

Approach Paper

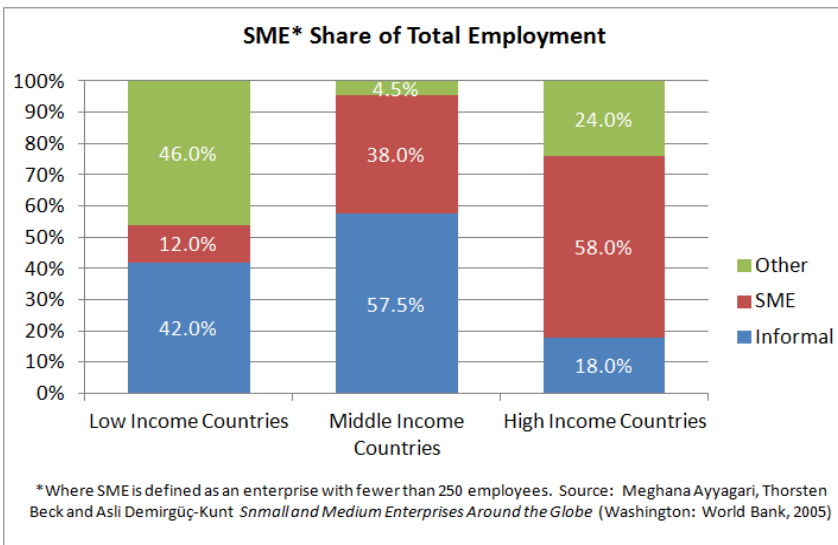
Evaluation of the World Bank Group’s Targeted Support for Small and Medium Enterprises

January 7, 2013

Background and Context

1. The World Bank Group seeks to promote private sector led growth to generate employment, shared growth and poverty alleviation.¹ International research indicates

Figure 1: SME Share of Total Employment, by Country Income Category



the important role SMEs play in growing economies.²

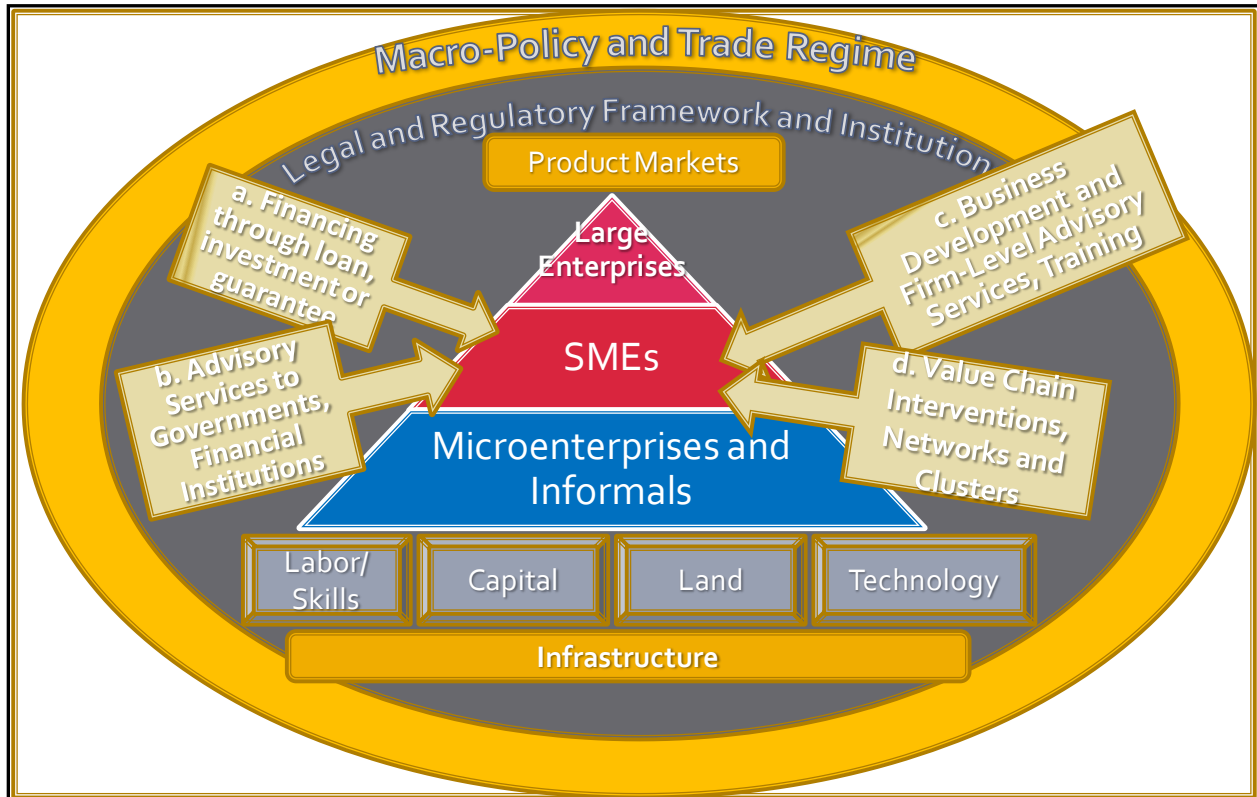
2. As income levels increase, SMEs tend to comprise a larger share of economy, while the informal sector recedes. Studies of transition economies have also emphasized the strong role that new entry of SMEs played in generating employment and growth in economies such as

Poland, Vietnam and China.³ More broadly, it is recognized that inclusive growth involves a large and healthy SME sector, playing its role in generating employment, opportunity and competitive dynamism.⁴ Where market, policy and institutional failures thwart this role, reformers often seek to “level the playing field” to assure that smaller businesses have a fair chance to thrive and contribute to market-led growth. Thus this evaluation will review IFC, MIGA and World Bank targeted support activities for SMEs between fiscal years 2006 and 2012 to assess their relevance, efficacy and efficiency; and provide an overall assessment of their development effectiveness.

3. **What do SMEs need to thrive?** It is important to understand and address the developmental needs of SMEs, as part of broader efforts to promote inclusive private sector development. While definitions of SMEs vary widely, the current evaluation will

utilize the IFC definition – having 10 to 300 employees, and having less than U.S. \$15 million in

Figure 2: The policy and institutional framework for SME Development



turnover or assets (box 1). However, some caution is needed in translating and transferring empirical and policy findings to this portfolio, because they are almost entirely based on different definitions. An initial literature review of work broadly addressing SME issues suggests an inclusive ecosystem of policies and institutions whose interactions determine the ability of SMEs to enter markets, compete, and grow or exit (figure 2 and box 2). These range from complete and efficiently-regulated factor markets to competitive product markets to 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.⁵ These enabling policies and institutions allow private enterprises of all sizes to function more productively, yielding greater benefits to society in the form of income, employment and shared prosperity.

