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# SMEs

*Small &  
Medium  
Enterprises*

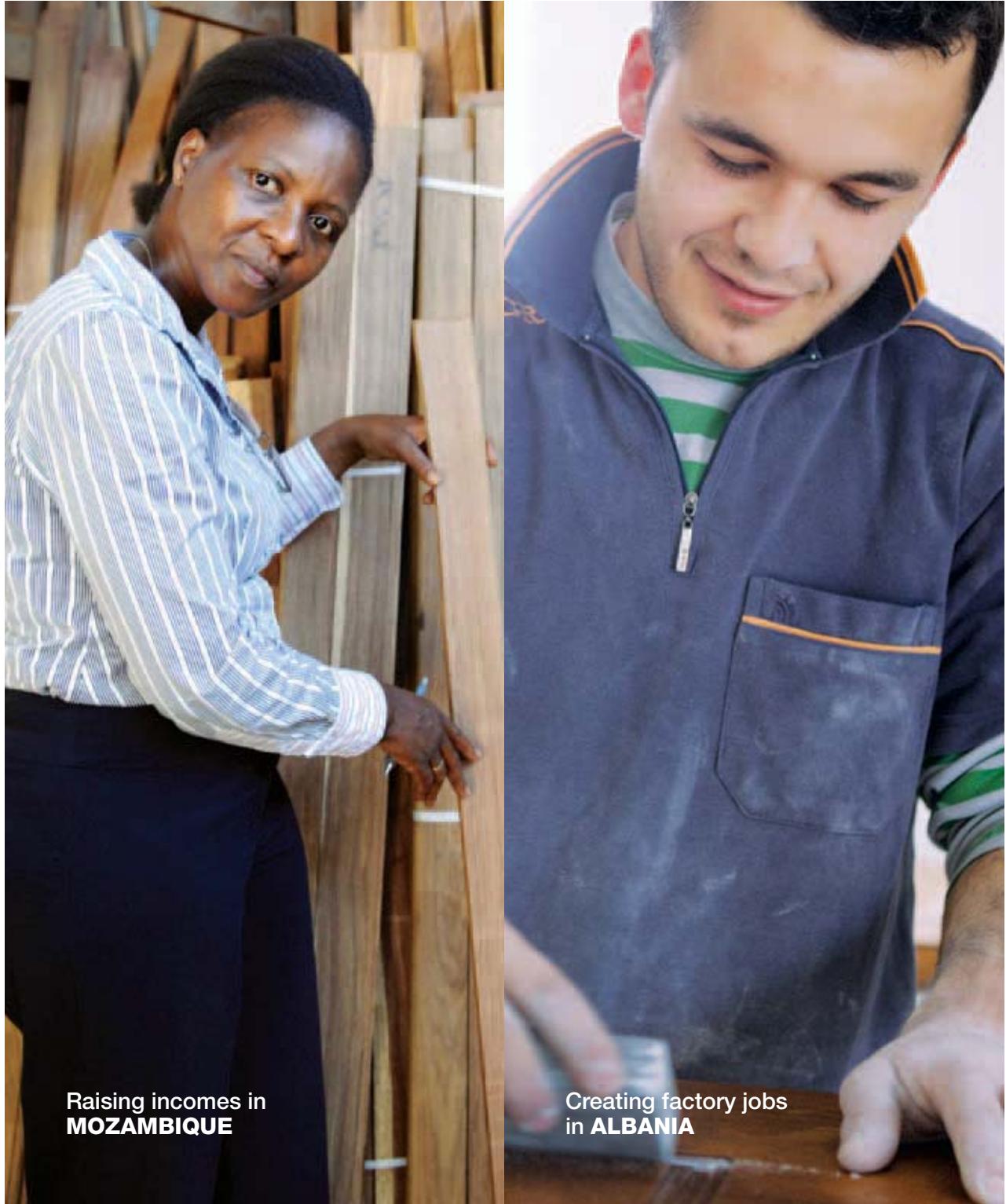


TELL  
OUR  
STORY

2011  
Vol. 5 / Issue 1



International  
Finance Corporation  
World Bank Group



Raising incomes in  
**MOZAMBIQUE**

Creating factory jobs  
**in ALBANIA**

# TELLING OUR STORY

—  
2011  
Vol. 5 / Issue 1



Opening new sources  
of credit in **MOROCCO**



Supporting new opportunities  
for women in **CAMBODIA**

## INTRODUCTION

# SMEs: A KEY FORCE FOR GROWTH

*Message From the Executive Vice President and CEO*

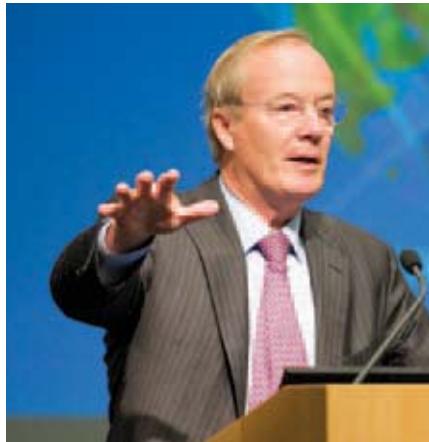
Small and medium enterprises (SMEs) are an essential focus of IFC's work, engines of job creation and growth in emerging markets that are central to the larger equation of development. Supporting them is one of the most important ways we achieve our over-arching goal: *Creating Opportunity Where It's Needed Most.*

These dynamic, fast-moving firms make a special contribution to local economies. It can be measured in many ways—levels of new business formation; job creation and retention; increased productivity, innovation, and value-added; or links with global value chains, to name but a few. Stories in this collection show that the entrepreneurs behind these growing enterprises—often women entrepreneurs—are a powerful, if often overlooked, force in the larger playing field of poverty reduction.

But major obstacles stand in the way. They must be cleared to help these entrepreneurs do what they do best: building businesses and creating jobs.

As a member of the World Bank Group, we bring decades of global experience in this critical field. IFC's broad package of Investment and Advisory Services helps emerging market countries at all income levels build their SME sectors, and is reinforced through strong partnerships with many other players. We focus our support on working with governments to improve the investment climate, providing resources for management training, and promoting access to finance and markets.

This integrated approach helps us provide innovative solutions to some of the SME world's difficult problems, fitting within our larger efforts to promote sustainable and inclusive private sector development in the poorest countries. Since



2009 IFC has been pleased to work closely with the G20 in scaling up successful models of SME finance, part of a larger agenda of improving access to financial services for the poor.

But IFC itself can never be the solution. Our role is to provide the right inputs to spark lasting change, helping governments, financial institutions, service providers, larger firms, and others play a bigger role in building small and mid-size businesses.

I am optimistic. Governments are making SMEs a priority, and technology is providing effective new tools that are bringing down the costs of reaching small customers.

Together with our clients and partners, we can help lay a foundation for a future where SMEs live up to their full potential for creating jobs, reducing poverty, and improving living standards.

  
**LARS H. THUNELL**  
Executive Vice President and CEO

**COVER** In Mozambique (pictured) and countless other emerging markets, SMEs are a driving force of development. IFC's broad-based package of support helps them grow.

# SMEs: A DEFINITION

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- **Are commonly defined as registered businesses with less than 250 employees.**
- **Contribute heavily to employment and GDP, and grow in ways linked to the formalization of an economy**
- **Often have great difficulty accessing financial services in many emerging markets**

## GLOBAL

# THE G20 TURNS TO IFC

## *A Global Challenge*

"Who puts all these pieces of the puzzle together?"

It is an essential question, one asked by H.R.H. Princess Máxima of the Netherlands, UN Secretary General Ban Ki-moon's Special Advocate for Inclusive Finance for Development.

