IFC Global SME Finance Initiative

Midterm Review

June 5, 2015

NOTE FROM THE EVALUATION TEAM

This document is a Final Report of the Midterm Review of the IFC's Global SME Finance Initiative. The IFC contracted Dalberg Global Development Advisors and the Beecher Analytics Group to evaluate the Initiative's impact vis-à-vis the Initiative's theory of change and expected results.

Our mandate was to:

(a) Design Evaluation Methods for the Midterm and End term Performance Reviews;
(b) Pilot Test Data Collection; and
(c) Implement the Midterm Performance Review.

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LIST OF ABBREVIATIONS

AS	IFC's advisory services
ASOP	The IFC's Advisory Services Operational Portal
BFC	Blended Finance Committee
CAGR	Compound annual growth rate
CB	Credit bureau
CR	Collateral Registry
CRM	Concept Review Meeting
Crore	10,000,000
DAC	Development Assistance Committee of the Organization for Economic Co-operation and Development
DFI	Development finance institution
DFID	The United Kingdom's Department for International Development
DOTS	The IFC's Development Outcomes Tracking System
E&S	Environmental and social
EIB	European Investment Bank
ES	World Bank's Enterprise Survey
FI	Financial institution
IEG	The World Bank's Independent Evaluation Group
IFC	International Finance Corporation
IFI	International finance institution
IO	IFC Investment Officer
IRM	Investment Review Meeting
IS	IFC's investment services
Lakh	100,000
LIS	Low income states
Logframe	Logical framework
M&E	Monitoring and evaluation
MFI	Microfinance Institution
NBFI	Non-banking financial institution

OFID	The OPIC fund for International Development
PFI	Partner financial institution
PL	IFC Project Leader
RSF	Risk sharing facility
SCTR	Secured transactions and collateral registry
SME	Small-and and medium-sized enterprises
ToC	Theory of change
VSE	Very small enterprise

CURRENCIES

All currency values in this document are in United States Dollars (USD) unless otherwise indicated.

EXECUTIVE SUMMARY

CONTEXT

The Global SME Finance Initiative at the International Finance Corporation (IFC) (the Initiative) was created in March 2012 with the objective of increasing access to finance for small and medium-sized enterprises (SMEs), and as a result creating new employment opportunities in some of the world's most challenging economies. The Initiative employs three instruments (1) advisory services to partner financial institutions (PFIs); (2) advisory services to strengthen financial infrastructure; and (3) blended finance investments, combining commercial investment capital with risk mitigation instruments that aim to unlock investment that would not otherwise occur. The Department of International Development of the Government of the United Kingdom (DFID) seeded the Initiative with $64 million in concessional investment capital which is being used reduce the rates on IFCs investment services (IS), $29.4 million in funding to support advisory services (AS) projects aimed at supporting PFIs, and $13.6 million in funding for developing financial infrastructure in DFID target countries.

The IFC contracted Dalberg Global Development Advisors and Beecher Analysis Group (the Evaluation Team) in June of 2014 to evaluate the Initiative's impact with respect to its theory of change and expected results. Our role as evaluators of the Initiative was threefold:

1) Design evaluation methods for the Midterm and Final Reviews
2) Pilot test data collection
3) Implement Midterm Review

The Midterm Review was commissioned more than two years before what will be the true mid-point of the initiative. As a result, this review relies heavily on leading indicators of impact and focuses as much on defining methodologies for assessment as it does on assessing the Initiative to date.

KEY FACTS AND FIGURES AS OF DECEMBER 2014

Number of Investment Services PFI projects mandated to date	**31**
Investment leveraged from IFC and other DFIs and IFIs[1]	**$1.467 billion**
Number of Advisory Services PFI projects supported to date	**26**
Number of Advisory Services financial infrastructure projects supported to date	**15**
Number of SMEs reached with loans[2]	**101,253**
Number of SMEs reached within loans in fragile and frontier markets[2,3]	**89,994**
Number of women-owned SMEs reached with loans[2]	**4,127[4]**
Value of SME loans disbursed to SME by PFIs[2]	**$6.4 billion**

Note: a full assessment the Initiative's performance against stated targets is available in Section 0 of this report

[1] Includes IFC portion of all mandated transactions as well as EIB and OFID commitments to the Initiative. Note that this is equivalent to GBP 920 million using an exchange rate of $1.625 = GBP 1.00.

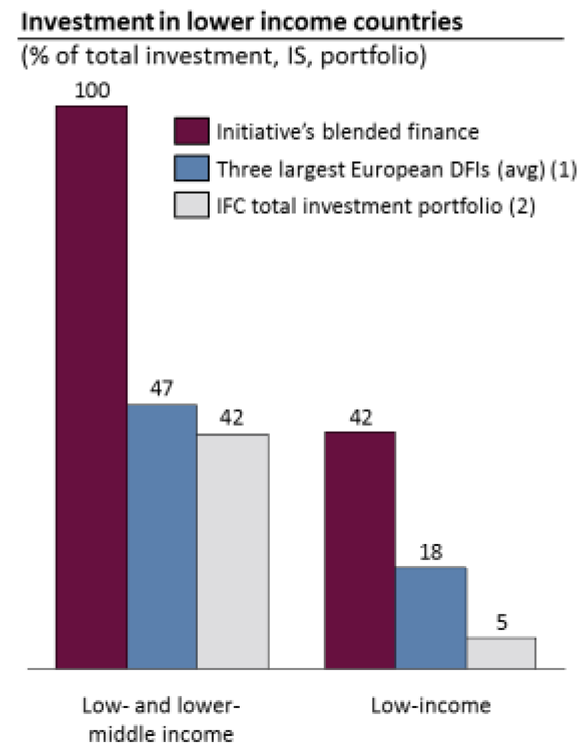
[2] Calculated based on loans disbursed

[3] Fragile/frontier as defined by DFID: Afghanistan, Bangladesh, DRC, Liberia, Malawi, Mozambique, Nepal, Nigeria, Pakistan,
Rwanda, Sierra Leone, and South Sudan

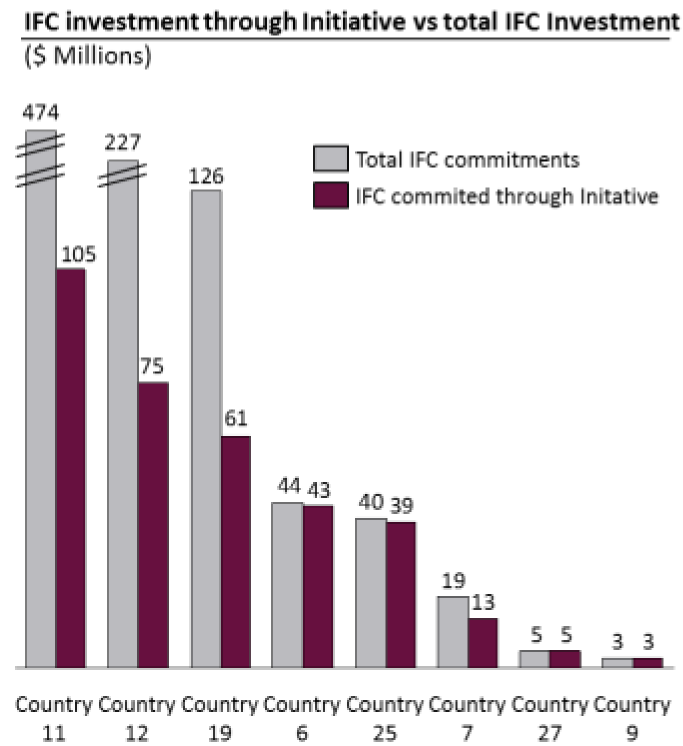
[4] The Evaluation team has reason to believe these numbers are understated, see 0 of this report

KEY FINDINGS

The Initiative has effectively deployed IFC IS and AS funds to countries with less developed financial markets at a rate that is higher than other comparable portfolios within IFC or other development finance institutions (DFIs). On a percentage basis, the funds deployed through the Initiative achieved a higher proportion of disbursements to low- and low-middle income countries than the IFC as a whole, or the three largest European DFIs. In fact, in many low-income countries, the IFC's activities under the Initiative comprise the majority of IFC's investment in financial institutions in these countries.



1) Includes FMO 2012 data for portfolio by country income level, CDC 2013 data for total investments by country, and DEG 2012 data for new commitments by country. (2) Includes IFC 2014 data on investment services in financial institutions that are targeted to SMEs. by country. Includes only signed transactions. The distribution of mandated and signed is similar.



Only IFC committed (signed) transactions are included in this analysis. IFC totals include IFC micro and IFC SME portfolios

The Initiative effectively contributed to increases in lending to SMEs by PFIs. All of the PFIs that have reported results as of December 2014 increased both the number and volume of SME loans outstanding. Further, the majority (73%) of these institutions reported higher growth in their SME portfolios than their lending portfolios overall. Interviews conducted with a sample of participating PFIs indicate that the IFC has made a significant contribution to these changes. PFIs have also reported that non-performing loan (NPL) rates have remained low despite increase in SME lending.

The Evaluation Team was unable to fully assess whether the Initiative is on track to meet targets of reaching firms owned by women because of measurement challenges, however some early success stories are emerging. One third of PFIs reported on their loans to women-owned SMEs and there is reason to believe that those who did are under-reporting. Among those PFIs that we did interview, some reported that the segment is not a priority, while others noted that there are real operational challenges to meeting aggressive growth targets. On an encouraging note, the three PFIs[1] that received targeted services to serve women-owned SMEs, "PFI in West Africa" and "PFI in South Asia", "PFI in South Asia" , and to a lesser extent "PFI in MENA" , experienced increases in their female SME portfolio. The up-scaling microfinance institutions (MFIs) in the portfolio were also effectively reaching women-owned SMEs, in some cases these clients made up the majority of their portfolios.

The financial infrastructure projects are poised to make significant contributions towards increasing access to finance and job creation; however, these effects will largely depend on the rate of adoption of the changes enabled by the reforms. 15 financial infrastructure projects – secured transactions reforms and collateral registries (STCRs) and credit bureaus (CB) – have been funded by the Initiative. These projects in countries as large as Nigeria, and financial markets as nascent as Malawi have the potential to make a big impact if implementation goes well. Leading indicators of impact suggest that the largest positive impact can be expected to come from the projects in "STCR in West Africa", "STCR in South Asia", "STCR in South Asia", and "STCR in East Africa" given (a) the large scope of change brought by the reform, (b) the large size of the SME sector in these countries, and (c) the high level of competition in the financial sector. These projects have significant potential to contribute to the Initiative's goal to increase finance for women-owned firms. In many countries, women are less likely to own immovable collateral to guarantee loans, or to have long credit histories. In countries (not funded by the Initiative) where such infrastructure has become active, the impact has varied dramatically depending on financial institutions' adoption of changes enabled by new credit bureaus or collateral registries. The most common barriers to adoption tend to be issues with the enforcement mechanisms, poor quality of the data reported in the registries and bureaus, and a lack of understanding and interest from the financial sector. Each of the 15 projects underway are actively working to promote adoption of the new infrastructure even before it becomes active.

A statistically significant positive correlation was found between access to finance and employment growth. This report draws on multiple data sources to establish a causal link between increasing SME access to finance and job creation. The Evaluation Team has employed quasi-experimental methods and used the World Bank's Enterprise Survey data from the countries reached by the Initiative to establish this link. The Evaluation Team found a statistically significant positive correlation between access to finance and employment growth, although results varied fairly significantly by country, business size, and sector.

The Evaluation Team has developed and tested a methodology to estimate the job effects of the Initiative. This methodology required some data that is not yet available given the relatively early stage of maturity of many of the IS and AS projects. As a result some assumptions, rather than actual data, was used to test the methodology. That said, the resulting extrapolations about the potential job effects of the Initiative are promising, and the IFC now has clear ideas of the types of data to gather that will allow them to refine the accuracy of these extrapolations.

On the basis of what has been learned through this Midterm Review, the Evaluation Team offers the following strategic recommendations for the Initiative:

1. **Include covenants in PFI agreements that provide access to data, and access to SME clients for interviews**

[1] While there are other gender focused projects in the portfolio, they were not yet reporting their portfolios by gender

– The vast majority of PFIs did not permit the Evaluation Team nor the IFC to conduct surveys of their SME clients, citing concerns about client confidentiality and sensitivity of data
– The IFC had little leverage to incentivize PFIs to cooperate because the loan approval documents did not include requirements for PFIs to share this kind of data; offers to utilize data to provide customized impact reports, client feedback analysis, strategic market research were not met with enthusiasm. In the majority of cases, PFIs were concerned about maintaining the confidentiality of their clients.
– Methodologies proposed for impact assessments during the Final Review depend on data from surveying SME clients.

2. **Prioritize deploying the remaining $11 million in IS and $9 million in AS funds to investments/projects that can reach specific excluded groups of beneficiaries such as SMEs in fragile/frontier markets or women-owned SMEs**
   – The Initiative's current resource allocation has been guided by a portfolio-based approach, balancing projects with potential for reaching high numbers of SMEs with those that may be smaller in scale but aimed at serving SMEs that can benefit excluded groups of people
   – The portfolio is on track to achieve targets for increasing the overall number of SME loans (overall jobs effects are promising as well)
   – While there is reason to believe that final targets for fragile/frontier markets will be achieved, and no reason to believe that targets for women-owned SMEs will not; these targets will not be exceeded at the same scale, and should be the focus for deploying remaining funds within the portfolio

   This should not preclude supporting PFIs where there is potential to unlock large-scale opportunities, however the bias should be shifted to more targeted projects.

3. **Revisit pricing models for AS projects when paired with IS projects**
   – Investment projects, particularly risk sharing facilities, have the potential for greater impact when paired with advisory support in reaching new markets
   – However, requiring PFIs to cover 50% of the cost of advisory projects has deterred clients from taking on these additional services, leading to some potential missed opportunities for realizing the full impact of the blended finance investments.

4. **Consider changing the disbursement approach and increase investment windows when developing future initiatives**
   – The Initiative had very specific requirements in terms of geography and the types of projects that could be funded
   – The number of deals and projects completed exceeds the original estimates for how many projects/investments would be required to effectively deploy the full funds
   – The rigid disbursement schedule from DFID to IFC also created pressure to "mandate" projects as soon as possible, meaning that donor money was with the IFC for longer before the project was committed and disbursed
   – The approaching end of the investment window created pressure for deals to get done, pressure that in future facilities could lead to a trade-off between selecting the most impactful projects and fully investing the Initiative's funding.

5. **Base interim milestone targets for future projects on expected performance growth paths**
   - Mid-point milestones were primarily set at 50% of the final target (e.g., 100,000 SMEs reached with loans by midterm), however aggregate impact in most cases will not increase linearly (e.g., number of SMEs reached with loans will increase exponentially as new PFIs are added each year)
   - The Initiatives' Logframe played a significant role in the management of the Initiative, helping to guide decision making on resource allocation; the introduction of midterm milestones that did not follow the likely growth trajectory of the Initiative's impact targets created the risk of tension between optimizing for final targets and seeking to perform as well as possible on midterm targets.

6. **Revise targets with respect to gender to allow for different approaches to be taken with different types of PFIs.**
   - PFIs range dramatically in their commitment and capacity to report on lending to women-owned SME portfolio
   - The current Logframe targets for lending to women-owned SMEs will require the IFC to secure 100% compliance across all PFIs in the portfolio to report on the total number of loans to women-owned SMEs; based on our assessment of PFIs in the portfolio, we would assert that IFC is unlikely to realize this compliance rate
   - The IFC is exploring new advisory projects that will increase the number PFIs reporting on women-owned SMEs, these efforts should be prioritized
   - Setting more flexible targets around a) the number of PFIs reporting by gender, and b) the percent of women-led SMEs in a PFIs portfolio (nuanced by region and type of PFI) will lead more accurate assessment of impact.

7. **Revise Logframe targets for non-performing loans so that the Initiative is not penalized for working with nascent PFIs**
   - The targets set with respect to NPLs in the Initiative's Logframe assume that all PFIs will have an existing SME portfolio with high NPL rates and that the Initiative is expected to contribute to lowering the NPL rates, however many are new to SME lending and have very low, or even 0, NPL rates at baseline
   - While targets with respect to NPLs were missed, there is little cause for concern because the majority of PFIs who did not decrease NPLs still have very low rates and the rise is more of an indication of a maturing portfolio than a growing concern
   - New targets such as "70% of PFIs report lower NPL rates from baseline or are reporting NPL rates below X% (a number to be agreed on by DFID and IFC)" would more accurately capture the effect of NPLs on the sustainability PFIs' SME lending growth.

8. **Exploit opportunities for peer to peer learning among the PFIs in the Initiative**
   - The Initiative, which has 49 financial institutions in the portfolio and is still growing, represents one of the largest global aggregation points for financial institutions focused on SME lending
   - The successes realized, and challenges faced by PFIs in the portfolio, from Myanmar to Mozambique, are very similar – lending to clients with unreliable financial statements, reaching historically un-bankable groups, refining credit scoring models for SME analysis
   - Financial infrastructure clients cite peer to peer learning opportunities as one of the most valuable aspects of the IFC's program

9. **Continue supporting the financial infrastructure projects underway; consider follow-on projects when required**
   - PFIs interviewed noted that lack of collateral was one of the key constraints to growing SME portfolios, particularly within the women-owned SME segment, reinforcing the importance of financial infrastructure
   - The Initiative has reached targets in supporting 15 financial infrastructure projects in large countries such as Nigeria, as well as in nascent economies such as Malawi – reaching scale targets for financial infrastructure
   - Project Leaders and Central Banks interviewed noted that even after the successful launch of new infrastructure, extensive outreach to financial institutions is required to ensure uptake (this is consistent with learnings from projects in China and Colombia that were not supported under the Initiative).

1. INTRODUCTION

1.1. CONTEXT FOR THE GLOBAL SME FINANCE INITIATIVE

The Global SME Finance Initiative at the International Finance Corporation (IFC) (the Initiative) was created in March 2012 to increase access to finance for small and medium-sized enterprises (SMEs), and subsequently create new employment opportunities in some of the world's most challenging economies. The IFC estimates that an additional $0.9 – $1.1 trillion in SME financing globally will be required to fully close this gap, with an additional 13.8 to 20.4 million firms assessed as being unserved or underserved by the formal financial sector. This constraint is particularly pronounced in low-income countries, where capital is limited and the financial sector is often less developed than in higher-income countries. The Initiative uses a blended finance approach, combining commercial investment capital with subsidies[2]. The Department of International Development of the Government of the United Kingdom (DFID) seeded the Initiative with $115 million[3] in commercial and concessional funds, which is being used to fund:

- Investment services (IS) to partner financial institutions (PFIs), including credit and risk sharing products
- Advisory services (AS) to PFIs, including general advisory on SME investment and specific advisory services on targeting certain types of SMEs such as women-led companies, agricultural SMEs, and very small enterprises
- Advisory services (AS) to national governments on the creation of financial infrastructure (i.e., credit registries and secured transaction registries) to support increased lending to SMEs.

The IFC contracted Dalberg Global Development Advisors and Beecher Analysis Group (the Evaluation Team) in June of 2014 to evaluate the Initiative's impact with respect to its theory of change and expected results. Specifically, our role as evaluators of the Initiative was threefold:

1) Design evaluation methods for the Midterm and Final Reviews
2) Pilot test data collection
3) Implement Midterm Review

Between September and December 2014, the Evaluation Team undertook extensive data collection to inform this review. Specifically, the Evaluation Team (i) requested all relevant monitoring and evaluation (M&E) and portfolio data from the IFC and (ii) administered a survey to IFC investment officers and project leaders responsible for portfolio organizations. The team also visited and interviewed six PFIs in West Africa, East Africa and South Asia, and held teleconferences with PFIs in Central Africa and West Africa. In addition to the visits, the Evaluation Team engaged in extensive follow-up efforts to obtain the requested data from PFIs, including development of research proposals intended to appeal to the PFI's strategic goals. Along with primary data collection, the Evaluation Team conducted literature reviews on (a) the availability of SME finance in countries where projects have been implemented, (b) the availability of finance for certain

[2] The subsidy in IS projects is estimated as the amount used to subsidize the difference between the commercial rates of the project and the actual rates used.
[3] Total DFID funding is GBP 75 million, 2.85 was allocated for G-20 winners, which leaves GBP 72.15 million; exchange rate of USD 1.6 = GBP 1.00

underserved target segments (e.g., Muslim women), and (c) the relationship between SME finance and job creation. The Evaluation Team also performed extensive statistical analyses of the World Bank's Enterprise Survey data for each of the countries in which the Initiative has supported projects.

The Evaluation Team comprises statisticians, M&E experts, and experts in SME investment from Dalberg Global Development Advisors and the Beecher Analysis Group. Throughout the process, the Evaluation Team managed an extensive methodology consultation process with monitoring and evaluation experts from The World Bank, IFC, and DFID.

This document presents the results of the Midterm Review of the Global SME Finance Initiative. The next section summarizes the methodology used for the Midterm Review. In Section 2, we present the activities and progress made to date. In Section 3, we describe the results of the Midterm Review with respect to the Initiative's theory of change, and in Section 4 we extrapolate the likely job effects of the Initiative to date and by its close in 2019. In Section 5, we review the Initiative's data collection and monitoring and evaluation (M&E) processes; in Section 6 we summarize key lessons learned from case studies and the Thematic Review of Financial Infrastructure projects; and in Section 7 we provide recommendations for the IFC.