4. To the extent that SMEs are more constrained (or deterred) from entry or growth by weaknesses in many of these enabling conditions, promoting reforms in these areas can be considered favorable to SME development. While research finds

little evidence that SMEs cause economic growth⁶, it finds that a wide variety of market failures that constrain growth and market dynamics disproportionately affect SMEs, limiting formalization and expansion of the sector and constraining market dynamics that contribute to income, productivity and employment growth. First, 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 have been associated with a larger informal sector.⁷ Recent research suggests that a weak business environment can shift activity away from formal firms towards smaller, informal microenterprises. Impediments such as heavy business regulations, lack of access to finance, weak infrastructure and corruption can each exact a toll inhibiting formal SME development.⁸ Constraints to entry especially discourage the entry of small firms and limit competitive market dynamics that drive innovation and productivity growth.⁹ Excess costs and regulations are found to disproportionately discourage the survival of more productive firms while allowing less productive firms to survive.¹⁰

Box 1: What is an SME?

Logically, the defining feature of an SME is size, measured by number of employees, sales or assets. By these criteria, SMEs can be distinguished from microenterprises and large enterprises. In terms of the specific cutoff, there is a profound lack of consensus.

- OECD defines SMEs as having 10 to 250 employees and no more than €10 million sales about (\$13.1 million U.S.) or annual balance sheet total. 95% of OECD enterprises are defined as SME.*
- The EU defines SMEs as having 10 to 250 employees, having from €10 to 50 million (about \$13.1 million to \$65.7 million) in turnover or €10 to 43 million in assets.
- Both IFC and MIGA define SMEs as having from 10 to 300 employees and assets between \$100,000 and \$15 million (about €11.4 million) or sales in the same dollar range.
- The World Bank has no single definition. For its enterprise surveys, 5 to 99 employees. In some of its prominent research, SMEs are defined as having up to 250 employees. Other research uses the enterprise survey definition.

It is important to note that some definitions include enterprises that would be considered microenterprises or large enterprises under alternative definitions. Caution is needed to avoid situations where the constraints or virtues of SMEs by one definition are used to justify (or condemn) assistance to firms classified as SMEs by an entirely different definition. This evaluation will utilize the IFC/MIGA definition unless otherwise noted.

* Dalberg Global Development Advisors. *Report on Support to SMEs in Developing Countries Through Financial Intermediaries* (Geneva: EIB, November, 2011)

Box 2: SME Literature Review, a Synthesis of Syntheses (sources of figure 2)

Source	Capital/ Finance	Labor/ Skills	Land/ Real Estate	Technology Standards Metrology IPR, , etc.	Infra- structure (power, transport, telecom, etc.)	Product Market Con- ditions, Competition (formal and informal)	Legal and Regulatory Framework for Entry, Exit, Opera- tion (incl. Tax)	Macro- Policies, Trade Re- gime, Politi- cal Stability, Governance	Targeted Support			
									Finan- cing	BDS Advi- sory, train- ing	Compe- titive- ness, Tech- nology	Link- ages, Clus- ters , PPD
Batra and Mahmood ¹²	X	X		X	X	X	X	X	X	X	X	X
Beck, Demigüç-Kunt, Levine ¹¹	X	X		X		X	X	X				
Biggs, IEG ³	X	X		X		X	X		X	X	X	X
Bologna Charter (OECD) ¹	X	X		X	X	X	X	X	X	X	X	X
Dalberg/EIB ¹⁰	X								X			
D. J. Storey, 2003 ⁴	X			X				X	X	X	X	X
D. J. Storey 2008 ⁵	X	X	X	X		X	X	X	X	X	X	
IFC 2010 ⁶	X	X			X	X	X	X		X	X	
ILO 2004 ⁸	X	X	X			X	X	X				X
Istanbul Declaration (OECD) ²	X	X	X	X	X	X	X	X	X	X	X	X
Klein, 2009 ⁹	X		X	X		X	X	X	X		X	
Levine ¹⁴	X	X				X	X	X	X			
Lundstrom/Stevenson ¹³	X	X		X		X	X	X	X	X	X	X
McKinsey/IFC ⁷	X				X		X		X			

1. Geeta Batra and Syed Mahmood *Direct Support to Private Firms: Evidence on Effectiveness* (Washington: World Bank Policy Research Working Paper 3170, November 2003)
2. Thorsten Beck, Asli Demigüç-Kunt and Ross Levine *SMES, Growth, and Poverty* (Cambridge: National Bureau of Economic Research Working Paper 11224, 2005)
3. Tyler Biggs, *Is Small Beautiful and Worthy of Subsidy?* Literature Review (Washington: IEG, 2002)
4. OECD. *The Bologna Charter on SME Policies* (adopted on 15 June 2000)
5. Dalberg Report on Support to SMEs in Developing Countries Through Financial Intermediaries (EIB, November 2011)
6. D. J. Storey *Entrepreneurship, Small and Medium Sized Enterprises and Public Policies* in Z.J. Acs and D.B. Audretsch (eds.), *Handbook of Entrepreneurship Research* (London: Kluwer Academic Publishers, 2003)
7. D.J. Storey *Entrepreneurship and SME Policy* (World Entrepreneurship Forum 2008 Edition)
8. IFC *Scaling-Up SME Access to Financial Services in the Developing World* (Financial Inclusion Experts Group, SME Finance Sub-Group, G20 Seoul Summit 2010)
9. Gerhard Reinecke, Simon White. *Policies for Small Enterprises: Creating the Right Environment for Good Jobs* (Geneva: ILO, 2004)
10. OECD. *The Istanbul Ministerial Declaration on Fostering the Growth of Innovative and Internationally Competitive SMEs* (June 5, 2004)
11. Michael Klein *Promoting Small and Medium Enterprises: Their importance and the role of Development Finance Institutions in supporting them* (DEG, KfW Bankengruppe: The Atrium Dialogues, November 2010)
12. Ross Levine *Does Firm Size Matter for Growth and Poverty Alleviation?* (Washington: Brookings Blum Roundtable, August 4, 2005)
13. Anders Lundström and Lois Stevenson *Entrepreneurship Policy: Theory and Practice* (New York: Kluwer Academic Publishers, International Studies in Entrepreneurship, 2005)
14. Peer Stein, Tony Goland and Robert Schiff *Two trillion and counting Assessing the credit gap for micro, small, and medium-size enterprises in the developing world* (McKinsey & Company and IFC, October 2010)

5. 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, the literature observes that 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 due to credit rationing and the cost of screening.¹¹ World Bank development research found that SMEs are less likely to be able to access finance, other things equal, where banks are highly concentrated and competition limited¹²; where bank regulatory policies are inadequate; where property rights protection is weak, where legal systems are ineffective or rigid, or where credit information is weak.¹³ A central development 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.¹⁴

6. On top of these enabling conditions that form the context in which firms of all sizes operate, there are a number of size-specific interventions that directly target SMEs. As box 2 makes clear, such programs are widespread and are recognized as part of the response to SME needs. 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 intervention [see box 3] involves advice and technical assistance to government agencies, financial intermediaries or others on how to improve services or reduce costs imposed upon 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.¹⁵ Finally, interventions may seek to integrate individual SMEs into large networks of producers. This includes vertical integration into supply chains of larger firms and horizontal integration through clustering or other cooperative activity of related SMEs and supportive institutions. Whereas reforms of the systemic constraints of the investment climate and financial markets to some degree benefit all firms, 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. It is these interventions that form the focal point of this evaluation. As shown in box 3, the implicit results chain underlying such support is that firms benefiting from targeted support will contribute to broader development goals, especially job creation. Empirically, the special role of SMEs in employment creation and economic growth remains an unresolved question.¹⁶ Therefore the evaluation is intended to examine the extent to which the logical sequence of the above targeted interventions fit the experience, although not the economy-wide effect on employment, growth, market dynamism and inclusion.