Passionate about poverty reduction and deeply experienced in both investment banking and financial inclusion for development—and wife of the heir to the Dutch throne, H.R.H. Prince Willem-Alexander—the princess is a major international voice on questions of SME development. She travels and speaks widely, reaching out to a broad spectrum of public, private, and nonprofit players to raise awareness and promote action.

In May 2010 she addressed a meeting in The Hague of the SME Finance sub-group, a new body the G20 had created the year before in close coordination with IFC.

"A puzzle-maker is needed to ensure that all the different efforts talk to each other, and to help us identify remaining information gaps," she stressed.

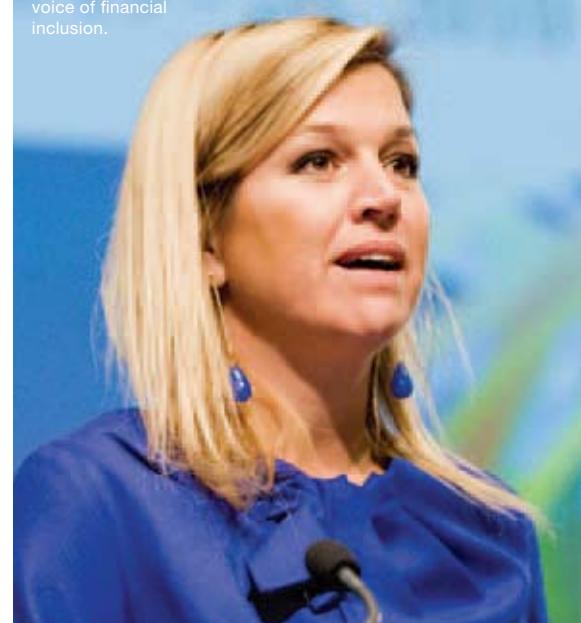
The G20 leaders have asked IFC to take on this role, making their request first at their November 2009 Pittsburgh summit, then again in Seoul in November 2010, and again for this year's gathering, November 3–4, 2011 in Cannes.

In giving us this special position, the G20—widely considered the world's foremost international economic policy coordination body—cited IFC's work within the World Bank Group as an international agenda-setter on SME finance development. This gives us a vast body of practical knowledge we can share, drawn from our extensive investment, advisory, and policy and research work in every region, and long-standing client relationships and partnerships with financial institutions, donor agencies, and others.

In Pittsburgh, the G20 leaders launched a new Financial Inclusion initiative, vowing to expand the world's best work on SME finance as part of a broader mandate. To do so, they sought IFC's support, in close collaboration with World Bank expertise, on three central tasks:

- **Advising the Financial Inclusion Experts Group subgroup on SME Finance**, a new high-level body that was tasked with sharing knowledge of successful models of financial services delivery for the poor and scaling up access to finance for SMEs. This work supported the creation of a new Global Partnership on Financial Inclusion.

H.R.H. PRINCESS MAXIMA The UN's voice of financial inclusion.



- **Scaling Up SME Access to Financial Services in the Developing World**, a comprehensive report summarizing the SME finance gap and its challenges, with summaries of 164 effective responses from governments, development finance institutions, and the private sector.



- **The SME Finance Challenge**, a global competition to produce innovative private sector-led proposals to strengthen SMEs, achieving large-scale results by making the most of limited amounts of public funding.

To help bring the benefits of financial inclusion to millions, not just an elite few, IFC is working with Canada and other partners to facilitate creation of an SME

Finance Innovation Fund to implement winning proposals from the SME Finance Challenge (see pp. 40–41) by November's G20 meeting in Cannes. At the same time, we have been asked by the G20 to support the launch of the Global SME Finance Forum—a new knowledge-sharing initiative to strengthen SMEs' role in growth, employment, and poverty reduction.

**SEOUL, NOVEMBER 2010**  
U.S. President Barack Obama, South Korean President Lee Myung-bak, and Canadian Prime Minister Stephen Harper congratulate winners of the SME Finance Challenge, including Sylvia Wisniwski of the European Fund for Southeast Europe.

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## INTRODUCTION

# SMEs AND JOB CREATION

## *The Bigger Picture*

Smaller businesses are one of the developing world's most powerful economic forces, comprising the lion's share of employment and GDP. But they should not be seen in isolation.

Under the right conditions, they can be key parts of thriving, globally competitive industries, creating the large numbers of jobs needed to reduce poverty.

In the right business environment, SMEs can grow into large firms, changing the game locally, carving their niche globally. But even if remaining small or mid-size, they can create significant income opportunities for their workers and generate new tax revenues for government services. They do so by boosting their productivity and sales and supplying increasingly valuable goods and services. The best ones cannot stay competitive if they stand alone. They are part of dynamic and growing value chains whose job opportunities raise incomes, increase living standards, and improve lives.

The process starts with supportive governments that create the right policy environment, and then grows from there.

In India, Andhra Pradesh state authorities first began providing the IT sector with incentives in 1998. Employment in the industry has since grown 20-fold, rising from 12,000

to 240,000. The city of Hyderabad (now often called "Cyberabad") anchors a booming high-tech industry whose many SMEs and other players have changed the face of India's fifth-largest state, benefiting from business-friendly policies and improved schools, financing, infrastructure, and links with larger firms.

In 2001 Ethiopia began supporting a nascent flower export industry with strong collaboration between market players. More than 25,000 permanent jobs emerged in the first six years, as roses and other cut flowers became one of the country's top foreign exchange earners. Morocco doubled its auto parts exports between 2001 and 2006, building a work force of 28,000 in firms benefiting from Special Economic Zones, free trade agreements, and other incentives.

IFC helps countries set the conditions SMEs need to become part of growing, competitive industries like these. Our advisory services help governments make the right reforms, and can be accompanied by World Bank lending to strengthen the foundations and build up intermediaries, plus IFC investments and advice for rising players.

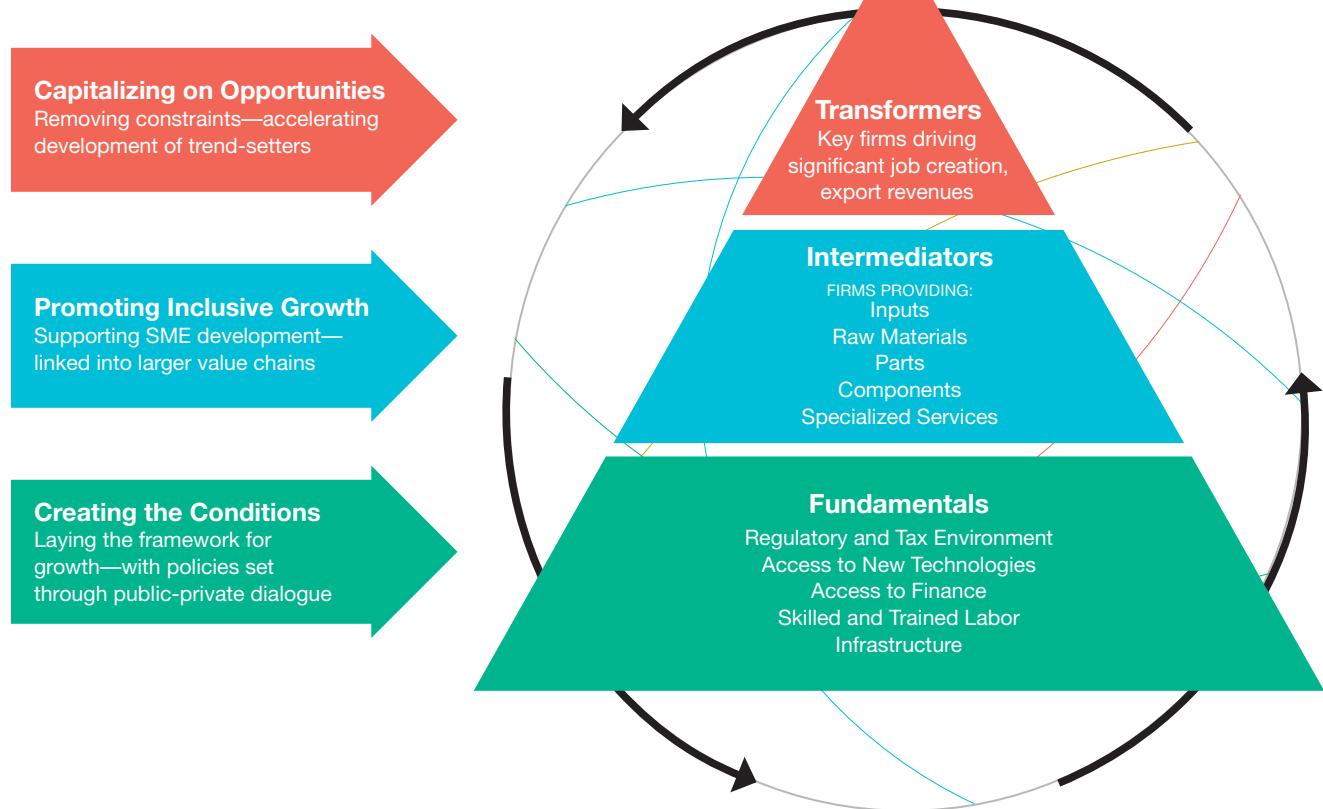
In Cambodia, IFC cosponsored the Government–Private Sector Forum, a

