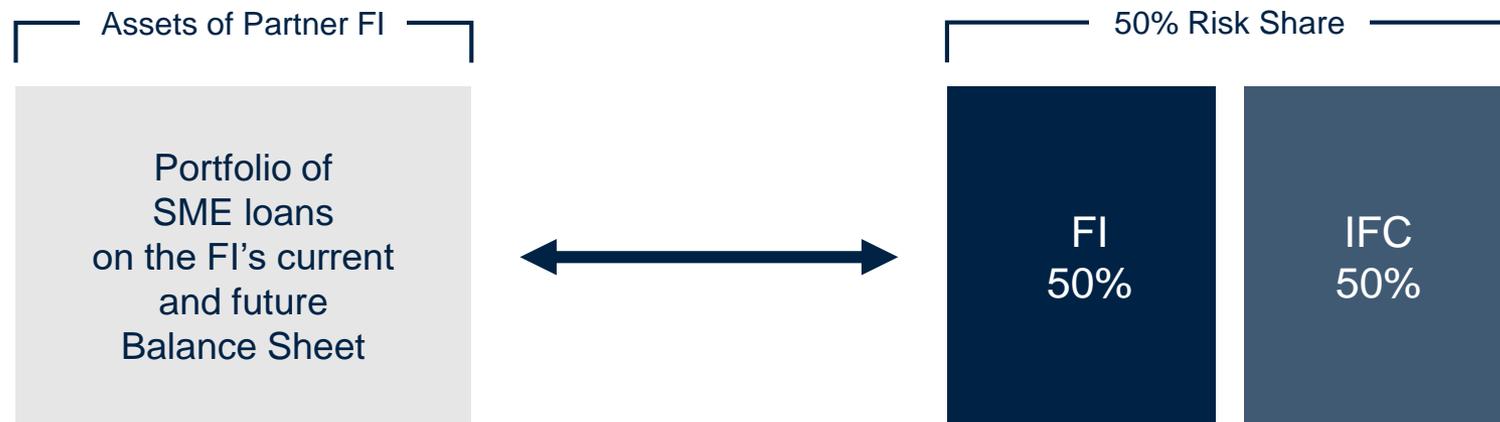
- It particularly aims to help expand lending to SMEs in those markets that are not well served by the financial sector, including, for example, VSEs, WSMEs, early stage SMEs, SMEs involved in climate activities, agricultural SMEs and high-growth SMEs. This includes SMEs that either do not have access to finance and/or lack adequate financing in terms of tenor and structure, to support their operations in a sustainable manner.
- Across the SLGP Program countries, 44% of SMEs are financially constrained. SME finance gap to WSMEs is 17%, higher than the developing country average of 11%. Moreover, informal firms as a share of formal firms is much higher at 75%, in comparison to developing country average of 33%.
- IFCs risk sharing product is an important tool to help reduce the severe access to finance obstacles SMEs face in emerging markets, as they address two main challenges: (i) local currency funding and (ii) perceived higher credit risk of SMEs. This is very important in markets with high or unpredictable structural risks, or with segments that are new (such as women-owned SMEs, climate finance) and therefore the risk/return calculus is uncertain.
- SLGP offers risk mitigation solutions to financial institutions in emerging markets with the aim to support the financing needs of SMEs and bridge the SME funding gap, estimated to be US\$4.5 trillion, and contribute to financial inclusion and job creation.
- The objective is to scale up access to finance to SMEs in challenging markets and increase lending to underserved SME segments such as WSMEs and VSEs
- Through SLGP, IFC expects to make the SME segment of the financial sector more inclusive by establishing a framework, products and processes geared towards providing financial services to underserved segments.
- It is anticipated that SLGP will encourage them to move down market, improve SME lending practices and demonstrate the viability of SMEs as an asset class.

Program Overview

SLGP is a **new programmatic approach to risk sharing with FIs** that is more efficient, price competitive and scalable than a standalone RSF.