Box 3: From projects to impacts – the logical models for SME Support Approaches

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 inclusion. Each is intended to overcome market, policy or institutional failures in particular countries.¹⁷ Some products complement others and are delivered simultaneously or sequentially. The most common form of support takes place when the Bank or IFC invests in or lends money to a financial intermediary, with the condition that the intermediary onlend to SMEs (or in amounts only attractive to SMEs). MIGA can provide a guarantee to a financial intermediary (e.g. a bank or equity fund) that expands financing of SMEs, or directly guarantee FDI in an SME through its Small Investment Program. 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.



A second model delivers 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. For example, IFC advisory services to banks on how to assess risk may complement other support for SME finance.



A third model tries to raise the performance or bankability of enterprises through direct or intermediary-based provision of services and training.



In a fourth model is intended to address the scale diseconomies of small enterprises by linking them either together in clusters or networks to value chains involving large firms. 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 through a value chain program. This 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.



The evaluation can examine the extent to which these logical sequences fit experience, although not the final economy-wide impact.

Source: IEG interviews, World Bank Group document review and analysis

Around the world, Governments and donor agencies dedicate many billions of dollars to the targeted support of SMEs. In countries as diverse as China, India, South Africa and the United States, dedicated agencies devote substantial national resources to the support of smaller enterprises. Donor support to SMEs through MDIs and bilateral assistance is also large. The G-20 has emphasized the “major role” of SMEs in economic development and employment generation, identifying their financial inclusion as a key priority.¹⁸

7. The different institutions of the World Bank have approached the support of SMEs in substantially different ways. The IFC places support of SMEs as a major strategic objective. It identifies a focus on micro, small and medium enterprises as a “core activity”. A key IFC development goal (IDG) was “helping MSMEs increase their revenues”. The goal was amended in 2011 to that of increasing “access to financial services for SME clients”.¹⁹ The IFC, through its direct activities and its role as the lead technical advisor to the G-20 Financial Inclusion Experts Group has particularly emphasized the need to “scale up SME access to financial services in the developing world” to meet a “credit gap” resulting from the “mismatch between the needs of small firms and the supply of financial services....”²⁰ In support of its several objectives, it has an extensive and diverse portfolio of investment and advisory projects. This portfolio embraces both support for systemic reforms thought to especially benefit SMEs and targeted reforms that use size-based criteria or proxies.

8. MIGA has also explicitly embraced the goal of supporting SMEs in Board documents and public statements. Although its strategy says little on the topic, its website emphasizes the role of SMEs in offering a “better livelihood to millions of entrepreneurs and workers in developing countries.”²¹ It aims to support, through its guarantees, foreign direct investment (FDI) in SMEs and in institutions that finance SMEs, to “bring access to finance, new technologies, modern business practices and market links....” MIGA can use both its regular political risk insurance and its targeted Small Investment Program to encourage FDI in SMEs, either directly, through financial intermediaries such as banks and equity funds or through supply chain interventions with larger companies.

9. The World Bank has taken a more limited approach to SME support. This arises from a view that:

“Establishing an equal playing field for all types of enterprises is often one of the most politically difficult parts of reform. Neither large nor small or medium-size firms should be favored. What should be favored are competition and the rule of law.”²²

A recent World Bank impact evaluation of World Bank SME support projects in Latin America noted that “the World Bank has advised developing country governments to focus instead on improving the investment climate for all enterprises, large and small, and on developing their financial markets and improving SME access to finance.”²³ Thus, only in its financial sector strategy does the Bank place SME support squarely on the agenda, suggesting that the Bank review cross-country developments in SME finance and “incorporate access issues into its policy-based and project lending operations.”²⁴ Consistent with this, only one of the new Finance and Private Sector Development practice areas – financial inclusion – explicitly supports SMEs, through its “Micro and SME Finance” unit. However, the competitive industries practice intends to focus on better integrating and raising the productivity of SMEs in their role in global supply chains providing inputs, components and services. And WB staff interviewed suggested that the next FPD strategy will expand WB SME support beyond finance. Finally, empirically, it is clear that a number of WB operations and advisory activities not concerning the financial sector have an SME theme, including about 44% (by value) of the World Bank’s investment operations targeting SME support, and 52% of targeted SME support AAA work. This would suggest that in practice, World Bank support for SMEs is broader than suggested by its formal strategy.

Table 1: Mapping the World Bank Group Portfolio onto the Logical Models in Box 3

Targeted SME Support Approaches >	a. Financing Through Loan, Investment, or Guarantee	b. Advisory Services to Governments, Financial Institutions	c. Business Development Services and Firm-level Advisory & Training	d. Value Chain Interventions, Networks, and Clusters
WBG SME Portfolios v				
IFC AS SME Portfolio		X	X	X
IFC IS SME Portfolio	X			X
MIGA SME Relevant non-SIP	X			X
MIGA Small Investment Program (SIP)	X			
WB IBRD/IDA Targeted SME Support Investment Portfolio	X	X	X	X
WB AAA (TA/ESW) Targeted SME Support		X	X	X

10. Overall, the World Bank Group has a multi-billion dollar portfolio of projects having SME support as an identified objective. In preparing this approach paper, IEG conducted a portfolio analysis (tables 1, 2 and 3 and figure 3) that indicates that between fiscal years 2006 and 2012, of the IFC investment portfolio, amounting to US \$67.4 billion, 37% was invested in projects identified as benefiting SMEs (either small enterprises or medium enterprises). In a portfolio of US \$0.9 billion for IFC advisory services, 63% was identified as benefiting SMEs. Of this, 232 projects involving com-

commitments of \$118 million are classified by IEG as targeted towards SMEs, comprising 18% of IFC's total advisory portfolio. For MIGA, of its regular guarantees, 29% of commitments are for projects identified as having an SME focus, involving a gross exposure of \$3.3 billion. In its Small Investment Program (which is intended to benefit SMEs in 100% of projects) there have been 54 projects supported by guarantees issued in the FY06-12 period with a total gross exposure of \$179 million.