unique platform that enabled local firms to identify problems and propose solutions. It helped the garment sector become the country's top industry, increasing employment from 80,000 to 350,000 since 1998. In Kenya we are helping government and private sector leaders build industries like business process outsourcing, targeting job growth from 6,000 to 25,000 in the next four years.

This approach is part of the way IFC helps countries meet one of today's greatest needs: *inclusive growth and development*.

## **Developing Competitive Industries**

*In the Private Sector Ecosystem*



## INTRODUCTION

# IFC SUPPORT TO SMEs

*Creating Opportunity  
Where It's Needed Most*

Jobs with formal sector SMEs give workers a solid future, frequently coming with training, benefits, and opportunities for advancement. The collective impact on incomes is clear: higher income countries tend to have a greater share of formal sector SMEs in their economy (as opposed to informal sector microenterprises), World Bank research shows.

The hard-working entrepreneurs behind successful smaller companies anchor local economies. But too often they are trapped—held back by difficult conditions in the local investment climate. They can be too big for institutions targeting micro-enterprises, but too small for those focused on big business. Many fail in their first few years, just as they do in the developed world. Effective responses are needed, bringing considerable impact in local economies.

Providing both investment and advisory services and present in more than 80 countries, IFC is a global leader, offering responses in every phase of SME development. Our work focuses on:

- Improving the Investment Climate
- Building Management Skills
- Access to Finance
- Access to Markets

## IFC Investment and Advisory Services Working Together

**Connecting SMEs with new buyers and trading partners, financing their growth**

- CONNECTING SMEs WITH LARGER FIRMS (Access to market information and new technologies)
- RAISING QUALITY STANDARDS
- ADOPTING NEW SUSTAINABILITY STANDARDS

**ACCESS TO MARKETS**

**Helping smaller companies access capital to make investments and seize business opportunities, just like the big ones do**

- SHORT-TERM FINANCE (Working capital, trade finance)
- LONG-TERM FINANCE (Local currency loans from local banks, equity from investment funds)
- CAPACITY BUILDING FOR FINANCIAL INSTITUTIONS (Helping them target the SME market)
- STRENGTHENING FINANCIAL INFRASTRUCTURE (Credit bureaus, collateral registries, payments systems)

**ACCESS TO FINANCE**

## IMPROVING THE INVESTMENT CLIMATE

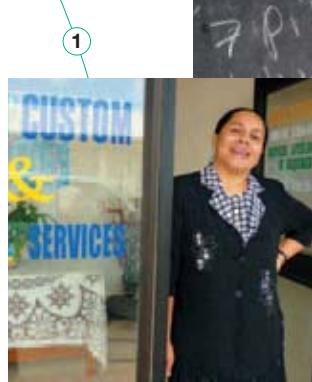
### Cutting the red tape that holds SMEs back

- **BUSINESS REGISTRATION**  
(Making it easier to join the formal sector)
- **TAX SIMPLIFICATION**  
(Easing the burden in calculating and paying taxes owed)
- **OTHER ISSUES**  
(Reducing costs, improving competitiveness)

## BUILDING MANAGEMENT SKILLS

### Sharing practical knowledge in running a business—building competitiveness, productivity, and market share

- **BUSINESS EDGE**  
(Management training)
- **THE SME TOOLKIT**  
(Free online solutions)
- **FARMER TRAINING**  
(Strengthening technical skills, building productivity)
- **BUILDING FINANCIAL LITERACY**



## 1 IMPROVING THE INVESTMENT CLIMATE

**TONGA** Women entrepreneurs are raising their voice in this small Pacific island country, where just 16 percent of the female population runs a registered business or works for pay today. With IFC and Australian support, they have begun addressing the regulatory challenges women face when doing business.

## 2 BUILDING MANAGEMENT SKILLS

**KENYA** Small private schools play a big role in African education, delivering good education at affordable rates. An IFC investment/advisory program helps leaders of these schools get the business advice and loans they need to grow—just like other SMEs. More than 75,000 students have benefited to date.

## 3 ACCESS TO FINANCE

**EGYPT** Helping banks better understand SME credit issues is one of the best ways to fill the financing gap. With IFC's input, Egypt opened North Africa's first private credit bureau in 2009—a key piece of financial infrastructure helping them make faster, more accurate loan decisions.

## 4 ACCESS TO MARKETS

**BANGLADESH** Growth in agriculture contributes more to poverty reduction than any other sector. Studies show Bangladesh's IFC-trained farmers now make far better use of seeds than their competitors—cutting fertilizer and pesticide costs. This helps them take a higher position on the value chain, raising profits and increasing their incomes.

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*Telling Our Story—SMEs | April 2011*

*See videos on many of these stories  
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## SOUTH SUDAN

# OPEN FOR BUSINESS

*A Nation Begins*

**Emerging from two decades of devastating war that claimed 2 million lives, South Sudan is beginning to bounce back.**

Headed for independence, South Sudan is setting the conditions for business growth—especially for the local SMEs that are so critical to creating jobs and increasing living standards.

The needs are immense: it is one of the world's poorest countries, with just 30 miles of paved roads and only 15 percent literacy. But a new legal framework for investors is now in place, backed up by state institutions that will help improve the conditions for investment. An IFC/World Bank team has helped the government reach this point, supporting it closely over the last three years in building a nascent private sector. Key results include:

- **Legal framework.** Six new laws have been enacted covering contracts, limited partnerships, and other critical issues.
- **Business entry.** The existing business registry has been strengthened, with its procedures simplified so that businesses can now incorporate within a day. Since 2006 more than 10,000 businesses—most of them domestic and small or medium in size—have been registered, joining the formal sector whose growth prospects are much greater than in the underground economy where they previously operated.

This includes seven commercial banks, including five microfinance institutions, serving more than 10,000 families.

- **Investment policy and promotion.**

The newly created South Sudan Investment Authority helps attract potential investors and offer them the clear, predictable rules they need to thrive.