PROGRAM OBJECTIVES	Under SLGP, IFC and Partner financial institutions (FIs) aim to achieve the following: (1) increase access to finance for SMEs; (2) demonstrate the commercial viability of SMEs as credible financing segment; (3) understand SME risks in challenging markets; and (4) test new products, services and risk criteria to serve new SME market segments
INSTRUMENT	Unfunded Risk-sharing Facilities (RSFs)
NOVEL FEATURES	<ol style="list-style-type: none"> 1. Competitive pricing for Partner FIs based on portfolio approach 2. Simplified terms (eligibility criteria), structure and streamlined investment processing 3. Advisory and operational support for Partner FIs
INVESTMENT PARAMETERS	<ul style="list-style-type: none"> • Target Clients: Banks and non-bank financial institutions • Target Countries: Please see Annex for the full list of eligible countries • Target Beneficiaries: <ul style="list-style-type: none"> • Very small, small and medium enterprises as per IFC's definition with a loan size between US\$5,000 and US\$1,000,000 • Emphasis will be to expand reach to underserved SME segments such as women, climate, and smaller SMEs • RSF Amount: The size and structure of each RSF will depend on the lending capacity of the Partner FI, the availability of local currency within the banking sector and the absorption capacity of the economy • RSF Tenor: The underlying RSFs have an up to 3-year ramp up period and maximum tenor of 5-8 years
ADVISORY SERVICES	<p>Each RSF project under the Program will incorporate operational and technical support to help the Partner FI scale origination in the targeted SME segment.</p> <p>The Program will provide (i) reporting training to equip the FI to meet the quarterly and annual reporting requirements, (ii) operational implementation support to assist the Partner FI to integrate the risk mitigation product into its systems and procedures for immediate execution, (iii) pipeline development support to ensure full utilization and that the prospective pipeline integrates seamlessly with the eligibility criteria, and (iv) capacity building advisory to ensure that the Partner FI's SME Business model, product capabilities and lending growth strategy and aligns with the local credit market demand.</p>

Risk Sharing Overview



- IFC would enter into a risk sharing agreement with a Partner FI, which would provide a 50% loss cover against future NPLs in the Partner FI's SME portfolio to enhance and strengthen the FI's capacity for risk taking and financing for SMEs
- The goal of the RSF is for the FI to make new loans, in addition to migrating a portion of the FI's existing portfolio
- Pre-agreed eligible criteria will be set for loans to be included in the portfolio
- The key parameters of the risk sharing arrangement are to be integrated as much as possible with the Partner FIs' origination, risk assessment/approval, supervision and recovery procedures (subject to IFC review)
- The guarantee is in local currency or it can be in US Dollars depending on the Partner FIs' preference/portfolio assets
- The RSF is wholesale, which means that IFC commits a maximum exposure amount (in local currency or US\$ equivalent) for a 3-year Ramp-up period during which the Partner FI builds the portfolio
- The Partner FI owns the portfolio and takes all commercial decisions according to their formal loan adjudication criteria

Risk Sharing Mechanics

Origination

- Clear and transparent eligibility criteria for loans, defaulted loans, payouts /claim processes, payment time-frame and reporting processes are established up front with Partner FIs. Timelines and simplified processes are specified in the agreement to ensure prompt payout to the Partner FI upon losses.
- The Partner FI originates, appraises, processes and approves SME loans in accordance with its risk criteria and operational procedures. Commercial decisions taken by the Partner FI (e.g. re: approval, pricing, collateral).
- All loans originated by the Partner FI which meet the pre-agreed eligibility criteria must be included in the SME portfolio.

Portfolio Management

- Loans (and collateral) remain on the Partner FI's books and are serviced and monitored by the Partner FI in accordance with its procedures.
- Each quarter, the Partner FI reports to IFC new loans and portfolio performance based on pre-agreed reporting template.