Table 2: Portfolio of World Bank Group Activities to Support SMEs by Fiscal Year*

WBG SME-Relevant Portfolios (FY06-12)		FY06	FY07	FY08	FY09	FY10	FY11	FY12	Sum (Total)
IFC Investment SME Targeted Portfolio	# Projs at Commitment	79	83	112	111	132	97	89	703
	Financial Activity by FY in US\$M	1,681	2,134	2,979	2,629	4,878	5,340	5,105	24,745
IFC Advisory Services Targeted SME Portfolio	# Projects at Approval	38	50	36	29	37	18	24	232
	Total FYTD Expenditure (incl. Adjustment)				27	30	22	38	118
MIGA SME Focus non-SIP	# Projects at Approval	10	3	7	8	4	17	11	60
	Gross Exposure (US\$M)	444	42	671	769	312	521	536	3,294
MIGA Small Investment Program (SIP)	# Projects at Approval	8	5	6	10	4	8	13	54
	Gross Exposure (US\$M)	21	7	10	31	14	41	57	179
WB IBRD/IDA Targeted SME Portfolio	# Projs	14	9	10	13	20	16	9	91
	IBRD+IDA+GRANT in US\$M	1,518	366	984	1,740	2,901	763	1,563	9,836
WB AAA (TA/ESW) Targeted SME Portfolio	# Activities	4	2	5	10	12	10	10	53
	Actual Total Cum Cost Delivered in US\$M	1.0	0.7	0.4	2.6	2.0	1.1	1.4	9.1

*Sources: AS Cognos Project Detail Listing as of June 30, 2012, IFC MIS Extract as of March 2012, WB BW, and MIGA Projects Portal. Note: IFC AS expenditures by FYTD are only available in the databases for FY09-12. IFC investments include all projects including, for example, rights issues and B-loans, and will be further cleaned.

Table 3: Portfolio of World Bank Group Activities to Support SMEs by Region*

WBG SME-Relevant Portfolios (FY06-12)		AFR	EAP	ECA	LAC	MNA	SAR	OTHER	Grand Total
WB IBRD/IDA Targeted SME Portfolio	# Projs	32	9	20	15	9	6	0	91
	IBRD+IDA+GRANT in US\$M	1,183	2,324	2,774	1,706	1,272	577		9,836
WB AAA (TA/ESW) Targeted SME Portfolio	# Activities	13	5	10	7	6	7	5	53
	Actual Total Cum Cost Delivered in US\$M	2.4	0.8	1.1	0.6	0.9	1.8	1.4	9.1
MIGA SME Focus non-SIP	# Projects at Approval	30	1	5	3	9	6	0	54
	Gross Exposure (US\$M)	105	1	28	2	36	6		179
MIGA Small Investment Program (SIP)	# Projects at Approval	10	2	37	8	0	3	0	60
	Gross Exposure (US\$M)	83	40	2,956	75		140		3,294
IFC Investment SME Targeted Portfolio	# Projs at Commitment	143	98	190	133	45	82	12	703
	Total Net Commitment in US\$M	5,061	3,379	5,945	4,865	2,018	3,337	504	25,109
IFC Advisory Services Targeted SME Portfolio	# Projs at Approval	68	29	13	30	21	46	25	232
	2012 Prorated Cum Expense Amt US\$M	68	20	6	12	6	24	25	160

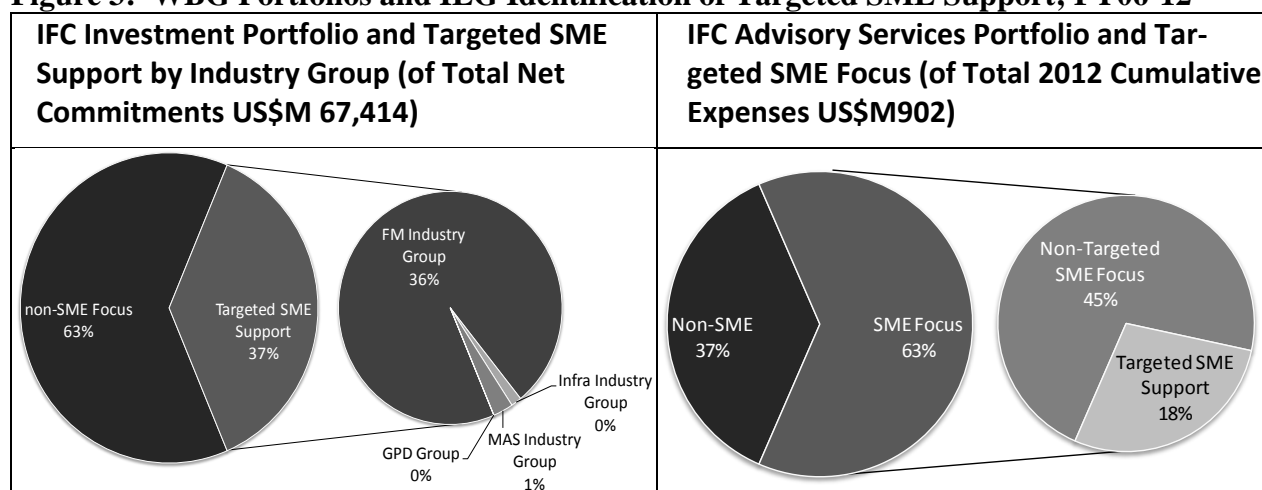
*Note: Sorted by World Bank classifications of regions to ensure comparability.

Table 4: Portfolio of World Bank Group Activities by IDA status*

WBG SME-Relevant Portfolios (FY06-12)		IDA Blend	IDA-only	Non-IDA, Country	Non-IDA, Regional	Non-IDA, World	Grand Total
WB IBRD/IDA Targeted SME Portfolio	# Projs	16	38	36	1	0	91
	IBRD+IDA+GRANT in US\$M	1,179	1,335	7,277	45	-	9,836
WB AAA (TA/ESW) Targeted SME Portfolio	# Activities	4	15	22	7	5	53
	Actual Total Cum Cost Delivered in US\$M	1	3	3	1	1	9
MIGA SME Focus non-SIP	# Projects at Approval	11	15	34	0	0	60
	Gross Exposure (US\$M)	263	157	2,874			3,294
MIGA Small Investment Program (SIP)	# Projects at Approval	2	34	18	0	0	54
	Gross Exposure (US\$M)	3	111	65			179
IFC Investment SME Targeted Portfolio	# Projs at Commitment	132	168	348	46	9	703
	Total Net Commitment in US\$M	4,892	5,159	13,259	1,332	467	25,109
IFC Advisory Services Targeted SME Portfolio	# Projs at Approval	45	98	49	15	25	232
	2012 Prorated Cum Expense Amt US\$M	20	60	29	26	25	160

