Global SME Finance Initiative
Mid-Term Review
Responses to the Evaluators Recommendations

Context:

Between June 2014 and May 2015 Dalberg Global Development Advisors and Beecher Analysis Group (the Evaluation Team or Dalberg) were contracted to conduct an independent Mid-Term Review (MTR) of the Global SME Finance Initiative (the Initiative or the Facility). Throughout the MTR Dalberg assessed the Initiative's progress towards meeting its results compared to its targets, and validated the Initiative's theory of change.

Per the legal agreement with DFID, the MTR had to be implemented before March 2015. Given that the Initiative was created in March 2012, and in the first year IFC was heavily engaged in business development, the result was an evaluation of a fairly young portfolio. The analyses in the Mid-Term Review were based on project results from December 2014, and portfolio data from March 2015.

At the time of the Mid-Term Review, the Facility provided Advisory and/or Investment services to 33 financial institutions. Considering the early nature of the review, and the slow ramp-up of the Facility, the analysis included only 21 PFIs which had sufficient track record to report results. The results for financial infrastructure projects were not included in the MTR, as only one project was at a stage where results are collected.

IFC's response to the Evaluators' recommendations:

IFC, and the Global SME Finance Initiative in particular, appreciated the breadth of the Evaluators' analyses, the extrapolations for projecting the Initiative's overall impact, and their recommendations to improving the performance of the Facility or other similar initiatives in the future. Concurrently, IFC acknowledges the challenges Dalberg faced in evaluating a program that was still in early stages of implementation. Many of their analyses were based on limited project-level results, since only a small portion of the Facility projects were at an advanced level of implementation to be able to report results. The Evaluators therefore relied on a number of assumptions to extrapolate "missing" data and on qualitative interviews. Going forward, as more data points will be become available, the Facility will work on enhancing the extrapolation methodologies used by Dalberg.

In addition to providing their assessment of the Facility results at the time of the mid-term review and projecting the Facility's ability to meet its' overall targets, the Evaluators presented a number of recommendations for the Facility. IFC welcomes the Evaluators' recommendations and is actively working on incorporating them into the Facility M&E Action Plan. IFC's comments on the Dalberg's recommendations, and the specific actions taken by the Facility are listed below.

Recommendation	Action
(i) Include covenants in PFI agreements that provide access to data and access to clients for interviews	IFC agrees with this recommendation and is already putting it into action. IFC has revised the data collection legal covenants for all future IS projects, which will grant the Facility more access to PFIs' SME clients. The following forms of data collection are part of the standard template: 1. Aggregated Portfolio REACH Reporting: Standard IFC REACH reporting table summarizing overall portfolio into loan size buckets, including number and volume outstanding,

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	disbursed and NPLs, with a sub-table on women-owned businesses. <u>This is already included in legal agreements.</u> 2. Disaggregated Reporting on SME Loans: In order to process a performance incentive, the FIs will be required to provide raw, disaggregated, and anonymized SME portfolio data, on the loans outstanding in their SME portfolios. 3. Survey: Agreement to conduct a brief SME survey on a random sample of up to 150 clients at the end of the third year after disbursement. The survey will be repeated with the same clients at the end of the loan maturity. The Facility is working with the legal teams to include similar covenants for the AS projects.
(ii) Prioritize deploying the remaining funds to IS/AS projects that can reach specific excluded groups: SMEs in FCS, women owned SMEs	The Facility will prioritize deploying funds to gender-related projects. The Gender Action Plan outlines the detailed strategy for deploying the remaining funds to projects that can reach most women-owned SMEs.
(iii) Revisit pricing models for AS projects when paired with IS – reconsidering the 50% pricing requirement	Currently DFID funding can only cover up to 50% of the project cost for the PFI advisory projects. The Facility recommends adjusting the pricing model for greater project level flexibility. IFC proposed the following pricing adjustments: 1. If necessary, on a case by case base, eliminate the 50% cost-share requirement for AS projects paired to RSFs. The goal of such AS projects would be to support the PFIs in developing and deploying products eligible for the RSF. Eliminating the 50% cost share on such AS projects would ensure more client commitment and increase the utilization on RSFs. IFC will liaise with DFID if such pricing adjustment is deemed necessary. Additionally, IFC is already implementing operational support programs for RSFs, which is currently funded by the Facility's admin budget. 2. Increase the M&E budget to allow the Facility to work with the PFIs that need support on improving their data reporting capabilities.
(iv) Increase flexibility of investment windows and project initiation windows when developing future initiatives	IFC agrees with this recommendation, which is however only applicable to future initiatives. More flexibility in the disbursement schedule would ensure that the project timeline, the business development and existing pipelines play are closer link in determining the disbursement schedule.
(v) Revise targets with respect to gender to allow for	IFC agrees that the gender targets should be revised to enable a tailored evaluation of different types of PFIs. While the Facility

Recommendation	Action
different approaches to be taken with different types of PFIs	targets, especially the mid-term target, were extremely aggressive, given the momentum we are seeing in this space IFC is willing to maintain the target at 50,000 loans to women-owned SMEs. However, to reflect the more realistic understanding of lag-times, IFC recommends extending the targets to the new completion date of March 2021. IFC also recommends changing the Logframe indicator related to the volume of funding to women to be in line with the average loan size we currently see in the Facility.
(vi) Revise Logframe targets for non-performing loans so that the initiative is not penalized for working with nascent PFIs	Currently the Logframe calculated the % of PFIs with improved NPL rates. This is a misleading indicator for PFIs with new SME portfolios that grow from low (0%) NPLs. The objective of the revised indicators would be to ensure an accurate measurement of PFIs maintaining a "healthy" level of NPLs. The updated Logframe will include a revised indicator which will measure the % of PFIs with a low level of NPLs.
(vii) Exploit opportunities for peer to peer learning among the PFIs in the Initiative	- Close collaboration with the SME Finance Forum and deeper engagement for the Facility Clients - Case studies - Collaboration with GBA, the facility will cover the 1st year of membership fees
(viii) Continue supporting the financial infrastructure projects underway, consider follow on projects where required	IFC agrees with this recommendation. Prior to the MTR, the Facility allocated an additional $4 million to Financial Infrastructure projects to the funding already committed to financial infrastructure projects in the original Initiative administration agreement.. Currently the Facility has committed all the funds allocated to Financial Infrastructure projects.
(ix) The MTR implicitly suggests using loans outstanding as proxy for reaching SMEs and not loans disbursed, which was initially agreed.	IFC agrees moving from an indicator that records new loans disbursed to an indicator that tracks the change in outstanding loans in a year. Such an indicator will be more conservative and less prone to misreporting – particularly on shorter-term revolving facilities. Currently, several of the clients prefer to report their performance based on loans outstanding. We recommend shifting all future reporting to an outstanding basis, without altering the historical numbers. Although this will be a more conservative number, we are comfortable that we will still be able to meet the targets. However, it is important to note that this shift will affect the continuity of the figures reported over the next year while adjusting to the new metric.