Claims & Recoveries

- Defaulted Loans, are eligible loans which (i) have become and continue to be non-performing (>90 days); (ii) for which all amounts outstanding have become due and payable; (iii) for which the Partner FI has initiated all appropriate collection proceedings and (iv) despite such efforts for collection, all or a portion of the amount outstanding has remained unpaid for at least 180 days after becoming due;
- Claim requests for eligible defaulted SME loans are submitted to IFC, which processes them within a pre-agreed upon time frame.
- IFC will compensate the Partner FIs for their portion 50% of principal losses, by making a direct payment to the Partner FI after receiving a claim request with complete supporting documentation as per the terms of agreement.
- Recoveries by the Partner FI on the defaulted loans where a claim has been paid by IFC, are shared (net of legal expenses) pro-rata, up to the point where IFC is compensated for its payout. Any excess can be retained by the Partner FI if there are no outstanding payments to IFC.

Benefits to Partner Financial Institutions



Risk Mitigation

Risk management mechanism with downside protection enables business expansion into new segments. Allow FIs to share losses and receive a partial cash payout against their non-performing loan (NPL) portfolios.



Financial

Improved risk profile of portfolio and profitability on a risk adjusted basis. The RSF allow the Partner FI to deploy its liquidity to finance SMEs and achieve greater diversification and earning spreads whilst mitigating downside risks.



Cash Flow Efficient

The RSF gives the Partner FI a timely recovery of cash as the RSF will pay out at a pre-set date based on the NPLs moving to default loans while the recovery processes continue in parallel. Once the loan is classified as defaulted (180 days) a recovery payment can be requested.



Efficient Capital Allocation

Credit risks covered by IFC AAA credit risk guarantees can be accorded zero risk weighting by the bank regulators (it varies from country to country). This gives a capital uplift to the partner FI in respect of SME loans and there is also corresponding positive impact on the P&L in terms of a reduction in NPL provisioning.



Market Position

Supports expanding market share and reach, enlarging existing relationships and engaging with new clients in the SME space, including establishing lending and deposit relationships with SMEs, thereby allowing more cross-selling opportunities. New borrowers are also provided with an opportunity to build a credit profile and access longer-tenure loans.



Innovation

Reduces risks involved in developing new business lines and relationships, helping the Partner FI to benefit from:

- Product Innovation / First mover advantage (Higher margins/less competition)
- Introducing tailored, customized or targeted products for specific types of small businesses



Strengthened Capacity

Strengthened Capacity to finance SMEs through IFC's advisory services

Key Investment Terms

Portfolio	The portfolio of all Eligible SME Loans originated by Eligible FIs
Eligibility Criteria	Term loans (including hire purchase) and overdrafts to SME clients
Maximum Portfolio Balance	Up to US\$ xxx equivalent
Maximum IFC Risk Amount	Up to US\$ xxx equivalent
IFC Percentage	50%
Ramp-Up Period	Up to 3 years, but will terminate as soon as either <ul style="list-style-type: none"> the Risk Ratio exceeds 15%; or the Aggregate Loss Amount exceeds 10%.
Maximum Facility Term	Up to 8 years
Payments by IFC	Within 30 days of the end of each calendar quarter, the Bank may demand from IFC a payment of the IFC Percentage of the newly defaulted amount.
Recoveries	After an IFC Payment and as long as IFC has an Outstanding Reimbursement Amount, the Bank will share with IFC the IFC Percentage of any recoveries on Defaulted Loans.
Fees	<ul style="list-style-type: none"> Front-End Fee: 1.25% on the IFC Maximum Risk Amount, payable in 2 installments subject to ramp-up Risk Sharing Fee: [2.5]% p.a. on the IFC Risk Amount, payable quarterly in arrears Commitment Fee: [2%] on the unutilized committed amount after 18 months if RSF utilization is below 30%
Termination/Suspension Events:	Failure to pay fees; bankruptcy, insolvency or nationalization of the Bank; lack of effective date, lack of compliance with RSA. Other termination events to be agreed between the Partner FI and IFC.