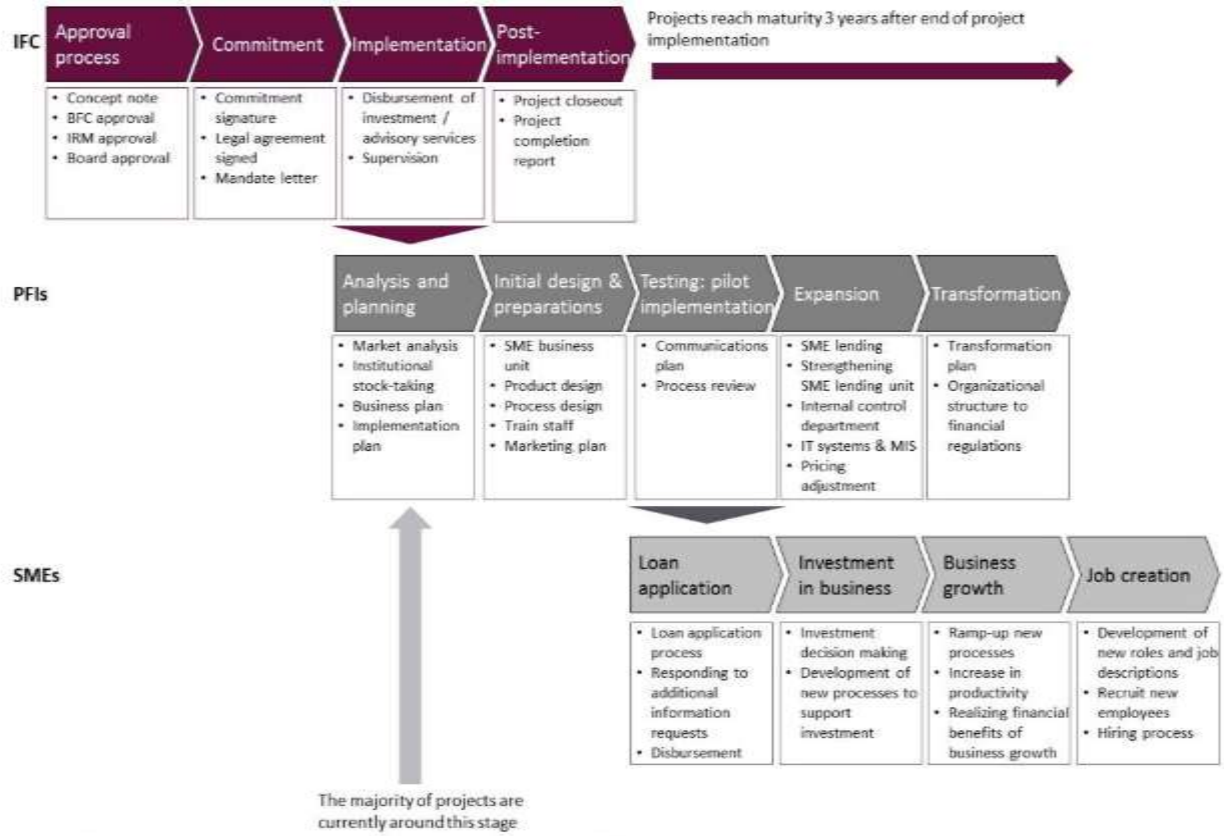
1.2. Timing of the Midterm Review

The Midterm Review is taking place two years before the mid-point of the Initiative. The Initiative was created in March 2012 and was originally intended to operate through March of 2019. This review will be based on data collected during the fourth quarter of 2014, a year before the original mid-point of the Initiative (September 2015). A recent two year extension to the Initiative lifespan means that data collection for this review took place two years before the new mid-point of the Initiative (September 2016).

Job creation impacts will take time to accrue. The process of converting investments under the Global SME Finance Initiative into jobs at SMEs will take several steps. As Exhibit 1 shows, the IFC must follow a process before disbursing capital or initiating a project with a partner financial institution (PFI). The PFI must then take steps to set-up and scale-up its SME lending programs before it can increase the quality and quantity of its SME lending. Similarly financial infrastructure projects must also spend considerable time pursuing regulatory changes and/or creating new credit bureaus or collateral registries. Finally, when some types of SMEs access capital, they may deploy that capital toward productivity improvements in the firm before hiring new employees, thus creating a lag time between SME access to capital and job creation. Because each of these processes takes time to complete, it would not be surprising for the portfolio to have very few job effects so early into the program. In fact, the Evaluation Cooperation Group's (ECG) *Good Practice Standards for the Evaluation of Private Sector Investment Operations* (GPS 4)[4] recommends conducting evaluations only when investments have reached "early operating maturity". For the majority of the investments in the portfolio, "early operating maturity" denotes that *"at least 30 months… have elapsed following the international financial institutions' (IFI's) final material disbursement to the Financial Intermediary."*

[4] http://www.oecd.org/dac/evaluation/dcdndep/31720821.pdf

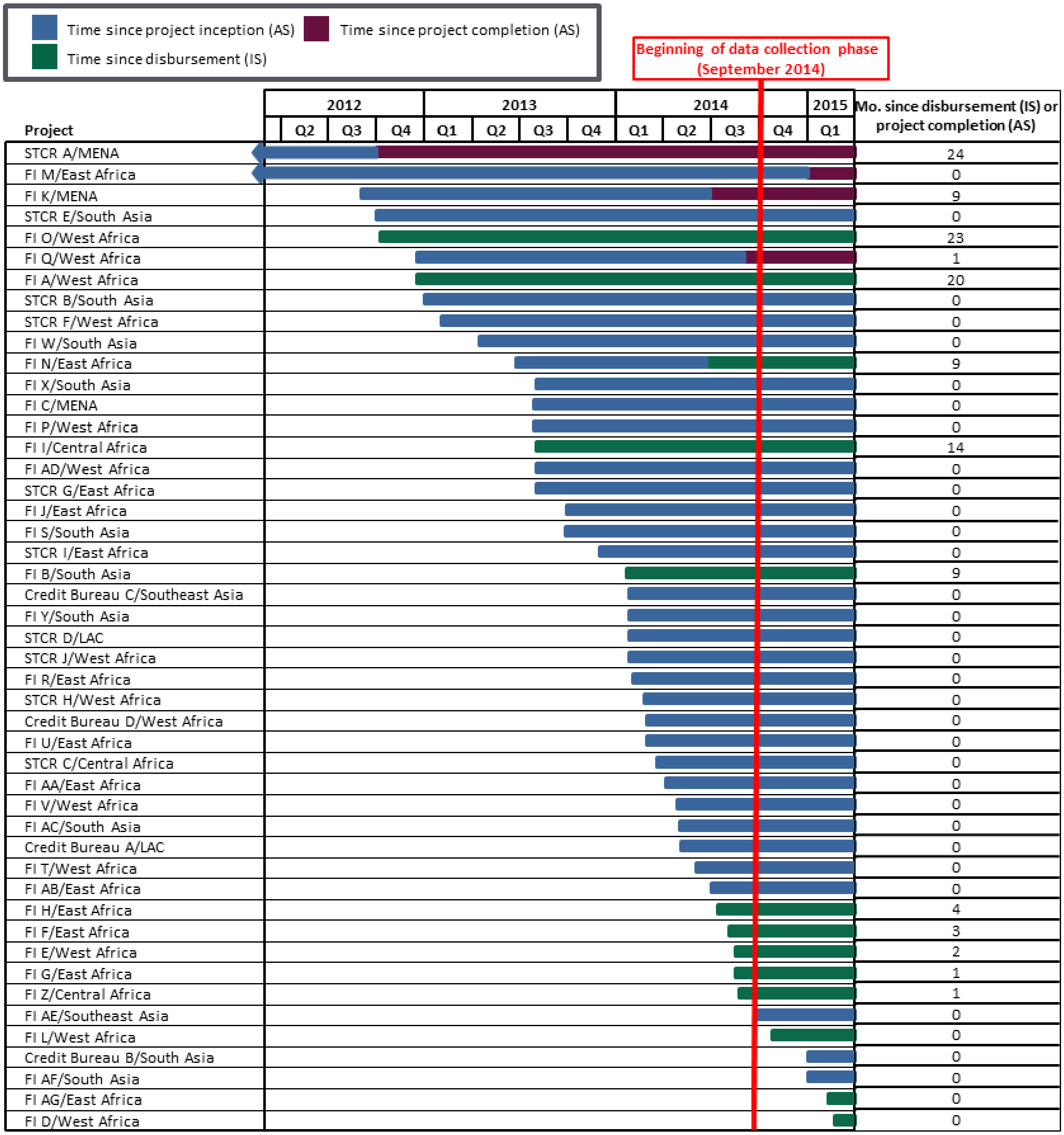
Exhibit 1. Stages of development by IFC, PFIs, and SMEs to achieve Initiative's outcome targets



Source: IFC Progress Report, May 2014, IFC Guide for Small Business Lending, and Dalberg analysis. BFC: Blended Finance Committee. IRM: Investment Review Meeting. IT: Information Technology. MIS: Management Information System.

At the time when data collection for the Midterm Review began, none of the projects in the portfolio had crossed the 30-month threshold of early maturity (Exhibit 2). As such, the Midterm Review will draw significantly from leading indicators of impact. In cases where the Evaluation Team has assessed data from projects that are in the early stage of implementation, sample sizes will be small and confidence intervals will be large. The early nature of the Midterm Review will be an advantage because it will enable the Evaluation Team to provide recommendations to improve monitoring and evaluation systems while there is still significant time for implementation.

Exhibit 2. Age of projects in the portfolio



NOTE: PFIs with multiple projects have been grouped together, the first start date and eh first completion/disbursement date have been shown; Months since inception and months since completion have been calculated up until the start of data collection for this project

1.3. THEORY OF CHANGE AND METHODOLOGY FOR THE MIDTERM REVIEW

The Midterm Review has four objectives:

1. Testing the assumptions and hypotheses embedded in the theory of change of the Initiative;
2. Estimating the employment effects of the Initiative;
3. Assessing the degree to which the Initiative has reached the targets set; and
4. Assessing the M&E systems and processes in place in the Initiative.

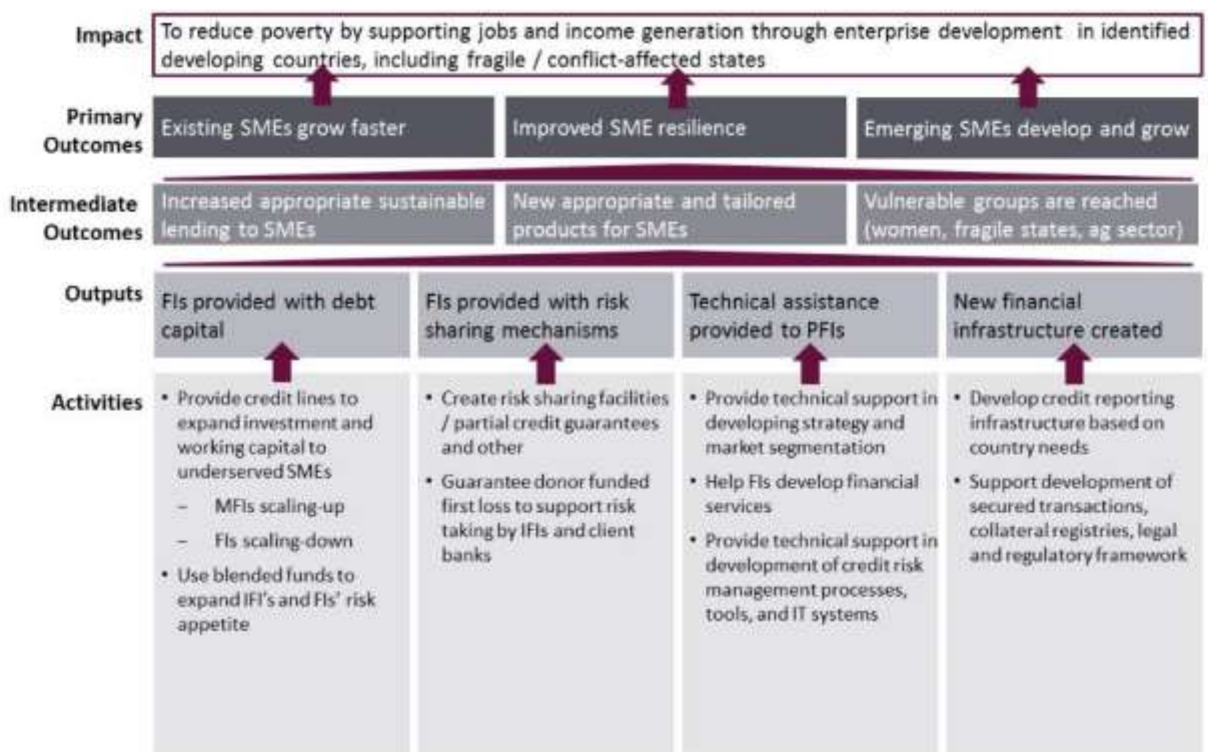
In this section we first present the theory of change of the Initiative and then briefly describe the methodologies used to assess the four objectives.

1.3.1. The Global SME Finance Initiative's Theory of Change

The IFC launched the Global SME Finance Initiative with the objective of increasing access to finance for small and medium-sized enterprises (SMEs), and subsequently creating new employment opportunities in some of the world's most challenging economies. With this purpose, the Initiative collaborates with governments and partner financial institutions (PFIs) in select developing countries with advisory (AS) and investment services (IS). On the advisory side, the IFC supports governments with the development or improvement of financial infrastructure and provides capacity building to financial institutions (FIs). On the investment side, the IFC offers a variety of services that fall into two categories: lending products, including loans and credit lines, and risk mitigation products, including risk sharing facilities (RSFs) and credit guarantees.

The theory of change describes the logical chain of events that translate the IFC's products into job creation and poverty alleviation. It is defined in five steps: activities, outputs, intermediate outcomes, primary outcomes, and impact. The IFC is directly accountable for fulfilling the activities and outputs. The evaluation methodology has been designed to understand the extent to which these activities are having the desired impact on the financial and business sectors. The main objective will be to test the assumptions embedded in this logical chain of events (Exhibit 3).

Exhibit 3. SME Global SME Finance Initiative's theory of change



MFI: Micro Finance Institution. Source: SME Finance Facility Log Frame, IFC, Donor Forum 2012

The theory of change implies a causal link between providing financial and advisory services to FIs for their SME programs and poverty reduction. The assumptions can be summarized as:

- Step 1: The Initiative's support to FIs and to developing country level financial infrastructure increases the quantity and quality of finance to SMEs
- Step 2: FI lending to SMEs increases SMEs' ability to grow or reduces their likelihood of failure
- Step 3: As SMEs grow, they hire more employees
- Step 4: Increased employment by SMEs contributes to shared prosperity and reductions in poverty.

1.3.2. Methodology for the Midterm Review

METHODOLOGY TO TEST AND VALIDATE THE THEORY OF CHANGE

The first objective of the Midterm Review is to test the assumptions and hypotheses embedded into the causal chain between the provision of finance to an FI and poverty reduction. These steps are:

- Step 1: The Initiative's support to FIs and to developing country level financial infrastructure increases the quantity and quality of finance to SMEs (outputs to intermediate outcomes)
- Step 2: FI lending to SMEs increases SMEs' ability to grow or reduces their likelihood of failure (intermediate outcomes to primary outcomes)
- Step 3: As SMEs grow, they hire more employees (primary outcomes to short-term impact)
- Step 4: Increased employment by SMEs contributes to shared prosperity and reductions in poverty (short-term impact to long-term impact).

For Step 1, the Evaluation team conducted:

- Portfolio-wide analysis of leading indicators of change based on a survey with IFC program leaders (PLs) and investment officers (IOs)
- Portfolio-wide analysis of progress to date using data collected by the IFC through their regular M&E systems
- Seven case studies of PFIs in Africa and South Asia
- One thematic review of all financial infrastructure projects

For the Midterm Review, steps 2 and 3 were assessed together as the same key data source, the World Bank's Enterprise Survey, was used as the basis for analyses of these steps. Step 4, which relates to the link between job creation and poverty reduction, was studied at a high level using the existing literature on the subject.

The following learning questions were articulated in the Inception Report and Evaluation Design Document, and were assessed in the Midterm Review:

Exhibit 4. Learning questions explored in the Midterm Review

Learning questions	Addressed

Learning questions	Addressed
Institutional progress: What progress has been made in setting up the necessary structure and processes to enhance SME lending at the PFI level?	Assessed through qualitative and quantitative analysis
Reach: What are the observed changes in lending activity by relevant FIs that are associated with IFC's intervention?	Assessed through quantitative analysis
Acceleration: What are the observed changes in the rate of growth in SME lending (by # of clients and volume)?	Assessed through quantitative analysis
Sustainability: What indications are there that new levels of SME lending can/will be sustained by the FI after the intervention is complete?	Assessed through qualitative and quantitative analysis
Operational Insights: What lessons can be observed about how to support changes in FI lending to SMEs across?	Assessed through qualitative and quantitative analysis
SME Growth and Job Creation: To what extent does PFI support increase revenue and productivity growth of supported enterprises? To what extent does SME growth lead to job creation?	Assessed by studying proxy (Enterprise Survey) SMEs with supplemental studies with two PFIs
Community impact: Is this a positive net effect for an economy (e.g. other families are not falling into, or deeper into, poverty)	Assessed through review of existing body of literature
Household impact: How does SME job creation translate into poverty reduction for new employees and their families?	Assessed through review of existing body of literature

The results are presented in Section 3 of this report.

Estimation of the Employment Effects of the Initiative

The second objective of the Midterm Review is to estimate the changes in employment at the firm level that can reasonably be associated with the Initiative's activities.

The Evaluation Team recommended a two-stage methodology to extrapolate the jobs effects of the Initiative:

- **Stage 1: Change in SME activity since Intervention –** the change in total SME portfolio (number of loans) outstanding for a PFI from the date of first intervention by the Initiative
- **Stage 2: Estimate various forms of job creation**
  - **Jobs supported** (direct): total number of people employed by SMEs financed by the Initiative's PFIs
  - **Jobs added** (direct): difference in the total number of people employed by the SMEs financed by the PFIs from the time of the PFI's first investment into each SME to current
  - **Jobs added as a result of finance** (direct): difference between the total number of people employed by the SMEs financed by the PFIs and the total number of people that would have been employed by the SMEs had they not received finance from the PFIs.

The Evaluation Team tested the proposed methodology to estimate jobs supported, jobs added, and jobs added as a result of finance across SMEs supported by the Initiative. The results are presented in Section 4 of this report.

Achievement of Stated Objectives

The third objective of the Midterm Review is to assess the degree to which the Initiative has achieved the targets set in the Logical Framework (Logframe) (IFC, June 2014). The Evaluation Team thus worked to collect the information necessary to assess the performance against stated outcome and output level objectives in the Initiative's Logframe.[5]

REVIEW OF MONITORING AND EVALUATION PROCESSES AND SYSTEMS

The fourth and final objective set forth for the Midterm Review was an assessment of the data collection and M&E processes in place for the Initiative. The Evaluation Team, through the pilot test of data collection, sought to gain an understanding of the efficacy of M&E systems across the Initiative. The Evaluation Team intends to use the successes, challenges, and lessons learned during the data collection pilot as the basis for recommendations about how to improve M&E systems employed by the Initiative.

REVIEW OF REPORTED DATA

Data presented in this report was data was self-reported by PFIs, and subject to reviews by the Evaluation Team. The techniques employed for this review include:

- **Ensure that data reported is logical:** For example, a PFI's value of loans outstanding could not have grown by more than the number of loans disbursed and a PFI's increases in female-owned SME loans cannot exceed increases in total SME loans
- **Follow-up on data outliers:** The Evaluation Team followed up with IFC PLs and IOs to verify data when data reported varied dramatically from expected results. For example, sudden changes in the CAGR of the SME portfolio or sudden changes in average SME loan sizes.
- **Ensure that quantities reported match qualitative statements:** Through PFI interviews, qualitative information captured in the PL and IO surveys, assessment of project targets, and a review of Project Status Reports, the Evaluation Team was able to understand the objectives of projects (particularly within the AS portfolio). In cases where reported data was not in alignment with these objectives (e.g., decreasing average loan sizes for an up-scaling PFI the Evaluation Team followed-up with Project Leaders or Investment officers to verify reported data.

The Evaluation Team was also able to triangulate data from multiple sources to increase confidence in the data set used in this report. PFI data has been collected from a number of sources, specifically data was collected from:

- PFIs directly during interviews and site visits
- The IFC's monitoring and reporting systems (DOTS for IS, ASOP and Project Supervision Reports for AS)
- Management reports maintained by the Initiative's leadership
- Surveys of IFC regional teams
- Public sources (including PFI annual reports and public statements by SME teams).

In many cases the Evaluation Team was able to obtain data on PFIs through multiple sources (e.g., AS and IS M&E channels for PFIs that had availed both AS and IS support; data from the PFI directly and IFC M&E channels, etc.). In these cases the Evaluation Team was able to triangulate sources and develop a higher level of confidence in the data presented.

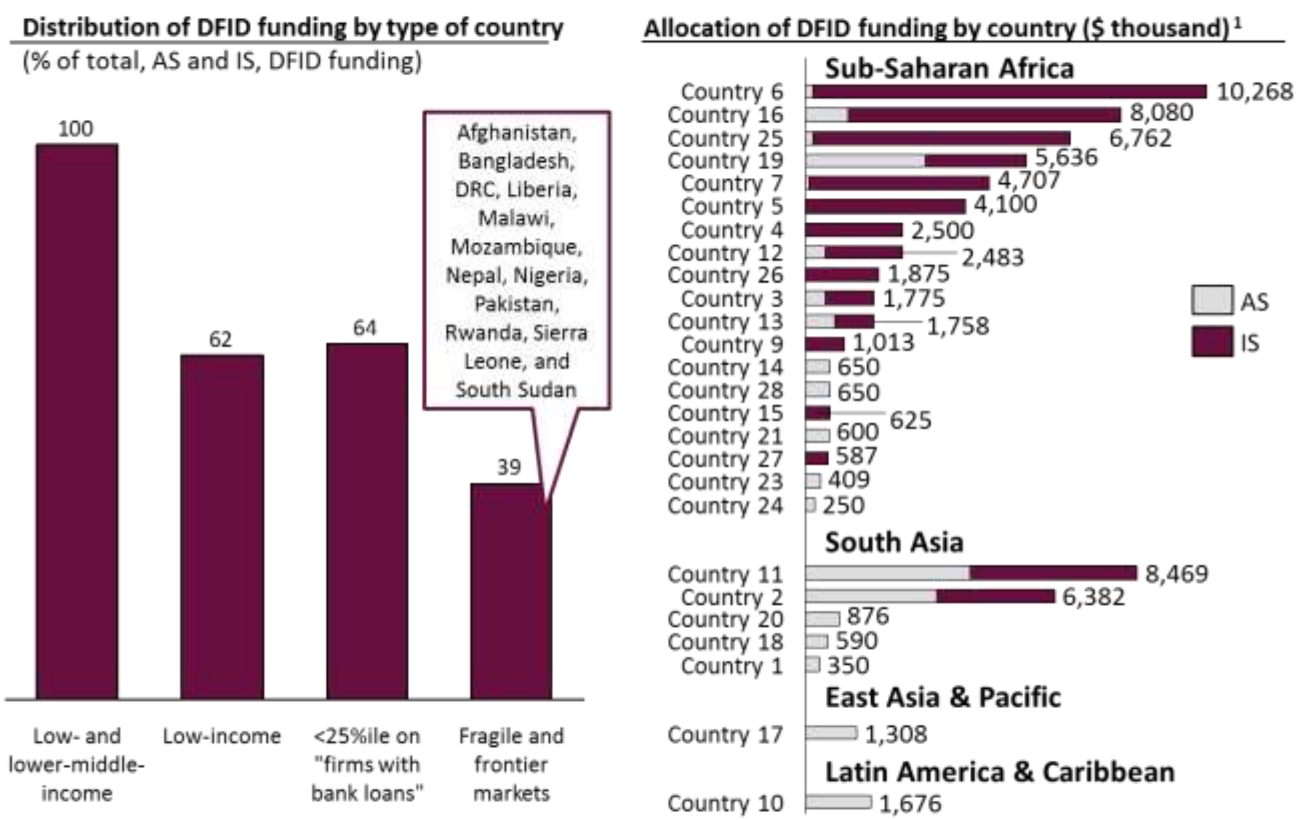
[5] Note, "impact" level indicators in the Logframe (e.g., share of formal SMEs in the total bank lending to private sector in the target countries) will require significant country level macroeconomic analysis that is beyond the scope of this analysis.