Drawing on their experience in helping set the conditions for SME-friendly business growth in challenging frontier markets, IFC and World Bank colleagues have also helped the country create the South Sudan Business Forum, a new public/private dialogue giving local entrepreneurs a voice in policymaking.

“This process would not have been easy if we had not gotten this unlimited support from IFC,” says Minister for Legal and Constitutional Affairs John Luk Jok.

IFC’s advisory services were provided under a \$1.8 million partnership with Denmark, Ireland, Japan, the Netherlands, Norway, and the U.K.

Now the work is being intensified under a new \$9 million IFC-managed program focusing on additional investment climate reforms, SME training and capacity build-



ing, and access to finance. Announced at a February 2011 meeting between South Sudan President Salva Kiir Mayardit and IFC Vice President for Business Advisory Services Rachel Kyte, its primary funding comes from the governments of the Netherlands and South Sudan, with additional support from Denmark, Ireland, Norway and the U.S.

“Nations are built by the private sector,” South Sudan Vice President Riek Machar Teny said at the program launch.

***“THIS PROCESS WOULD NOT HAVE BEEN EASY IF WE HAD NOT GOTTEN THIS UNLIMITED SUPPORT FROM IFC.”***

**JON LUK JOK, MINISTER FOR LEGAL AND CONSTITUTIONAL AFFAIRS**

**ABOVE** South Sudan voted for independence in January 2011. IFC advisory services help improve its investment climate for SMEs.

# WOMEN ENTREPRENEURS

*Opening Access,  
Increasing Opportunity*

**Increasing women's earnings is a powerful catalyst of development.**

**It generates new capital that is often reinvested in the health, education, and well-being of families, building a future for the next generation.**

Gender barriers in the local investment climate often hinder women entrepreneurs from creating jobs. Compounded by other difficulties such as a lack of education and training opportunities and too little access to finance, they often lead to high levels of unemployment, under-employment, and poverty among women.

Overcoming some of these obstacles in ways that establish women's full participation across all sectors of economic life is fundamental to development, improving the lives of individuals as well as communities.

In Pakistan, courts can take a long time to resolve business conflicts—typically 976 days, tying up considerable capital in the process. By helping introduce mediation onto the scene as a practical alternative, IFC helps women-owned SMEs break the logjam.

Sponsored by IFC with support from the U.K., the Netherlands, and local partners, the Karachi Center for Dispute Resolution (KCDR) helps resolve commercial disputes quickly and cost-effectively.

“Mediation saved my day,” says Rubina Rehman, owner of Karachi’s Lifestyle Gym. “I feel lucky to have come across KCDR. My case had been pending in

court for a long time, involving many frustrating moments, and now it gives me great pleasure to recommend KCDR’s mediation services to other professional women who are going through the same ordeal.”

To date, KCDR mediators have successfully resolved more than 1,000 cases, releasing more than \$21 million of assets that would have otherwise remained frozen in litigation.

Started as an investment climate initiative in Karachi in 2006, it is now expanding into Lahore, Peshawar, and Quetta as well.

Roughly a quarter of the center’s mediators are women, and more than 260 cases involving women-owned businesses’ disputes have been resolved to date. In 2009 the center undertook a special initiative to build the confidence of women, their lawyers, and the judiciary in mediation. As a result, \$1.7 million tied up in family business disputes involving women litigants was released in three days on average, rather than the years of litigation that otherwise would have been the case.

As part of our broader effort to build inclusiveness, IFC mainstreams gender opportunities into all its investment



climate reform efforts. Our experience also demonstrates that financing women entrepreneurs is profitable. This has led to gender being integrated into IFC's flagship SME Banking advisory product and a commitment that 25 percent of our financial markets investments for SME lending will be targeted to women-owned businesses.

**PHOTOS** Helping women entrepreneurs helps development. In Pakistan (*left*) mediation is an effective alternative to litigation in resolving the business disputes of women-owned SMEs, freeing up blocked assets for essential business needs.

# TAX SIMPLIFICATION

## *The Impact on SMEs*

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**Unleashing the power of entrepreneurs is one of the best ways to build local economies. Reducing their cost of doing business helps them do so.**

Given the right support, small business owners in emerging markets can succeed—overcoming the obstacles, creating jobs, and changing lives. But their time is money. They lack bigger firms' resources to cut the bureaucratic red tape that diverts them from running their businesses, adding costs that block productivity.

In 2001 Nodar Chinchaladze started a furniture materials importing company in Georgia with just five workers. Called Imeri 7, it now employs more than 80 people. With financing from Bank of Georgia, a local standout that IFC helped focus on the SME market, it has successfully expanded into production and sells thousands of different products—furniture, flooring, ceramic tiles, and more.

The IFC–World Bank *Doing Business* report ranks Georgia as a world leader in pro-business reforms. But still more must be done to improve the overall conditions for growth companies like Imeri 7.

In recent years, local SMEs have called the business tax regime especially burdensome. Determining how to comply with its many complex terms was costly, they have said, with the appeals process time-consuming and biased in favor of the authorities.

In response, an IFC/World Bank team advised the government on a new tax code that was adopted in September 2010, then brought business leaders together with top Finance Ministry officials to discuss it at a two-day roundtable.

Before, SMEs had to guess their potential tax liabilities when considering a new capital investment, then pay considerable fines if inaccurate, having little way to appeal. But now they can get firm estimates in advance, reducing the uncertainty. An independent tax ombudsman's office has also been created to settle disputes, focusing especially on SMEs.

Supported by the Netherlands, Luxembourg, and Austria, new IFC Advisory services will help the government implement these important new terms—improving the investment climate for the SMEs that form the backbone of the Georgian economy.



*2001—5 WORKERS  
2011—80 WORKERS*

**ABOVE** Imeri 7, like other Georgian SMEs, stands to benefit from a simplified tax regime.

## HAITI

# BUSINESS EDGE

*Classroom-Based  
SME Management  
Solutions*

An earthquake devastated Haiti. An entrepreneur is helping it rebuild.

Her name is  
Sharlene DuBuisson.

Sharlene owns a small shop in Port-au-Prince. Spared in the January 2010 catastrophe that claimed 230,000 lives and left another 2 million homeless, it arranges wire transfers that are a lifeline for many. Helping local people access funds sent back by overseas relatives, its low-cost service plays a vital role in the Western Hemisphere's poorest country.

Successful at a small scale, Sharlene always wanted to grow. But she didn't know how. Like so many developing country entrepreneurs, her lack of business training held her back.

Then she heard about Business Edge, part of IFC's suite of farmer and SME training products. Taught for a fair fee by local training companies, its courses build skills in finance, management, strategic planning, and other essential areas. IFC develops and translates the content, then uses rigorous quality standards to find local partners to deliver it commercially. First developed in Vietnam nine years ago, it now reaches more than 135,000 SMEs in the world's poorest countries. The Haitian program was developed with Dutch and Caribbean Development Bank support.

Sharlene paid \$100 each for several training workshops in human resource

**RIGHT** Haiti's Sharlene DuBuisson always had the vision. Now she has stronger management skills as well, and is turning her Western Union money transfer office into something more.



management and soon saw the investment pay off. Her staff now offers stronger customer service, and her shop has begun selling complementary products like computers and cell phones. In the six months since taking the class, her revenues have increased by 25 percent, allowing her to hire six additional workers and start thinking of ways to expand further.



She is one of the more than 800 local users of Business Edge—just one part of IFC's contribution to helping the private sector create 5,000 jobs and safeguard 5,000 others as part of the World Bank Group's \$479 million support package in response to the earthquake.

