1. The Logic of Targeted SME Support

**Highlights**

- The literature review suggests that targeted small and medium-sized enterprise (SME) support has been justified by one of two kinds of reasoning: first, SMEs make special contributions to developing economies to growth, employment, productivity, and investment and therefore they merit special support; and second, SMEs face special challenges that do not apply to other sizes of firms, so addressing these challenges will "level the playing field." The literature and document reviews found inconclusive evidence on the first claim, but a wealth of support for the second.

- The literature review offers surprisingly little guidance on the actual efficacy of the most common forms of targeted SME (TSME) support, either for direct beneficiaries or, more broadly, for markets and economies, much less the appropriate sequencing and complementarities of interventions.

- Enterprise survey data suggest that how firms are constrained depends not only on size, but on the interaction of size with country conditions. Evidence also suggests that SMEs’ needs focus on systemic challenges, including a reliable electric power supply, an honest and transparent public sector, moderate taxes, political stability, fair rules of the game, an educated workforce, and a developed, competitive and stable financial system.

- Targeted support for SMEs (the focus of this evaluation) needs to be firmly grounded in a clear, evidence-based understanding of what distinguishes an SME and how the proposed support will sustainably remove the problems that constrain their ability to contribute to employment, growth, and economic opportunity.

- Selectivity is required for both efficacy of targeting and its efficiency. The definition of SMEs (including both the upper and lower bounds) establishes projects’ relevance to development objectives and differentiates some firms from others based on criteria of employment, sales, and assets. Selectivity affects both efficacy and efficiency of targeting – directing benefits to those who most benefit and controlling costs.

- Currently, there are problems with each World Bank Group institution’s approach to defining SMEs.

- TSME support needs to be firmly rooted in a clear, evidence-based understanding of what distinguishes an SME and how the proposed support will sustainably remove the problems that constrain their ability to contribute to employment, growth, and economic opportunity.

- In addition to problems with each Bank Group institution’s approach to defining SMEs, relatively few projects define SME (that is, who is eligible for benefits) and fewer still use that definition in their provisions.

- Limited relevant research evidence and information on portfolio performance make it difficult to learn from experience or to establish the existence of additionality of Bank Group interventions.

- Projects need to be credibly justified – a credible theory of change linking SME interventions to desired outcomes should focus on leaving a viable market or institution, not to simply provide a temporary supply of benefits to a small group of firms during the project’s lifespan.

- TSME interventions amounted to around $18 billion of commitments, expenditures, and gross exposure in the FY06–12 review period.

- This evaluation employs a variety of evaluative techniques to shed light on the relevance, efficacy, efficiency, and work quality of TSME support activities of the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the World Bank.
The World Bank Group seeks to promote private sector-led growth to contribute to employment creation, inclusive growth, and poverty alleviation. The Bank Group promotes small and medium enterprise growth through both systemic and targeted interventions. TSME support is a big business for the World Bank Group. TSME support comprises a significant part of the Bank Group’s portfolio, averaging around $3 billion a year in commitments, expenditures, and gross exposure and 7 percent of projects over the FY06-12 period. It can be a powerful tool and, given the size of the recent program, it is vital for the Bank Group to use it effectively. Targeting SMEs is not an end in itself, but a means to create economies that can employ more people and create more opportunity for citizens to achieve prosperity. A thriving and growing SME sector is associated with rapidly growing economies.

Recognizing that SMEs constitute a big business for the Bank Group (as well as other donors and many developing country governments), this chapter presents information from the development literature on the relevance of TSME support to the broader development objectives of the World Bank, including answers to these questions:

- Why is TSME support relevant to growth and shared prosperity? Why does the Bank Group target SMEs and offer them support that it does not offer to other size classes of firms?
- What does research suggest might be reasons to target support to SMEs?
- What guidance does the research provide on what SMEs need to develop and create jobs?
- What is the importance of access to finance? How robust is the understanding of this?
- What evidence does the literature offer on the efficacy of alternative types of targeted support to SMEs?
- What is an appropriate definition of SME to distinguish which firms should get targeted assistance and which should not?

In this evaluation the Independent Evaluation Group (IEG) focuses on four types of targeted interventions – those designed to deliver financing to SMEs, those providing advice and technical assistance to governments to improve conditions for SMEs, those delivering business development services and training to SMEs, and those seeking to integrate SMEs into larger networks of producers or “supply chains.”

IEG then shows that SMEs are big business for the World Bank Group. Next it discerns the theories of change underpinning the typology of four main forms of TSME support. It finds that a credible theory of change in most contexts must go
beyond how the intervention delivers benefits directly to individual SMEs and explains how interventions build markets, address market failures, or sustainably resolve constraints to SME growth. IEG maps the identified Bank Group’s portfolio of targeted interventions onto the relevant theories of change.

Finally, IEG presents the methodologies it used in the evaluation to assess the relevance, efficacy, efficiency, and work quality of the International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), and World Bank in designing, delivering, and monitoring and evaluating their programs of targeted support to SMEs.

**Literature Analysis**

**Why Is SME Support Relevant to Growth and Shared Prosperity?**

Inclusive growth\(^2\) in this context is understood to involve a large and healthy SME sector, generating productive employment, opportunity, and competitive dynamism.\(^3\) Research indicates an important role for SMEs in growing economies.\(^4\) As income levels increase, SMEs tend to comprise a larger share of the economy, while the informal sector recedes. Studies of transition economies also emphasize the strong role that new entry of SMEs play in generating employment and growth in economies such as China, Poland, and Vietnam (McMillan and Woodruff 2002).

Economic growth creates opportunities often filled by SMEs entering or sometimes “graduating” from microenterprise status. Where market, policy, and institutional failures thwart this role, reformers often seek to “level the playing field” to ensure that smaller businesses have a fair chance to thrive and contribute to market-led growth, employment, and shared prosperity. This is pursued both by systemic means, such as legal, regulatory, and institutional reform, and direct “targeted” efforts to assist SMEs as a size class of firms or as individual firms. In this evaluation IEG reviews IFC, MIGA, and World Bank targeted support for SMEs FY06–12 to assess their relevance, efficacy, and efficiency and to provide an overall assessment of their development effectiveness.

**What Does Research Evidence Suggest Might Be Reasons to Target Support to SMEs?**

SME assistance is often justified by the special contributions they make or special challenges they face. Empirically, any role of SMEs as opposed to large firms or microenterprises in employment creation and economic growth remains an unresolved question. A traditional view holds that development policies should be size-blind except where there is a specific social objective to assisting very poor
entrepreneurs. An alternative view is that SMEs need special, targeted assistance for one of two reasons:

a. SMEs make special contributions to developing economies’ growth, jobs (see Box 1.1), productivity, or investment.

b. SMEs face special challenges that do not apply to other sizes of firms. TSME interventions thus level the playing field and contribute to the resolution of systemic constraints to private sector development and better overall functioning of the economy.