2. PROGRESS OF THE GLOBAL SME FINANCE INITIATIVE

2.1. ACTIVITIES TO DATE

The Initiative has supported projects in the geographies where they are most needed. All of the IS and AS funding deployed through the Initiative has been invested in low- and low-medium income countries. Sixty two percent of the DFID funding has gone to low-income countries, 39% to fragile post-conflict countries,[6] and 64% to countries scoring in the bottom 25th percentile on the Enterprise Survey's question about the proportion of SMEs with access to a bank loan (Exhibit 5).

Exhibit 5. Distribution of subsidy allocated in pipeline projects by country classification

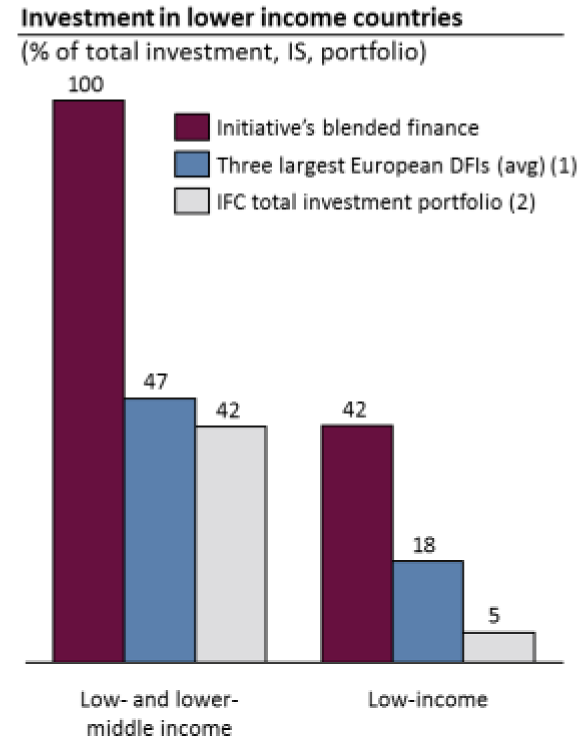


1) Analysis excludes regional and multi-country projects. County income levels based on World Bank designations. "Firms with bank loans" is an Enterprise Survey indicator. Data are from most recent year (post 2006). Haiti and South Sudan were excluded from this analysis as data were not available. Considers all signed and mandated AS and IS projects . Source: IFC SME Finance Initiative portfolio data, April 2015.

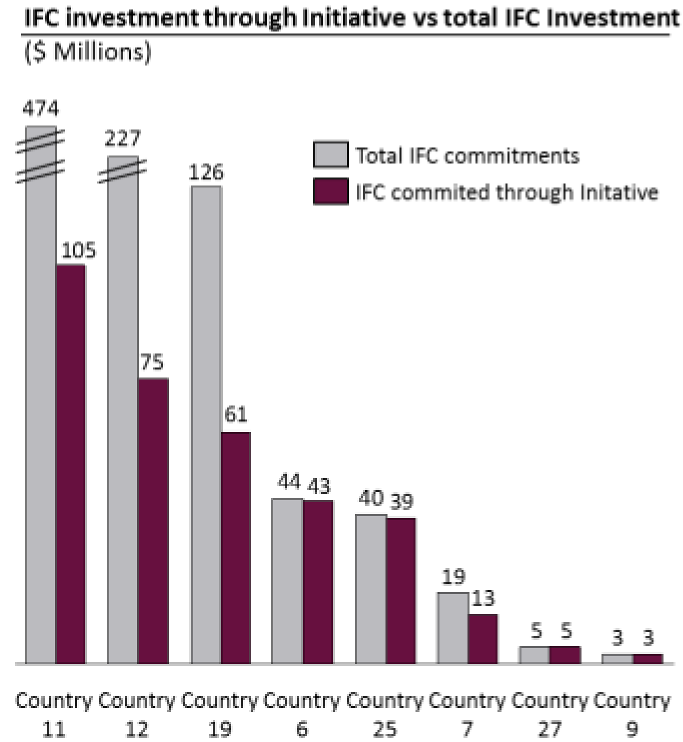
Excludes umbrella projects. Includes signed and signed and mandated IS projects and AS projects under pre-implementation, implementation and post-implementation. Source: IFC SME Finance Initiative portfolio data, April 2015.

[6] As defined by DFID, these countries include Afghanistan, Bangladesh, Democratic Republic of Congo (DRC), Liberia, Malawi, Mozambique, Nepal, Nigeria, Pakistan, Rwanda, Sierra Leone, and South Sudan.

Exhibit 6. Initiative investment in low- and lower-middle income countries vs. IFC and peers (% portfolio)



1) Includes FMO 2012 data for portfolio by country income level, CDC 2013 data for total investments by country, and DEG 2012 data for new commitments by country. (2) Includes IFC 2014 data on investment services in financial institutions that are targeted to SMEs. by country. Includes only signed transactions. The distribution of mandated and signed is similar.



Only IFC committed (signed) transactions are included in this analysis. IFC totals include IFC micro and IFC SME portfolios

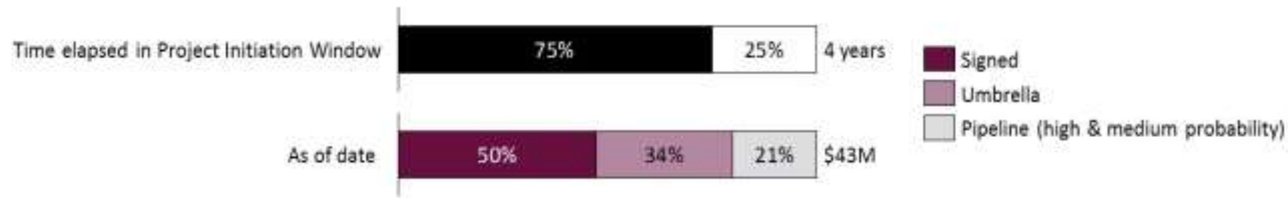
The Initiative is on track to mandate the entire DFID funding by the end of the extended investment window and will likely surpass the total number of projects that were expected to be funded under the Initiative.

On the advisory side, the Initiative is on track to mandate the entire amount of DFID funding by the end of the extended window. To March 2015, the Initiative had signed advisory projects including $21.3 million in DFID funding (50% of the total $43 million of AS DFID funding), and had allocated an additional $14.6 million of DFID funding (34% of the total $43 million of AS DFID funding) to umbrella projects (Exhibit 7). Overall, this means that the Initiative had mandated 84% of the DFID funding for AS projects by March 2015. While it was originally expected to commit[7] 100% of the AS DFID funding for this date, the Initiative took longer to place the funding than expected at the beginning, and therefore, DFID granted a six month extension for the project initiation window. Considering that the Initiative has $9 million in DFID funding (less than the remaining $6.9 million available for AS projects) allocated to high and medium probability AS projects, it is very likely that the Initiative will commit the entire AS DFID funding by March 2016. Moreover, the average size of DFID funding

[7] Before the Initiative disburses funds to PFIs, it has to commit DFID funds for the amount that will be disbursed and show that it has a pipeline for future projects. In this case, we are counting signed and umbrella projects that have been committed. Signed projects are those for which a concept note has been approved and the specific client has been selected. Umbrella projects are a group of projects that are bundled together in one concept note with a common theme. The concept note has been approved, but implementation does not begin until the individual subprojects are signed.

allocated to the signed projects to date is smaller than expected, putting the Initiative ahead of the targets set in terms of number of projects. By March 2015, the Initiative had supported 26 advisory services projects (in 23 PFIs), - compared to a target of 20 - and 15 financial infrastructure projects (in 12 countries), surpassing the target of 14.

Exhibit 7. Project initiation window vs. AS DFID funding allocated



Note: 43 million has been shown as total AS DFID funding, because 8 million that was not intended to be spend on financial infrastructure or PFI projects has been removed Signed includes projects that are stand-alone and subprojects. Umbrella include those that are still under the umbrella. Source: IFC SME Finance Initiative portfolio data, March 2015, and pipeline data, February 2015.

On the IS side, there are strong indications that the IFC team will fully utilize the DFID funding before the close of the investment window in March 2016. By March 2015, the Initiative had mandated $53 million of DFID funding, 83% of total IS DFID funding (Exhibit 8). Out this $53 million, $25.4 million (40% of total IS DFID funding), had been allocated to signed transactions, and $27.6 million (43% of total IS DFID funding) to mandated transactions[8]. In addition, the Initiative had a pipeline allocating $7.2 million of DFID funding. If all of the projects in the pipeline convert, the Initiative will have to allocate a remaining $3.8 million of DFID funding to IS projects. Considering that this is a smaller figure than the amount allocated in first three months of 2015, the Evaluation Team considers that it is very likely that the Initiative will be able to allocate the entire IS DFID funding to mandated projects by the end of the extended investment window. Moreover, as with AS projects, the average size of the DFID funding in each project was smaller than expected, allowing the Initiative to finance a larger number of projects. By March 2015, the Initiative had signed and mandated 31 projects, surpassing the target set by 206%.

Exhibit 8. Investment window vs. DFID funding allocated to IS transactions

Source: IFC SME Finance Initiative portfolio data, April 2015, and pipeline data, January 2015.

Less DFID funding is being used per project (for both AS and IS) than originally expected, which means that the Initiative is poised to reach a higher number of PFIs than expected. However, this also means that the IFC has

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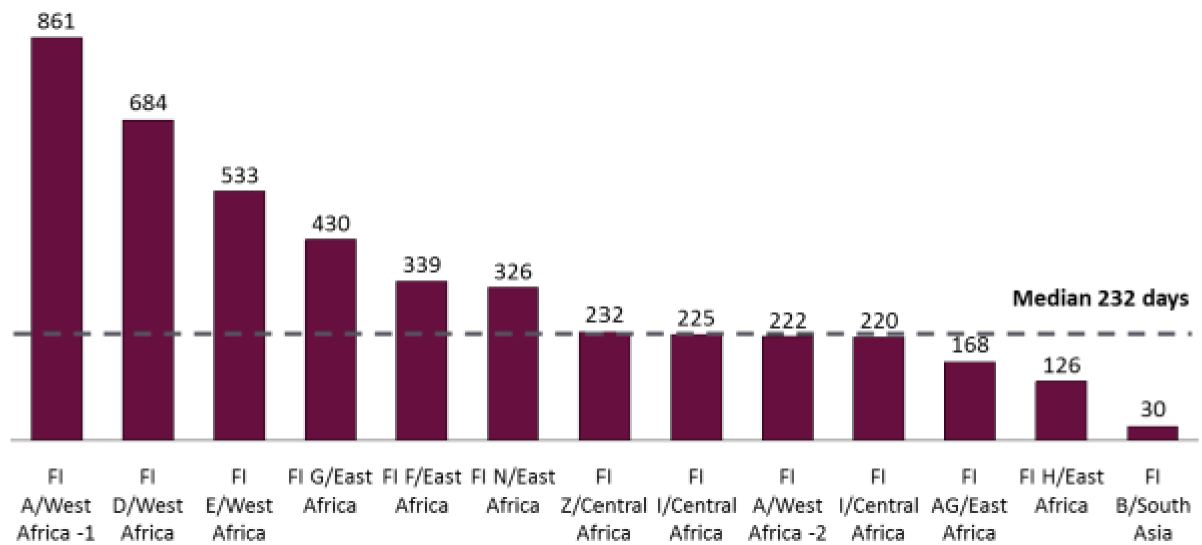
[8] Once projects are mandated, they DFID funds have been committed to the transaction, but have not been disbursed to PFIs.

had to work harder to place all DFID funding. By March 2015, the Initiative had allocated 83% of the total IS DFID funding ($64 million) to mandated IS transactions and 50% of the AS DFID funding ($43 million) to signed AS stand-alone projects and subprojects with PFIs (excluding umbrella projects). However, it has already substantially exceeded targets for the number of IS and AS projects with PFIs. This discrepancy -indicates that projects are smaller or require less DFID funding than anticipated by the targets. The final targets for IS, AS PFI, and financial infrastructure clients supported implied an average DFID funding per client of $4.27 million, $1.67 million, and $0.69 million, respectively. To date, however, the average DFID funding is $1.82 million per IS client, less than half of the implied target, and $0.38 million per AS PFI client, just over one-third of the implied target. This smaller than expected project size on the investment side is likely a result of the care the Initiative is taking to minimize subsidy and ensure that subsidies provided do not distort markets. On the advisory side, the smaller than expected project size is more likely due to efforts to start with smaller projects as a way to build an initial relationship with a PFI and to the pricing policy becoming more rigorous with a minimum of 50% cost share. On both accounts, these smaller project sizes mean that a) the Initiative will reach more clients and is thus poised to have a bigger impact, and b) that the IFC's staff has had to develop a larger pipeline to ensure that all funding can be put to use. The Initiative has met targets for the number of financial infrastructure projects; these projects have been close to their expected size.

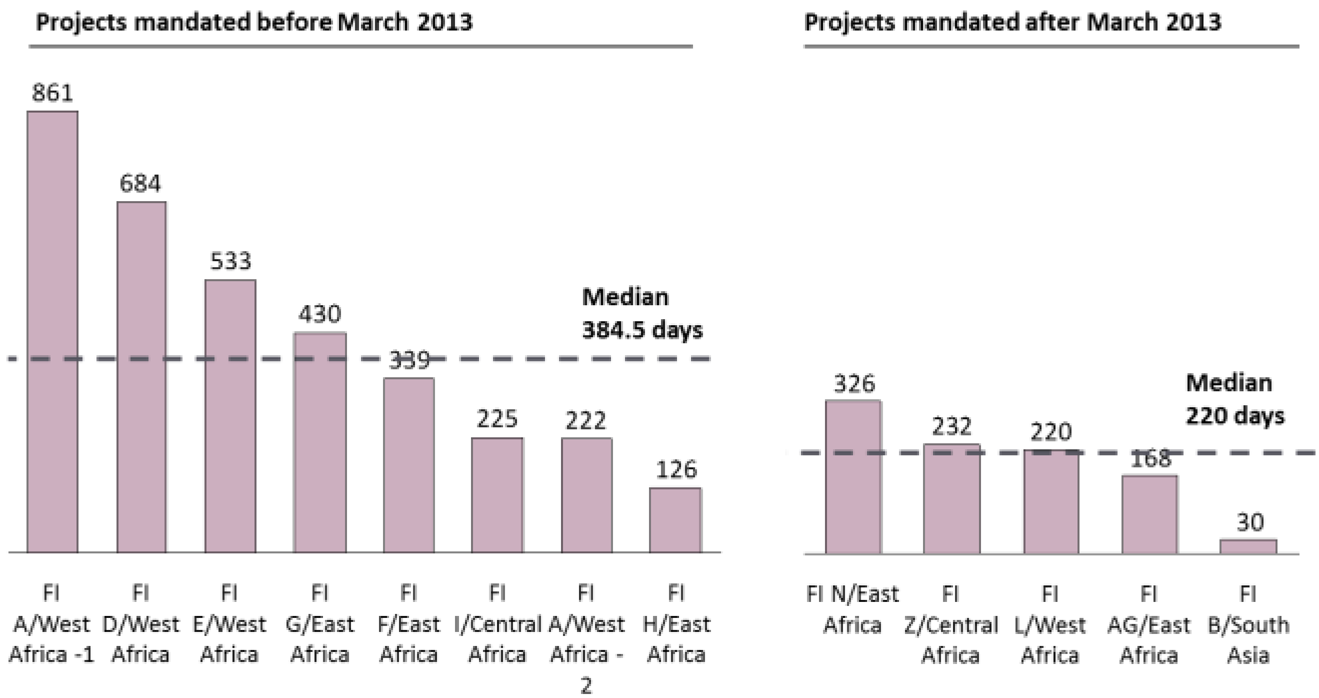
On average it is taking almost a year to move from a mandate (DFID commitment) to signed contract and disbursement for IS projects; this explains why 52% of IS transactions that have been mandated have not yet been signed and disbursed. As Exhibit 9 illustrates, the median time from moving from a mandate (DFID commitment) to disbursement is highly variable, and on average takes almost a year. The three phases that a project goes through in that year are: (1) IFC appraisal and decision-making including integrity, environmental and social (E&S) checks, and blended finance processes; (2) negotiations and legal documentation between IFC and the PFI; and (3) PFI coming into compliance with covenants and conditions of disbursement/effectiveness. Exhibit 9 shows that the IS transactions mandated before March 2013 have taken substantially longer to be disbursed / become effective than those mandated after March 2013, which suggests that the process is beginning to speed up. In the three projects with the longest delays, " RSF with PFI in West Africa", "PFI in West Africa", and "PFI in West Africa", the delay was due to E&S requirements. For "PFI in East Africa" and "PFI in East Africa", the delays were mainly due to the lengthy regulatory approval process for the subordinated debt structure.

Exhibit 9. Length of time from mandate (DFID commitment) to disbursement (loans) or effective date (RSFs)



Note, One transaction, FI O/West Africa was removed from this analysis as it was disbursed and/or became effective prior to being mandated by DFID. Source: IFC documentation April 2015.

Exhibit 10. Length of time from mandate to disbursement (loans) or effective date (RSFs) before and after March 2013



Note, One transactions, FI O/West Africa was removed from this analysis as it was disbursed and/or became effective prior to being mandated by DFID. Source: IFC documentation, April 2015 and Dalberg analysis.

2.2. Progress Against Stated Milestones

The IFC is meeting or approaching its targets for outputs, and meeting the targets in both the AS and IS portfolios for overall volume of SME loans generated (outcomes). Exhibit 11 presents the results to date for a number of outputs and outcomes. Note that the outputs (highlighted in light blue) are under the direct control of the IFC, while the outcomes (highlighted in grey) are not 100% under the control of the IFC**.** In terms of outputs, as of December 2014, the Initiative was poised to support 31 clients with investment services and 41 with advisory services[9], in both cases more than doubling the March 2015 targets. It has also met targets for financial infrastructure projects, with 15 projects against a target of 14. In terms of outcomes, the IS portfolio is exceeding targets by 15% while the AS portfolio is exceeding targets by 80%. This is with only 20 PFIs reporting on their portfolio growth so far, as such it's likely that by the facility's end, these targets will have been substantially surpassed. These numbers are based on the Logframe indicator "new loans to SMEs" which is calculated using the number of loans disbursed.

Exhibit 11. Progress made toward the achievement of outputs

Output	Indicator	Results '14[1]	Milestone 1	Progress
Investment Services (IS), including: Loans to PFIs and risk sharing facilities (RSFs)	# of PFIs supported with risk sharing and funding mechanisms*	31 (14 signed)	15	206%
	Volume of additional funding mobilized for SMEs through PFIs (IS)** *(Based on disbursed loans from PFIs with IS products)*	£918 M	£800 M	115%
	Investment leveraged from DFIs and PFIs* *(includes IFC, EIB, and OFID capital)*	£530 M	£323 M	164%
	Volume of additional funding for fragile and frontier markets[2]** *(Based on disbursed loans from PFIs with IS products)*	£86 M	£200 M	43%
Advisory Services (AS), including: • Technical assistance • Financial infrastructure	# of PFIs and infrastructure projects supported with AS*	41	20	205%
	# of PFIs and infrastructure projects supported with AS in fragile and frontier markets*	18	5	360%
	Volume of SME loans generated by PFIs / infrastructure projects covered by AS and non-concessional lending** *(Based on disbursed loans from PFIs with AS products)*	£3.1 B	£1.7 B	180%
	# of credit bureaus (CB) and collateral registries (CR) created or significantly strengthened*[3]	15	14	107%
	Number of SME loans by CRs** *(NOTE: based on only results from Afghanistan)*	2,270	30,000	8%
	% of PFIs reporting growth in their SME portfolio greater than growth of the bank's commercial loan portfolio** *(n= 11 PFIs)*	73%	70%	126%
	% of PFIs reporting an improved NPL ratio at the SME portfolio level[4] *(n= 9 PFIs)*	44%	70%	63%

Outputs | Outcomes | Above milestone | Below milestone by <20% | Below milestone by >20%

*Source: IFC Portfolio data, March 2015. Data verified by Evaluation Team. First number are mandated and signed transactions. In parenthesis includes mandated and signed, and mandated. **Souce: IFC Global SME Finance Initiative Logframe, December 2014. Data not verified by Evaluation Team. Data are based on loans disbursed, not outstanding. (1) Results are for December 2014, while the milestones are for March 2015. (2) Fragile and frontier markets include: Afghanistan, Bangladesh, DRC, Liberia, Malawi, Mozambique, Nepal, Nigeria, Pakistan, Rwanda, Sierra Leone, South Sudan. (3) Indicates number of active financial infrastructure projects. Only 2 financial infrastructure projects have been fully implemented. (4) Based on baseline and current NPL data for 7 PFIs. Includes both AS and IS projects. 0.625 GBP to USD exchange rate used.

While the Initiative is behind in milestone 1 targets for volume of additional IS funding to fragile and frontier markets (if AS funding where included, the Initiative would be exceeding this target), and for number of SME

[9] AS targets were set for all advisory projects including PFI, Umbrella, and financial infrastructure projects combined- a separate target was also set specifically for financial infrastructure projects.

loans by credit registries this is only because these clients are not yet reporting. In both cases, very few projects have begun reporting M&E indicators (in the case of credit registries, only a single project has gone live). As such, there is reason to believe that these targets will be met once projects mature and begin reporting. As we will see in Exhibit 12, the Initiative has reached its outcome target for clients reached in frontier and fragile states.