## ***TRAINING TO BUILD YOUR BUSINESS***

## RWANDA

# RWANDA'S REBOUND

*Opening Doors for Entrepreneurs*

**Training alone is not always enough. Ongoing support and management tools can also play a big role.**

Building a successful small business requires steady access to finance, product and market information, and tips from peers who've been there before and know how tough it is. Entering this knowledge loop is critical—but hard for SME owners in the poorest countries.

This is why IFC's farmer and SME training products also include a free online component, the SME Toolkit.

Developed with IBM and local partners hosting portals in 35 countries—big ones like Brazil and India, smaller ones like Madagascar, and many others—its downloadable products and networking tools can connect entrepreneurs with opportunities for continuous improvement and competitiveness-building long after their Business Edge classes are done.

It is an especially important part of IFC's presence in Rwanda, where a new generation of young entrepreneurs is building a dynamic growth economy to replace the old one destroyed in the 1994 genocide. One of them is Annette Karenzi, owner of the Elegencya, a small hotel in capital city Kigali.

"When I was growing up, business was basically for people who were not fortunate enough to finish school or

get government jobs," she says. "But gone are those days. Today we are in times of business."

She credits her Business Edge Introduction and six-day, \$200 SME Toolkit classroom experience with showing her how to use a business plan to chart the future, backed by additional free Web-based learning from the Toolkit. She is one of nearly 1,000 SMEs to use the products since their Rwandan launch in 2009 in partnership with the local subsidiary of Kenyan Commercial Bank, which has identified \$3.6 million in potential new business with tourism sector SMEs as a result. This portfolio was linked to a new IFC local currency facility with the Central Bank designed to provide Rwanda's economy with new long-term funding. IFC investment teams are currently reviewing requests for up to \$5 million to be drawn on this facility.

Globally, the various SME Toolkit Web sites have more than 4.5 million unique visitors each year. Additional support in Rwanda has come from the EU, the Netherlands, and Japan. While still early days, 150 Rwandan jobs have already been created through the program. And there's more to come.



*“TODAY WE ARE  
IN TIMES OF  
BUSINESS.”*

ANNETTE KARENZI, HOTEL OWNER, KIGALI



LEFT Access to the SME Toolkit provides Rwandan entrepreneurs with constant support once they have completed their Business Edge training.

## WEST BANK AND GAZA

# TRADE FINANCE

*Helping Importers Save Lives*

Bashar Al Barghouthi is in the business of helping save lives in the West Bank and Gaza, and IFC is in the business of helping firms like Intermed Palestine, where Barghouthi is general manager, grow stronger through its Global Trade Finance Program (GTFP).

Intermed, founded in 1984, imports, installs, and maintains high-tech medical equipment from the U.S., Japan, and Europe for hospitals, clinics, and other health centers in the West Bank and Gaza. To import these critical devices, Intermed arranges letters of credit through Bank of Palestine. These are guaranteed by IFC under its GTFP, helping big global banks take on Bank of Palestine exposure and allowing foreign suppliers to ship goods to Intermed promptly.

“This kind of finance guarantee is very important to our business,” says Barghouthi. “Bringing equipment into Gaza, for example, can sometimes be delayed for six months, so it is important that we have Bank of Palestine and IFC supporting us.”

“Our partnership in IFC’s Global Trade Finance Program is supporting us to meet the needs of our clients and help them increase their business in new markets around the globe as our relationship with Intermed shows,” says Tarek J. Gharbia,

head of the International Trade and Settlements Division at Bank of Palestine.

In addition to Bank of Palestine, IFC provides trade finance support to Al Rafah Microfinance Bank to further stimulate private sector growth in West Bank and Gaza. Since its inception in 2005, IFC’s trade finance program has issued 146 guarantees worth \$16 million to Bank of Palestine and Al Rafah.

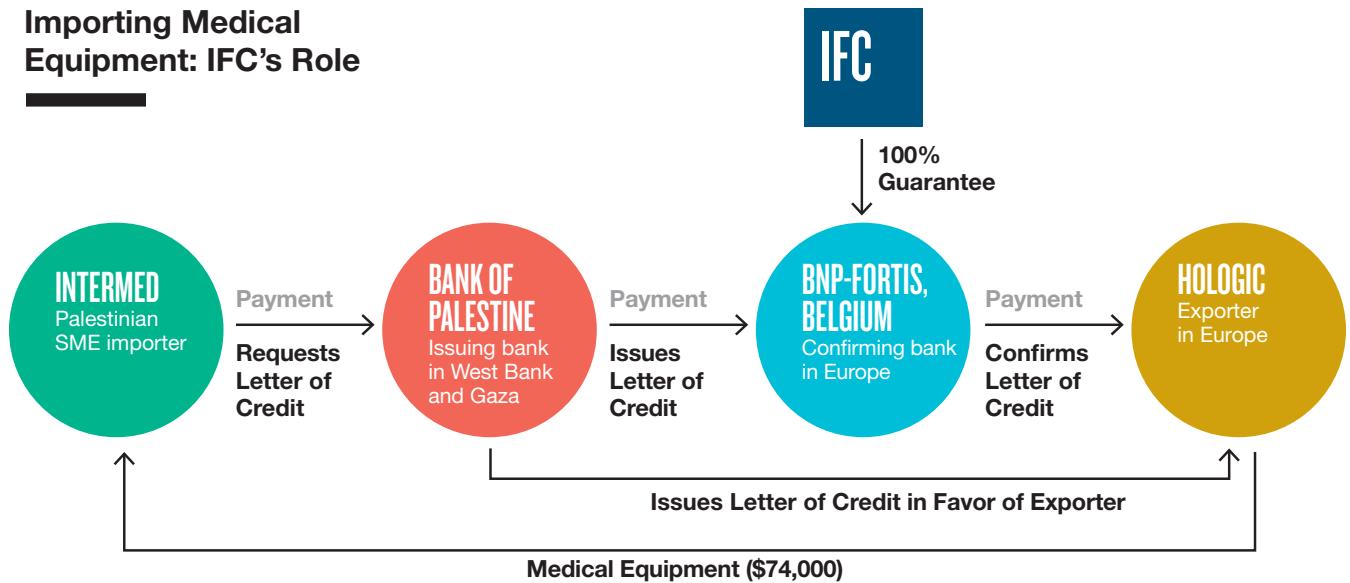
IFC’s guarantees support the import of machinery, agricultural goods, iron and steel, and medical equipment to the West Bank and Gaza, where the shifting security situation often makes foreign firms hesitant to enter into large trade deals with businesses based in the territories.

IFC’s backing extends and complements banks’ capacities to deliver trade finance, providing risk mitigation on a per-transaction basis in challenging markets where trade lines may be limited. The program gives priority support to trade flows that promote critical sectors such as health care, agriculture, and energy efficiency, targets SME importers and exporters, and drives trade between emerging markets—particularly trade with IDA countries (the poorest developing markets as classified by the World Bank).



LEFT IFC's trade facilitation helped a Palestinian importer obtain breast cancer screening equipment for Hebron Hospital, saving women's lives in the West Bank and Gaza.

## Importing Medical Equipment: IFC's Role



## CAMEROON

**RIGHT** Jules Manja,  
electrical entrepreneur—  
breaking through with  
local loans.

# LOANS FROM LOCAL BANKS

*Good for Both Sides*

Jules Manja lost his job at a lighting products supplier in 2000, joining the ranks of Cameroon's unemployed.

Today, bolstered by local financing from IFC partner Ecobank, he runs his own successful electrical goods importing company employing 30 people. His future looks bright.

This is the goal of IFC's Africa Micro, Small, and Medium Enterprise Program. It helps local banks tailor products and expand their lending to rising clients like Jules, who need specialized financial backing to break through—but often lack access to the banking world.