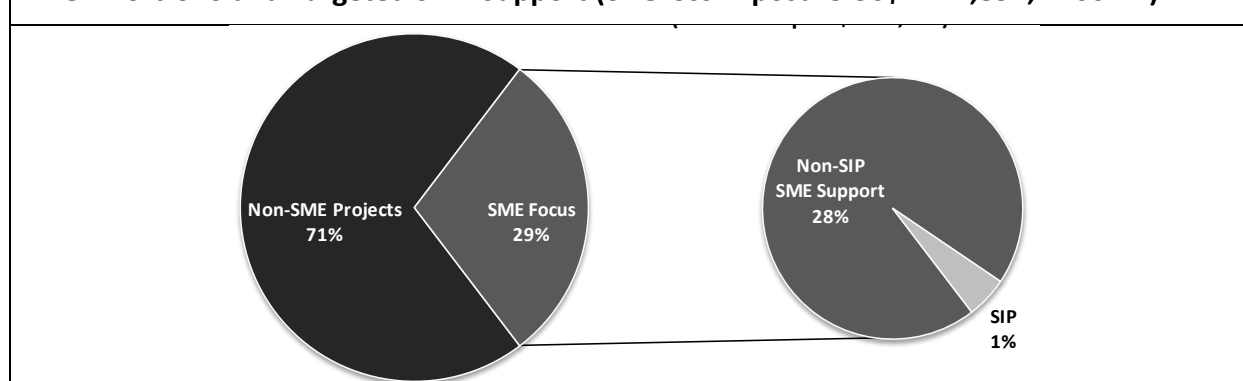
*Note: Based on 2012 classifications of IDA, IDA-blend and non-IDA countries.

Figure 3: WBG Portfolios and IEG Identification of Targeted SME Support; FY06-12

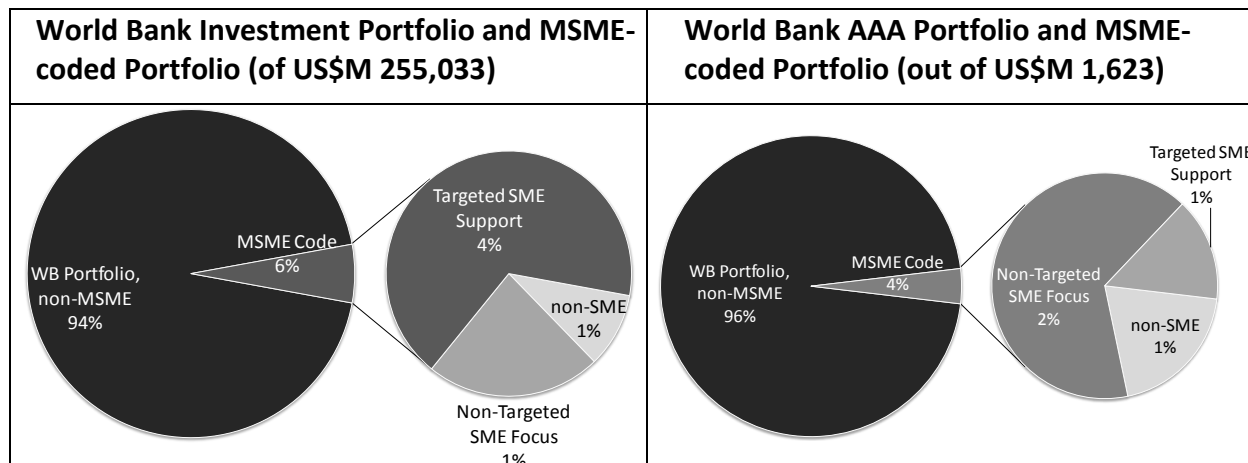


Note: Preliminary – the evaluation will apply additional methods to fully determine which projects are targeted.

MIGA Portfolio and Targeted SME Support (of Gross Exposure US\$M 11,857, FY06-12)



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Reflecting its more diverse agenda and different strategy towards financial and private sector development, SMEs figure much less prominently in the World Bank’s portfolio. In its investment operations, about 6% (by value) are assigned an “MSME” code (either thematic or sectoral). IEG’s analysis finds that two thirds of this constitutes targeted support, with a value of \$9.8 billion for the FY06-12 period committed across 91 projects. Only 4% of the Bank’s Analytic and Advisory work (AAA) was identified with an MSME code, and only about 1% of the total (\$9.1 million) was determined by IEG through content analysis to be targeted to SMEs. ²⁵

11. Regionally, the WBG has been most active in Africa in terms of number of activities, with 296 targeted SME support activities associated with a total value of \$6.5 billion. However, ECA leads in terms of the total value of financing, guarantees and advisory work (\$11.7 billion embodied in 275 activities). (Table 2). IDA and IDA-blend countries have benefited from 578 projects of targeted SME support, projects, worth just over \$13 billion in the FY06-12 period, constituting 34% of the portfolio by value. (Table 3).

12. Given this large commitment and the importance of SMEs in developing economies, it is critical to understand the rationale for the various interventions, their efficiency and effectiveness of interventions in supporting SMEs, and the outcome of these efforts regarding key development objectives such as employment and economic growth. It is not only a matter of looking at how each institution in the World Bank Group performs, but also how they work together and work with external partners and stakeholders to strengthen development impact. Understanding where complementarily and sequencing of the various instruments offered matter will be critical in deriving lessons. The lessons from this can help to refine or redirect interventions, building on successes and learning from failures. They may also give impetus to more

rigorous evaluation of future SME support activities, which globally has suffered from lack of attention.²⁶

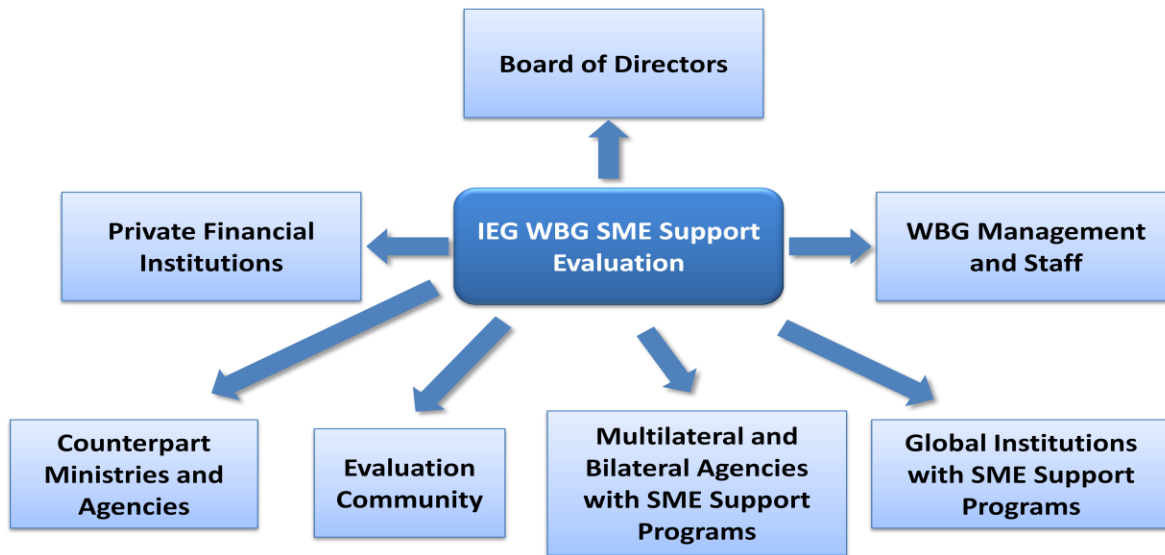
Purpose, Objectives, and Audience

13. The proposed evaluation will review IFC, MIGA and World Bank targeted SME support activities since 2006; assess their relevance, efficacy and efficiency; and provide an overall assessment of their development effectiveness. The evaluation will draw lessons from experience and make recommendations to help enhance the achievement of the World Bank Group's development mission and specifically, to enhance the impact of its SME support in contributing to growth, employment and shared prosperity. The evaluation report is expected to inform the discussion of the extent and nature of the World Bank Group's future engagement in targeted SME 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.