The performance against targets of NPL ratios is misleading, across the Initiative NPLs have remained very low. In fact, three of the five PFIs who had increased their NPL ratio were microfinance institutions who were entirely new to SME finance, and were starting from a base of virtually 0%. All three of these financial institutions still have NPL rates below 8% (the average across the portfolio). Our recommendation would be revise this indicator in the Logframe.

The portfolio is exceeding targets for number of SMEs reached, number of SMEs reached in fragile and frontier markets, volume of new loans, and volume of new loans in fragile and frontier markets. As Exhibit 13 demonstrates each of these targets have been surpassed, in some cases rather substantially. Note that these numbers do not include an estimate of the attribution of IFC's services to increases in SME lending.

Exhibit 12. Progress made toward the achievement of outcomes

Outcome	Indicator	Results '14	Milestone 1	Progress
Scale up SME financing on a commercially sustainable basis	Number of SMEs reached with loans**	103,427	100,000	103%
	Number of women-owned SMEs reached with loans**	4,127	25,000	17%
	Number of SMEs reached with loans in fragile countries and frontier markets **	86,994	25,000	348%
	Monetary value of additional loans to SMEs through development of financial infrastructure and distributed by PFIs**	£4.0 B	£2.5 B	159%
	Monetary value of additional loans to **women-headed or -owned** SMEs through development of financial infrastructure and distributed by PFIs**	£87.1 M	£620 M	14%
	Monetary value of additional loans to SMEs **in fragile countries and frontier markets** through development of financial infrastructure and distributed by PFIs**	£3.0 B	£620 M	478%

(Based on disbursed loans, NOT changes in portfolios outstanding)

Above milestone Below milestone by <20% Below milestone by >20%

**Source: IFC Global SME Finance Initiative Logframe, December 2014. Data is based on loans disbursed, not outstanding. Does not include increased lending from financial infrastructure projects, expect the STCR in Afghanistan. 0.625 GBP to USD exchange rate used.

Given the evidence base available at present, it is not possible to determine whether the Initiative has met targets for lending to women-owned businesses. The Evaluation Team is certain that the figures in Exhibit 12 for the number and volume of loans to women-led businesses are understated. This is because only a few PFIs have been able to report on this indicator. Section 3.1 explores the successes and challenges in reaching women-owned businesses in more detail. The Evaluation Team recommends shifting this indicator to one that will not require a census of all SME loans across the portfolio to track. For example, tracking the share of PFIs reporting lending to women-led enterprises.

These milestone targets assumed that results would accrue linearly however results are likely to increase at an exponential rate over the remainder of the Initiative. Milestone targets were set linearly (e.g., one-half of the final milestone is expected 6 months prior to the midpoint), but initiating and scaling up investment and advisory services is a complicated process that does not yield outputs on a linear basis. As the Initiative's inception report notes, and as the Evaluation Cooperation Group's (ECG) *Good Practice Standards for the Evaluation of Private Sector Investment Operations* further supports, it takes time to scale up programs at the IFC, the PFI, and the SME level. Outcomes accrue slowly at first, and then accelerate as projects mature. For this reason, lower-than-expected results on midterm targets may not imply that final targets will not be reached.

The Logframe requires the Initiative to measure "new loans to SMEs" which to date has been based on the number and volume of loans disbursed. However, this is a challenging indicator because loans disbursed do not account for inconsistencies in the way banks report revolving loans; such indicators also reward short loan tenors. The targets set for the Initiative in the Logframe were based on loans disbursed. In practice, measuring the increase in SME lending based on loans disbursed present two methodological complications. First, disbursed loans include both term loans and revolving credit. The fact that FIs renew revolving credit (and subsequently report it as a loan disbursed) on different timelines tends to obscure growth trends. Second, this methodology rewards short loan tenors while longer-term loans may have more impact on SME growth. For example, 12 one-month loans of $50 to one client over the course of a year would be counted as $600 and 12 loans disbursed, whereas one $50 yearlong loan would be counted only as $50 and one loan disbursed. This clouds an understanding of how an SME portfolio is growing, and makes it very challenging to compare PFIs to one another and aggregate results across PFIs. For methodological reasons, **from this point forward the Midterm Review will use net changes in the number and volume of outstanding loans to SMEs to assess PFIs SME portfolio growth.** Note that in the case of financial infrastructure projects, changes can only be assessed in disbursed loans. For instance, in credit registries the number of inquiries is translated into the number of loans disbursed. Similarly, in collateral registries, the number of registries made is translated into disbursed loans.

3. EVALUATION FINDINGS

3.1. STEP 1: LINK BETWEEN THE INITIATIVE'S ACTIVITIES AND PFIS' LENDING TO SMES

3.1.1. Leading indicators of change in partner financial institutions and financial infrastructure projects

PFIS WITH ADVISORY SERVICES

Because the Midterm Review is taking place early in the lifetime of the Initiative, it is too early to evaluate the results of the Initiative with respect to the target outcomes. For this reason, we have assessed a set of leading indicators to understand whether PFIs made changes within their institutions that were necessary to increase

SME lending. These indicators included, among others, setting up a dedicated SME unit or team, training the team, and developing new SME products and processes. These indicators have been used to gain an early picture of whether or not a PFI is on track to increase SME lending.

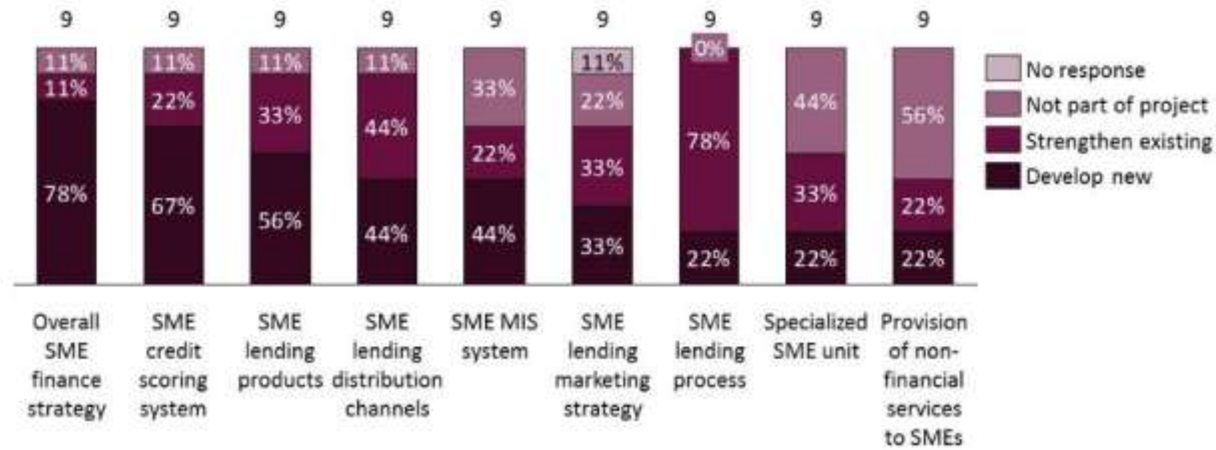
The leading indicator analysis is based on the case studies, a survey conducted in late 2014 with IFC project leaders (PLs) and investment officers (IOs) (the "PL and IO survey"). Note, however, that PLs or IOs responded to the survey for only 13 of the 24 PFIs with active projects as of September 2014[10], nine for advisory services projects and five for investment services projects (one PFI, ”PFI in West Africa”, had availed both services). As these are self-reported results, and the PLs and IOs may be inclined to report a more positive view of their projects, these results should be interpreted with caution—it is possible that the reported changes have been overstated. We triangulated the survey responses with qualitative information collected in IFC supervisory reports and interviews with seven PFIs. Note that the results in this section do not include the financial infrastructure projects.

The results show that there is a correlation between the PFIs' pre-intervention capacity to serve SMEs and the type of advisory services provided by the IFC, suggesting that IFC interventions were well designed. To compare the pre-intervention SME lending capacities of the PFIs we classified them into three categories: (1) nascent PFIs were those that did not have a dedicated SME unit prior to the IFC's involvement; (2) developing PFIs were those that did have a dedicated SME unit or team before the IFC's involvement but did not use parameterized lending; and (3) mature PFIs both had an SME unit or team and used parameterized lending. Nascent PFIs were more likely to receive advisory services while mature PFIs were more likely to receive investment services. This indicates that the IFC generally leads with advisory services. The in-depth interviews further supported this finding. At several PFIs, the management team was committed to serving the SME segment and willing to finance the launch of operations, but needed technical support to set up or strengthen the SME program. This was the case of ”PFI in MENA”, ”PFI in East Africa”, and ”PFI in East Africa”. Similarly, ”PFI in Central Africa” first received advisory services from the IFC to begin its SME operations and later qualified for a loan.

The breadth of changes led by advisory services projects addressed the needs of the PFIs to better serve the SME segment. We asked the IFC PLs to categorize the scope of changes brought by advisory services in several processes related to serving SMEs. The processes ranged from supporting the PFI in setting up a specialized SME unit within the FI (for nascent PFIs) to supporting the PFI with its lending distribution channels or providing non-financial services to SMEs (for mature PFIs). (Exhibit 13).

[10] Active projects include AS projects where implementation had started, and IS projects where loans had been disbursed or RSF had become effective. Surveys were completed for the following institutions: ”PFI in East Africa”, ”PFI in West Africa”, ”PFI in MENA”, ”PFI in West Africa”, ”PFI in West Africa”, ”PFI in East Africa”, ”PFI in West Africa”, ”PFI in East Africa”, ”PFI in West Africa”, ”PFI in East Africa”, ”PFI in South Asia”, ”PFI in West Africa”, and ”PFI in West Africa”. Surveys were <u>not</u> completed for: ”PFI in Central Africa”, ”PFI in Central Africa”, ”PFI in West Africa”, ”PFI in South Asia”, ”PFI in South Asia”, ”PFI in East Africa”, ”PFI in East Africa”, ”PFI in East Africa”, ”PFI in MENA”, ”PFI in South Asia”, ”PFI in Central Africa”, and ”PFI in South Asia”. In addition, there are four projects that were signed but were not requested to complete the survey, three of these because it was too early in the process (”PFI in East Africa”, ”PFI in East Africa”, and ”PFI in South Asia”) and in one case (”PFI in West Africa”) due to delays as a consequence of the Ebola crisis.

Exhibit 13. Breadth of services provided by the IFC in advisory services projects



Source: Sample size: 9. Survey to IFC PLs and IOs and Dalberg analysis

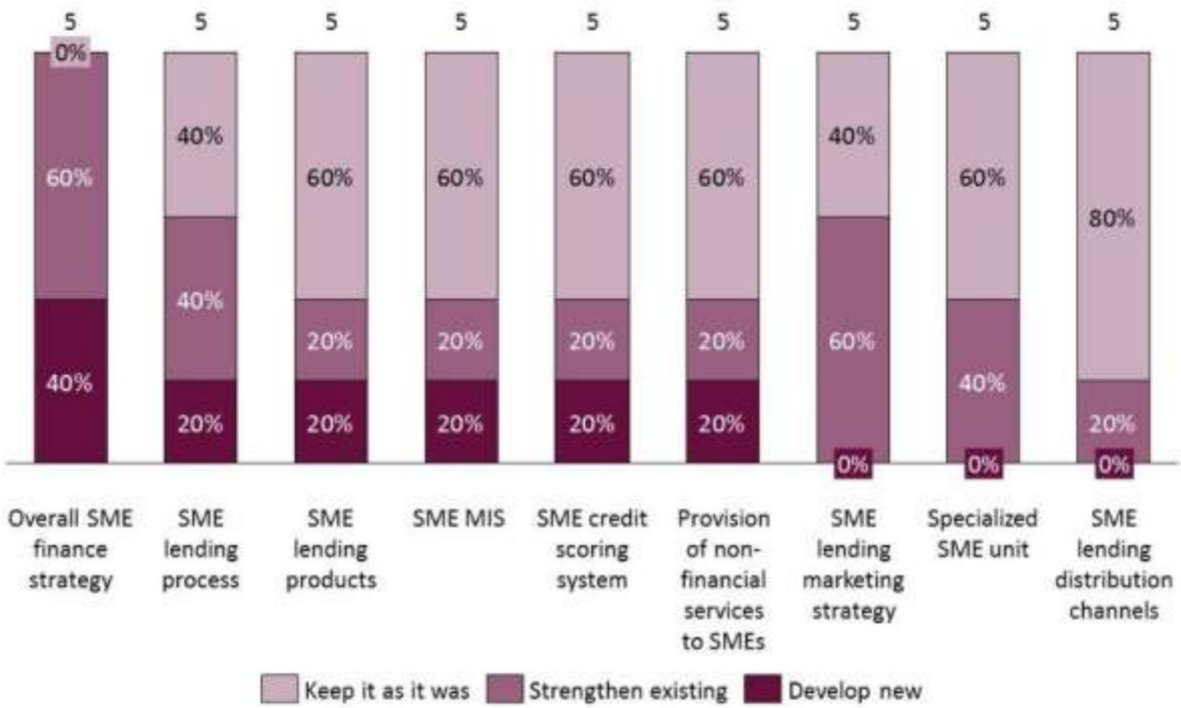
Advisory services clients have largely been implementing the IFC's recommendations; qualitative feedback indicates that the support has been instrumental in increasing SME lending. IFC PLs, when surveyed, indicated that in 62% of the AS projects, clients had implemented more than 75% of the IFC's recommendations, and that more than half of the recommendations had been implemented by virtually all SME clients. The perceptions of PLs were substantiated through qualitative case studies with PFIs, wherein the majority of advisory clients noted that IFC advisory projects played a critical role in building the institutional capacity necessary to ramp up SME investment. Technical aspects of the program, particularly with respect to SME credit assessment procedures, were typically cited as the most valuable aspect of IFC support. Clients also frequently noted that the involvement of the IFC had helped to elevate the status of SME programs with senior executives at their financial institutions.

PFIs WITH INVESTMENT SERVICES

Investment services were intended to encourage PFIs to increase SME lending by either making available additional capital in the form of loans or sharing the risk of lending to SMEs through risk sharing facilities (RSFs). For example, "PFI in Central Africa" and "PFI in West Africa" were capital-constrained—as indicated by the low deposits to loans ratio—and therefore took IFC loans to raise needed capital to increase their SME lending portfolio. "PFI in South Asia", "PFI in South Asia", on the other hand, had a large deposit base (deposit-to-loan ratio of 3.4). However, at the time of the investment the bank was looking to add longer term liabilities to the balance sheet. In several cases the investment services were also intended to encourage PFIs to target new, underserved client segments. In the survey, 80% of IOs said that the investment services were intended to encourage PFIs to target new client segments. For example, [redacted due to client confidential information] the [redacted due to client confidential information] loan provided to "PFI in South Asia" included [redacted due to client confidential information] subsidy to serve women-owned SMEs and SMEs in low-income states (LIS) in "Country in South Asia". Similarly, the RSF at "PFI in West Africa" allocated 30% of the guarantee to agricultural SMEs and 25% to women-owned SMEs while small distributors for a large Company were the target of the RSF at "PFI in West Africa".

The data suggests that the IS projects have also helped or encouraged PFIs to further improve their institutional capacity for SME lending. While the investment services are not directly targeted at supporting improvements in capacity to serve SMEs, the IOs observed changes within the PFIs after the IFC's investment was made. For example, 40% of the PFIs developed a new SME finance strategy and 60% strengthened the existing strategy. Similarly, 20% of PFIs developed new lending processes and lending products and an additional 20% strengthened the existing ones. Twenty percent of PFIs developed new management information systems (MIS) and credit scoring systems (Exhibit 14). These results suggest that the IFC's investment services have had a positive spillover effect on the PFIs' institutional capacity.

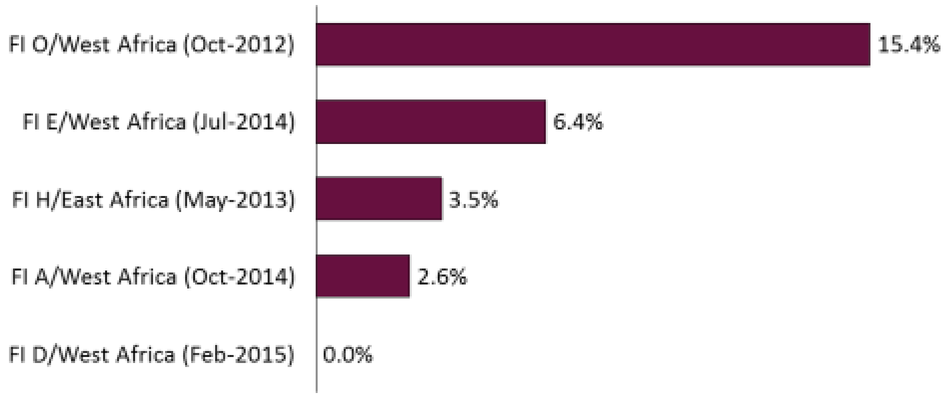
Exhibit 14. Observed changes in the PFIs' capacity to serve SMEs after receiving investment services



Source: Sample size: 5. Survey to IFC PLs and IOs and Dalberg analysis

It is too early to understand the impact the RSFs are having on lending; however, there are indications that these projects would have a larger impact if accompanied by advisory services. To date the five active RSFs have relatively low utilization rates, with "PFI in West Africa" using 15.4% of the facility, "PFI in West Africa" using 6.4%, "PFI in East Africa" using just 3.5%, and "PFI in West Africa" 2.6%. "PFI in West Africa" is not yet effective and therefore has not registered any loans in the RSFs to date (Exhibit 15). According to IFC staff members, the low utilization rates of the RSFs are due to a combination of factors. Delays on the part of PFIs in fulfilling all of the IFC's E&S requirements have been a factor in four of the five RSFs and still remain an issue in one. Without E&S compliance, the guarantee provided by the RSFs is not effective. In the case of "PFI in East Africa", the low utilization is partly explained by the cost of using the RSF. Between 2013 and 2014, interest rates in "Country in East Africa" fell from 18.1% to 16% (Central Bank), decreasing the margin for lending to SMEs. This, together with the cost of using the RSF, has made registering loans on the RSF financially unattractive.

Exhibit 15. RSF utilization rate (%)



Note: RSF effective date in parenthesis. Source: PFI interviews, IFC supervision reports and Dalberg analysis. Data from December 2014 except FI D/West Africa which is from June 2014.

RSFs are designed to encourage the PFIs to reach different SME segments, which suggests that PFIs will have to identify new clients, introduce new products, and establish new distribution channels before registering loans on the RSF. This not only requires time to develop the new systems and products, but may also require additional expert support. The IFC usually tries to cross-sell RSFs with advisory services to accompany the PFIs in the processes of setting these up. However, because several of these PFIs have large parent companies and the PFIs would have to cover at least 50% of the cost of AS, PFIs usually take the RSF without the AS. To address this issue going forward, IFC is conducting E&S training in the region and has approved new advisory engagements with ”PFI in West Africa”, “PFI in West Africa” (also expected to help ”PFI in West Africa”) and ”PFI Group/Regional Africa”.

Interviews with PFIs about how additional IFC's investments were, offered a mostly positive but nuanced picture. Some PFIs reported a very strong sense of additionality, for example, the Director of ”PFI in Central Africa” noted that the IFC loan was the primary source of capital that has enabled growth in the SME portfolio. Others were more nuanced. For example, the SME team at ”PFI in West Africa” team stated in an interview to the Evaluation Team that they valued the investment, but had challenges managing foreign currency risk given that the loan was denominated in USD[11]. Other PFIs offered a more mixed picture, depending on who within the PFI was offering their perspective. For example, representatives of the ”PFI in South Asia” SME business unit stated in an interview with the Evaluation Team that the bank is not a capital constrained bank, and therefore that getting additional capital was not the main driver to take the IFC loan[12]. However, IFC regional teams note that the products availed by both institutions were helpful in adding longer term liabilities to their balance sheets. Some representatives at ”PFI in South Asia” offered a perspective to the Evaluation Team that the incentives provided by DFID for reaching targeted segments (Women, Low Income States) may have been more additional to the PFI than the overall loan amount.

[11] Noted by ”PFI in West Africa” SME team during interview with the Evaluation Team in West Africa city (November 2014)
[12] Noted by ”PFI in South Asia” SME team during interview with Evaluation Team in South Asia city (October 2014)

FINANCIAL INFRASTRUCTURE PROJECTS

The 13[13] financial infrastructure projects are mostly in the midst of implementation. Eight of the 13 projects are in their first phase of implementation—that is, in the process of drafting and approving the legal framework. Note, however, that in some cases, due to delays in the process of legislation approval in parliament, the IFC has begun working on the second phase – development of the collateral registry or bureau. This is the case of the STCRs in "STCR in West Africa", "STCR in LAC", and "STCR in West Africa". Only two projects, the STCRs in "STCR in MENA" and "STCR in West Africa", have advanced to the stakeholder capacity building phase and have the infrastructure running.

According to qualitative ratings based on the stakeholder interviews, the magnitude of the change affected in each of the financial infrastructure projects is relatively large. We qualitatively assessed the scope of change based on the project documentation and stakeholder interviews. In the stakeholder interviews, we asked PLs and government counterparts to describe the breadth of the changes undertaken by the financial infrastructure projects. For the credit bureaus, these changes varied from capacity building and technical assistance to enhancing the quality of the data reported to the credit bureau (in the case of "Country in West Africa") to developing the first ever credit bureau in the country (in the case of "Country in Southeast Asia"). For the STCR projects, the magnitude of changes varied from updating an existing law to include movable collateral (in "Country in South Asia") to drafting the nation's first secured transactions law and developing the first collateral registry (in "Country in MENA").

3.1.2. Observed Changes in Lending to SMEs

CHANGES IN QUANTITY AND VALUE OF SME LENDING BY PFIS

Although the IFC has provided advisory and/or investment services to 33 PFIs to date, the analysis of changes in the quantity and value of SME lending includes only 21[14] PFIs with enough track record for analysis; results for financial infrastructure projects are not included because few of them are at a stage where this data is being collected[15]. The 33 PFIs include those with AS projects that are in implementation or post-implementation, and IS projects that have been disbursed; 12 of these were not included in the analysis. In the majority of cases (10 PFIs), the PFIs were not included because the projects are relatively new and PFIs are not reporting results yet. The results presented in this section do not include the financial infrastructure projects supported by the Initiative. These projects have not been included in the estimation of new loans because only 2 (STCRs in MENA and STCR in West Africa) out of the 14 financial infrastructure projects under way have already been set-up and are working, and only the "STCR in MENA" is reporting results.