Receiving more than \$1 million in Ecobank financing since 2008, Jules' once-small company Noticam is now a major player on the local scene, supplying South African telecom giant MTN and other large firms with electrical products and technical solutions.

"You can work hard, but that's not enough," Jules says. "I know a lot of people who worked hard but have failed businesses. Partners are as important as hard work. I have some good partners, including Ecobank, who have helped me win big contracts."

IFC's program finances and advises banks in 15 African countries. It typically

helps them increase their SME loan portfolios by at least 30 percent over three years, then continue to grow profitably once our support phases out. The results are good for business and development: as of June 2010, partner banks held more than \$1 billion in outstanding loans to smaller businesses, supporting the rising tide of job-creating entrepreneurs who are remaking Africa. The program also often comes with access to Business Edge and other forms of management training.

With IFC's support, Ecobank Cameroon increased its lending to SMEs from about \$9 million in 2009 to \$15 million in 2010. The bank aims to have an SME business unit in all its 22 branches in Cameroon by the end of 2011 and to reach smaller businesses across the country.

"Only about 4 percent of people in Cameroon have a bank account, so the challenge with working with small business owners is immense," says Marie-Andree Bembong, head of Ecobank Cameroon's SME Department. "IFC is helping change our culture and showing us that we can successfully reach out to those in what was once perceived a risky and difficult market."



*ECOBANK AND  
IFC: FINANCING  
AFRICAN SMEs*

# SME EQUITY FUNDS

*A Force on the Frontier*

High-growth companies.  
High-risk countries.

It is not a match for conventional private equity funds. Opportunities exist, but mainstream investors go elsewhere, where deals are bigger, conditions safer, and upsides easier to reach.

Many high-potential frontier market SMEs need the risk capital and strategic advice that private equity provides. But private investors are unready to play this role in the poorest countries. So IFC steps in, working with world-class fund managers to fill the equity gap.

For small businesses—typically needing investments of up to \$500,000, plus business advice—we have a new family of funds, SME Ventures. The first to invest is the one for Bangladesh managed by SEAF, a U.S.-based emerging market SME specialist active in 22 countries.

The \$12 million SEAF Bangladesh Ventures fund has invested in local software developer Systems Solutions & Development Technologies Ltd. (SSD). It serves both financial institutions and firms, including all six mobile operators in Bangladesh and others in Malaysia, Bhutan, and Nepal.

For larger SMEs, which can need up to \$10 million, we back initiatives like Aureos Capital's Kula Fund, a \$16.9 million vehicle for the South Pacific. It played a vital role in



building Papua New Guinea's leading private helicopter company, Heli Niugini, investing \$1.8 million under challenging conditions in 2001.

With its oil, gas, and mining clients caught in a downturn at the time, Heli Niugini lost money until 2005. But Aureos' turnaround expertise proved critical. By 2009 Heli Niugini was stable and profitable with \$18 million in revenues, allowing the Kula Fund to sell its stake for more than three times what it paid.



Now a follow-on \$22 million Kula II Fund is in place, backing other rising SMEs in Papua New Guinea like KK Kingston, a 500-employee retailer/manufacturer that has grown to be one of the country's largest private businesses. IFC has invested \$4 million of its own to complement Kula II's stake in the firm, helping it expand operations and increase staff in response to growing demand.



**PHOTOS** Investing in pooled equity vehicles like Aureos Capital's Kula Funds, IFC helps build SMEs in Papua New Guinea like remote transport services company Heli Niugini and retailer/manufacturer KK Kingston.

# RAJASTHAN

*Entrepreneurs on the Edge of India*

**Focus on low-income states.**

For all its many gains, India still has more poor than any other country—with almost as many living in just its 14 low-income states, in fact, as in all of sub-Saharan Africa.

IFC focuses on these frontier areas otherwise largely left out of the emerging market investment boom, combining investment and advisory services to create jobs and reduce poverty. The targets include Rajasthan, a large desert state in western India with a population of 60 million and per capita income of just \$440, far below the national average.

Receiving relatively little foreign investment to date, Rajasthan now has a progressive state government receiving our support with investment climate reforms. As they take shape, it is critical to increase support for self-starters at the base of its pyramid, like Manohar Singh Rajawat.

Just four years ago Manohar struggled to earn a living as a laborer. Today he is a self-employed success. He is moving his business forward with five trucks bought with loans from Au Financiers, an innovative IFC client set to reach 180,000 other small borrowers over the next five years.

Named for gold's chemical symbol, Au Financiers is neither a bank nor a micro-finance institution. It is a specialized



finance company, customizing its products to the needs of small-scale entrepreneurs in remote areas untouched by banks. These include vehicle loans for cars, trucks, three-wheelers, and tractors; small business loans with maturities of up to five years; insurance; and others. Most of its borrowers are first-time buyers and small fleet operators in smaller cities and rural areas of Rajasthan as well as Maharashtra and Gujarat.

## *Au FINANCIERS: REACHING AREAS UNTOUCHED BY LOCAL BANKS*



The firm is taking its cutting-edge business model to the next level with new investment from IFC and a top Mumbai private equity house, Motilal Oswal. Its CEO, Vishal Tulsyan, says the combined 550 million rupee (\$12.2 million) 2010 transaction will help AU Financiers become “the most respected nonbanking finance company in India with a rural focus.”



**PHOTOS** Entrepreneurs hold the key to private sector development in Rajasthan, one of India's poorest states. Manohar Singh Rajawat built his small trucking company with vehicle financing from IFC client Au Financiers.

## PERU

# BIG PROJECTS, SMALL BUSINESSES

*Making the Missing Link*

**Large oil and gas projects, sponsored by foreign multinationals, selling into global markets—can they be good for the little guy in local economies?**

In Peru, the answer is clear. The \$3.8 billion Peru LNG project is Peru's largest-ever foreign direct investment. Sponsored by Hunt Oil Co. of the U.S. with partners from Spain, South Korea, and Japan, it opened in 2010 as Latin America's first liquefied natural gas project, shipping from a terminal 170 km south of Lima. Financed by IFC, it contributes heavily to national tax revenues. Yet its highly automated operations created only 200 permanent jobs, and its demand for locally sourced products is modest.

How else could this major wealth producer make a positive contribution to local communities?

This is a question Peru LNG's socially responsible sponsors brought to IFC in 2009.

The response: creation of ForPYME, a two-year, \$1.3 million program to increase business opportunities for SMEs (PYMEs in Spanish) in the nearby towns of Chincha and Cañete.

Heavily involved in this field for a decade, IFC had much global expertise to share, and a network of proven partners like training specialists Swisscontact and Recursos S.A.C., which diagnosed local SMEs' business needs and then offered

**RIGHT** Wood products company Industrias Rendas is growing stronger with new ties to the \$3.8 billion Peru LNG project.



affordable skill-building courses they never could have taken otherwise. A trade fair then connected participants with large corporations, generating \$2 million in new sales.

"ForPYME has helped change our business perspective," says Sergio Kamo of Chincha wood products company Industrias Rendas. "I've learned to delegate, something I was particularly reluctant to do before. This has given me more time for other things, and led to new business opportunities that in

*OPPORTUNITIES  
THAT “IN THE  
PAST WOULD  
HAVE BEEN  
IMPOSSIBLE”*



the past would have been impossible for me to find due to lack of time.”

Industrias Rendas is one of 49 local SMEs that have experienced at least 20 percent revenue growth under the program, one whose basic model IFC applies with many other oil, gas, and mining clients around the world.

## ETHIOPIA

# GROWERS GO GLOBAL

*The Coffee Connection*

**It's a long way from Alaga Sekala to major coffee retailers in the U.S. and Europe.**

**Making the connection gives Ethiopian coffee farmers better lives.**

Ethiopia is Africa's largest coffee producer. But its industry operates far below potential. Only 20 percent of its crop is export quality, leaving most farmers earning little.