Box 1.1. Do SMEs Really Create More Jobs?

One unique contribution often attributed to SMEs is job creation. International data make clear that smaller firms create more jobs, but they also destroy more jobs. Ayyagari, Demirgüç-Kunt, and Maksimovic (2011) use cross-sectional survey data from World Bank enterprise surveys to show there is more job creation in smaller and younger firms.

However, it is well known that smaller and younger firms are subject to more job destruction as well, especially through firm exit. IEG’s literature review finds that cross-sectional firm-level survey data do not allow controlling for survivor bias and composition effects and distinguishing between net and gross job creation. Studies that use panel data, allowing for firms to exit over time, bring into question any special role in job creation for smaller firms. A recent analysis of U.S. data (Haltiwanger, Jarmin, and Miranda 2010) suggests that “once we control for firm age there is no systematic relationship between firm size and growth. Our findings highlight the important role of business startups and young businesses in U.S. job creation.” Biggs and Shah (1998) examine World Bank enterprise survey panel data in five sub-Saharan African countries and find that large firms account for the majority of manufacturing job creation in four of the countries.

Page and Söderbom (2012) find a similar net number of jobs created by both small and large firms. However, wages in small firms were persistently lower. They concluded, “To create more ‘good’ jobs, aid should target the constraints to the growth of firms of all sizes.” More recent work linking firm age to job growth, although not yet conclusive, suggests that age, rather than size, may be the most relevant factor, but also that the patterns of employment growth are highly sensitive to market dynamics, sector and enabling conditions (Ayyagari, Demirgüç-Kunt, and Maksimovic 2013; Hsieh and Klenow 2012; Klapper and Richmond 2011).

IEG’s literature review and the analytic review conducted for this evaluation raise some important questions about these justifications.

• The literature review casts doubt on whether there was any empirical evidence that SMEs make a disproportionate contribution to growth, poverty reduction, or employment. As economies grow, the share of SMEs tends to increase, but there is no evidence that having more SMEs—other things being equal—causes more growth.

• Smaller firms often face more severe constraints than larger ones, especially in accessing finance and in dealing with weaknesses in electric power supply. As the financial sector develops and deepens, this helps create jobs and growth in part by disproportionally benefiting SMEs. However, there are severe methodological problems with estimates of a credit gap.
Although there is substantial evidence that systemic improvements in the business environment and the financial sector can promote growth by improving market dynamics and leveling the playing field, especially for SMEs, there is little rigorous evidence to support the positive (or negative) impact of targeted programs. There is no rigorous evidence on the economic impact of lines of credit, a little evidence to support partial risk guarantees, mixed evidence on private equity schemes in developing country contexts, and limited evidence of the benefits of matching grants and advisory services.

Source: IEG literature review and background research.

The first point demands evidence of the special contribution of SMEs to economic growth and job creation. SMEs’ role in shared prosperity lies in claims that they are more likely to create jobs than other size classes of firms. IEG’s literature review for this evaluation yielded mixed results, suggesting first that statistically, in low-income countries, more workers are employed by micro and informal enterprises than by SMEs; and second, that evidence on net job creation, which accounts for SMEs’ higher tendency to exit as well as to grow, is inconclusive as to the relative net contribution of new jobs by large and small firms (see Box 1.1).

The second justification for targeted assistance demands evidence of size-based constraints (discussed below) but also evidence that targeting SMEs through a particular intervention or set of interventions will lead to the sustained elimination of those constraints. That is, there is need for proof that systemic problems can be solved by targeted approaches. Such evidence could take the form of country experiences, where interventions to strategically engage several banks in providing credit to SMEs (potentially as part of a broader set of reforms) lead to an enduring market for SME finance. Any of these would seem to demand evidence that the approach adopted has proven effective in the past in similar environments. Unfortunately, the evidence on the impact of targeted interventions is limited.

**WHAT DO SMES NEED TO DEVELOP AND CONTRIBUTE TO GROWTH AND EMPLOYMENT?**

SMEs exist and operate in the same environment as other firms, although they may experience it differently. An IEG literature review of work broadly addressing SME issues showed that an open and reliable ecosystem of policies and institutions whose interactions determine the ability of SMEs to enter markets, compete, and grow or exit is most successful (Figure 1.1). Policies would include and enable complete and efficiently-regulated markets (land, labor, capital, and technology), competitive product markets, and the framework policies and institutions that underpin macro and political stability and openness to trade. The quality of physical infrastructure as well as the market infrastructure created by the legal and regulatory framework and its enforcing institutions each matter crucially (for example, Batra and Mahmood
Responses to enterprise surveys indicate that SMEs report their priority “needs” to be a reliable electric power supply, an honest and transparent public sector, moderate taxes, political stability, fair rules of the game so that informal firms cannot compete unfairly, and an adequately educated workforce. In short, an inclusive ecosystem of policies, institutions and markets is needed to enable private enterprises of all sizes to function more productively.

A variety of business environment constraints—led by the burden of taxation and social security contributions, the burden of regulations, and lower quantity and quality of public goods—has been associated with a larger informal sector. Recent research suggests that a weak business environment can shift activity away from formal firms toward smaller, informal microenterprises. Impediments such as heavy business regulations, lack of access to finance, weak infrastructure, and corruption can each inhibit formal SME development (Aterido, Hallward-Driemeier, and Pages).
Constraints to entry are especially pertinent and limit competitive market dynamics that drive innovation and productivity growth. Excess costs and regulations are found to disproportionately discourage the survival of more productive firms while allowing less productive firms to survive (Aterido, Hallward-Dreimeier, and Pages 2011). Research also shows how financial market failures hurt small firms (Beck and Demirgüç-Kunt 2006).

A central challenge, then, is to level the economic playing field by ensuring dynamic markets; strengthening weak market-support institutions; and removing key constraints to entry, exit, and growth. Layered on top of this are targeted forms of assistance, which, as noted, are often thought make up for deficiencies of the ecosystem (Figure 1.2). These targeted interventions may build on a foundation of more systemic reforms, may come in tandem with them, or may in fact be a means to build systemic reforms from the bottom up.

**Figure 1.2. Targeted Support to SMEs in an Ecosystem of Policies, Institutions, and Markets**

Source: IEG literature review.
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WHAT IS THE IMPORTANCE OF ACCESS TO FINANCE TO SMES?

The IEG literature review found that financial sector development can have both a pro-growth and pro-poor impact by disproportionally alleviating SMEs’ financing constraints, enabling new entry of firms and entrepreneurs and better resource allocation. In financial markets, there is both theoretical and empirical evidence that the burden of market failures falls disproportionately on smaller firms. Even in developed countries, information asymmetries – the problem of firms and banks having unequal amounts of information about the likely performance of an enterprise – tend to bias finance away from smaller firms because of credit rationing and the cost of screening.