The 21 PFIs that reported baseline and current value of outstanding loans increased SME lending by $2.5 billion between March 2012 and December 2014. The median compound annual growth rate (CAGR) during this period for the 21 PFIs was 32%. In terms of number of loans, as of December 2014, the 21 PFIs under

[13] Note that to May 2015, there were 14 financial infrastructure projects under implementation. However, at the time when the Evaluation Team conducted the Thematic Review of Financial Infrastructure Projects, the Credit Bureau project in "Country in South Asia" had not begun, and therefore it was not included in the analysis.

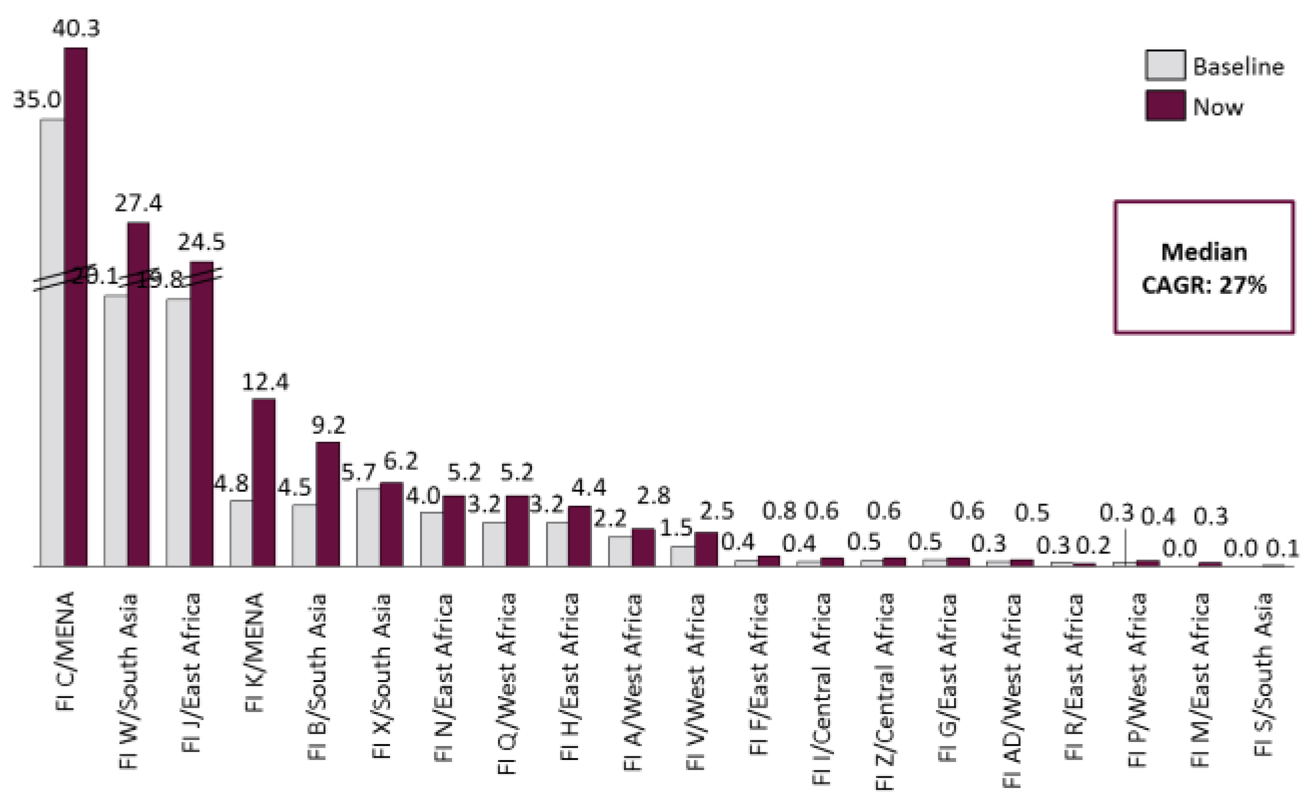
[14] PFIs included in the analysis are: "PFI in Central Africa", "PFI in East Africa", "PFI in East Africa", "PFI in East Africa", "PFI in West Africa", "PFI in East Africa", "PFI in Central Africa", "PFI in West Africa", "PFI in South Asia", "PFI in West Africa", "PFI in East Africa", "PFI in MENA", "PFI in West Africa", "PFI in South Asia", "PFI in West Africa", "PFI in West Africa", "PFI in MENA", "PFI in South Asia", "PFI in East Africa", "PFI in East Africa".

[15] The STCR project in "STCR IN MENA" is the only one reporting results to date.

analysis had increased SME lending by 37,924 loans with (Exhibit **16** and **For the majority of the PFIs in our sample, following the IFC's intervention, SME lending grew at a faster rate than the overall lending portfolio.** As a result, across the portfolio, the share of SME lending as a share of total assets increased by 40% (Exhibit 18). This suggests that the IFC advisory and investment services had a positive effect on the PFIs' SME programs, helping them grow at a faster rate than overall bank activities. "PFI in Central Africa", "PFI in East Africa", and "PFI in East Africa" have the largest share of SME loans, reaching 78%, 58%, and 53% respectively. The largest increases in the SME portfolio as a share of total loans occurred in "PFI in East Africa", "PFI in MENA", and "PFI in West Africa". The IFC played a different role in these banks; "PFI in West Africa" received a loan to scale up from microenterprises to SMEs, "PFI in East Africa" also received a loan, although to scale-down from corporates to SMEs, and "PFI in MENA" received advisory services to develop a new SME banking strategy. The fact that "PFI in Central Africa" and "PFI in West Africa" are microfinance institutions partly explains why a large share of their total assets consist of SME portfolios. These banks' other clients are likely to be microenterprises with small-sized loans, making it easier for SME lending to achieve a large share of total assets than at banks such as "PFI in South Asia" and "PFI in East Africa", where other clients include large corporations.

Exhibit **17**). Note that these 21 PFIs represent 18.7% in DFID investment capital (in blended finance IS transactions) and 13.1% in DFID funding for advisory.

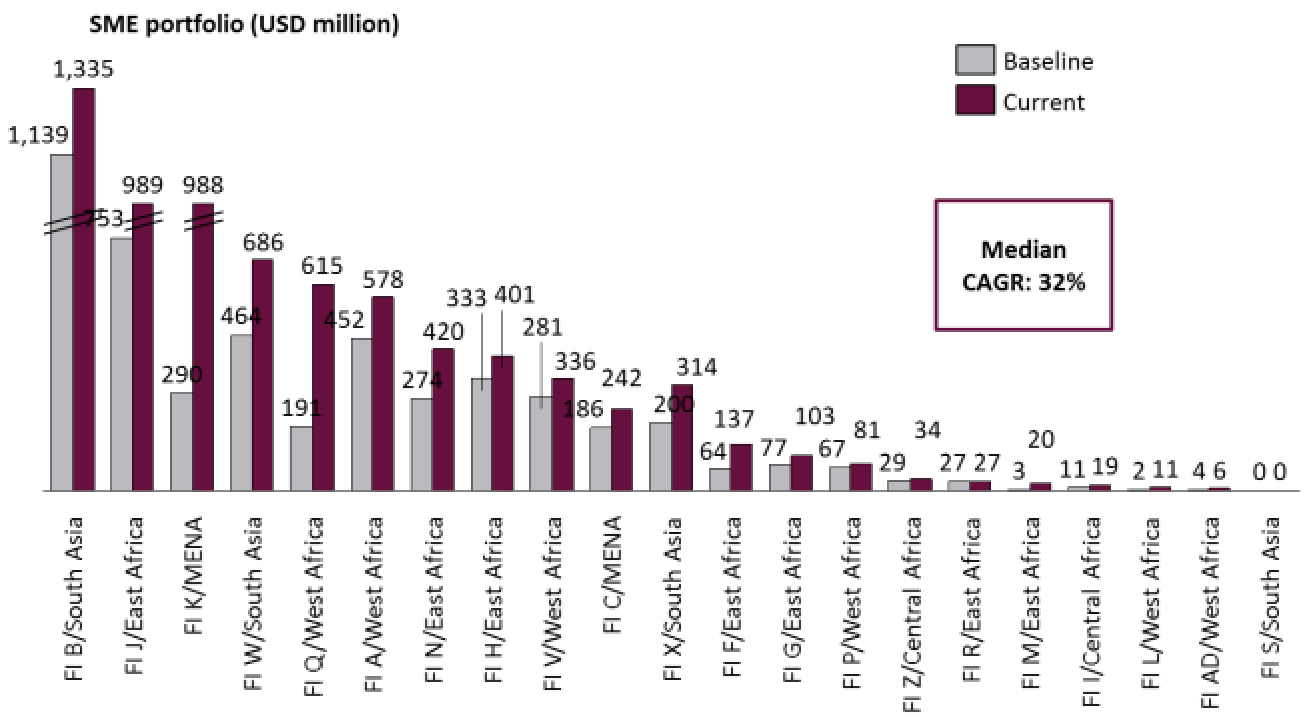
Exhibit 16. Increase in outstanding SME loans by PFI (thousands of loans)



Source: IFC documentation, April 2015.

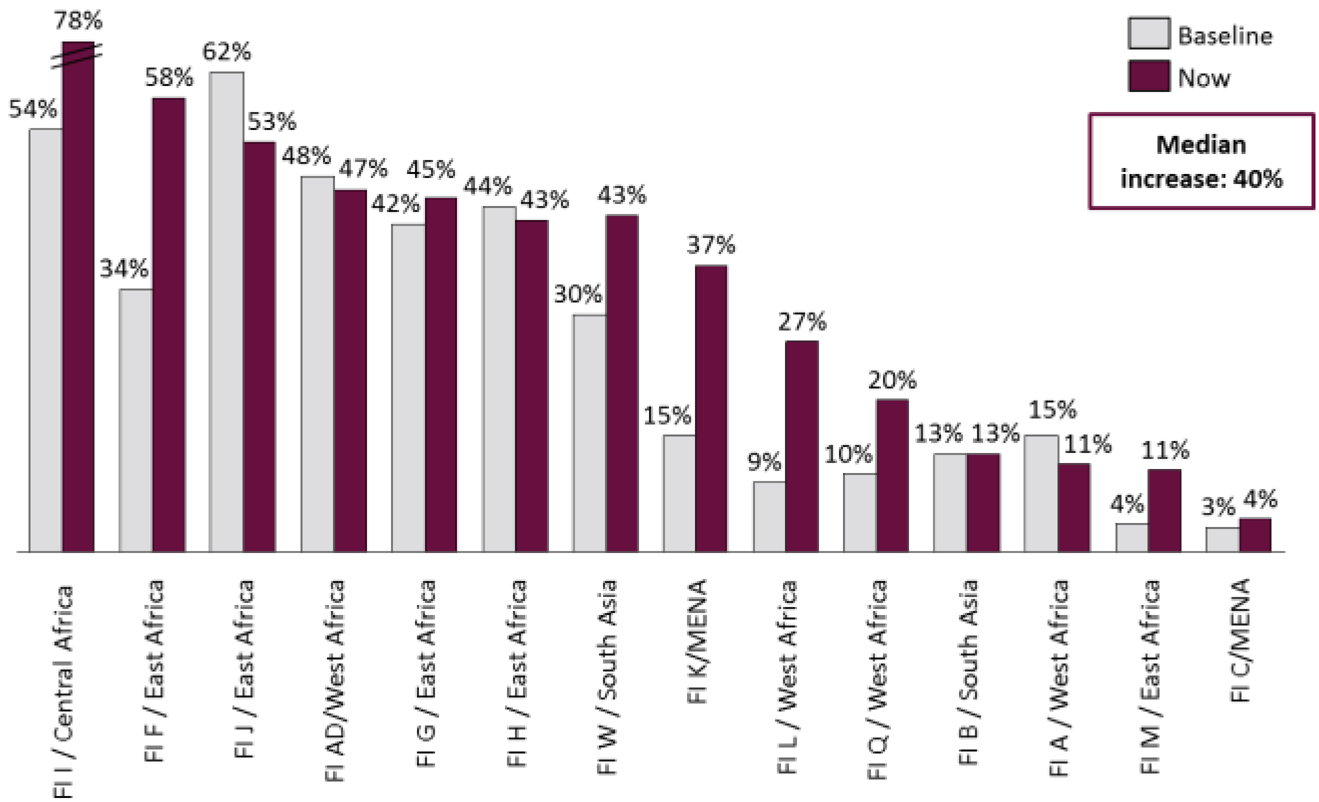
For the majority of the PFIs in our sample, following the IFC's intervention, SME lending grew at a faster rate than the overall lending portfolio. As a result, across the portfolio, the share of SME lending as a share of total assets increased by 40% (Exhibit 18). This suggests that the IFC advisory and investment services had a positive effect on the PFIs' SME programs, helping them grow at a faster rate than overall bank activities. "PFI in Central Africa", "PFI in East Africa", and "PFI in East Africa" have the largest share of SME loans, reaching 78%, 58%, and 53% respectively. The largest increases in the SME portfolio as a share of total loans occurred in "PFI in East Africa", "PFI in MENA", and "PFI in West Africa". The IFC played a different role in these banks; "PFI in West Africa" received a loan to scale up from microenterprises to SMEs, "PFI in East Africa" also received a loan, although to scale-down from corporates to SMEs, and "PFI in MENA" received advisory services to develop a new SME banking strategy. The fact that "PFI in Central Africa" and "PFI in West Africa" are microfinance institutions partly explains why a large share of their total assets consist of SME portfolios. These banks' other clients are likely to be microenterprises with small-sized loans, making it easier for SME lending to achieve a large share of total assets than at banks such as "PFI in South Asia" and "PFI in East Africa", where other clients include large corporations.

Exhibit 17. Increase in outstanding SME loans by PFI ($ million)



Source: Bank financial reports from baseline quarter and most recent quarter; IFC portfolio data; PFI data provided to assessment team

Exhibit 18. Increase in SME lending portfolio as a percent of total lending portfolio

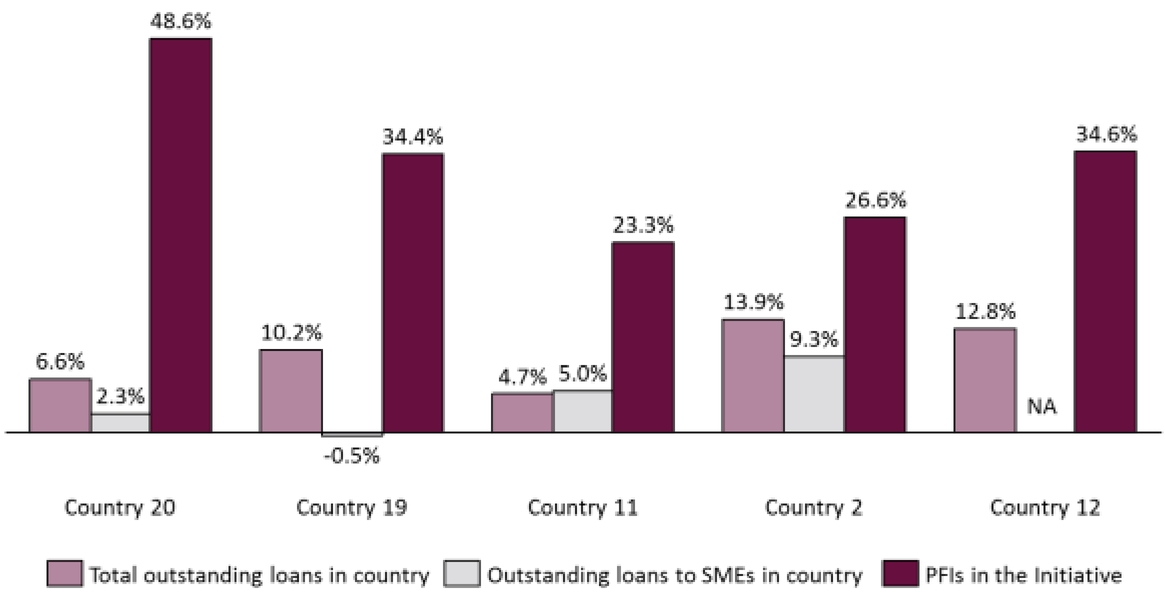


Source: Bank financial reports from baseline and December 2014; IFC portfolio data; PFI data provided to assessment team

The PFIs in the Initiative grew their SME portfolios at a faster rate than the overall financial sector in the countries where they are located, which may suggest that the IFC's services played a role in supporting PFIs to expand their SME portfolios. We compared the compound annual growth rates (CAGRs) of the SME portfolios in the Initiative to the CAGR of the overall market in select countries where the Initiative operates, specifically to (a) total outstanding loans to the private sector and (b) total outstanding loans to SMEs. While this comparison indicates that these PFIs are outperforming their peers (Exhibit 19) and is yet another indication that the IFC's services are contributing to this growth, it does not mean that the growth is fully attributable to the IFC's services. It is important to note that (1) the definition of SMEs differs between those adopted by the Central Banks and the one adopted by the banks, meaning that in most cases we are not comparing exactly the same metric, (2) that the PFIs in the portfolio have not been randomly selected, and would unlikely have performed exactly as the overall market without IFC intervention, and (3) that the timeline[16] of analysis differs between PFIs in the Initiative and the overall market.

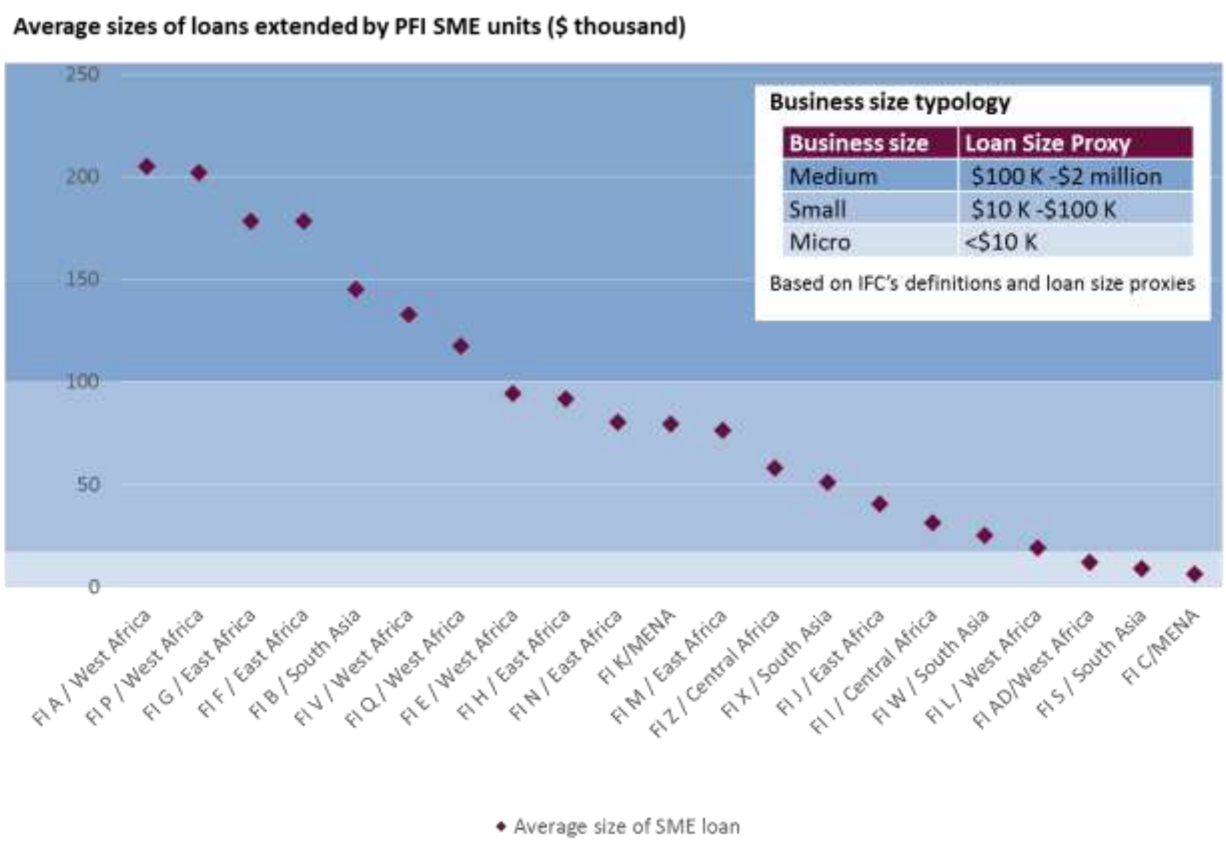
[16] The CAGRs for outstanding loans to the private sector and SME outstanding loans for the market was calculated between December 2012 and December 2014.

Exhibit 19. CAGR of total outstanding loans to the private sector in country, outstanding loans to SMEs in country, and outstanding loans in PFIs in the Initiative



(1) CAGR for SMEs includes only outstanding loans to small enterprises. (2) There was no available data for SME outstanding loans in Country 12. (3) In countries where more than one PFI received services from the Initiative, we estimated the weighted CAGR based on current SME outstanding loans. In Country 20 we included data for FI K/MENA and FI C/MENA, Country 19 includes FI A / West Africa, FI Q / West Africa and FI P / West Africa, Country 11 includes FI B / South Asia, Country 2 FI w / South Asia and FI X / South Asia, and Country 12 FI J / East Africa.
Source: Central Banks of Country 20, Country 19, Country 11, Country 2, and Country 12, IFC documentation April 2015, and Dalberg analysis.

Exhibit 20. Loan size ranges by PFI ($)



Source: PFI data, IFC Supervision reports, PFI interviews; Capital IQ, Bloomberg, SME Toolkit and Dalberg analysis

The average loan size indicates that the majority of PFIs are serving mostly small enterprises. The average loan for most of the PFIs in our sample is between $10,000 and $100,000, which, following the IFC's definition of SMEs based on loan sizes, indicates that the average client is a small enterprise. (Exhibit 20). Nonetheless, the range of loan sizes available indicates that these PFIs are targeting both small and medium-sized enterprises.

