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World Bank Group

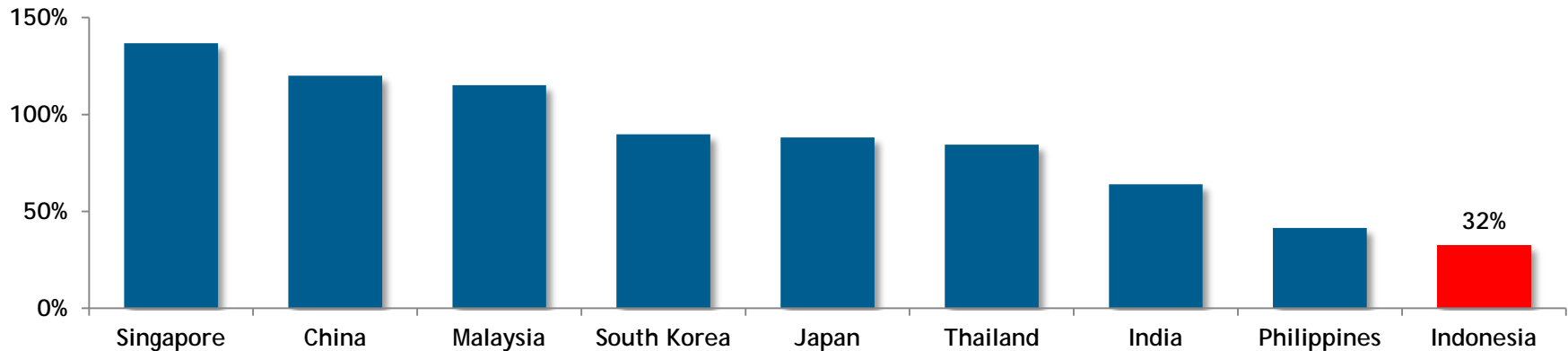
# *NEW OPPORTUNITIES FOR EMERGING MARKET BANKS*

*Serge Devieux, IFC*

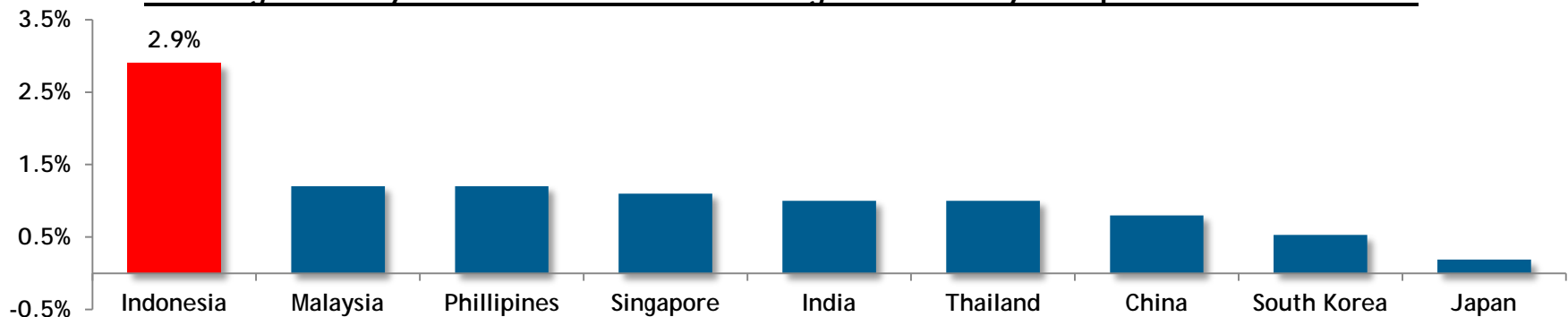
*Jakarta, February 16, 2012*

# INDONESIA BANKING PENETRATION IS STILL LOW BUT PROFITABLE

Loan to GDP Ratio: Indonesian Banking Penetration Compared to Asian Peers



Banking Industry's ROA: Indonesian Banking Profitability Compared to Asian Peers



Opportunities exist for banking sector expansion without creating bubbles, or irrational exuberance

Source: Bahana Securities, KFM, KFB. Data as of 2009 (Indonesia as of 2010)