14. While the Board is the primary audience, the evaluation also seeks to inform a broader range of stakeholders. In seeking to inform the Board on the development effectiveness of World Bank Group's SME support activities, the evaluation expects to develop findings that are directly relevant to World Bank Group program management and staff. In the case of MIGA, its management specifically requested IEG to review its support to SMEs through the SIP. Interviews suggest that the IFC is continuously evaluating its business model for SME finance, while the World Bank is producing a new FPD strategy where SME support may figure more prominently. The evaluation will also indirectly address the broader role of multilateral development banks (MDBs) in the provision of support for SMEs. The G-20 has placed important emphasis on SMEs and their role in employment growth in the wake of the global financial crisis. Each of the MDBs has substantial programs of SME support and together, their SME support portfolio is in the billions of dollars.²⁷ ADB, AfDB, EBRD, IADB and, IsDB each have recently announced major new projects, programs or funds for SME support. Their evaluations units have expressed a strong interest in the development of methodologies as well as findings regarding the efficacy and impact of SME support. Most major bilateral donors also have major commitments to support of SMEs. IEG's recent consultations with donors suggest an important knowledge gap in what works for SME support. International and local financial institutions, which are a major conduit of SME support, are also stakeholders of the evaluation, as are other institutions providing business development services, policy advocacy or other forms of SME support. A variety of national Ministries and agencies with responsibility for SME support are also stakeholders as development partners in some World Bank Group-financed activities.

SMEs themselves and their associations also constitute important stakeholders, as are civil society organizations (CSOs).

Figure 4: Audience for IEG WBG Targeted SME Support Evaluation



Evaluation Questions and Coverage/Scope

15. Although the specific evaluations questions will be tailored to each program or category of activity being reviewed (box 4 exemplifies adaptation in the context of the MIGA SIP), the broad evaluation questions are the following:

Overall question: Is the World Bank Group effective in addressing SMEs constraints related to access to finance, costs of services, business development services and capacity and integration in supply chains?

Relevance: Is there a persuasive rationale for World Bank Group to offer targeted support to SMEs?

- a. What are IFC's, MIGA's and World Bank's targeted SME support instruments and how do they relate to each institution's development assistance strategy? How do they differ from each other, and do they represent consistent (and complementary) or competing views of the role of SMEs and how to support them?
- b. Which market, institutional and policy failures are being addressed by World Bank Group's targeted support to SMEs?
- c. Has World Bank Group SME support added value? How and how much?²⁸

Box 4: Framework for Evaluation of the MIGA Small Investment Program (SIP)

As part of this evaluation, IEG will conduct a programmatic evaluation of the SIP, an SME support program. MIGA's SIP policy* and standards provide the basis to tailor the framework outlined for the overall study to this program. The SIP evaluation thus aims to (1) evaluate the outcomes of individual SIP projects with respect to development outcomes and MIGA's role and effectiveness; (2) assess the relevance, efficacy, efficiency, and work quality of delivering the SIP program based on findings from project evaluation and at the program level; and (3) draw lessons. IEG will use a mix of methods, including a desk review (using a streamlined methodology), evaluation of a sample of mature SIP projects, and interviews with staff and clients. Program-specific questions include:

- **Relevance:** What is the rationale for MIGA to offer support to SMEs?
 - Has SIP served MIGA's strategy and, specifically, its objective of enhancing its support to SMEs and small and medium sized investors?
 - Which market failures is SIP intended to address and how?
 - **Additionality:** Would the investment have occurred without the SIP guarantee?
 - What is the opportunity cost of the SIP program in terms of alternative activities?
- **Efficacy:** Has the SIP met its objectives?
 - To what extent have SME Support programs met their primary objective of easing obstacles and correcting market failures constraining SMEs and small investors?
 - Are projects consistent with intent, objectives and eligibility criteria of the SIP?
 - To what extent have the SME support programs reached the intended beneficiaries?
 - To what extent are firms supported viable and meeting the benchmark rate of return?
 - To what extent have complementary interventions (e.g. IFC's) contributed to SIP's effectiveness?
 - What are the development results of MIGA SIP projects? Which performance patterns and lessons can be drawn from them? Have the programs had their desired outcomes regarding employment, economic growth, economic dynamism and inclusion? To what extent has SIP facilitated FDI?
 - How does performance vary by country conditions, and the presence or absence of complementary or precedent reform reforms or projects?
 - Did the program diversify the MIGA portfolio by reaching a different market segment and new clients?
- **Efficiency:** Was the program cost-effective to MIGA?
 - What is the utilization of the SIP program?
 - What are the MIGA resource requirements for delivery of SIP?
 - Are the activities sustainable? Is there evidence of an enduring effect of SIP guarantees in correcting the market failure addressed?
- **MIGA Work Quality:** Is MIGA successfully managing factors within its control?
 - Have its assessment and underwriting standards, response time, speed of decision-making, application of safeguards, and service quality been consistent with applicable guidelines (e.g., SIP underwriting guidelines) and policies?
 - What are MIGA's monitoring and reporting standards and do they need revision?
 - How has its support to SMEs evolved with market needs and lessons of experience?

*Source: IEG. *See MIGA's Role in the Small and Medium Enterprise Sub-Sector. Establishment of the MIGA Small Investment Program (SIP) and Proposed Application of Waiver under MIGA Operational Regulations, Section 3.35 (MIGA/R2004-2005, 2/5/ 2004). This policy was modified by MIGA in 2007: Report on the MIGA Small Investment Program (SIP) (MIGA/R2007-0079), 12/26/ 2007.*

- d. What is the opportunity cost of SME support activities for World Bank Group? What are the development needs of SMEs need and are there better alternatives to meet them? Are SME support activities well-adapted to country conditions such as income level and fragility? Based on the literature and on the performance of other types of interventions, are there better alternatives to pursue economic growth, job creation and inclusion?

Efficacy: Have World Bank Group's targeted support programs for SMEs met their objectives and had their desired outcomes?