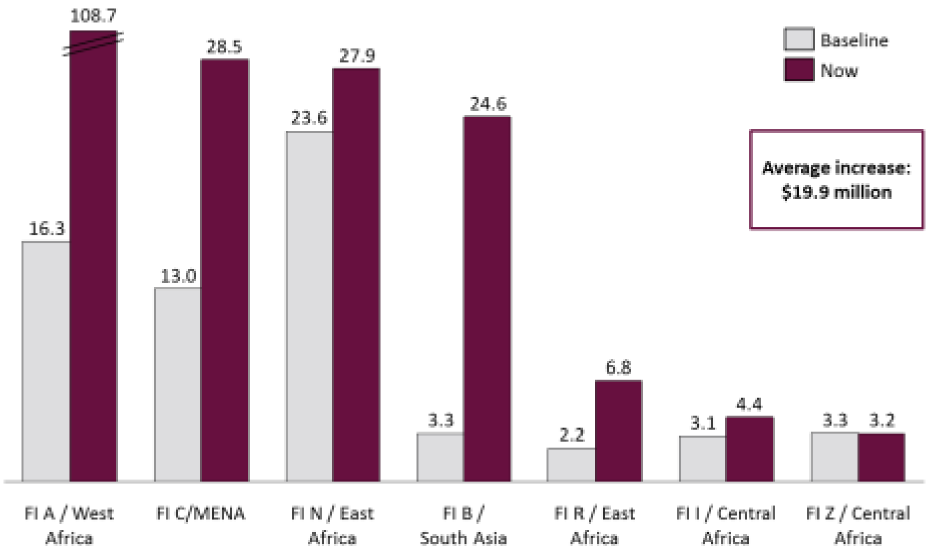
OBSERVED CHANGES IN LENDING TO WOMEN-OWNED SMES

The Initiative is aiming to have at least 25% of the firms that benefit from the PFI lending be women-led. This would translate into reaching 50,000 women led SMEs by 2019, based on an overall target of reaching 200,000 SMEs.

It is not possible to assess whether the Initiative is on track to meet gender targets, because many PFIs have not been able to report on their women-owned SME portfolio and there is reason to believe those who are reporting are under reporting. Only seven PFIs have reported the gender of the business owner or top manager for their SME clients. An additional three PFIs reported the baseline and current number of loans to women-owned SMEs. The ten PFIs that provided information for number of loans reported a combined increase of 4,127 in the number of loans to women-owned businesses after the IFC's intervention. Three of the seven PFIs that provided information were PFIs that received advisory services focused on increasing women-owned firms: "PFI in West Africa" (WIN AS project), "PFI in South Asia" (IS loan with subsidy to reach female entrepreneurs), and "PFI in MENA" (WIN AS project).

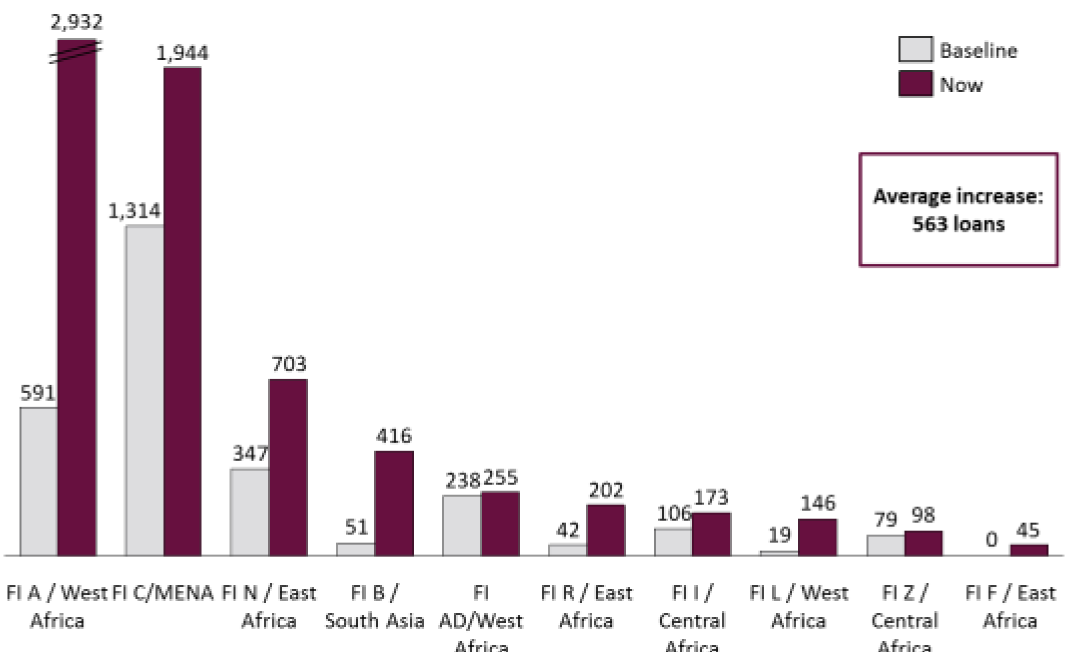
Most of the PFIs that are reporting demonstrated gains in their women-owned SME portfolio (Exhibit 21 and Exhibit **22**). Across the portfolio as a whole, the average CAGR in the growth of the value of loans to women-owned SMEs was 265%, primarily because most PFIs were starting from such a small base. "PFI in West Africa" had the largest overall increase in SME lending to women-owned SMEs. Between December 2012 and December 2014, outstanding loans for women-owned SMEs increased in $92.4 million, reaching $108 million, growing at a CAGR of 159%.

Exhibit 21. Total value of outstanding SME loans to women-owned SMEs by PFI ($ million)



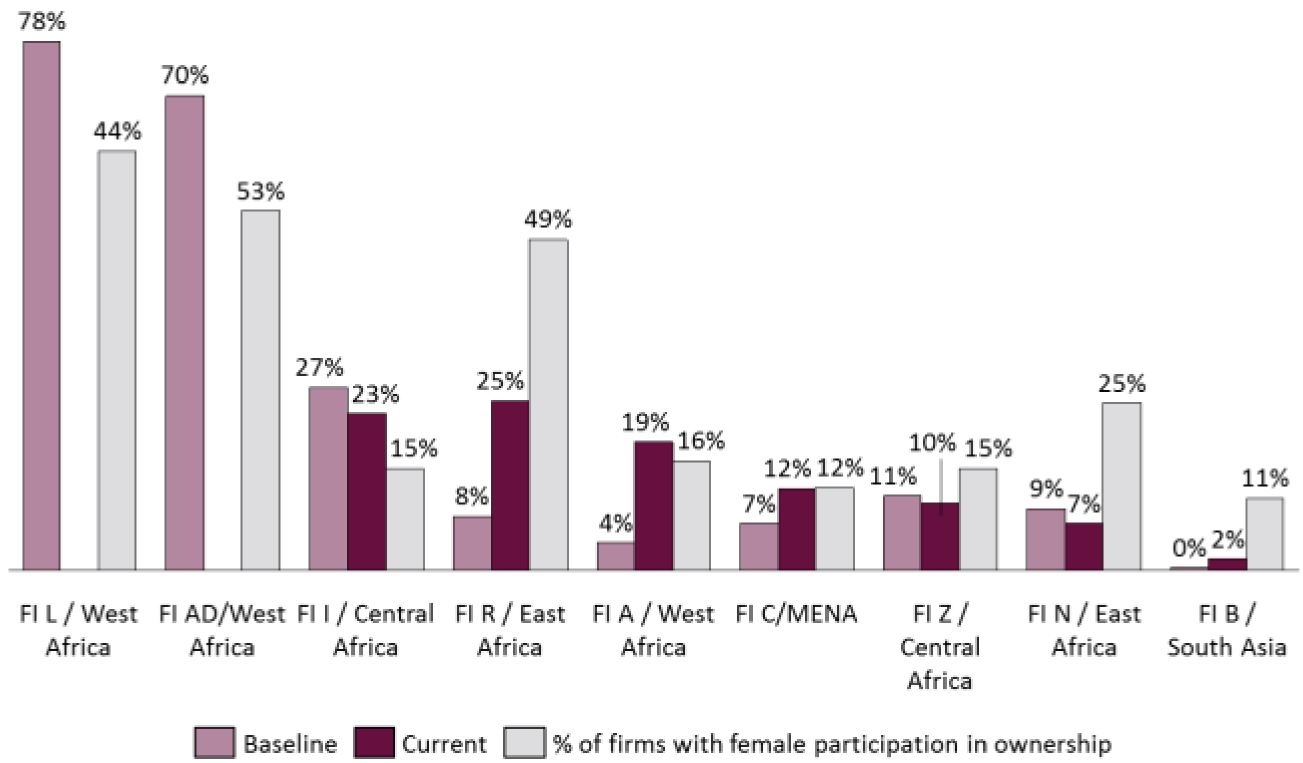
Source: Bank financial reports from December 2014; IFC portfolio data; PFI data provided to assessment team

Exhibit 22. Total number of outstanding SME loans to women-owned SMEs (number of loans)



Source: Bank financial reports from December 2014; IFC portfolio data; PFI data provided to assessment team

Exhibit 23. Increase in the share of outstanding loans to women-owned SMEs by PFI and % of firms with female ownership in country

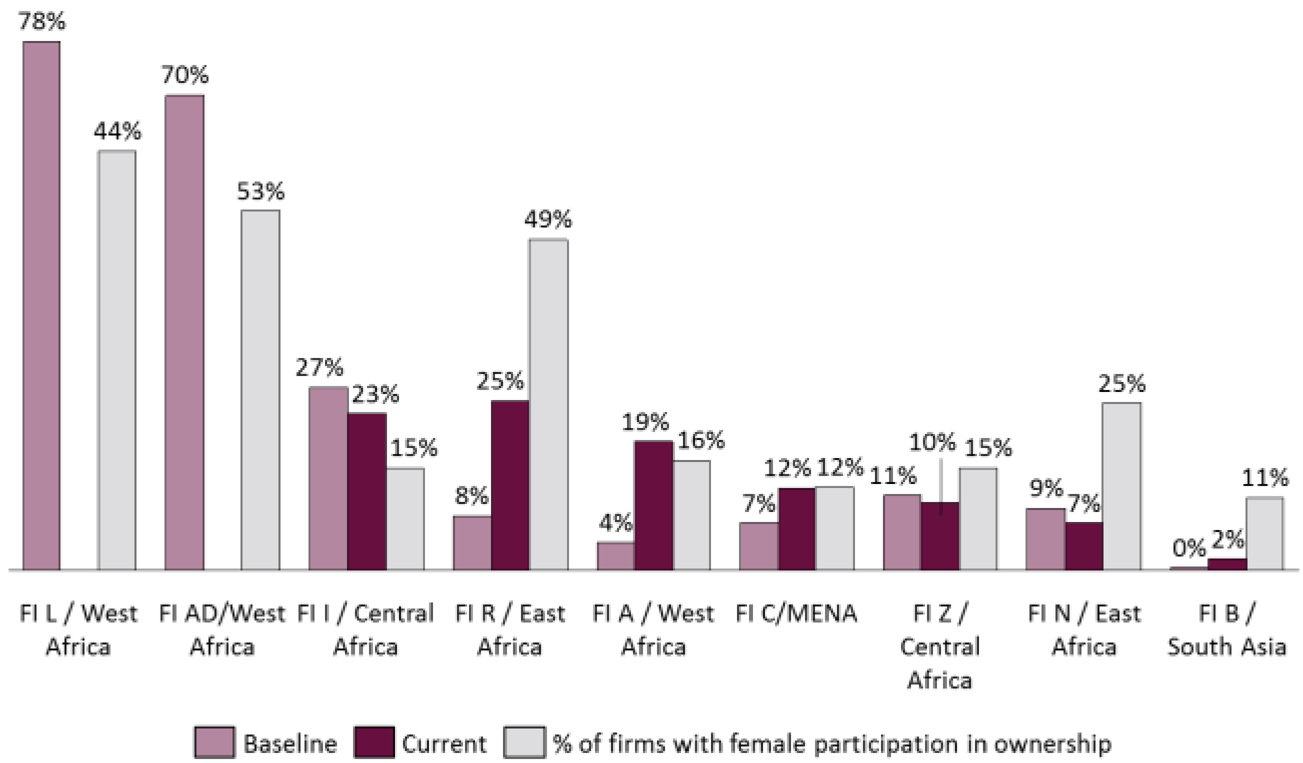


Source: IFC DOTS and ASOP data December 2014, PFI data, and World Bank Enterprise Survey

Some of the PFIs in the Initiative are out-performing national benchmarks for lending to female-owned SMEs. Across the nine PFIs for which there is some information about women-owned clients, there are five PFIs in which women-owned SMEs as a share of the total SME portfolio is larger than the women-owned SMEs in the country[17]. According to the head of SME banking at "PFI in Central Africa", female entrepreneurs are a very important client segment. This is also related to the fact that "PFI in Central Africa", "PFI in West Africa" and "PFI in East Africa" are MFIs, which traditionally have a larger percentage of female clientele. Our analysis suggests that, "PFI in East Africa", and "PFI in South Asia", "PFI in South Asia" have considerable room to grow in serving SMEs led by women. In addition, the IFC recently made a new loan to "PFI in South Asia" through the Women Entrepreneur Opportunity Facility, indicating the bank's interest in expanding its women-owned SME portfolio.

Exhibit A - 1. Increase in the share of outstanding loans to women-owned SMEs by PFIs and % of firms with female ownership in the country

[17] The definition used by the Enterprise Survey counts firms in which females own any portion of the company, while the definition used by the Initiative counts firms where women own at least 50% of the company, or serve as the top-manager in the company. Given that the indicator used by the Initiative is more conservative, we believe this to be a valid comparison



Source: IFC DOTS and ASOP data December 2014, PFI data, and World Bank Enterprise Survey

The key challenges that PFIs are facing to realize the full potential of serving women-owned SMEs include a lack of understanding of the segment, a lack of perceived value of targeting women-led firms, and additional costs of reaching women. According to the World Bank's *Women, Business and the Law* report (World Bank, 2014), women-owned SMEs are more likely to be smaller, home-based, and informal. These characteristics make it harder to collect and track general information about women-owned SMEs, diminishing the amount of market information available for this segment. In addition, the small size of women-owned enterprises often limits their ability to build credit histories. In many countries, public credit registries and private bureaus only record loans above a certain threshold, excluding small borrowers like female entrepreneurs (World Bank, 2014). The lack of information results in (a) a lack of understanding of the specific needs of the segment, (b) a lack of understanding on how to reach the segment, and (c) a lack of interest in the segment. In recent years, several initiatives have surfaced that aim to increase the amount of information available on women-owned SMEs (e.g. Data2x Initiative, the IFC's Gender Report, 2014). IFC's Gender Report showed that out of 2,200 enterprises receiving financing from 34 IFC client financial institutions in 25 countries, about 16.4 – 18.5 percent of the loans were issued to women-owned SMEs.

Observed Changes in Lending To SMEs in Fragile and Frontier Markets

In fragile and frontier markets the Initiative has led with advisory services and is now following with investment services. Of the 33 PFIs the IFC was supporting by March 2015 (AS projects in implementation or post-implementation and IS signed and disbursed transactions) 17 were in fragile and frontier countries[18]. Of these 17 PFIs, 16 were supported with advisory services (”PFI in Central Africa”, the one PFI who was supported only with investment services, had previously received advisory services form the IFC under a different imitative). Three of these PFIs have subsequently become IS clients. The Initiative has also recently mandated six new investment transactions in fragile and frontier markets, which have been facilitated by the IFC’s recent initiative to support the ready-made garment (RMG) industry in South Asian country and a new partnership with ”PFI Group/Regional Africa” an African Banking conglomerate. The large number of advisory projects position the Initiative well to reach overall targets for fragile and frontier markets, while the six new investment projects position the Initiative well to meet IS targets for fragile and frontier markets.

As of December 2014 there were 11 PFIs in fragile frontier markets reporting results; showing an increase in SME lending of $1.7 billion, surpassing the targets set in the Logframe. The median CAGR for the increase in value of lending to SMEs in fragile and frontier markets was 30%, below the Initiative’s overall median CAGR of 45.5%. The 11 PFIs reported a total increase of 24,126 loans.

3.1.3. Efficiency of the Investments and Subsidy for Increasing SME Lending

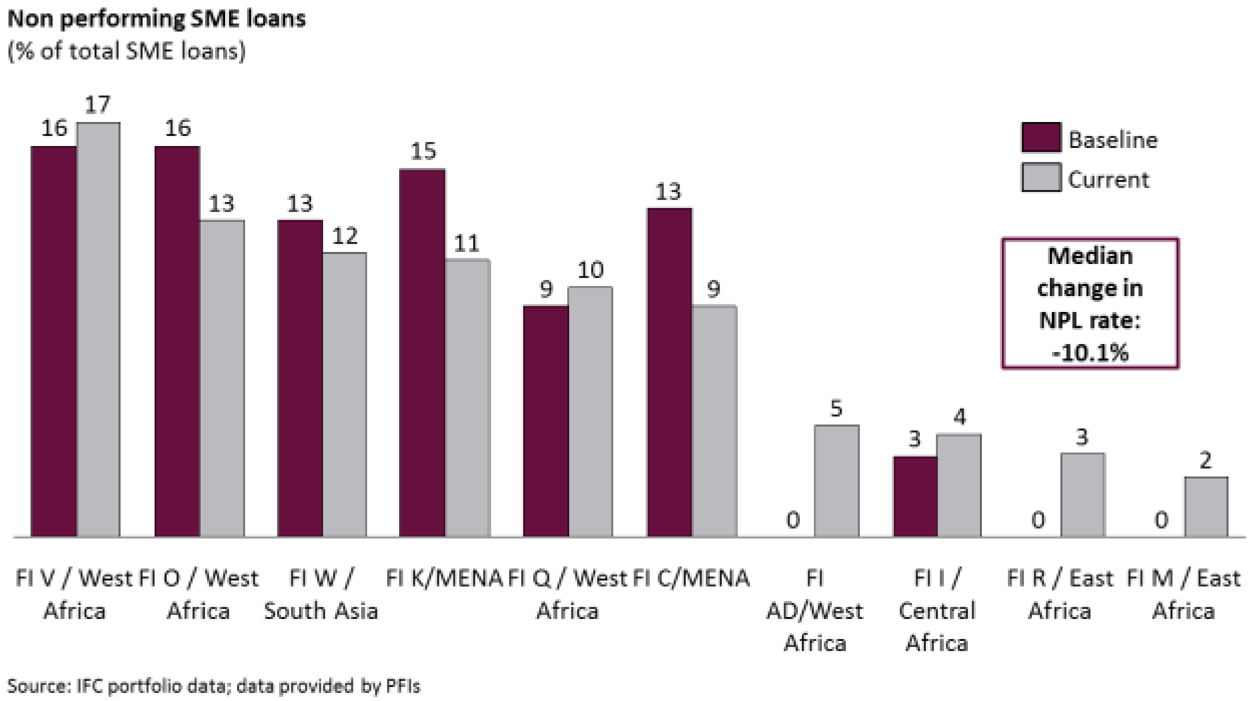
[Section below is redacted due to client confidential information]

3.1.4. Sustainability of the Increase in SME Lending

The observed changes in processes within the PFIs and the qualitative perceptions of heads of SME banking in several PFIs indicate that the increase in SME lending is likely to be sustainable. Based on the analysis of leading indicators, the majority of PFIs in the Initiative’s portfolio have introduced changes into their internal strategies and processes to strengthen their SME programs. These conclusions were corroborated in the in-depth interviews we conducted. For example, the head of retail and SME banking in ”PFI in East Africa, which has traditionally been a corporate bank, remarked that the IFC’s project helped the bank build the SME lending platform, leaving ”PFI in East Africa” in a strong position to scale its SME activities. In addition, most of the banks exhibited a positive mindset toward lending to SMEs. For instance, the heads of SME banking at ”PFI in MENA”, ”PFI in West Africa”, and ”PFI in South Asia” argued that the SME segment was at the core of their activities and value proposition.

[18] In the Midterm Review, the Evaluation Team is using the DFID definition of Fragile and Frontier countries, not the World Bank Definition. These include: Afghanistan, Bangladesh, DRC, Liberia, Malawi, Mozambique, Nepal, Nigeria, Pakistan, Rwanda, Sierra Leone, and South Sudan.

Exhibit 24. Non-performing SME loans by PFI (% of total SME loans outstanding)



Increases in SME lending have coincided with decreases in non-performing loans (NPLs) across most of the portfolio. Information about NPLs was available for ten of the PFIs supported by the Initiative. NPL percentages decreased by about 10% across these ten PFIs; the largest decreases were experienced by those PFIs that began the project with the highest rates of NPLs. Historically, high NPL rates have been the primary reason that financial institutions have avoided SME lending. The success that PFIs are experiencing in limiting and reducing NPLs suggest that these organizations are likely to sustain increases in SME lending (Exhibit 24).

3.2. STEP 2 AND STEP 3: LINK BETWEEN SME LENDING AND SME GROWTH AND JOB CREATION

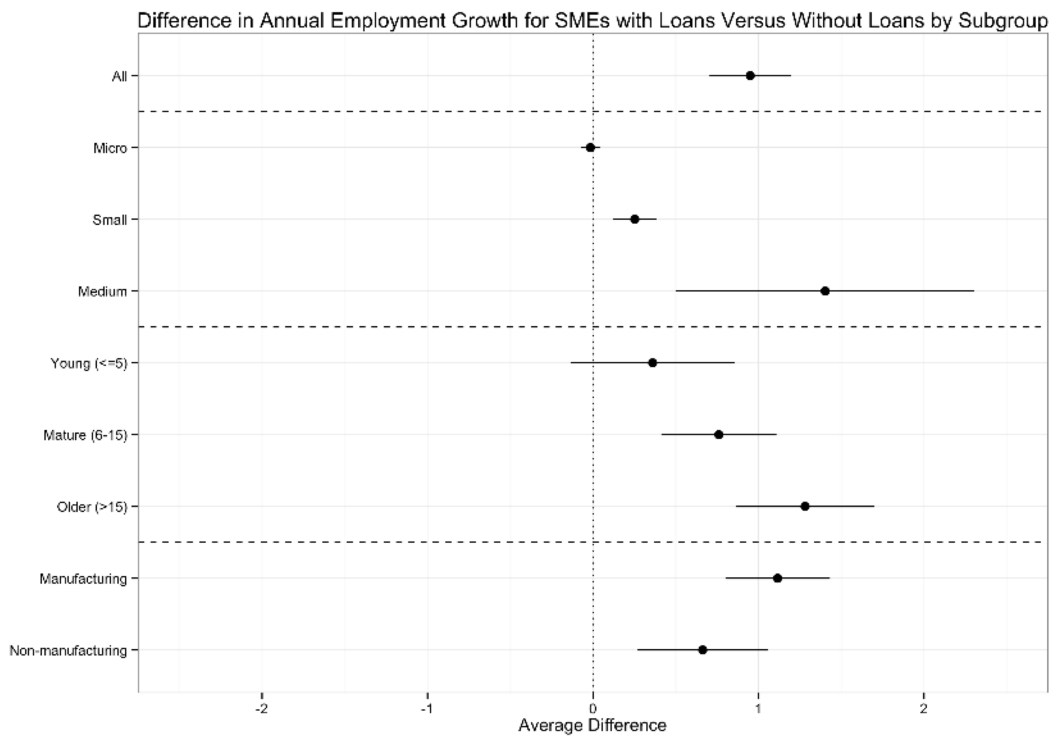
In this section we present evidence that there is a positive relationship between having access to finance and SME growth in the countries where the Initiative operates[19]. The analysis is based on data from the World Bank Enterprise Survey (ES)[20]. Although the analysis includes a random sample of SMEs, instead of SME clients of the PFIs in the Initiative, these results suggest that the Initiative is likely to have a positive effect on SME growth. It also raises interesting questions regarding the type of SMEs that the Initiative should target to maximize the effects on job creation.