# INDONESIA SME LANDSCAPE

## Large Underserved Customers, Reveals Sizeable Business Potential

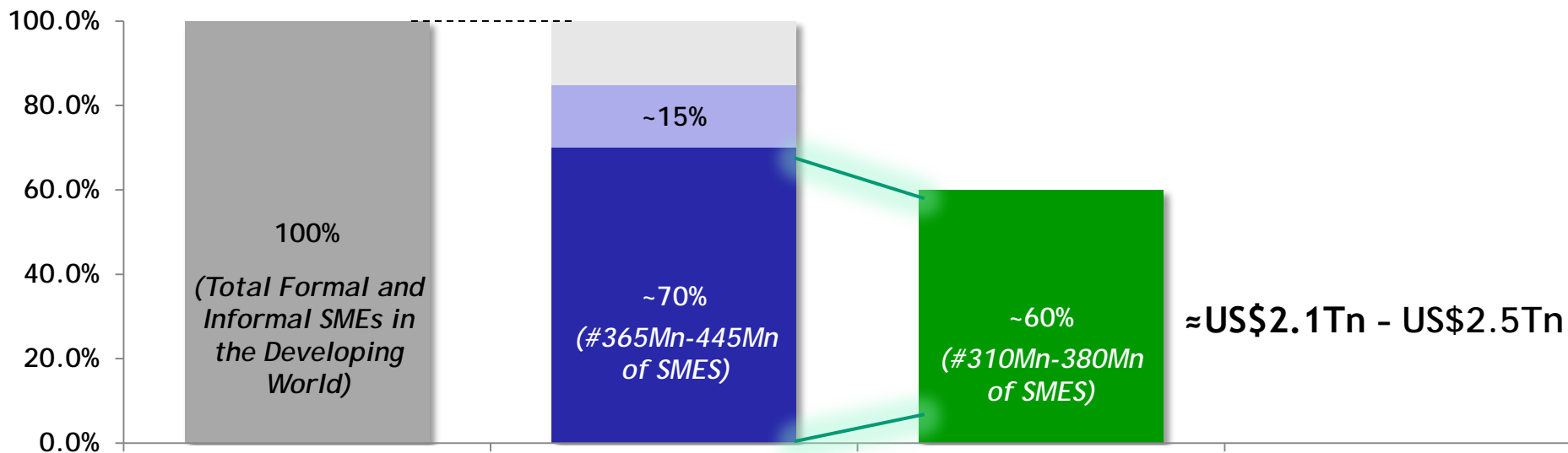
Customer Segmentation	Underserved Customers (#)	Avg. Loan/ Customer	Net Interest Margin (NIM)	
Large				<p><u>Potential Loan Volume from the Underserved SMEs:</u></p> <p><b>IDR 300 Tn = US\$33 Bn</b></p> <p><u>Potential NIM of SME Segment:</u></p> <p><b>IDR 24 Tn = US\$2.7 Bn</b></p>
Small (SME)	~300,000	IDR 1 billion = US\$ 110,000	~8%	
Micro	~8,300,000	IDR 25 million = US\$ 3,300	~20%	
Productive Poor	~28,300,000	IDR 1.5 million = US\$ 160	~39%	

Other segments could be pursued together with SME: micro and employed middle income people

Source: BPS, IFC Analysis. Data as of 2010

# IN EMERGING MARKETS, SMES REPRESENT THE MOST SIGNIFICANT UNDERSERVED SECTOR

## Provides Profitable Opportunities for Banks



- Approximately 70% of formal and informal MSMEs in the developing world do not use external financing from financial institutions, although they are in need of it
- Another 15% or so are underfinanced

- Approximately 60% of SMEs that do need credit requires an additional US\$2.1Tn-US\$2.5Tn to fully meet their financing needs

