

# FIG Talks: MSME Finance Gap – US\$5.2 Trillion Opportunity

## ***Audience Questions & Responses***

*MSME Finance Gap Report Working Group*

*Jan.31, 2018*

### **Question 1:**

At first look at the report, it shows both potential demand and the current funding gap for MSMEs, and the same for women-owned MSMEs. But for informal enterprises it only shows potential demand and not the gap. Is there any information on current financing & the financing gap for informal enterprises? Can the authors comment on this?

### **Question 2:**

Are there plans to dig further into the gap for informal enterprises? The report assumes that formal financing to informal firms is "close to zero". But there is significant formal financing to informal firms, it's just routed as a personal loan to the owner. So the formal gap (if you think of the gap as room to grow) is surely smaller than potential demand.

### **Response to Question 1 & 2:**

We are only showing potential demand for informal enterprises mainly because currently there are not enough data sources on the supply of financing to informal firms. Please, let the authors know if the readers possess reliable data on the current financing to informal businesses or developed an estimation methodology.

### **Question 3:**

Thanks a lot for the valuable study which provides an indication on the possible magnitude of the MSME Finance Gap. How I support the view of the need to differentiate the demand particularly for those businesses that are in circumstances that make them ineligible for the finance, such as the issues of financial feasibility, debt strain, etc.

### **Response to Question 3:**

In the benchmarking stage of the methodology, the authors picked countries based on multiple criteria, one of which was indicator "Getting Credit" (as measured by World Bank's Doing Business Report). Since the countries ranked higher on this list have been picked as benchmarks, the authors assumed that the mismatch between willingness and ability to borrow has been minimized, i.e. bankability factor has been accounted for indirectly. However, of course, more data about credit-worthiness of the enterprises in developing countries would have helped to directly account for bankability. Unfortunately the standardized data across developing countries is absent.

### **Question 4:**

Can you comment on plans to validate the data with country teams? We found a few interesting data points on some LAC countries which may have implications with clients.

**Response to Q4:**

The working group has reached out to the IFC regional teams for consultations about the results. During the upcoming update of the results, we will be reaching out to the regional teams again.

**Question 5:**

In Mexico the number of women owned SMEs reported seems very low in comparison to numbers reported by some of the major FIs. Has the data been shared key players on the market? I also wanted to ask if there are plans to cover countries not included in the 2017 analysis, for instance Haiti.

**Response to Question 5:**

For the Mexico data, we will follow up with IFC regional teams to find out which data source would be best to use.

Haiti does not have an Enterprise Survey yet.

**Question 6:**

For Ecuador: data of women owned SME reported seems pretty low, how to interpret this? A possible interpretation could be that there could be more women owned SMEs that are not bankable?

**Response to Question 6:**

The data source we used in this report was from an older Enterprise Survey, which lacked the newly rolled out checks and questions about women market. This could be the reason why the number of women-owned SME reported was low. A new version of Enterprise Survey in Ecuador has just been published after the MSME Finance Gap has been launched. We will include the new data in our next iteration of MSME Finance Gap update. If you may suggest alternative sources of data of gender-disaggregated data in Ecuador besides WB Enterprises Survey, please do so. However, this issue is not about a firm's "bankability", as the Enterprise Survey is assessing all firms, and we are looking at the share of firms that are women-owned – which is low.

**Question 7:**

One more question about Mexico: I can see the source used for the number of SMEs and their breakdown per size is the national INEGI survey however the definition of SMEs used by INEGI is different from that of IFC. So I was wondering if in some cases we use national definitions rather than IFC's. This would actually limit the ability to compare data across countries... thanks!

**Response to Question 7:**

We are aware that the definition for SME varies across countries. On a supply side, the SMEs definition can be either national definition or World Bank Group definition. On a demand side (World Bank Enterprise Survey), a standard definition based on the number of employees (10 - 250) has been used as a criteria. Currently we haven't found a perfect solution to address the disparity of SME definitions yet.

**Question 8:**

What is the source of the Peru data in Roland's presentation?

**Response to Question 8:**

From Roland:

The source is the Peruvian banking regulator (SBS) at [www.sbs.gob.pe](http://www.sbs.gob.pe).

Go to Statistics (ESTADÍSTICAS), financial system (Sistema Financiero) and there you can select different types of financial intermediaries, such Banks (Banca Múltiple), Financieras, Cajas Municipales or Rurales (Municipal or Rural Savings & Loans).

There you can select Structure of main accounts (Estructura de las Principales Cuentas), and if you select structure of credits by type and modality (Estructura de los Créditos Directos por Tipo y Modalidad) you get the breakdown by micro, small and medium sized enterprises (and other categories).

If you go to credit risk (Riesgo Crediticio), you can select NPLs (Morosidad por tipo de crédito y modalidad) – again broken down by borrower type.

There is much more information I didn't present, for example a breakdown by loan currency (Soles vs. \$) is also available.

**Question 9:**

Can the IFC assist with a methodology to possibly adapt for use in our respective countries to generate this data?

**Response to Question 9:**

Please, submit a formal request with explanation of what you would like to achieve, what kind of data you would like to structure and who would be the responsible authority.

If you have other questions or comments, please contact:

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