[19] The results for Steps 2 and 3 are presented together because we have used similar methodologies to assess the impact of finance on sales and job growth.

[20] In the case of "Country 19", the analysis takes into account only a subset of enterprise survey data – those SMEs with a relationship with "PFI in West Africa", one of the Initiative's PFIs.

The analysis based on the ES data shows that there is a positive relationship between having access to finance and SME growth, suggesting that the Initiative is poised to have a positive effect on SME growth. We found that firms that had a bank loan or credit line grew on average by one more job per year and increased annual sales by nearly $200,000 more than firms with no access to finance. The effects of access to finance on SME growth were larger in medium-sized enterprises, older firms, and firms in the manufacturing sector (Exhibit 25). This finding is different from the results of other studies (Kok et al., 2013 and IFC, 2013), which found that access to finance has larger effects on job creation in micro and small enterprises. In our case, it is possible that the larger effect on medium-sized enterprises is driven by a larger gap in access to finance in the medium-sized segment. In the countries in our sample, a smaller percentage of medium-sized enterprises have access to a loan or credit line than medium enterprises in their regions. The larger effect on medium enterprises can also be a result of looking at absolute changes rather than percentage changes.

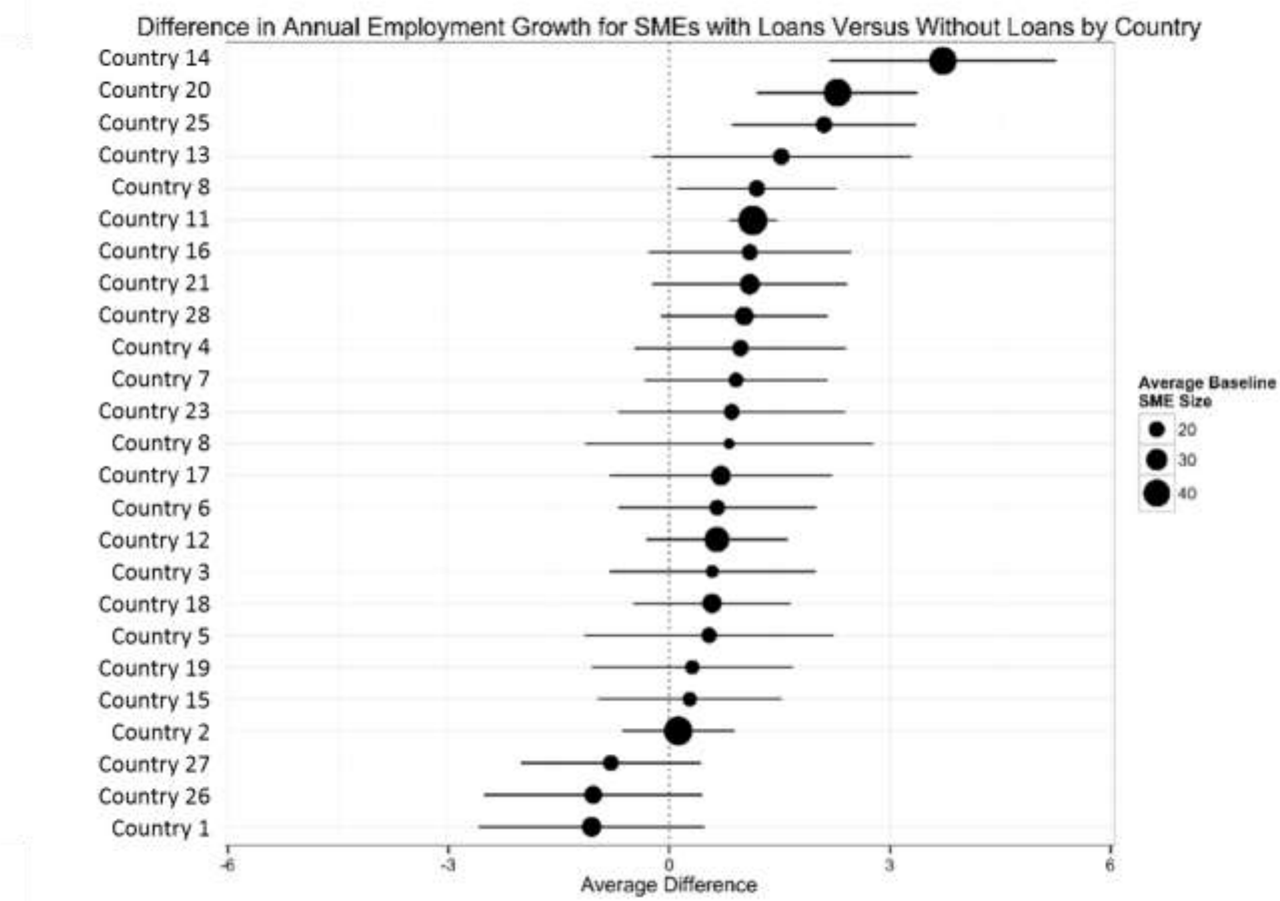
Exhibit 25. Difference in annual employment growth for SMEs with loans versus SMEs without loans by subgroup



The results show that the effects of finance on job creation differ dramatically by country (Exhibit 26). The differences in the effects of finance on job creation by country seem to be correlated with economic growth at the time of the survey. "Country in East Africa", "Country in MENA" "Country in East Africa" "Country in West Africa", "Country in West Africa" had the largest effects of finance on job growth. The variance from country to country is not strongly correlated with any obvious factors in the country's business or financial environment. The Evaluation Team tested results against (a) the level of access to finance in the country, (b) the difficulty of finding and hiring new employees, (c) the share of medium-sized enterprises in the countries, and (d) GDP growth in the year of the survey. The highest correlation was with GDP growth. However the relationship was loose at best, with a statistically significant (at the 0.05 level) positive regression coefficient of 0.21 suggesting a 1 percentage point increase in GDP growth is correlated with a 0.21 (approximately 1/5 of a job) increase in job growth. Further research into the drivers behind these observed differences from country to country is needed, and could help to yield powerful insights into where the Initiative's efforts can have the biggest impact.

The evidence also shows that having access to finance has a positive effect on sales growth, with firms that had a bank loan or a line of credit growing sales on average by nearly $200,000 more than firms with no access (Exhibit 27). As with the number of employees, the effects are larger for medium-sized firms, older enterprises (in business for more than 15 years), and firms in the manufacturing sector. The analysis also showed that the results vary significantly by country.

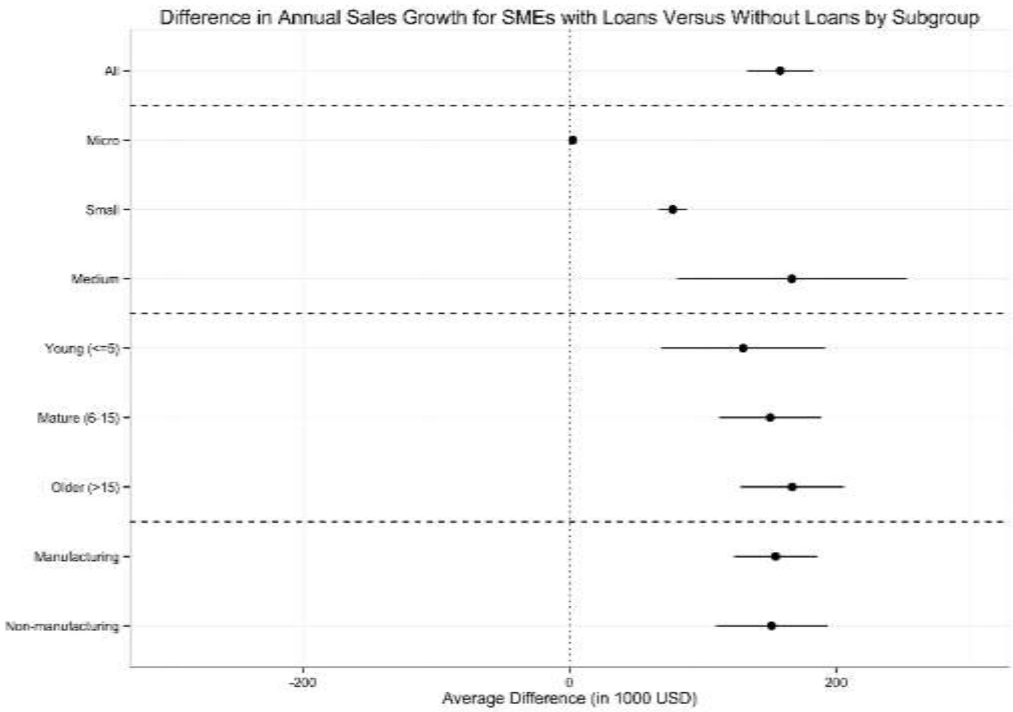
Exhibit 26. Difference in annual employment growth for SMEs with loans versus without loans by country



The results indicate that the effect of finance differs depending on the characteristics of SMEs, implying that the IFC could target certain types of firms to maximize job creation. However, because these numbers are indicative of the relationships but are not directly linked to the Initiative, the Evaluation Team suggests exploring the following questions in more depth through quasi-experimental designs in the Final Review:

- What type of SMEs are the PFIs in the Initiative reaching (by size, sector, and age)?
- What type of SMEs are experiencing larger effects of finance on SME growth (by size, sector, and age)?
- What external economic conditions have an effect on the impact of finance on SME growth (e.g., GDP growth, inflation, business and regulatory environment, etc.)?

Exhibit 27. Difference in annual sales growth in US Dollars for SMEs with loans compared to firms without loans by subgroups



3.3. STEP 4: LINK BETWEEN JOB CREATION AND POVERTY REDUCTION

LINK BETWEEN JOB CREATION AND NET JOB CREATION AT THE ECONOMY-WIDE LEVEL

The numbers of jobs supported and added by SME clients of the Initiative's partner financial institutions provide an indication of the Initiative's effect on job creation; however, they do not account for the Initiative's overall effect on the countries' employment level. Estimating net job creation requires an understanding not only of how many jobs were added by the SMEs directly linked to IFC's PFIs but also of how these jobs affect other SMEs in the economy and the job market as a whole. When an SME grows and adds a new job, this new job can impact the economy by (a) increasing indirect jobs in the enterprises the SME does business with, (b) increasing overall expenditure in the economy and therefore increasing jobs in other sectors, and (c) destroying jobs in firms it competes with. In the past, other studies have used two main approaches to estimate the net job creation; case studies of a particular industry in a country or a quantitative approached based on comprehensive datasets. While the quantitative approach might lead to more comprehensive results, it is unlikely that in the countries where the Initiative operates, such datasets are available, for this reason the Evaluation Team suggests conducting comprehensive case studies. Note that estimating the effect of the Initiative on net job creation at the economy-wide level and on poverty reduction is outside scope for this Midterm Review. Nonetheless, the Evaluation Team conducted a literature review and provided a suggested methodology that could be used to assess this link.

EVIDENCE OF THE EFFECT OF JOB CREATION AND POVERTY REDUCTION

A review of the literature on the topic indicates that there is a causal link at both the macro- and microeconomic levels between job creation and poverty reduction. This intuitive link is widely assumed in the development community—jobs increase incomes, and as income levels are a proxy for poverty levels, it naturally follows that job creation reduces poverty. The relevant literature not only confirms this association, but also explores the nuances of how, where, and under what circumstances job creation has the greatest implications for poverty alleviation and economic development. It establishes that growth in low-skilled, labor-intensive sectors such as agriculture plays the biggest role in lifting people out of poverty, that job creation in fragile and post-conflict settings helps to rebuild stability and prosperity, and that employing women and youth is key to mitigating cycles of poverty. The literature also suggests that the social benefits of job creation accrue beyond the household level by filling unmet needs for goods and services, promoting safety and stability, and stimulating positive cycles of education and employment among the community. These positive cycles in communities there place a premium on the Initiative reaching the higher impact segments of the SME market- such as farmers, women-owned enterprises, and those in fragile and frontier markets.

4. Extrapolation of Jobs Supported and Added by the Initiative

The Evaluation Team designed a methodology for job extrapolation and pilot tested the methodology. In the following section we present the proposed methodology and then we present the results of the pilot test.

4.1. Proposed Methodology for Job Extrapolation

The Evaluation Team developed and tested a two-stage methodology for job extrapolation, using data reported by the PFIs and surveys with client SMEs. It should be noted that a clear definition of "jobs created" was not agreed upon by the IFC and DFID when the Initiative was launched, as it was understood that the Midterm Review would help define and establish a methodology for quantifying the impact on jobs. The terms "jobs supported", "jobs added" and "jobs added as a result of financing" are defined below. It is important to understand that these metrics do not take into account indirect and induced job creation, nor do they consider any potential job destruction that has taken place as a result of the growth of SMEs supported by PFIs. The methodology includes two stages:

- **Stage 1: Determine the change in SME activity since intervention –** the change in total SME portfolio (number of loans) outstanding for a PFI from the date of first intervention by the Initiative
- **Stage 2: Determine three types of job creation effects:**
    - **Jobs supported** (direct): total number of people employed by SMEs financed by the Initiative's PFIs
    - **Jobs added** (direct): difference in the total number of people employed by the SMEs financed by the PFIs from the time of the PFI's first investment into each SME to current
    - **Jobs added as a result of financing** (direct): difference between the total number of people employed by the SMEs financed by the PFIs and the total number of people that would have been employed by the SMEs had they not received finance from the PFIs.

The data sources for applying this methodology would be as follows:

1. **Calculate stage 1: Net change in the portfolio loans outstanding since intervention for each PFI each year.** Data source: Reported by the PFIs and IFC.
2. **Estimate stage 2: job creation per net change in portfolio for each PFI:** Data source: SME surveys of PFI clients at time of loan and 2 years later. Selection of projects for survey via stratified sample based

on geography, type of project, type of FI, scale of FI, average loan size. For projects not surveyed, use estimates from projects in the same strata with surveys.

a. **Jobs supported:** Using the SME surveys, estimate the average number of employees per SME from baseline surveys. Then multiply by the net change in the portfolio between March 2019 and the PFI project's start date. Then add in number of jobs added (calculated below) to find the total number of jobs supported in the Initiative.
b. **Jobs added:** Using the SME surveys, calculate the average difference in the number of employees per SME for each PFI at the two time points of the survey. Then multiply the difference by the net change in portfolio each year. Then add the difference again for each year from the start date until March 2019. Ultimately, each "loan" is multiplied by the average number of jobs added and multiplied again by the difference in number of years between March 2019 and the loan disbursement date.
c. **Jobs added as a result of financing:** Estimate the causal effect for financing on job growth by regression or matching comparing job growth in PFI client SME versus non-client unfinanced SMEs for each PFI (deposit clients or active loan pipeline clients). Then multiply the effect for each PFI by the net change in portfolio each year and multiplied again by the difference in number of years between March 2019 and the loan disbursement date.

This ideal methodology has five key assumptions. Exhibit 28 describes the five assumptions and the validity of each.

Exhibit 28. Assumptions of the ideal job extrapolation methodology

Assumption	Validity	Notes
Number of outstanding loans is a good proxy for number of SME clients.	High	Across 4 PFIs the outstanding loans and number of clients was compared, the difference in the two numbers varied between 3% and 18%.
Loans are distributed evenly within a year (when adjusting for net change in portfolio in partial years).	Medium	Across one PFI with 9 months of data the greatest variance from the mean was 50%, another PFI with 4 quarters of data showed at most a 41% variance from the mean.
SMEs add jobs at a constant rate each year that they have credit outstanding (throughout and after the observation period).	Untested	Larger datasets and longer time horizons in the future will enable evaluators to more thoroughly test this assumption
SMEs sampled in the survey are representative of each PFI's clients and follow-up surveys have no attrition (or random attrition).	Low (increasing with sample size)	If not all PFI projects result in SME surveys, then extrapolations across PFIs are necessary. Non-random attrition in surveys may result in survivor bias. Surveys may also be susceptible to non-response bias or problems with SME access that lead to a non-representative sample.
In the estimation of the jobs added as a result of financing, the correct background variables are controlled for such that there is no omitted variable bias.	Low (increasing with breadth of data collected)	Generally speaking, except in the case of an experiment, it is usually unlikely that all confounding variables can be controlled for.

4.2. Results of the Pilot Test of the Methodology for Job Extrapolation

Applying this methodology using a limited set of available data, results in estimates that the Initiative is on track to meet its high-level goal of supporting PFIs to create 1 million jobs by 2019. The Evaluation Team estimates that between 561,000 to 608,000 jobs have been supported as of late 2014 and between 61,000 and 65,000 jobs added at SMEs as a result of financing to date. If current trends continue, the Evaluation Team estimates that between 2.5 million and 31.8 million jobs will be supported and between 600,000 and 5.8 million jobs will be added at SMEs as a result of financing by 2019 (Exhibit 30 and Exhibit 31).

The job numbers summarized above and reported in Exhibit 31 were the result of a pilot test of the methodology using the available data. Because we are still at an early stage in the maturity of many of the IS and AS projects, we did not have the full range of the data needed to fully test the methodology. Accordingly, we used some additional assumptions (Exhibit 29) to fill gaps where actual data was not available **(note that during the final review, these assumptions will not need to be made, because this information will be known).** As a result, the quantitative estimates cited should be interpreted as directional, and as IFC is able to secure more reliable primary data, these estimates should be re-run to arrive at more accurate numbers.

Exhibit 29. Deviation from ideal job extrapolation methodology in the pilot test conducted for the Midterm Review

Deviation from Ideal	Pilot Test	Assumption	Validity	Notes
Loan portfolio information is only currently available for about 1/3 of the projects.	Predict net portfolio changes based on subsidy amounts.	Subsidy amount is informative about net change in portfolio.	Low	Subsidy is not a statistically significant predictor of net change in portfolio. Uncertainty represented in confidence intervals.
Yearly net change in portfolio cannot be measured for years 2015-2019 at this point in time.	Extrapolation required. We need to assume a yearly growth rate in outstanding loans. We offer a sensitivity analysis by providing results under three different assumptions.	We provide results assuming three different growth rates: • **Conservative**: PFI portfolios only change for one year (the initial year of IFC intervention) • **Base**: PFI portfolios have the same net change in portfolio every year • **Aggressive**: PFI portfolios grow at a consistent yearly CAGR	Accounted for via sensitivity Analysis	In 3 of 4 PFIs with some information on growth trends, the number of outstanding loans seemed to grow at a constant level every year. Nevertheless, the portfolio growth rates are largely based on assumption only, so we offer a sensitivity analysis to show how extrapolations change with differing assumptions.