# WHY DO WE CARE ABOUT SMES?

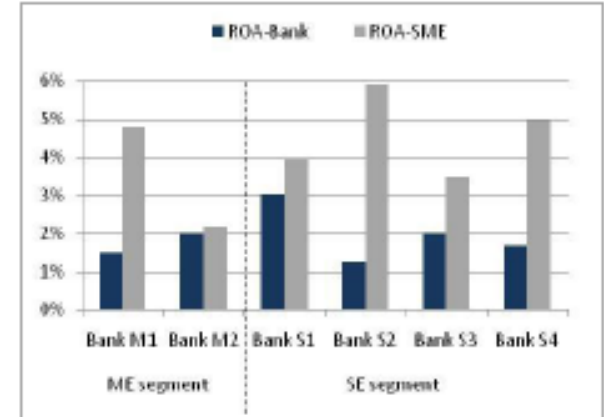
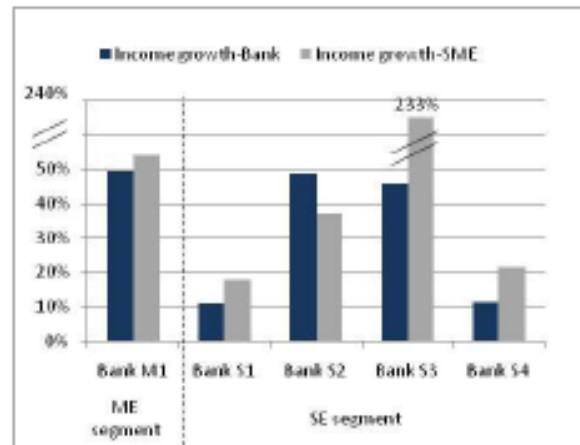
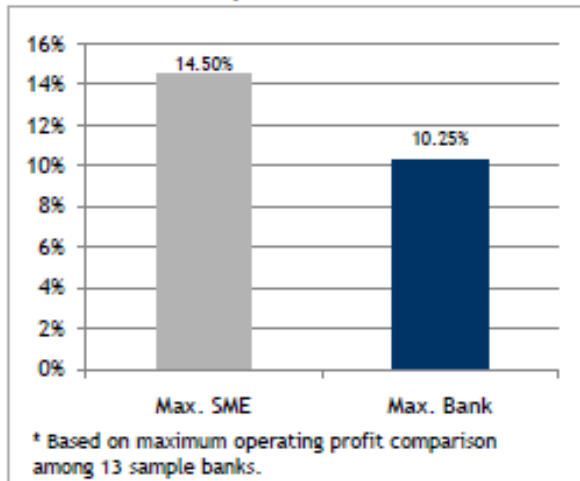
- Job creation through the private sector is a critical development challenge of our time
  - SMEs account for about 70% of net job creation in developed countries, creating opportunities especially for youth
  - SMEs account for 60% to 90% of employment in emerging economies
- SMEs are a critical part of the climate challenge
- SMEs have a significant contribution to GDP in emerging economies and by moving to greater formality SMEs can strengthen fiscal balances
- SMEs are a crucial part of the supply chain, providing materials, subassemblies, services and distributing goods of large enterprises
- SMEs tend to be local, client oriented, responsive to market needs, specialized and able to innovate and adapt
- Strong SME sectors also contribute to social stability, growth of the middle classes, fairer income distribution and economic diversification

# SME BANKING IS PROFITABLE

Maximum operating profit for SME operations is higher than the maximum profit for total bank operations\*

Banks generally report faster income growth in their SME operations ...

... and higher ROAs for SME portfolios than for total bank portfolios



Source: IFC (2007) Benchmarking SME Banking Practices in OECD and Emerging Markets

Source: IFC's SME Banking Survey worldwide (2008)

*"SMEs represent 10% of our portfolio in numbers, but generate 50% of our banking income"*

# FINANCIAL SERVICES NEEDED TO SUPPORT A STRONG SME SECTOR

## Financial Capacity

- Working Capital, Medium-Term Debt, Equity
- Leasing, Franchising, Insurance, Cash-Flow Management
- Domestic & Cross-Border Trade and supply-chain finance
- Institutional Capacity to deliver financial services

## Physical & Financial Infrastructure

- Physical Infrastructure: Water, Power, Telcom, Transport
- Credit Bureaus, Registries, Payments systems
- Capital Markets

## Supportive Enabling Environment

- Information, Advice and Incubation Services for SMEs
- Training & Capacity Building for SMEs
- Strong regulatory and policy environment

# IFC IS RECOGNIZED FOR LEADERSHIP IN SME FINANCE

- As of June 2010, IFC has a total committed portfolio of \$8.7 billion to SME finance globally, of which \$8.3 billion is through financial institutions
- IFC committed \$5.3 billion in SME finance in fiscal year 2010, of which \$2.3 billion were committed through GTFP
- SME outreach\*: IFC SME FI clients had 1.3 million loans outstanding to SMEs globally by the end of 2009, totaling \$97.1 billion.
- The overall DE rating for SME-flagged investments in IFC (in the 2001-2006 cohort) is 70%, rising to 75% when through FIs (against 71% for IFC as a whole)
- G-20 recognition of IFC's role to help shape and support the G20 global financial inclusion agenda
- Leadership of the IFI/DFI working group on SMEs
- Flagship publications on Gaps in SME Finance knowledge sharing

\*In addition, FC MFI clients had 6 million loans outstanding to micro-enterprises globally by end of 2009, totaling \$5.7 billion