The World Bank has found that SMEs are less likely to be able to access finance, other things being equal, where several circumstances exist: the banking sector is highly concentrated and competition limited; bank regulatory policies are inadequate; property rights protection is weak; legal systems are ineffective or rigid; or credit information is weak. On the aggregate level, there is a positive and significant relationship between financial development and job creation in developing countries. One study found that financial development helps reduce the effect of financing obstacles on firm growth, with a disproportionally beneficial effect for SMEs and for industries naturally composed of more small firms (Beck and others 2008). There is evidence that better access to finance can help firms enter the market, formalize, survive, and grow, as well as organize more efficiently. There is also an interaction of investment climate reforms with firm financing – for example, stronger property rights and better contract enforcement have been linked to easier access to credit. There is evidence that long-term institution building, including contractual and (credit) information frameworks, helps ease SMEs’ financing constraints (see, for example, Beck, Demirgüç-Kunt, Laeven, and Maksimovic 2006, 2008; Beck, Demirgüç-Kunt, Laeven, and Levine 2008).

Nonetheless, access to finance is only sometimes a leading SME priority, although it is a leading microenterprise priority far more often. Access to finance is identified by about 16 percent of firms globally as their “biggest obstacle,” but this ordering is not robust to examining other data collected in the surveys (see appendix D). Globally, when comparing all the constraints on a common rating scheme, access to finance is not among the top five. Globally, enterprises with fewer than 10 employees (these are microenterprises under IFC definition) include access to finance as a leading constraint, but not firms of any larger size category (Table 1.1). In low-income countries, but not middle-income countries, SMEs identify access to finance as a leading constraint (Table 1.2). This suggests the need to adapt interventions to support SMEs to country conditions and enterprise priorities. Although finance can
be a very real constraint, complementary measures may be needed to ensure that relaxing the financing constraint for SMEs does not lead firms directly into some other binding constraint to growth.

### Table 1.1. Top Major or Severe Constraints Facing Firms, by Firm Size

<table>
<thead>
<tr>
<th>No. of employees</th>
<th>5-9</th>
<th>10-19</th>
<th>20-99</th>
<th>100-299</th>
<th>300+</th>
</tr>
</thead>
<tbody>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt; obstacle</td>
<td>Power</td>
<td>Power 42.52%</td>
<td>Power</td>
<td>Power 43.94%</td>
<td>Power 43.91%</td>
</tr>
<tr>
<td></td>
<td>38.92%</td>
<td>41.13%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2&lt;sup&gt;nd&lt;/sup&gt; obstacle</td>
<td>Corruption</td>
<td>Corruption</td>
<td>Corruption</td>
<td>Tax rate</td>
<td>Worker skills</td>
</tr>
<tr>
<td></td>
<td>35.07%</td>
<td>37.95%</td>
<td>37.48%</td>
<td>35.74%</td>
<td>35.63%</td>
</tr>
<tr>
<td>3&lt;sup&gt;rd&lt;/sup&gt; obstacle</td>
<td>Tax rate</td>
<td>Tax rate</td>
<td>Tax rate</td>
<td>Corruption</td>
<td>Corruption</td>
</tr>
<tr>
<td></td>
<td>34.87%</td>
<td>35.24%</td>
<td>35.48%</td>
<td>34.87%</td>
<td>33.03%</td>
</tr>
<tr>
<td>4&lt;sup&gt;th&lt;/sup&gt; obstacle</td>
<td>Finance</td>
<td>Polit. instability</td>
<td>Polit. instability</td>
<td>Polit. instability</td>
<td>Transportation</td>
</tr>
<tr>
<td></td>
<td>33.75%</td>
<td>32.80%</td>
<td>instability</td>
<td>33.32%</td>
<td>32.11%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>32.23%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5&lt;sup&gt;th&lt;/sup&gt; obstacle</td>
<td>Political instability</td>
<td>Informal comp.</td>
<td>Informal comp.</td>
<td>Worker skills</td>
<td>Tax rate</td>
</tr>
<tr>
<td></td>
<td>31.16%</td>
<td>32.39%</td>
<td>comp.</td>
<td>33.28%</td>
<td>32.06%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>31.01%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Global enterprise surveys.

**Note:** 108 countries in 6 regions.

### Table 1.2. Top Major or Severe Constraints Facing Firms, by Country Income Group

<table>
<thead>
<tr>
<th>Country income group</th>
<th>Low</th>
<th>Lower middle</th>
<th>Upper middle</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>1&lt;sup&gt;st&lt;/sup&gt; obstacle</td>
<td>Power</td>
<td>Corruption</td>
<td>Tax rate</td>
<td>Tax rate</td>
</tr>
<tr>
<td></td>
<td>54.74%</td>
<td>41.46%</td>
<td>37.38%</td>
<td>36.42%</td>
</tr>
<tr>
<td>2&lt;sup&gt;nd&lt;/sup&gt; obstacle</td>
<td>Finance</td>
<td>Political instability</td>
<td>Corruption</td>
<td>Skills</td>
</tr>
<tr>
<td></td>
<td>43.44%</td>
<td>36.11%</td>
<td>36.47%</td>
<td>29.84%</td>
</tr>
<tr>
<td>3&lt;sup&gt;rd&lt;/sup&gt; obstacle</td>
<td>Tax rate</td>
<td>Power</td>
<td>Skills</td>
<td>Power</td>
</tr>
<tr>
<td></td>
<td>38.21%</td>
<td>35.49%</td>
<td>34.84%</td>
<td>27.88%</td>
</tr>
<tr>
<td>4&lt;sup&gt;th&lt;/sup&gt; obstacle</td>
<td>Corruption</td>
<td>Crime, theft, disorder</td>
<td>Power</td>
<td>Political instability</td>
</tr>
<tr>
<td></td>
<td>36.91%</td>
<td>32.91%</td>
<td>33.66%</td>
<td>23.44%</td>
</tr>
<tr>
<td>5&lt;sup&gt;th&lt;/sup&gt; obstacle</td>
<td>Political instability</td>
<td>Informality</td>
<td>Informality</td>
<td>Finance</td>
</tr>
<tr>
<td></td>
<td>34.44%</td>
<td>31.45%</td>
<td>29.65%</td>
<td>20.67%</td>
</tr>
</tbody>
</table>

**Source:** Global enterprise surveys.

**Note:** 108 countries in 6 regions.
DO ALL SMEs EXPERIENCE CONSTRAINTS THE SAME WAY?

In preparing this evaluation, IEG analyzed World Bank enterprise survey data econometrically to determine whether there was some indication of what size definition of firms might help distinguish those that were differentially constrained by some challenges in developing economies—such as access to finance, electric power supply, and corruption—and hence need targeted support. The analysis revealed that across several issues, there is a strong interaction effect between the size of firms and the income level of countries in determining how firms experience their operating environment. Accounting for this interaction improves the explanatory power of equations seeking to explain the variation in responses.