- a. To what extent have SME targeted support programs served their primary objective of easing obstacles and correcting market, institutional and policy failures constraining SMEs?
- b. To what extent have the SME targeted support programs reached the intended beneficiaries?
- c. To what extent have complementary interventions contributed to the effectiveness of assistance? Has the presence or absence of multiple activities and/or sequenced activities influenced outcomes?
- d. (Subject to recognized data limitations), to what extent have supported enterprises increased their employment, sales, investment, or productivity? Can this be attributed to the support program?

Efficiency: Are targeted SME support programs efficient instruments, from both a program and institutional perspective?

- a. What is the utilization rate of support provided (e.g. lines of credit, guarantees, and other instruments for SME finance, training, business development services, etc.)?
- b. What are the World Bank Group resource requirements for delivery of each type of service? How do risks associated with the SME support portfolio compare to those associated with other activities aimed to promote market-led growth and inclusion?
- c. Are the activities either profitable or sustainable? What is the profitability of IFC and mainstream MIGA activities? For World Bank and for all subsidized WBG activities, are they meeting the target rate of return? After World Bank Group interventions, is there an enduring benefit in correcting the market failure (e.g. is SME finance market failure addressed)?

World Bank Group Work Quality: Is the World Bank Group effectively managing factors within its control?

- a. Are World Bank Group monitoring and reporting standards adequate?
- b. Is each organization meeting its established service standards in the delivery of its targeted SME support products? How does performance vary by country conditions, and the presence or absence of complementary or precedent reform reforms or projects?

- c. How are SME strategy and products evolving with market needs of SMEs and lessons of experience?
- d. To what extent are the different parts of the WBG collaborating or coordinating to achieve positive synergies?

16. Scope: the proposed evaluation has a limited scope, which nonetheless covers the diverse range of major products used in targeted support for SMEs. While most are focused on access to finance, the portfolio in the Bank and IFC include activities supporting non-financial business development services, entrepreneurial and managerial training, technological upgrading, value chain interventions, and even some investment climate reforms. In line with IEG’s mandate, the evaluation spans three members of the World Bank Group: IFC, MIGA and the World Bank. The proposed evaluation uses an explicit framework of relevance, efficacy, efficiency and work quality to develop a complete and integrative understanding of targeted SME support. The study will utilize the IFC/MIGA definition of SME throughout (Box 1), noting differences where they arise. The scope is large, but limited in some key dimensions:

- The evaluation focuses on targeted support, excluding a great deal of work designed to systemically improve policies, institutions and services that are regarded as important to SMEs but do not explicitly target a single size class of firms. The evaluation will consider whether such systemic interventions are important prerequisites of or complements to targeted interventions. Clearly, by selecting activities specifically targeted to SMEs -- to the exclusion of firms of other sizes -- the evaluation excludes a large part of both the World Bank and IFC portfolios that benefit SMEs through broad systemic improvements, ranging from measures to improve macroeconomic stability (where, for example, small firms are less able to hedge against inflation than are large ones) to infrastructure (where, for example, there are huge 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 training or international recruitment). While these areas of activity are acknowledged to be beneficial, they are not the focus of this evaluation. This in part reflects differences in what each institution regards as being SME work. For example, the IFC classifies most of its investment climate work as SME-oriented, while the World Bank does not regard its own investment climate work as size-specific. Thus for IFC, the following areas of advisory work were initially identified as “targeted” (the full portfolio review will involve more detailed content analysis): SME Banking, Trade Finance, GEM Access to Finance, Farmer and SME Training, and Strategic Community Investment. Due to database limitations, World Bank targeted support had to be identified by individually examining the project descriptions of all projects that had a sectoral or thematic code indicating that they dealt with SMEs, and through con-

sultations with relevant staff. Nonetheless, the country case studies (described below) will take into account the entirety of relevant WBG interventions during the evaluation period, which should shed light on the complementarity and sequencing of non-targeted measures as they relate to targeted ones.

- The evaluation will focus on programs of support within each World Bank Group institution approved during the period FY2006-2012. Important changes

Box 5: Lessons from Earlier IEG Evaluations

The current evaluation benefits from the lessons of earlier IEG reviews, and can update or adapt them to current experience and realities, accounting for strategic and program changes already taken by IFC, MIGA and the World Bank. The lessons from relevant recent IEG evaluations include:

IFC Micro, Small and Medium Enterprise Financing: IFC's strategy of supporting MSMEs through financial intermediaries, and of providing advisory services for institutional capacity building to the financial intermediaries, has been relevant and broadly effective. Going Forward: Enlarge the scope of IFC Advisory services to help selected MSME Financial Institutions that have achieved good risk management practices [and] give a high priority to improving the EHS supervision [and] compliance rate. [*Financing Micro, Small and Medium Enterprises: An Independent Evaluation of IFC's Experience with Financial Intermediaries in Frontier Countries*. (2008)]

IFC Advisory Services: [There is a] need for a clear vision and business framework, closely linked to IFC's global corporate strategy; ... for more programmatic AS interventions (carried out in conjunction with other AS activities), [for seeking] client contributions that reflect value and impact (not just cost); [and for strengthening] AS performance measurement and internal knowledge management." *Knowledge for Private Sector Development*, 2009

MIGA Support for SMEs: ...[F]oreign private banks such as those supported by MIGA are placed at a competitive disadvantage in pursuing retail and SME lending.... Credit lines guaranteed by MIGA can contribute to financial distress if on-lent to borrowers such as households and SMEs unable to hedge or absorb foreign exchange risks. ...SME lending facilities guaranteed by MIGA have low utilization rates. *MIGA's Financial Sector Guarantees in a Strategic Context* 2011

MIGA's SIP Program [G]uarantees issued under the Small Investment Program contribute negatively to MIGA's financial results because of their size.... While SIP projects themselves are small, the investors benefitting from the premium subsidy can be very large.... IEG questioned SIP's premium subsidy in 2007 and recommend that MIGA ... focus the subsidy on SIP's intended beneficiaries, small investors and SMEs.... Few SIP projects have been evaluated and their development results are not yet known. [Ibid.]

World Bank Group lines of credit: Better outcomes for LOC are associated with: a) stable macroeconomic conditions; b) stronger financial sectors, including satisfactory competition policies and good legal and regulatory regimes governing financial institutions, and mostly market determined interest rates, few distortionary credit and tax policies, and limited state ownership of financial institutions; c) use of clear eligibility criteria in the selection of participating financial institutions, and d) use of only private sector financial intermediaries. *World Bank Lending for Lines of Credit* (2006)

On World Bank Group investment climate work: "The WBG should clarify the roles of the Bank, IFC and MIGA in IC activities, bringing corporate strategy and practice into alignment. The Bank should do a better job of setting priorities and packaging IC reforms ... and pay more attention to institutions and the political economy of reform. The IFC should raise the profile of IC work and develop operating guidelines for technical assistance and advisory work related to the investment climate. [T]he rapidly expanding TAAS activity needs to be provided on a strategic rather than an ad hoc basis." *Improving Investment Climates: An Evaluation of World Bank Group Assistance* (2006).

in FY2006 in IFC advisory services, the 2006 implementation of SIP guarantees, and the availability of comparable data each argue for this starting point.