In response, IFC is teaming with a leading local bank and a Bill & Melinda Gates Foundation–funded NGO, pioneering an innovative solution to Ethiopian growers' three key problems: lack of access to finance, knowledge, and markets. The initiative increased thousands of small-scale farmers' incomes in its first year, improving their coffee's quality while reducing its environmental impact.

Mohammed Abajeeru, 49, belongs to the Alaga Sekala Coffee Co-op in southwestern Ethiopia. He never attended school, and only began coffee farming six years ago, with no formal training or links to the big banks in distant Addis Ababa. But through support from Technoserve, a U.S. NGO bringing business solutions to rural poverty, he has increased his quality and now commands much higher prices. He has plans for the extra income.

"I will expand my farm and over time send my children to improved schools so they may have a better life than me," Mohammed says.



Using \$2 million a year in Gates funding, Technoserve trains selected coffee co-ops, raising members' quality dramatically. It then partners with IFC in a \$10 million risk-sharing facility that has encouraged Nib International Bank to begin lending to these co-ops. Strengthened with the new financing, the co-ops can now sell the higher-grade coffee to demanding international buyers, passing the profits on to members like the Abajeerus.



According to Technoserve, 45,000 participating producers saw their per-bag prices rise by 48 percent in the first year of operations. Additional IFC support will take Nib Bank deeper into the sector in the coming year, bringing the benefits of this new model to many more local farmers.

**ABOVE** In Ethiopia, better coffee means better lives for Mohammed Abajeeru and his family.

## GHANA

# MOBILE SOLUTIONS

*for Small-Scale  
Farmers*

Knowledge  
is power.

In rural Africa, better knowledge means higher incomes for small-scale farmers—especially when it is knowledge of the latest market prices, delivered to remote villages by mobile phone.

Suddenly power goes to the producer, not just the consumer.

This is part of the value propositions of Ghana-based IT company Esoko Networks. It sells market price information to local agricultural co-ops, whose members then receive them via text messages.

Not knowing the prices being paid in other parts of Ghana, Ama Prosper used to sell her peanuts at home—in small quantities, at low prices, with no room to negotiate. For years, she went to the local market once a week to sell a 5-kilo bowl, her future limited by her lack of options.

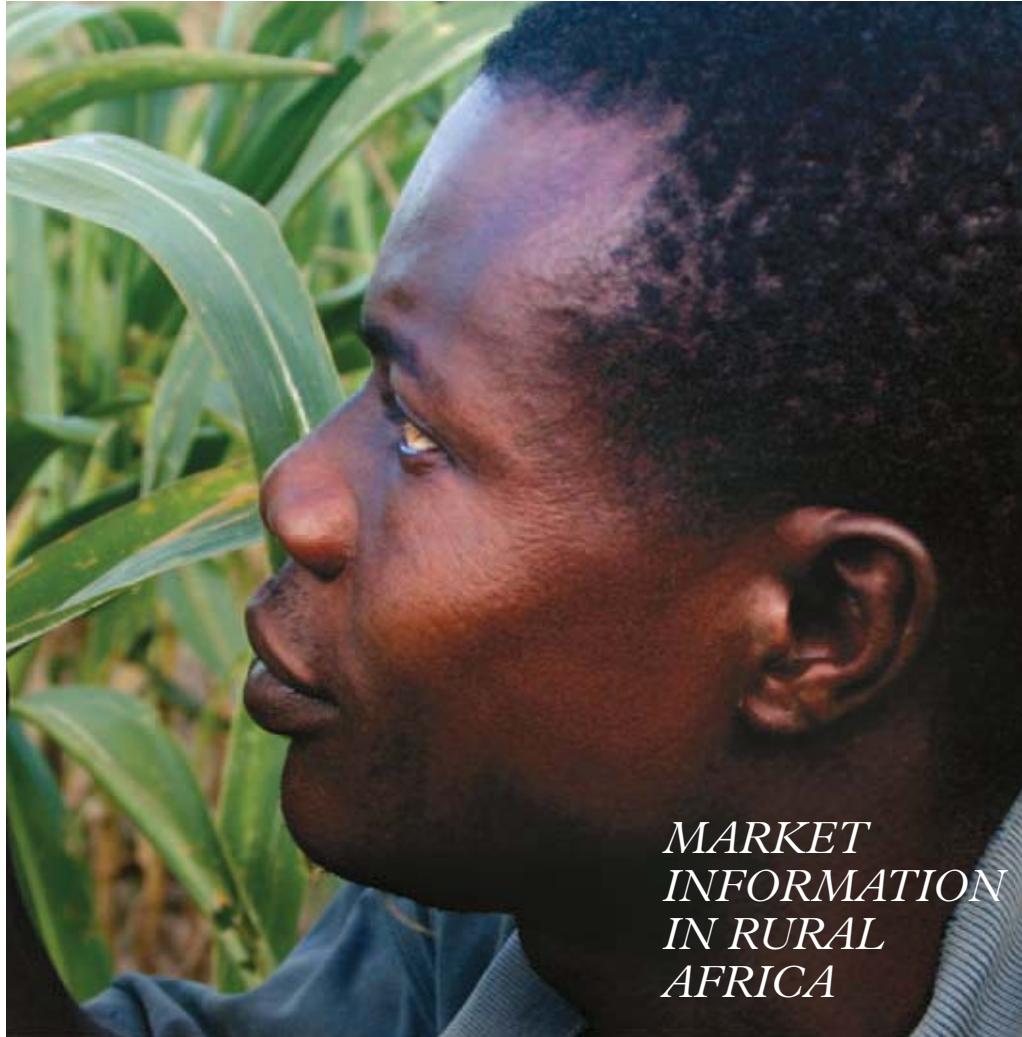
"People always cheat you," she says.

No more. Now she gets Esoko price alerts stating better prices paid for peanuts in Accra and regularly gives friends going there a 100 kg bag to sell, generating higher profits.

Once Esoko informed Chief Saaka Mahama of prices available elsewhere, he turned away a trader who came to buy his cashews. A week later the same buyer returned and paid the higher price—giving the Chief 700 cedis (\$70) more.



Similar mobile services have long been offered noncommercially in Africa, working for a while, then leaving farmers disappointed when they disappear as donor funding runs out. Esoko is the first private business to tap this large base-of-the-pyramid market. An SME itself, it sells subscription services to co-ops and other associations as well as businesses and individuals, while also offering technology



## *MARKET INFORMATION IN RURAL AFRICA*

solutions to large projects, and is looking to expand across Africa via franchising.

In the market for just a year and not yet profitable, Esoko is a high-risk investment for IFC, but one with great potential.

With no local venture capital funding available, our \$1.25 million equity stake fills a big gap in this African high-tech start-up. We believe in it.



**ABOVE** Like other small-scale farmers in Ghana, Chief Saaka Mahama now uses Esoko to get much better prices for his crops.

**UNDER CONSTRUCTION**

Small-scale hydropower  
in Armenia.





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ANNEX

# GROWTH AND INCLUSION

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## INFRASTRUCTURE

*The Role of SMEs*

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## THE SME FINANCE CHALLENGE

*A Source of Good Ideas*

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**PART I**

# INFRASTRUCTURE

## *The Role of SMEs*

**ARMENIA**

### Hydropower

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#### *Small-Scale, Big Impact*

Gagik Ghazaryan is a clean energy entrepreneur. He scouts out profitable projects to help Armenia's fight against climate change.

For years he had in mind a small-scale hydroelectric project in the southern city of Jermuk, but couldn't get the necessary financing.