For example, the average relationship between enterprise size and its likelihood of having a loan or line of credit is that the smaller the size class of a firm, the less the likelihood is that it will get a loan. It is also true that for any size class of firm, the higher the income level of the country, the more likely the firm is to get a loan. However, if the interaction effect of country income level with firm size is controlled for, firms with 100–299 employees (those included in the IFC definition but not the World Bank definition of SME) do not significantly differ from large firms in their access.

However, accounting for this interaction points to a much stronger effect of size on the likelihood of getting financing for each other category of SME (figure 1.3). It also suggests that SMEs with fewer than 100 employees are significantly and substantially worse off in low-income countries than in high-income countries, and that small firms are significantly and substantially worse off than other firms in middle-income countries. For example, a small firm with 10–19 employees in a low-income country is 56 percent less likely to get a loan or line of credit than a large firm (300 or more employees) in a low-income country (size effect) and 55 percent less likely to have a loan or line of credit than a small firm in a high-income country. However, for firms in IFC SME category of 100–299 employees, whether in a low-, middle-, or high-income country, there is no significant difference between their odds of having a loan or line of credit and those of a large firm having one, once interaction effects (size with country and income level) have been accounted for.
Box 1.2. The MSME Credit Gap: Whatever Became of Supply and Demand?

An IFC-sponsored study estimated “the total unmet need for credit” as $2.1–$2.5 trillion (Stein, Goland, and Schiff 2010). This has also been referred to as “unmet demand for credit.” Although this number is eye catching, there are several methodological problems with the analysis:

“Need” is not an economic concept and in no way equates to commercially viable demand – that is, how much credit micro, small, and medium-size enterprises (MSMEs) would demand, even under ideal market conditions. Firms that say they need finance may not have viable projects to finance. The IEG literature review notes that quantifying demand would be much more difficult, as it requires detailed information on growth opportunities and productivity of enterprises that face constraints or have no access to credit.

The study uses fixed ratios to estimate unmet credit “need,” based on an assumption that any firm without a loan “needing” credit needs a loan equal to 20 percent of the value of its sales, and any firm already having a loan “needing credit” needs a loan equal to 50 percent of the value of its most recent loan. A true estimate of demand would be firm specific and relate the quantity of credit demanded to the price of credit – a dynamic relationship.

Firm size distribution and the firm population itself are endogenous to financial development. Identifying a credit gap based on current firm size distribution and use of financial services is therefore necessarily a static rather than a dynamic exercise.

A “gap” implies a difference between supply and demand. To estimate the gap would require modeling the quantitative response of credit suppliers to the price of credit. Yet the article takes supply as fixed at current levels.

Sources: IEG literature review, interviews with IFC staff and IFC; IFC 2010; Stein, Goland, and Schiff 2010; and supporting documents on methodology provided by IFC.

Figure 1.3. Probability of Having a Bank Loan or Line of Credit, by Firm Size (employees) and Country Income Group

Source: IEG portfolio review.
In addition, as noted, some of the patterns of firms’ constraints and their access to finance and services suggest that, globally, and especially middle- and upper-income countries, the firms with 100–300 employees might better be grouped with large firms (Figure 1.4). For example, globally, firms with up to 99 employees rate informal competition as a leading constraint, whereas firms with 100 or more employees do not. Firms with 100 or more employees rate workforce skills as a top constraint, and firms with fewer than 100 employees do not. For a number of constraints studied as cases for this evaluation, the responses of firms with 100–299 and more than 300 employees were highly similar across multiple constraints.

The likelihood that a firm will have a loan increases with both firm size and country income level, but when the interaction of these two factors is controlled for, the statistical difference in the rate of access for firms with 100-299 firms and firms with over 300 firms disappears. This again suggests that for distinctions based on size to be meaningful, they should be grounded in relevant differences in firm attributes or experience of the local policy, institutional, and market conditions. As noted earlier, in econometric analysis, when the interaction of firm size and country income is accounted for, the statistical difference between the responses of firms with 100–299 employees and those with 300 or more employees disappears for multiple responses.
THE IMPACT AND EFFECTIVENESS OF TARGETED INTERVENTIONS

IEG’s literature review searched for high-quality quantitative evaluations of the leading interventions used by the World Bank Group. The following points are among its findings:

**Lines of Credit:** The literature review showed that this is an area that has not been properly researched. Questions regarding additionality and sustainability arise. An IEG report shed doubts on the effectiveness and quality of many of these credit lines. Beneficiary assessments showing benefits “are by their very nature partial equilibrium exercises” that do not focus on the “substantial economic cost.... There is a risk of pushing the system beyond the sustainable equilibrium towards fragility” (IEG 2005).

**Partial Credit Guarantee Schemes:** Few rigorous impact assessments of partial credit guarantees have been done; the few that have been undertaken point to a somewhat positive effect. Yet there are questions about additionality as many firms with guarantees have obtained credit (Benavente, Galetovic, and Sanhueza 2006).

**Equity Finance:** The literature on the effect of private equity investment has focused mostly on developed countries. Private equity can catalyze structural changes by supporting new economic sectors and can foster industrial innovation (as measured by patenting rates). Studies have shown that venture capital can help reduce unemployment rates, mainly for skilled workers. However, other studies found no differences in employment growth between private equity-backed manufacturing companies and their control group, and no significant difference in the quantity of patents registered in the years following private equity investment. There was a higher “churn” in employment, plant growth, and investment, as well as higher productivity gains. Private equity-backed businesses have superior management practices than enterprises with family, private, and government ownership structures (Kortum and Lerner 2000; Belke, Fehn, and Foster 2003; Davis and others 2011; Bloom, Sadun, and Van Reenen 2009).

**Entrepreneurial/Business Training:** Many of the key questions regarding justification for large-scale policy interventions in this area remain unanswered. One relevant study found some effect of training on business performance and access to finance; however, the likelihood of business survival was not affected by training. Another study found that business training combined with grant money can increase profitability for entrepreneurs in the short but not the medium term. A third study found positive effects from a business training program in three Central American countries on expansion of an existing or the start-up of a new business
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(Bruhn and Zia 2013; De Mel, McKenzie, and Woodruff 2008; Klinger and Schündeln 2011).

**Matching Grants:** “Among the problems that prevented implementation of the RCTs [randomized control trials] were project delays and political economy challenges that make it difficult to implement RCTs in a meaningful way and construct an appropriate control group” (Campos and others 2012).

In the following chapters, evaluative evidence is explored on the performance of the main types of projects in IFC, MIGA, and World Bank portfolios to shed some systematic light on the performance of these instruments in practice. However, given the limits of evaluative evidence and the general lack of counterfactual evidence and, too frequently, of baseline data, future evaluative research has great potential to contribute to the collective understanding of which instruments work best under what conditions.