Deviation from Ideal	Pilot Test	Assumption	Validity	Notes
SME-level data for PFI clients generally not available	Use data from “PFI in West Africa” ES and “FI in East Africa” and general ES data were available for countries with Initiative projects.	• The non-random sample from “PFI in West Africa” and “FI in East Africa” sample are representative of all PFI clients across the Initiative (for jobs added and jobs supported). Using these two PFIs has the advantage that one is a bank and one is an MFI, and therefore the sample does represent at least the different types of financial institutions. • SMEs from ES (non-PFI clients) are representative of PFI client SMEs (for jobs added as a result of finance).	Medium	It is unlikely that the ”PPFI in West Africa”, “FI in East Africa” data and the ES data SMEs are representative of the actual client SMEs of the PFIs. In a preliminary examination comparing the “PFI in West Africa” ES sample to the general ES sample in West Africa, the general ES SMEs are larger and have more sales on average. **The uncertainty of this assumption cannot be modelled in ranges provided**

Exhibit 30. Pilot test results of the job extrapolation

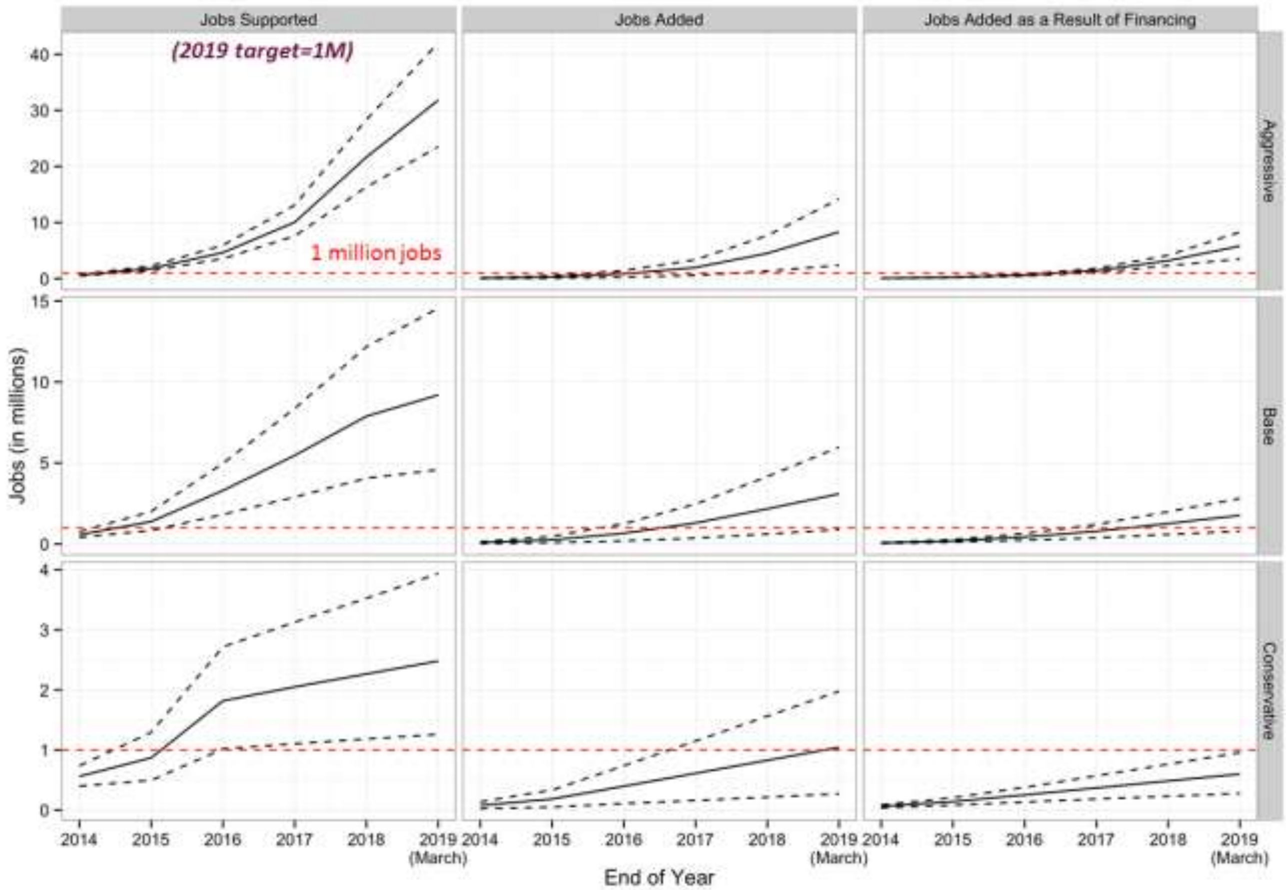


Exhibit 31. Approximate job extrapolations

	Quantity	Jobs Estimate, Conservative Growth (95% CI)	Jobs Estimate, Base Growth (95% CI)	Jobs Estimate, Aggressive Growth (95% CI)
As of December 2014	**Jobs Supported** (based on "PFI in West Africa" ES and "FI in East Africa" data, smaller n)	561k (399k, 737k)	568k (405k, 758k)	608k (489k, 747k)
	Jobs Added (based on "PFI in West Africa" ES data, smaller n)	76k (21k, 136k)	79k (23k, 142k)	82k (23k, 140k)
	Jobs Added as a Result of Financing (based on ES data, bigger n)	61k (36k, 86k)	61k (36k, 87k)	65k (45k, 86k)
Estimated March 2019	**Jobs Supported** (based on "PFI in West Africa" ES and "FI in East Africa" data, smaller n)	2.5M (1.3M, 3.9M)	9.2M (4.6M, 14.5M) ***(2019 target= 1M)***	31.8M (23.5M, 42M)

Quantity		Jobs Estimate, Conservative Growth (95% CI)	Jobs Estimate, Base Growth (95% CI)	Jobs Estimate, Aggressive Growth (95% CI)
	Jobs Added (based on "PFI in West Africa" ES data, smaller n)	1M (271k, 2M)	3.1M (880k, 6M)	8.3M (2.4M, 14.2M)
	Jobs Added as a Result of Financing (based on ES data, bigger n)	600k (275k, 956k)	1.8M (784k, 2.8M)	5.8M (3.5M, 8.3M)

NOTE: wider confidence intervals around Jobs Supported and Jobs Added are a result of smaller sample sizes
Source: Beecher Analysis Group.

5. Results of Data Collection Pilot

5.1. Data Collection Processes Piloted

Between September 2014 and April 2015, the Evaluation Team piloted data collection processes for the Initiative so as to inform recommendations for how the Initiative can be positioned for a successful final evaluation. The team sought to collect the data required to perform the analyses outlined in the project's Inception Report. Data was requested from: the IFC, clients of the IFC, SMEs who do business with clients of the IFC, and third party sources within the countries impacted by the Initiative.

The Evaluation Team took the following steps to access the required data:

a) Requested all relevant M&E and portfolio data from the IFC
b) Administered a survey to IFC Investment Officers and Project Leaders responsible for portfolio organizations
c) Developed detailed interview guides and data collection tools to guide the in-depth review of PFIs
d) Visited and interviewed six PFIs in West Africa, Central Africa and South Asia
e) Requested data on the SME portfolio from the six PFIs visited as well as two PFIs for whom virtual visits were held (due to security and safety concerns in the countries in which they were located – Central Africa and West Africa)
f) Developed a survey to be administered to the SME clients of each PFI
g) Interviewed survey firms in eight countries and created a short-list of service providers in each country
h) Engaged in extensive follow-up efforts to obtain the requested data from PFIs, including development of research proposals intended to appeal to the PFI's strategic goals
i) Sought to conduct telephonic interviews with all financial infrastructure Project Leaders and clients of all active or completed financial infrastructure projects - reaching 10 of Project Leaders (71%), and 6 clients (43%)
j) Met with the World Bank's Enterprise Survey teams running the surveys in countries covered by the Initiative to understand the timing of the survey and possible synergies between the efforts
k) Conducted literature reviews on a) the availability of SME finance in countries where projects have been implemented, b) the availability of finance for certain underserved target segments (e.g. Muslim women in "Country in East Africa"), and c) the relationship between SME finance and job creation.

5.2. DATA COLLECTED

During the data collection pilot, we encountered limitations in the extent to which IFC was able to gather data from its clients. As Exhibit 32 indicates, the Evaluation Team encountered many challenges to encourage PFIs to participate in the study. Less than half of the PFIs approached were willing to participate in the in-depth case studies for the Midterm Review at all and those who did participate placed strict limitations on the amount of information they were willing to share. Exhibit 32 summarizes the data that was collected.

Exhibit 32. Data collected

Data	Source	# projects data sought	# projects' data collected
Portfolio information			
Project info. and DFID funding allocation	IFC (SME team)	81*	81* (100%)
Routine Monitoring (PFI)			
Advisory services supervision reports	IFC (M&E team)	17	17 (100%)
DOTS data (Investment clients)	IFC (M&E team)	12	12 (100%)
PFIs with any monitoring data available	IFC (M&E team)	25**	25 (100%)
Routine Monitoring (Financial Infrastructure)			
Advisory services supervision reports	IFC (M&E team)	1	1 (100%)
IFC (Investment Officer / Project Leader) Qualitative data			
Interviews with financial infrastructure Project Leaders	IFC (regional teams)	13	10 (77%)
Project Leader and Investment Officer survey (for PFI projects)	IFC (regional teams)	25***	13 (45%)
IFC Client interviews			
PFI client interviews	IFC Clients (financial institutions)	15	8 (53%)
Financial Infrastructure client interviews	IFC Clients (central banks & regulators)	13	6 (55%)
Data contributed by PFIs			
PFI portfolio overview reports	IFC Clients (financial institutions)	10	7 (70%)
Disaggregated portfolio information	IFC Clients (financial institutions)	10	5 (50%)
SME surveys			
SME surveys	PFI clients (access provided by PFIs)	10	2 (20%)

*Portfolio information includes unapproved/committed projects that are currently in the pipeline PFIs that have received multiple services are listed only once.
** Data was sought through both DOTS and AS supervision reports for PFIs with both AS and IS projects, PFIs with AS and IS projects are only counted once, four PFIs have only reported baseline data so far and thus cannot be analyzed in the Midterm Report
*** The survey was sent to 25 PFIs, although there were 29 PFIs in the portfolio at the time.

5.3. LESSONS LEARNED

The data collection pilot has uncovered opportunities to improve both data collection processes for future reviews and ongoing reporting through the Initiative's results measurement systems. Four key challenges hindered the ability of the Evaluation Team to fully assess the impact of the Initiative during the Midterm Review. The four challenges included:

1. PFIs resisted participation in the study and in most cases were unwilling to provide access to SME clients for surveys;
2. The World Bank's Enterprise Survey proved to be an invaluable resource, however in a few key areas it was not fully fit for purpose which limited the extent to which more nuanced insights could be drawn;
3. M&E data that was not part of the IFCs Reach measurement process was sometimes missing or of variable quality;
4. In many cases, indicator definitions were not adhered to strictly.

Limited support for the evaluation by the IFCs regional Project Leaders (PLs) and Investment Officers (IOs) presented a challenge. The Evaluation Team, along with the IFC's M&E team and the Initiative's leadership, struggled to collect needed inputs from IFC regional PLs and IOs. PLs and IOs were sometimes hesitant to contact PFIs for site visits and were unwilling to support requests for data from PFIs. The low (45%) response rate on the PL/IO survey also indicates that evaluation was not a priority for them. M&E data collection for the Initiative's Logframe indicators is inconsistent for those indicators that are not part of the IFCs required Reach dataset[21] (e.g., NPL rates were only collected by 9 of the 20 PFIs that reported their total SME loan portfolio).

The most important challenge was the fact that PFIs would not allow IFC or the Evaluation Team access to SME client level data. The initial assumption was that a number of clients would be willing to share SME data if they were given sufficient incentives. In actuality, few perceived that there was significant value in participation. Ultimately, two PFIs provided SME-level data ("PFI in West Africa" and "PFI in East Africa") and two PFIs ("PFI in Central Africa" and "PPFI in West Africa") were willing to provide access to clients for a survey. Given the sensitivity expressed around client contact information, it may not be possible to access such information in the future without including specific covenants requiring the PFI to share the data in investment and advisory agreements. This limited access had four key implications for the Midterm Review:

1. The job effects of the portfolio presented in Section 4 of this report, and the estimations and extrapolations of job jobs added to SMEs as a result of finance are based on Enterprise Survey data rather than on actual SMEs supported by the Initiative, introducing the risk that the actual SMEs supported differ from those in the enterprise survey
2. Analysis on the quality of jobs supported by PFIs was not possible
3. Analysis on the demographics of employees at SMEs supported by PFIs was not possible
4. Analysis of job effects in an SMEs value chain (indirect employment) was not possible

[21] Loans disbursed, NPL rates, deposits, and loans to women-owned businesses are examples of indicators that are not included in the reach dataset.

6. Key Lessons from Case Studies and thematic Review of Financial Infrastructure Projects

Key Lessons from Case Studies

Dalberg conducted seven case studies with PFIs in South Asia and Africa with the objective of understanding the link between the IFC's activities and increases in SME lending, SME growth, and job creation. The case studies were also meant to provide insights into the operation of the Initiative, highlight what is working well, and identify areas of improvement.

The case studies highlighted several important lessons about PFIs that are rolling out their SME programs.

- **PFIs have developed a diverse set of strategies to overcome the challenges presented by poor financial statements typically provided by SME clients**. "PFI in MENA", "PFI in East Africa", "PFI in South Asia", and "PFI in West Africa" have all introduced lending products that do not require audited financial statements. "PFI in MENA" offers a product that relies on the history of POS credit card transactions (also managed by the bank) to verify cash flow. "PFI in East Africa" uses a customized SME assessment tool to replicate key lending ratios, while "PFI in West Africa" and "PFI in South Asia" depend on deposit account statements to verify cash flow for smaller loans. There may be a role for the IFC to play in capturing best practice and standardizing these tools across the industry.

- **Many PFIs are fostering partnerships with larger companies, often their own commercial clients, to build SME pipelines.** "PFI in MENA" and "PFI in East Africa" have both developed products intended to fund distributors of mobile credit. "PFI in West Africa" has developed a product to fund a large supplier's distributors. Each of the commercial banks we interviewed noted that asking their commercial clients about SMEs in their value chains was an important means of identifying new SME clients. There may be a role for the IFC to play in developing regional or global value chain partnerships and bringing such opportunities to PFIs.

- **PFIs in the portfolio take a varied approach to collateral requirements**. "PFI in MENA" and "PFI in West Africa" have introduced lending products that do not require collateral for small loans. "PFI in South Asia" and "PFI in East Africa" typically require immovable collateral from their SME clients. "PFI in East Africa" accepts movable collateral, even though there is no movable collateral registry in the country. Given the wide variance in collateral required across the PFIs in the portfolio, there may be an opportunity for the IFC to shift more restrictive attitudes by showcase some of the successes of that other PFIs have had with less restrictive policies.

Key Lessons from the Thematic Review of Financial Infrastructure Projects

As part of the Midterm Review of the Global SME Finance Initiative, Dalberg Global Development Advisors conducted a thematic review of the 13[22] financial infrastructure projects in the Initiative. Because several of

[22] Note that as at April 2015, the Initiative was supporting 15 financial infrastructure projects. At the time the Thematic Review of Financial Infrastructure Projects was conducted, there were 13 projects ongoing, including: "STCR IN MENA", "STCR in South Asia", "STCR in LAC", "STCR in West Africa", "STCR in East Africa", "STCR in East Africa", "Credit Bureau in

the projects are in the first phase of implementation, the thematic review is meant to gather an initial set of insights about the financial infrastructure projects across the portfolio. In particular, it focuses on assessing each project's relevance, progress, and leading indicators of impact, as well as the IFC's additionality. The Evaluation Team conducted interviews with a range of project stakeholders, including the IFC staff members leading the projects, government counterparts, and representatives from the financial sectors in each of the 11 countries.

The Thematic Review highlighted several important lessons about financial infrastructure projects.

- **The local political context, the efficacy of enforcement, the quality of data reported, and the capacity and awareness of financial institutions to adopt the reforms and uptake the financial infrastructure are key drivers of progress and success.** Nine of the 13 projects are on track to realize their intended outputs and activities in accordance with the original time frame. The four projects that are not on track are "STCR in West Africa", "STCR in LAC", ”Credit Bureau in LAC country", and "Credit Bureau in Southeast Asia country". The reasons for project delays are slow legislative processes, lack of focus due to government elections, and exogenous factors such as the Ebola crisis. While the "STCR in West Africa" was still on track, but it is likely that usage of the collateral registry was affected by the Ebola crisis. While projects are generally on track, several factors could potentially hinder adoption of new lending products by FIs including (a) concerns about efficacy of enforcement of secured transaction contracts, (b) concerns about the quality of data reported by new new/improved credit bureaus or collateral registries, and (c) lack of capacity or awareness at the FI level to proactively take advantage of new provisions in reformed or new secured transaction laws.
- **The scope of change, size of the SME market, and competitiveness of the financial sector are key drivers of impact of financial infrastructure projects.** Most of the projects are still in the implementation phase, so the amount of data available is rather limited for the leading indicators of impact: (a) regulatory change, (b) the number of SMEs in the country, (c) the competitiveness of the financial sector, and (d) the economic activities of SMEs. However, a preliminary analysis of the scope of these key drivers indicates that at least four of the projects are positioned to have large-scale impact. The scope of the regulatory changes in some countries in South Asia, West Africa and Central Africa is considerable, particularly in a South Asian country, where the IFC is supporting the very first secured transaction law and collateral registry in the country. These four countries are also the most populous in the sample, which is reflected in the fact that more than 90% of the 34 million SMEs in the 11 countries are located in South Asia, West Africa and Central Africa. These four countries also feature financial markets that are relatively more developed than in the other countries involved in the Initiative, meaning that financial institutions will reap the benefits of reform at a faster pace.
- **The IFC played a key role in creating demand for financial infrastructure projects and facilitating peer-to-peer learning across geographies.** Across all 13 projects, the IFC was pivotal in demonstrating the value to the national government of pursuing reforms that increase access to lending products. The IFC plays an important role in creating demand for financial infrastructure in developing countries

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Southeast Asia", "STCR IN LAC", "STCR in West Africa", "STCR in West Africa", "Credit Bureau in West Africa", "STCR in Central Africa", and "Credit Bureau in LAC".

through such mechanisms as country assessments, site visits, and *Doing Business* reports. The IFC's clients indicated that they valued the IFC's efforts to organize effective subject-matter conferences, invite stakeholders to learn from country governments, and connect government agencies with private sector and IFC experts. All of the clients we interviewed mentioned the importance of the IFC in driving the technical process. Specifically, they felt that IFC's expertise in the subject helped expedite the process of setting up the financial infrastructure.

7. Conclusions and Strategic Recommendations

After spending almost a year learning about the successes and challenges of the Initiative to date, we have identified eight strategic recommendations to guide the Initiative going forward. While strategic recommendations were not specifically included in the terms of reference for the engagement, the Evaluation Team offers these perspectives in the spirit of continuous improvement of the Initiative.

1. **Include covenants in PFI agreements that provide access to data and access to SME clients for interviews.** Because access to clients was not negotiated along with the original agreement the IFC had little leverage through which to influence PFIs to cooperate. This limited the capacity of the Evaluation Team to collect all the desired data for the Midterm Review. The methodologies proposed for impact assessments during the Final Review will depend on client survey data, and therefore it is crucial to take steps to ensure access to client SMEs during the final review.

2. **Prioritize targeted projects aimed at the most excluded groups when committing remaining portfolio.** The IFC team has been taking a portfolio approach, allocating resources across projects that have both the potential for scale among excluded groups with smaller projects targeted at the most excluded groups (such as fragile and frontier markets and women-owned SMEs). Through December 2014, the portfolio was on track to achieve overall numbers in terms of increases in SME loans, and the overall job effects looked promising as well. While there is reason to believe that final targets for fragile and frontier markets will be achieved and there is no reason to believe that targets for women-owned SMEs will not, it is unlikely that these targets will be exceeded at the same scale as overall targets. For this reason, we recommend focusing the remaining 17% of IS funding and 21% of AS funding on projects targeting the most excluded SMEs. Note that this should not preclude the Initiative from supporting PFIs where there is potential to unlock large-scale opportunities, however, the bias should be shifted to more targeted projects.

3. **Revisit pricing models for advisory projects when paired with investment projects.** There are indications that investment projects, particularly risk sharing facilities, have been met with bigger success when paired with advisory support in reaching new markets. However, the requirement of paying 50% of advisory projects works in the opposite direction as incentives of blended finance, leading most IS clients to resist advisory projects. We therefore recommend revisiting pricing models for advisory services projects in cases where they are paired with investment services.

4. **Increase flexibility of investment windows and project initiation windows when developing future initiatives.** Developing a strong pipeline, particularly in fragile and conflict affected states takes time and effort. However, the pending deadline created pressure for deals to get done, pressure that in

future facilities could lead to a trade-off between selecting the most impactful projects and fully investing donor funds**.** The pending closure of the investment window also created pressure to "mandate" projects as soon as possible, meaning that donor money was with the IFC for longer before the project was committed and disbursed. In the future, increasing the investment windows for (IS) and project initiation windows for (AS) would help ensure that the Initiative selects the most promising deals, without having to rush to mandate projects as possible.

5. **Set interim milestone targets based on expected performance growth paths in future projects.** Mid-point milestones were primarily set as 50% of the final target (e.g. 100,000 SMEs reached with loans by Midterm), however aggregate impact in most cases will not increase linearly (e.g., number of SMEs reached with loans will increase exponentially as new PFIs are added and existing PFIs continue to scale). Nonetheless, the Initiative's Logframe played a significant role in the management of the Initiative, helping to guide decision making on resource allocation. Ultimately, this meant that the introduction of midterm milestones that did not follow the expected growth trajectory of the Initiative's impact forced the IFC to make a decision between optimizing for final targets and seeking to perform as well as possible on midterm targets. Interim targets that incorporate the expected growth paths of outcome indicators would help ease the tension between optimizing for final targets and hitting midterm milestones.

6. **Revise targets with respect to gender to allow for different approaches to be taken with different types of PFIs.** PFIs range dramatically in their ability to report, and interest in reporting, on women-owned SMEs in their portfolio. In order to fully represent performance against Logframe targets, all PFIs would need to report on their women-owned SME loans, an unlikely outcome given current measurement challenges. The IFC is exploring new targeted advisory projects to increase the number of PFIs reporting on women-owned SME portfolios, these efforts should continue. Revising targets so that they set stretch goals for (a) the number of PFIs reporting by gender, and (b) the percent of women-owned SMEs in a PFI's portfolio (categorized by region and type of PFI) will lead to more accurate assessment of impact on women-led SMEs.

7. **Revise Logframe targets for non-performing loans so that the Initiative is not penalized for working with nascent PFIs.** Keeping non-performing loans low is critical to the overall sustainability of any increases in lending to SMEs. The targets set in the initiative's Logframe, however, assume that all PFIs will have an existing SME portfolio with high NPL rates. As noted in section 3.1.4, this is not the case. While only four of the nine PFIs reporting NPL rates lowered those rates, three of the other five PFIs had only recently begun SME lending and started with very low NPL rates, none of these three had rates above 8% which was the average across the portfolio. We recommend revising the target to take this effect into account, such as "70% of PFIs report lower NPL rates from baseline or are reporting NPL rates below X% (a number to be agreed on by DFID and IFC)".

8. **Exploit opportunities for peer to peer learning among the PFIs in the Initiative.** The Initiative, which has 49 financial institutions in the portfolio and is still growing, represents one of the largest global aggregation points for financial institutions focused on SME lending**.** The challenges faced by PFIs in the portfolio, from Myanmar to Mozambique, are very similar – including topics such as lending to clients with unreliable financial statements, reaching historically un-bankable groups, refining credit scoring models for SME analysis. Facilitating peer-to-peer learning opportunities could help support

PFIs in overcoming some of these common challenges. Further, financial infrastructure clients cited peer to peer learning opportunities as one of the most valuable aspects of the IFC's program.

9. **Continue supporting the financial infrastructure projects underway; consider follow-on projects where required.** PFIs interviewed noted that lack of collateral was one of the key constraints to growing SME portfolios, particularly within the women-owned segment, reinforcing the importance of financial infrastructure. As of December 2014, the Initiative had exceeded targets in supporting 15 financial infrastructure projects. These projects in countries as large as Nigeria, and economies as nascent as Malawi have the potential to make a big impact if executed upon properly. IFC Project Leaders and client Central Bank representatives noted that even after successful launch of new infrastructure extensive outreach to financial institutions is required to ensure uptake (this is consistent with learnings from projects in China and Colombia – more mature infrastructure projects that supported under previous IFC Initiatives). Therefore, the IFC should consider investing the remaining funds available for financial infrastructure projects to ensure the ultimate success of projects underway.