Eligibility Criteria: SME

- ✓ is a private sector institution registered and operating in the country of incorporation of the Bank;
- ✓ meets at least two of the following three criteria:
 - has annual revenues of not more than USD15 million;
 - employs fewer than 300 people;
 - has total assets of less than USD15 million;
- ✓ Very small enterprises (VSEs) are also eligible under the Program
- ✓ may not be an Affiliate of the Bank;
- ✓ must conduct its business and operations primarily in the Country;
- ✓ may not be primarily engaged in any of the activities on the Exclusion List;
- ✓ has maintained a bank account with a bank in the country of incorporation of the Beneficiary for at least [6] months;
- ✓ has been subject to KYC screening in accordance with the AML/CFT procedures and controls of the Beneficiary and any red flag thereby raised has been satisfactorily resolved;
- ✓ is not a person or entity:
 - named on lists promulgated from time to time by the United Nations Security Council or its committees pursuant to any resolution issued under Chapter VII of the United Nations Charter;
 - named on the World Beneficiary Listing of Ineligible Firms (see www.worldbank.org/debarr or any successor website or location); or
 - convicted, or subjected to any similar criminal sanction, by any court or governmental body of competent jurisdiction, for engaging in money laundering or financing of terrorism or any Sanctionable Practice, or or in each case, a successor in interest or ultimate beneficial owner thereof.

Specific SME Segment Definitions

- **Very small enterprises (VSEs) are also eligible under the Program.** VSEs are defined as borrowers who have loan amounts between US\$ 5,000 and US\$100,000 equivalent and employ less than 50 employees with assets and / or annual sales up to US\$3 million equivalent.
- **Women-Owned Business are eligible under the Program.** A Women-Owned Business is defined as a borrower that is: (i) at least 51% by vote and value owned by a woman or women, where such woman or women direct or cause the direction of management, policy, fiscal and operational matters; or (ii) at least [20%] by vote and value owned by a woman or women and (a) has at least one woman in a senior executive role (e.g. Chief Executive Officer, Chief Operating Officer, President, Vice-President or other senior executive management role) and (b) if it has a board of directors or other managing board or committee, at least [30%] of the members of such board or committee are women; and where such ownership by women is real, substantial, in proportion to the interest owned, and continuing, going beyond the pro-forma ownership of the business as reflected in its ownership documents
- **Climate is any agriculture-related project, business or activity which is not on the Exclusion List,** complies with the applicable laws of the country including the social and environmental requirements of the country and IFC Performance Standards, is located in the country, is Eligible Renewable Energy, Energy Efficiency, Water Efficiency or Climate Smart Agriculture as specified below and does not finance expenditures in any country not a member of the World Bank and which satisfy the "Climate Eligibility Criteria" contained in the RSA.

Main Eligibility Criteria: SME Facilities and Portfolio Criteria



The SME Facility

- The purpose of the Facility is for working capital purposes or equipment / building improvement purchases (proposed asset financing) and is structured either as a Term Loan, Guarantee or Overdraft Facility;
- The Loan is denominated in local currency or USD;
- If the SME Facility is a term loan, it has an amortizing principal payment schedule;
- If the SME Facility is an overdraft facility in default, no disbursements were applied to pay the Borrower's obligations owing under any loan or credit facility with the Beneficiary that was not in the Portfolio.
- The SME Facility is a senior obligation which ranks at least pari passu with all other senior obligations of the Borrower;
- Grand fathered facilities can be included up to maximum of [3] months on or after the date of the RSA but prior to the Effective Date;
- The Borrower was not in default in respect to such SME Facility or any other loan or credit facility with the Bank;
- The SME Facility does not involve any Category A Activity;
- The Bank has not received nor was aware of: (i) any existing or threatened complaint, order, directive, claim, citation or notice from any Authority; or (ii) any material written communication from any Person concerning the failure by the Borrower to undertake its operations and activities in accordance with the E&S Requirements.



Minimum Credit Acceptance Criteria

- The SME Facility has a risk rating of [X-Y] or lower as per the Bank's rating scale at the time of approval; and
- The size of each SME Facility is comprised between US\$5,000 and US\$1,000,000 or its equivalent in local currency.
- The SME Facility has been originated and at all times been priced, signed, documented, underwritten, monitored and serviced according to the Bank's Credit Guidelines shared with IFC;
- The SME Facility is not in the process of being downgraded, whether due to adverse information known to the Bank or otherwise.