**WHAT IS AN APPROPRIATE DEFINITION OF SME?**

How SMEs are defined establishes their relevance to Bank Group development objectives of poverty alleviation and inclusion. For SME to be a meaningful category of enterprises, it should be a group of firms that is specifically differentiated from others by the way that it experiences particular policy, institutional, or market failures or the way it benefits the economy or the poor. The literature provides little guidance on an appropriate definition, with different research using alternative definitions but little evidence of consensus.

Within the World Bank Group, IFC and MIGA have official definitions but also define SMEs in other ways. IFC and MIGA formally define SMEs as fulfilling two of three criteria:

- Having more than 10 and fewer than 300 employees
- Having between $100,000 and $15 million in sales
- Having between $100,000 and $15 million in assets.

The World Bank has many definitions – for its enterprise survey (enterprises with 5-99 employees), for its research (in some cases up to 99 employees, in others up to 250), and for individual projects (often rooted in country standards).10

The varying definitions of SMEs within the Bank Group create a number of challenges to evaluating its SME work:

- In many cases, it has not been consistently or appropriately defined.
• The case for SME support often depends on a mixture of definitions of SME that confuse the arguments.
• The practice of defining SME in the field bears little relation to formal definitions in Bank Group headquarters.
• For the majority of the portfolio, by design, the Bank Group cannot and does not directly monitor the benefit (or lack of benefit) for SME beneficiaries.

IFC and MIGA do not contextually adapt their definition by income level of country, size of economy, sector, or other criteria; instead, they adopt a single standard. IEG was unable to identify an empirical basis or reason for this particular definition, and the evaluation of data elicited strong counterevidence for the applicability of the current definition in many country contexts. The Bank Group’s own research (http://www.ifc.org/wps/wcm/connect/9ae1dd80495860d6a482b519583b6d16/M SME-CI-AnalysisNote.pdf?MOD=AJPERES) suggests in a review of 132 country standards of what constitutes an SME that 250 employees is the most common upper bound for defining SMEs; 100 employees is the second most common upper bound and the most common in Africa (Kushnir, Mirmulstein, and Ramalho 2010).

A standard definition brings certain benefits in cross-country consistency and comparisons, but there is strong evidence that the current IFC/MIGA definition is inappropriately high for many of the countries in which it operates by two standards:

• It is inclusive of the entire, or almost the entire, formal private sector, including the largest firms in some economies (and therefore not a meaningful distinction).
• Using this as the basis for targeting misidentifies the group of firms that is differentially constrained and thus in need of special assistance.

Regarding IFC/MIGA standard, “The [United Nations Development Programme] and World Bank [IFC] definitions would include the manufacturing subsidiaries of both Nestle and Unilever in Ghana, clearly not the intended objects of development interventions. The World Bank [IFC] definition would include the majority of Ghana’s top 100 manufacturers” (Gibson and van der Vaart 2008). These authors go on to point out that IFC definition would include many top 50 firms in Bolivia and Cameroon. In terms of employees, the authors observe that this exceeds the limit defined by the African Development Bank by six times and the Inter-American Development Bank by three times, whereas in terms of turnover, it exceeds the latter by five times. As noted elsewhere, none of the research observing the characteristics,
constraints, and contributions of SMEs actually uses the IFC/MIGA definition for SME. Thus, in any paper justifying interventions to support SMEs, the evidence does not apply to the upper end, and often the majority, of IFC definition.

The challenge is that if projects are attempting to differentiate SMEs as a group in need of special support to address special needs or disadvantages or a special contribution to the economy, it matters a great deal that they are accurately distinguished from other firms. Very few economies (in the absence of great natural resource wealth) could afford to subsidize all enterprises, and accurate targeting should improve efficiency or SME interventions. Microenterprise support is often designed quite differently from SME support, so correctly defining the lower bound of the SME definition is also important.

Another issue in much of the writing about SMEs is that the definition of SME varies within individual texts. For instance, a key IFC report for the G-20 uses definitions of SME to report on their prevalence among all enterprises, their employment share, and their share of gross domestic product (GDP) that do not conform to IFC’s own definition of SMEs and, in fact, include a great many microenterprises. Another IFC work for the G-20 uses the definition of 5-250 employees – including (by IFC’s definition) microenterprises and excluding many medium firms (Stein, Goland, and Schiff 2010). A recent IFC jobs study reports on SMEs’ contribution to employment based on an article that defined small enterprises as those with fewer than 20 employees and medium enterprises as those with 20–99 employees (IFC 2013b). The jobs study does make clear the different definitions of SMEs but shares the problem of other writing that makes reference to a literature that uses a maximum value of 99 employees to differentiate SMEs: the evidence does not pertain to the client base that IFC has defined for its SME products (and in this case includes what IFC defines as microenterprises). A number of project documents in the Bank and IFC cite literature on SMEs without noting how the parameters of the SMEs represented in the literature vary from the parameters of the designated beneficiaries of the project.

Whether the definition of SME is appropriate, few projects use the definition in practice. IEG’s portfolio review found that in IFC investment project documents 87 percent do not define SME by any criterion, and nearly two-thirds of World Bank-targeted SME investment projects do not define SME by any criterion in the concept note. Of the mainstream MIGA projects reviewed (which, according to their project descriptions, targeted SMEs); only one provided any confirmation that the beneficiaries could be classified as SMEs by MIGA standards. In the Small Investment Program (SIP), because the project enterprise is required to be an SME, almost 90 percent of project files reviewed establish the SME qualification of the enterprise into which the insured investment will go.
The literature suggests that it is difficult to arrive at any consensus definition of SME. However, the discussion here indicates that the current IFC/MIGA definition of SMEs does not consistently and effectively distinguish firms by whether they are differentially constrained by factors in the local operating environment or whether they have different levels of access to financing. The World Bank has no consistent basis for how it classifies firms. A more appropriate size distinction would, at the very least, take account of country income level and could in theory be informed by other factors (for instance, size of domestic economy, fragility, or differential costs and constraints as reflected in enterprise surveys).

Scope of This Evaluation: “Targeted” Support to SMEs

As suggested by the literature review, SMEs contend with a wide variety of institutions and factors in start-up, operation, and growth (and potentially exit). Where constraints arise from most of these, systemically improving the policy, institution, or market is generally an approach to benefiting SMEs that has benefits for other sized enterprises as well.

However, systemic, universal interventions are not the focus of this evaluation. Instead, IEG focuses on the portfolio of interventions specifically aimed at delivering support to firms on the basis of their small and medium size. Clearly, by selecting activities specifically targeted to SMEs -- to the exclusion of firms of other sizes -- IEG excludes a large part of both the World Bank and IFC portfolios that benefit SMEs through broad systemic improvements. These range from measures to improve macroeconomic stability (where, for example, small firms are less able to hedge against inflation than large ones) to infrastructure (where there are scale economies in self-provision of power through generators) to education (where small firms may be less able to compensate for deficiencies in skills through in-house training or international recruitment) to the financial sector.