Then local financial institution Ameriabank provided a \$2 million loan, made possible by IFC financing, completing the project's financing needs. Applied with IFC's strict environmental and social standards, it enabled Ghazaryan to seize the local market's attractive terms for renewables projects, including 15-year power purchase agreements and preferential tariffs. The loan was all he needed.

"The loan conditions were affordable, and had long-enough maturity and very competitive interest rates," said Ghazaryan. "Ameriabank's credit officers were also quite proficient in the technicalities of renewable energy projects."



The \$3.2 million "small hydro" independent power project, Jermuk-2, carries an installed capacity of 2.3 megawatts.

Knowing Ameriabank was one of Armenia's strongest, most innovative banks—and seeking to pioneer local renewable energy financing—IFC lent it \$15 million in December 2009 for a series of smaller green sub-loans. Related advisory services from the Armenia Sustainable Energy Finance Project helped staff learn to develop sound sustainable energy finance products.

The project is part of an Austrian-supported program intended to help local banks provide at least \$35 million

of energy efficiency and renewable energy financing by 2015. IFC's sustainable energy work in Armenia builds on similar IFC experience in Russia that has helped 11 domestic banks lend nearly \$175 million for clean energy projects.

Ameriabank's focus on the growing renewable energy and SME markets has now made Ghazaryan's vision a reality: Jermuk-2 is generating safe, renewable energy that reduces his country's reliance on foreign energy resources, and the resulting greenhouse gas emissions.

**ABOVE** A \$2 million IFC-supported loan from a local bank helped put a new small hydro plant under construction.



**ABOVE** A rural Ugandan village is increasing its clean water connections with new financing from an IFC partner bank.

## UGANDA Rural Water Supply

### *A Business Solution*

Nationwide, some 40 percent of Uganda's people lack access to clean drinking water, living at risk of contracting deadly water-borne diseases.

But the situation is even worse in Busembatia, a town of 15,000 about 150 kilometers east of Kampala. There most people have no running water. They must walk daily to the nearest river or boreholes, even when the water is unsafe for household use.

Only about 2,400 people in Busembatia have easy access to tap water today. But soon that number will rise to 5,400, thanks to an IFC-supported system expansion that a local SME is financing with loans from a leading Kampala bank.

Trandint Ltd is a small, private Ugandan water company. The manager of a dozen other small water systems across the country, it had never before received commercial financing. But now it has a \$100,000 loan from a long-time IFC partner, DFCU Bank, and is expanding coverage in Busembatia under a five-

year management contract that will keep prices at their current affordable levels.

Ugandan authorities began the process by retaining IFC to structure an innovative public-private partnership to increase coverage in Busembatia at the lowest possible cost. With Austrian support, IFC then set up a competitive bidding, challenging private operators to expand the system for a reimbursable capital expenditure of no more than \$300,000, then operate it commercially thereafter. Funding for the reimbursement was promised from the Global Partnership on Output-Based Aid, a multidonor program housed at the World Bank that pays contractors only after they have actually increased poor communities' access to basic services.

Trandint won the bid, agreeing to do the project for just \$270,000. With IFC's help, it then received the DFCU loan to cover some of its initial costs in building out the system to the levels needed to trigger the reimbursement grant. Construction will be complete in the next few months, creating an effective new model for others to follow in overcoming SME infrastructure providers' biggest obstacle—access to finance.

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## PART II

# THE SME FINANCE CHALLENGE

*A Source of Good Ideas*



"We have entered a new era," says Magda Jordanov, who runs food producer KIM in FYR Macedonia with her daughter Marija and her husband Slavko.

Their firm took off with local financial backing arranged by the European Fund for Southeast Europe (EFSE), an IFC client targeted for expansion under the SME Finance Challenge.

## GLOBAL Innovation in Action

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### *Results for SMEs*

KIM is one of FYR Macedonia's leading consumer brands, selling ketchup and other food products in major supermarkets across the country. With 30 employees, it is a solid small business, growing fast and starting to enter the export market.

But just nine years ago, it was a micro-enterprise. Owner Slavko Jordanov was stuck in the smalltime, unable to find anyone to finance his expansion plans. Then he met EC Bank, which understood his vision and lent him €100,000 over time to improve his production, packaging, and marketing. It put him on a path to success.

"KIM's excellent repayment discipline is a reflection of their hard work and dedication to quality," says EC Bank Loan Officer Krste Angelokov. "We are convinced they have a promising future."

EC Bank is one of over 60 local financial institutions supported by the European Fund for Southeast Europe (EFSE), an innovative partnership that IFC helped to create in 2005 along with



## Investing with a purpose

Germany's KfW and others. EFSE channeled €957 million of funds largely sourced from private investors to local financial partners, securing and creating 265,000 jobs in the poorest parts of Europe since its inception in 2005.

Building on this success, EFSE is now considering extending and enhancing its product offering for SMEs. It was one of several IFC clients whose groundbreaking proposals were among the 14 winners of the SME Finance Challenge contest announced at the November 2010 G20 Summit.

EFSE realizes that many clients like KIM have outgrown microenterprise status, yet still face serious constraints. To fill the void and to protect SMEs against potential foreign currency risk, it is developing a €200 million, 14-country local currency SME finance window blending public and private funds. The vehicle would help local partners reach 10,000 SMEs over the next five years with loans above the threshold of €10,000 considered as micro loans.

This is just one of several SME Finance Challenge winners IFC is considering investing in, part of our commitment to helping the G20 meet its goal of increasing the world's stockpile of solutions in SME development.

Other winning proposals include:

- **Aavishkaar:** a Mumbai fund manager investing in Indian base-of-the pyramid social enterprises that now plans to invest \$1 billion over the next 10 years, reaching the poor in 600,000 villages with profitable new models of agriculture, education, energy, and healthcare.
- **Bank of the Philippine Islands:** a leading commercial bank in the Phillipines, it seeks to expand its IFC/ Global Environment Facility-supported Sustainable Energy Finance program that pioneered commercial bank lending for SME sustainable energy investments in its country in 2009.
- **Grassroots Business Fund:** a U.S.-based fund manager making high-impact base-of-the-pyramid investments that plans a \$10 million East African Rural Enterprise Facility, leveraging its relationships with a Kenyan agricultural asset financing institution and an East African farm equipment distributor.
- **Root Capital:** a U.S.-based nonprofit social investment fund that has lent \$256 million to small and growing businesses in Africa and Latin America since 1999 with a near-perfect repayment record while also providing financial education and training; having reached 450,000 farmers and artisans to date, it now seeks to expand even further.
- **Entrepreneurial Finance Lab:** developer of a low-cost, adaptable technology that accurately predicts credit risk and upside potential in the absence of credit history or collateral, something not available for most SMEs. It breaches the existing finance gap by vetting high-potential, growth-generating SMEs in Latin America and Africa, providing access to capital for the developing world's "missing middle."

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## **OUR VISION**

That people should have the opportunity to escape poverty and improve their lives.

## **OUR CORE CORPORATE VALUES**

- Excellence
- Commitment
- Integrity
- Teamwork

## **OUR PURPOSE**

To create opportunity for people to escape poverty and improve their lives by catalyzing the means for inclusive and sustainable growth, through:

- Mobilizing other sources of finance for private enterprise development
- Promoting open and competitive markets in developing countries
- Supporting companies and other private sector partners where there is a gap
- Helping generate productive jobs and deliver essential services to the poor and vulnerable

To achieve its purpose, IFC offers development-impact solutions through firm-level interventions (direct investments, Advisory Services, and the IFC Asset Management Company); promoting global collective action, strengthening governance and standard-setting; and business enabling environment work.

*Creating Opportunity Where It's Needed Most*



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