Portfolio Criteria

- Exposure capped to the Maximum Portfolio Limit
- Single Borrower Exposure Limit
- Start-up Exposure Limit

Advisory Services can be structured in four ways to support RSF's and SME growth



- Explain the IFC's reporting requirements to all stakeholders
- Understand existing reporting capabilities and what data is readily available
- Advise how to extract the required information to effectively meet IFC reporting requirements
- Explore automation based on client bank's system capabilities

- Perform mini-diagnostic and analysis to determine how RSF can best support goals
- Prepare recommendations on how the RSF can be utilized most effectively and document required policy, product & process changes
- Assist with building a sample report and develop an implementation plan

- Perform detailed analysis of existing client base and develop a detailed target market definition to identify prospective clients
- Define sales approach, design sales collateral and set KPI's
- Set risk appetite and make required changes to product and credit processes
- Design pilot & deliver frontline training

- Comprehensive SME Banking support
- This approach includes a full diagnostic, followed by a detailed project to address areas identified
- Covers areas such as:
 - Strategy
 - Segmentation
 - Business model
 - Coverage model
 - Product/s
 - Supply Chain Finance
 - Agri Finance
 - Banking on Women
 - Sales Effectiveness
 - Credit
 - Non-Financial Services
 - Frontline training

Key Considerations



Market Segmentation

What are the relevant segments in the market (industry, company type and size, geography etc.)



Current Activity

In which segments is the Bank currently active, where not? What kind of products does the Bank offer to these segments? Bank's capacity for origination, servicing and collection of portfolio with proven track record?



Security

To what extent is security a constraint? Does the Bank work on products that leverage alternative forms of security?



Strategy

What are the Bank's priority segments/products to grow its portfolio? How does the Bank plan to achieve this? How fast is the portfolio expected to grow over the next 3 years? What are key constraints?



Risk

How does the Bank classify risk in the different segments/products? Does the Bank apply a tailored scoring model for the target segments?



Funding

To what extent is availability of funding a constraint?



Advisory

What is the Bank's plan for capacity building with key staff?

Key Contacts

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Annex: Eligible Countries (Phase 1 only)

AFRICA

Benin
 Burkina Faso
 Burundi
 Cameroon
 Central African Republic
 Chad
 Comoros
 Congo, Dem. Rep.
 Congo, Rep.
 Cote d'Ivoire
 Djibouti
 Eritrea (in IDA arrears)
 Ethiopia
 Gambia, The
 Guinea
 Guinea-Bissau
 Kenya*
 Liberia
 Madagascar
 Malawi
 Mali
 Mauritania
 Mozambique
 Niger
 Nigeria*
 Rwanda
 Sao Tome and Principe
 Senegal
 Sierra Leone
 Somalia (in IDA arrears)
 South Sudan
 Sudan (in IDA arrears)
 Tanzania
 Togo
 Uganda
 Zimbabwe (in IDA arrears)

ECA (Europe & Central Asia)

Kosovo
 Kyrgyz Republic
 Tajikistan

MENA (Middle East & North Africa)

Afghanistan
 Yemen, Rep.

EAP (East Asia & Pacific)

Cambodia
 Kiribati
 Marshall Islands
 Micronesia, Fed. Sts.
 Myanmar
 Papua New Guinea
 Samoa
 Solomon Islands
 Timor-Leste
 Tonga
 Vanuatu

SA (South Asia)

Bangladesh
 Maldives
 Nepal
 Pakistan *

LAC (Latin America & Caribbean)

Haiti

* Only conflict-affected regions of these countries will be eligible

- Kenya: Garissa, Isiolo, Lamu, Mandera, Marsabit, Samburu, Tana River, Turkana, Wajir, West Pokot
- Nigeria: Abia, Adamawa, Akwa Ibom, Bauchi, Bayelsa, Borno, Cross River, Delta, Edo, Gombe, Imo, Kaduna, Kano, Ondo, Rivers, Taraba, Yobe
- Pakistan: Balochistan, Federally Administered Tribal Areas (FATA), Khyber Pakhtunkhwa

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