In each of these cases, systemic changes may disproportionately benefit SMEs but do not target them to the exclusion of other potential beneficiaries. Although these areas of activity are acknowledged as beneficial, they are not the focus of this evaluation. However, in the evaluation IEG considers whether such systemic interventions are important prerequisites of or complements to targeted interventions. The country case studies take into account the entirety of relevant World Bank Group interventions during the evaluation period, which should shed light on the complementarity and sequencing of nontargeted measures as they relate to targeted ones.
Targeted programs—the focus of this evaluation—are widespread in the World Bank Group as well as among other donors and many governments worldwide. Targeted programs aim to specifically benefit SMEs on the basis of their size (in terms of employees, sales or assets), the sole defining characteristic of being an SME.

As discussed below, the theory of change underlying such support is that firms benefiting from targeted support will contribute to broader development goals, especially job creation and economic growth. Empirically, any special role of SMEs in employment creation and economic growth remains an unresolved question. Therefore, IEG examines the extent to which the theory of change of the targeted interventions coheres and is followed in practice; it cannot estimate the final impact of such interventions on employment, growth, market dynamism, and inclusion.

Foremost among these targeted approaches is SME financing, which often aims either to fill the gap between SME demand for finance and the market supply or to address a market failure in SME finance, for example, by demonstrating the profitability of improved SME finance techniques to banks.

A second category of this intervention involves advice and technical assistance to government agencies, financial intermediaries, or others on how to improve services or reduce costs imposed on SMEs. Third, SME needs are also often addressed through business development services (BDS) and training designed to improve enterprise performance, either through provision of professional services (such as accounting or management consultancy) or through training of SME managers and entrepreneurs.

Finally, interventions may seek to integrate or link individual SMEs into large networks of producers. This includes vertical integration into supply chains and horizontal integration through clustering or other cooperative activity of related SMEs and supportive institutions.

With the evaluation IEG examines the extent to which the theory of change of the targeted interventions coheres and is followed in practice, but it cannot estimate the final impact of such interventions on employment, growth, market dynamism, and inclusion.

**Portfolio Review: SMEs Are Big Business for the World Bank Group**

SME support is big business for the World Bank Group – an important part of its portfolio. SME support overall (that is, projects coded or identified as supporting SMEs) constitutes 28 percent of IFC investment projects, 46 percent of MIGA
projects, and 14 percent of the World Bank projects in the period FY06–12. This evaluation’s focus on projects specifically targeting SMEs (excluding large enterprises and often micro enterprises as well) still looks at 17 percent of IFC investment projects, 42 percent of MIGA projects (including the small investment program – SIP), and 7 percent of World Bank projects (Figure 1.4).

The Bank Group’s support to SMEs takes multiple forms, each aimed to support SME growth as a means to contribute to employment creation, GDP growth, market dynamism, and/or economic inclusion. The implicit (and often explicit) theory of change underlying such support is that firms benefiting from targeted support will contribute to broader development goals, especially job creation and economic growth. Sometimes, targeted support also aims to rectify market and institutional failures that negatively influence the development of SMEs, often as a complement to support for broader (and less targeted) policy, regulatory, or institutional reform efforts. The end goal is similar: to stimulate SME growth, thereby generating developmental benefits.

Collectively, the portfolio of TSME support represents a massive investment in institutional time and attention, as well as $10.5 billion in IFC investment commitments (comprising 16 percent of total portfolio value FY06–12), $2.3 billion in MIGA gross exposure (21 percent of gross exposure), and $4.9 billion in World Bank investment commitments (1.9 percent of portfolio value) over the period. On the advisory side, SME support constitutes 31 percent of IFC’s advisory services projects, of which just over half are targeted. IFC advisory TSME portfolio accounted for about $170 million of cumulative expenses (Figure 1.5). In World Bank analytic and advisory activities (AAA), about 4 percent of projects are devoted to SMEs, of which only about a quarter can be classified as targeted. Similarly, only about 1 percent of the cumulative cost of its AAA work from FY06-12 can be classified as TSME work.
The World Bank Group is only one financer of SME support activities, which receive billions of dollars in developing countries from multilateral and bilateral donors, as well as from national governments. For example, a 2011 World Bank survey of development banks, which together accounted for $2 trillion in assets, found that SME support was the second-leading specific mandate after agriculture and that 92 percent of the responding development banks targeted SME clients (De Luna-Martinez and Vicente 2012). The European Commission’s Program for the Competitiveness of Enterprises and SMEs, which has SMEs as its main target, reported an overall budget of €3.6 billion from 2007 to 2013. The Inter-American Development Bank’s Inter-American Investment Corporation approved 50 direct loans to SMEs for a total of more than $63 million between 2010 and 2012. USAID reports that its Development Credit Authority in 2012 provided guarantees that were expected to open $215 million in bank financing for small enterprises. In 2011, the African Development Bank established the Africa Guarantee Fund for Small and Medium Enterprises; this had an initial guarantee of $50 million, which was scheduled to increase to $500 million over five years.12
The Bank Group’s support to SMEs takes multiple forms, each aimed to support SME growth as a means to contribute to employment creation, GDP growth, market dynamism, and/or economic inclusion. Each project justification (where it is offered) describes how the project will help overcome market, policy, or institutional failures in a particular country or region. Some products complement others and are delivered simultaneously or sequentially. The theory of change in essence tries to capture how a particular category of intervention will change something in a developing economy and lead to desirable outcomes and impacts. In doing so, it simplifies and does not reflect all of the complementarity and sequencing issues, especially the contribution of systemic (potentially non-SME) interventions to the success of TSME intervention.
The most common form of support takes place when the Bank or IFC invests in or lends money to a financial intermediary, with the intention that the intermediary on-lend to SMEs (or in amounts only attractive to SMEs). MIGA often provides guarantees to financial intermediaries (most often banks, sometimes an equity fund) with the intention that it expands financing of SMEs; and also can directly guarantee foreign direct investment (FDI) in an SME through its SIP. In all of these cases, the intention is that the resulting finance allows the beneficiary SMEs to undertake new or expanded activities, generating employment and growth and contributing to competitive and inclusive markets.

As an example, MIGA says of its SIP program that by facilitating foreign investment into the SME sector, it will contribute to “the growth of small and medium-size enterprises” which “is critical to the creation of jobs, economic growth, and poverty reduction” (MIGA 2009). IFC explains its lines of credit to banks in Russia as follows: “In supporting the country’s market transition, IFC’s financial sector strategy in Russia has been to identify reputable banks with major presence in the regions through which IFC could support the development of private SMEs. Using IFC’s credit lines, these banks are able to offer longer term loans, hence supporting the growth of the SME sector, which plays an important role in employment generation, economic diversification and improved standards of living” 14 Figure 1.6 illustrates the logic of this theory of change, along with an example from a Nicaraguan project visited by the IEG team that was delivering nearly $6 million of financing to SMEs through matching grants (Figure 1.7).
The challenge with this model is that the project anticipated reaching only 850 Nicaraguan MSMEs, delivering an average grant of $6,000. Yet reports suggest there are 366,000 MSMEs, and the World Bank’s enterprise survey indicates that nearly a quarter identify access to finance as a major or severe constraint. To deliver $6,000 to each of these firms would require more than $500 million, at least 85 times the amount actually delivered by the project.

IFC has estimated the overall “credit gap” for MSMEs in Latin America as $410 billion and the global credit gap at over $2 trillion. Furthermore, there is little evidence in this case that, when the funds from this project are exhausted, a new source of matching grants will materialize. Nor did IEG see widespread evidence that the financial system was ready to finance these same firms’ future needs.

Thus, except in very small economies where donors can afford to step in for a weak financial system over an extended period, a more credible theory of change for
interventions that finance SMEs needs to feature the impact that interventions can have on the development of the financial sector from the bottom up. In this version of the theory of change, support delivered through financial intermediaries (often accompanied by technical assistance to the intermediaries) creates a demonstration effect or has a catalytic effect on the formation of a market for SME finance, stimulating competition, sustained institutional capacity, and the motivation for intermediaries to engage in future financing of SMEs. The intended impact is the same – SME growth with all its benefits – but the intended outcome lies more in the effect on intermediaries and financial markets than the SMEs that directly benefit from the finance.

This is exactly how IFC portrayed its strategic intervention in the Chinese banking system (Figure 1.8). Along with work on collateral and credit information systems, IFC helped a number of Chinese banks launch a sustainable SME finance practice. These banks served as role models and created both a demonstration effect and competitive pressure for other banks to supply SME finance.

Figure 1.8. Theory of Change 1b: Catalyzing Financial Sector Development, Deepening through IFC/World Bank Finance or Technical Assistance or MIGA Guarantees to Financial Intermediaries

Source: IEG portfolio review.
Figure 1.9. Theory of Change 2: World Bank Group Advisory Services to Governments and Financial Institutions

| WBG advisory services to government bodies and financial institutions | In 2006 IFC launched an advisory project for Tribanco bank in Brazil that wanted to expand credit to its SME clients and to a major manufacturing company that provides finance to its retail outlets. These small retail outlets both need credit for their general working capital, and to extend credit to their customers.  
Advisee acts to reduce costs, improve services  
Higher rates of SME entry, growth, exit  
Employment Creation, GDP Growth, Market Dynamism and Inclusion |
|---|---|
|  | The advisory project trained the bank to be able to properly assess the ability of its SME clients to handle credit. 
  
Over the life of the advisory project, the bank was able to provide significant increases in credit to its SME clients and the overall development effectiveness was rated as satisfactory by IEG in a post-completion review.  
As with most other financial intermediary projects, nothing is known about the SME clients, what they did with the financing, or whether their sales, investment or employment increased. |

Source: IEG portfolio review.

A second theory of change connects the delivery of advice or technical assistance to a government body (for example, a regulator) or a financial institution with the objective of having that body act to reduce costs or improve services to SMEs (Figure 1.9). For example, IFC advisory services to banks on assessing and managing risk may complement its loan to them for SME finance.16 The World Bank describes its MSME finance activities as “technical tools and guidance, data, lending and technical assistance” that address challenges when MSMEs – which account for a significant share of employment and GDP around the world – have limited access to finance, which restricts economic opportunity, enterprise creation, and growth while increasing vulnerability to risk.17

A third theory of change starts from raising the performance or bankability of enterprises through direct or intermediary-based provision of services and training (Figure 1.10). Sometimes this is linked to matching grants as a financing mechanism for the services and is often combined with other components that are regarded as complementary. For example, the multicomponent India Additional Financing for the Small and Medium Enterprise Financing and Development Project aims to
achieve its objective through multiple “prongs,” including policy, regulatory and institutional reform, bank finance, and risk mitigation and “strengthening business development services and market linkage programs for SMEs … thereby helping SMEs to improve profitability and competitiveness, and become more creditworthy” (World Bank 2004).

A fourth model is intended to address the scale diseconomies, lack of connections, and lack of information of small enterprises by linking them in clusters or networks to value chains involving large firms (Figure 1.11). This is often achieved through advisory services. For example, IFC can provide training and technical support to a large enterprise to encourage use of SME suppliers. Such support is often combined with SME training and sometimes also linked to trade credit or other financing to enable SMEs to upgrade and meet the quality standards of the larger firm. For example, IFC’s West Bank and Gaza Olive Oil Supply Chain Development Project aims to enhance the performance of a group of SMEs that “lack knowledge of required skills and performance standards to operate effectively” to enhance their in terms of product quality and export growth to accelerate economic growth and support the development of a productive private sector that will attract investment,
encourage economic integration, introduce new technologies, expand economic opportunities, and create new jobs.

### Figure 1.11. Theory of Change 4: Value Chain Interventions in Networks, and Clusters

<table>
<thead>
<tr>
<th><strong>Advisory inputs, financing to SMEs, large firms or network institutions</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA work showed weak support systems and linkages in key value chains. Coffee farming suffered from poor labor skills and coffee processing, as well as lack of quality feedback to farmers. The Kenya MSME Competitiveness project gave matching grants to value chains based on submission of a business plan for improving MSME competitiveness.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Small firms benefit from linkage from value chains, networks or clusters</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Leading exporters and roasters (many of them SMEs) worked with farmer cooperatives and received matching grant to strengthen productivity and quality at the farm and cooperative level. Information exchange, awareness, trust substantially improved.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>SMEs respond to greater market opportunities by expanding</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Through improved practices, farmers improved both yield and quality of product, increasing value of output, allowing roasters and exporters to expand.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Employment Creation, GDP Growth, Dynamism and Inclusion</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Large increase in productivity and income, substantial added employment, measured by 73% increase in production, higher price per kilogram of coffee, higher percentage of top grade coffee, and higher use of casual labor.</td>
</tr>
</tbody>
</table>

*Source: IEG portfolio review.*

### MAPPING THE WORLD BANK GROUP PORTFOLIO TO THE THEORIES OF CHANGE

The various activities of the World Bank Group can be mapped into these theories of change. Table 1.3 provides some examples. For example, IFC, MIGA, and the World Bank each have products that fit the first theory of change, through which financing or guarantees benefit SMEs.
### Table 1.3. Mapping World Bank Group Portfolios and Products to Theories of Change

<table>
<thead>
<tr>
<th>Category</th>
<th>IFC</th>
<th>MIGA</th>
<th>World Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Financing through loan, investment, or guarantee</strong></td>
<td>On-lending, leasing, direct investment, partial risk guarantee, and more. 384 projects, $10,078 million</td>
<td>SIP for FDI in SME or FI, regular guarantee to FI, 88 projects, $2,495 million.</td>
<td>FILs, partial risk guarantees, matching grants (as financing mechanism) 103 projects, $3,801 million</td>
</tr>
<tr>
<td><strong>Advisory services to government, financial institutions</strong></td>
<td>Advisory services to financial institutions, public and private bodies. 134 projects, $77 million</td>
<td>Technical assistance to governments, financial institutions and others. 71 projects, $380 million</td>
<td></td>
</tr>
<tr>
<td><strong>Business development services/advisory services/training</strong></td>
<td>Business Edge, SME toolkit, other BDS, training and advisory. 87 projects $53 million</td>
<td>BDS, training and advisory services, sometimes linked to matching grants. 25 projects $372 million</td>
<td></td>
</tr>
<tr>
<td><strong>Value chain interventions, networks, and clusters</strong></td>
<td>SBA/linkages work. 51 projects, $41 million</td>
<td>Guarantee to firm with SME Linkages. 1 project, $14 million</td>
<td>Value chain AAA and projects (cluster development, growth pole, and so forth). 18 projects, $383 million</td>
</tr>
</tbody>
</table>

**Source:** IEG portfolio review.

**Note:** With number of projects and aggregate of commitment value, expenditure and gross exposure. AAA = analytic and advisory activity; BDS = business development service; FDI = foreign direct investment; FI = financial intermediary; FIL = financial intermediary loan; SBA = stand-by arrangement; SIP = small investment program; SME = small and medium-sized enterprise.

IEG examines the extent to which experience conforms with these logical sequences, although it cannot validate the final economy-wide impact. Clearly, not all projects elaborate this sequence fully, and some do not reflect much thinking about a theory of change at all. The underlying theme is that if benefits or services are to be targeted to one group of enterprises and not to others, several elements must be present:

- A good explanation of why the intervention addresses that group’s needs and promotes broader development goals
- A good identification of the targeted group
- Effective and efficient means of assuring the targeted group benefits from the intervention (delivering benefits or addressing market failures impeding that group)
- Enough information to know whether the problem the intervention sought to address has been addressed.
Evaluation Design

The remainder of the evaluation reviews IFC, MIGA, and World Bank TSME support activities since 2006, assessing their relevance, efficacy, and efficiency, as well as the work quality evidenced by each institution. The final chapter considers the World Bank Group’s performance as a whole and draws lessons and recommendations to improve future development effectiveness. The chapters draw lessons from the World Bank Group’s experience and make recommendations to help enhance the achievement of the Bank Group’s development mission, specifically, to enhance the impact of its SME support in contributing to growth, employment, and shared prosperity.

IEG intends the report to inform the discussion of the extent and nature of the World Bank Group’s future engagement in TSME support activities. It will complement other work on broader systemic reforms in support of private sector development, including IEG analyses of work on the investment climate and the financial sector.

IEG asks one overarching question in this evaluation, supported by four supporting questions, each in turn informed by a number of subordinate questions:

Has the World Bank Group effectively promoted inclusive growth through its targeted support of SMEs aimed to address constraints relating to access to finance, to services, to information and to markets?

- **Relevance**: Has there been a persuasive rational for the World Bank Group to offer targeted support to SMEs?
- **Efficacy**: Have the World Bank Group’s targeted support programs for SMEs met their objectives and reached their desired outcomes?
- **Efficiency**: Are TSME support programs efficient instruments, from both a program and institutional perspective?
- **Work Quality**: Is the World Bank Group effectively managing factors within its control?

**Information sources.** IEG used a range of different information sources and methods of analysis in the evaluation, building on standard IEG methodology. These include:

Internal and external literature and document reviews to identify:
The role and significance of SMEs in development, including their contribution to employment, innovation and growth

The theoretical underpinnings of and rational for support for SMEs -- including what specific needs, constraints, and market failures are especially important for this firm size

The role of financial sector development in promoting SME growth, and any tradeoffs between SME-specific needs and broader growth needs

The pertinent policy and institutional variables

The record of success or failure of different approaches to SME support.

**World Bank Group portfolio review of the** project databases, including all projects approved in FY06-12. To further focus on outcomes, the team also examined projects that closed during the same period, which yielded a much richer set of projects that had been subject to self- and IEG evaluation, allowing for more systematic and even econometric analysis.

**Enterprise survey database and other database analysis.** The team undertook an extensive analysis of enterprise survey data to better understand the behavioral characteristics of SMEs, their constraints and costs, as well the relationship of size characteristics of firms to firms’ access to finance and their propensity to create employment. These data were also used to understand the interactions of firm size with other firm characteristics and with country characteristics such as income level and region. IEG also used external databases (Berne Union, Bankscope).

**World Bank Group staff interviews.** The IEG team interviewed relevant World Bank Group staff and management in headquarters and in each field visit.

**Beneficiary and stakeholder interviews.** Opinions and insights were gathered from clients, beneficiaries, and other major stakeholders in field visit countries, including donors, business associations, government counterparts, and other interested parties. In addition, IEG conducted a broad discussion and social outreach to interested stakeholders through social media (Facebook, LinkedIn, and Twitter), including two opinion polls.

**Special focus and microevaluation of MIGA SIP.** As part of this evaluation, IEG agreed with MIGA to conduct a programmatic evaluation of SIP. For SIP, there is little project-specific evaluatory information available, so IEG conducted a desk review of all SIP project files for the covered period, completing pending project evaluation reports and conducting additional analyses of a sample of the portfolio of mature projects in accordance with a template agreed with MIGA. Field work allows
onsite information gathering for a small subsample of projects, contributing to the macroevaluation.

**Country case studies.** Country case studies were prepared based on missions to six purposively selected countries reflecting a diversity of conditions (for example International Development Association (IDA)/non-IDA, postconflict, different regions), with a diversity of project performance characteristics, where multiple institutions of the Bank Group had been active. In addition, a stratified, random sample of 14 additional countries was drawn for desk-based country case studies, to expand the range of country experience included in the evaluation (Figure 1.12).

![Figure 1.12. Case Study Coverage of World Bank Group TSME Support in IFC Investment, MIGA Guarantee, and World Bank Investment Portfolios, FY06-12, by Number of Projects](image)

Source: IEG portfolio review.

Finally, IEG conducted a detailed desk review of available underwriting and monitoring documents of 41 operationally mature SIP projects and conducted site visits to 7 SIP projects. The IEG team reviewed findings and ratings from six SIP Project Evaluation Reports (PERs), cancellation data, and reports from MIGA’s Legal Department on claims and pre-claims using a standard template to assess the relevance, effectiveness, and efficiency of the program in supporting SME
investments. In a number of cases, interviews with MIGA staff involved in underwriting SIP projects and reviewing claims or pre-claims also helped inform IEG’s evaluation of the program’s relevance, effectiveness, and efficiency.