- Finally, for non-SIP MIGA guarantees, the team screened for those that explicitly identify SMEs as beneficiaries or identify on-lending to or onward investment in SMEs as a strategic objective.

Evaluation Design and Evaluability Assessment

17. The proposed evaluation will build on a host of prior and parallel IEG work and IFC and World Bank self-evaluations (including commissioned external evaluations). Among the relevant recent work of IEG are: MIGA's Financial Sector Guarantees in a Strategic Context 2011, Knowledge for Private Sector Development, 2009, Financing Micro, Small and Medium Enterprises: An Independent Evaluation of IFC's Experience with Financial Intermediaries in Frontier Countries (2008), Improving Investment Climates: An Evaluation of World Bank Group Assistance (2006) and World Bank Lending for Lines of Credit: An IEG Evaluation (2006). IEG also has a significant body of relevant project evaluations (for example, XPSRs, ICRRs, and PERs) as well as cluster evaluations to inform this work.

18. In addition, in the case of anticipated work, including evaluations that will be conducted in parallel to this one, the evaluation will make use of relevant analysis and findings rather than repeat it. These include: Evaluation of the IFC's Short-term Trade Finance Programs, 2006-2011 (2012), Evaluation of Support for Innovation and Entrepreneurship (2013), and Evaluation of Support for Investment Climate Reform, (2013). In this sense, although there is some overlap, focusing on targeted assistance to SMEs in the current work will complement other studies of systemic interventions, and appropriate reference will be made to this complementary work.

19. The proposed evaluation's criteria for assessing the development effectiveness of World Bank Group's support activities for SMEs will be their relevance; efficacy and efficiency (see attachment A: Evaluation Design Matrix). In addition, the evaluation will assess World Bank Group's performance with respect to its management of factors within its control. Key criteria for assessment in each area include:

- **Relevance/additionality:** In addressing relevance, the evaluation will seek to discern the market, policy and institutional failures that the program seeks to address. The World Bank Group's additional value lies in addressing and correcting these failures. Is the World Bank Group providing needed services/ advice/ capital that would otherwise not be provided by other actors? What are the

trade-offs between the major types of SME support and alternative World Bank Group interventions? Is there a logical sequence or combination of activities in particular contexts? Are SME support activities well-adapted to country conditions such as income level and fragility?

- **Efficacy:** In assessing the efficacy of the program, the evaluation will review the extent to which the SME support programs contribute to their primary objective of easing obstacles and correcting market failures constraining SMEs, thus enhancing those enterprises' economic contribution through employment, investment, sales and productivity. For projects to be effective, they must reach their intended beneficiaries, namely SMEs. They should achieve their targeted rate of return and they should be causing positive things to happen that would not have occurred in their absence. Effects in the longer term will also be gauged where possible, including whether services temporarily financed under projects (e.g. finance, business development services) continue to be provided to SMEs once a project ends and whether advisory work leads to the implementation of recommended policy and institutional reforms.
- **Efficiency:** In assessing program and institutional efficiency, the evaluation will review the utilization rate of support provided (e.g. lines of credit, guarantees, and other instruments for SME finance, training, business development services, etc, the resource requirements for delivering support, risks associated with SME support, the profitability (or rate of return) activities and the sustainability of reforms and their benefits. For IFC investments and regular MIGA guarantees, profitability may provide a key indication of efficiency of SME support interventions. However, with projects that are subsidized, made in markets with imperfect competition, or where there are substantial external benefits or even public goods generated, profitability alone cannot be the sole indicator. Traditionally the World Bank evaluated internal rates of return for public projects. In advisory work, it may be hard in some cases to quantify the full benefits, but some cost comparisons may be possible. Depending on the type of project, the amount of capital, staff time, other expenditures, utilization rates, and mixes of fixed and variable costs may all provide useful indicators. For example, it may be enlightening to know what it costs to attain a particular reform. However, intelligent accommodations must be made to local circumstances and initial conditions. In addition, it is important to know if the remedies for market, policy or institutional failures endured over time. Indicators of sustainability will be highly relevant.
- **World Bank Group Work Quality:** Work quality reflects the degree to which each institution is successfully managing factors within its control. Clearly the ratings in standard project evaluations (in ICRs, PCRs, etc.) by each institution and by IEG will provide an important set of indicators. Key questions include whether or not project staff are meeting established service standards in the delivery of targeted SME support products, what variations can be attributed to institutional performance as opposed to country conditions, and whether institutions are taking advantage of potential complementarities or optimal sequencing

in the choice and delivery of projects. Do monitoring and evaluation systems appropriately capture and report the outcomes and impact of interventions?

20. A range of different information sources and methods of analysis will be used in the evaluation. The methodology used to answer each evaluation question is described in the Evaluation Design Matrix in Attachment B. The evaluation builds on established IEG methodology for reviewing similar projects, including parts of this portfolio (e.g. the IFC trade finance program review). The main sources of evidence to address the evaluation questions will include: World Bank Group program information, World Bank Group (including IEG) and external literature on SMEs and support to SMEs; information from other providers of SME support in the public, non-governmental and private sectors; information from program clients including intermediary institutions such as banks and equity funds, beneficiary (and non-beneficiary) SMEs in case study countries, and relevant Government counterparts for projects and advisory work (where applicable); information from World Bank Group staff (including IFC’s own internal evaluation staff and information from structured and unstructured interviews) and information from relevant professionals and global institutions. In obtaining and analyzing information, the evaluation will use the following means:

- **Internal and External Literature review.** The evaluation will review relevant literature (including World Bank Group research and policy reviews, IEG work, the broader the academic literature and the development policy literature including from bilateral, multilateral and global development bodies) to identify:
 - 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 pertinent policy and institutional variables;
 - the record of success or failure of different approaches to SME support.
- **World Bank Group document review:** The team will review relevant IFC, MIGA and World Bank documents to gain a clear understanding of the design, implementation record and evolution of SME support programs. The documentary evidence will be a primary source material to address the evaluation questions, identify statements and findings to be validated, and establish hypotheses to test through further analysis. An analysis of the initial goals of each institution will serve as one yardstick by which to assess the achievements of SME support and to assess their relevance and efficiency with the overall context of each institution’s mission and resource allocation. Self-evaluations (and any commissioned external evaluations) may provide valuable information as well. In addition, both the Bank and IFC have produced valuable research and policy analysis on SMEs (including the forthcoming “jobs” report) that can inform this work.

- **World Bank Group database analysis/portfolio review.** The evaluation will analyze World Bank Group databases, which represent the comprehensive set of transactions under each program.²⁹ A portfolio review will include closed projects and a sample of active projects and those projects that are too new to evaluate. Analysis will inform the evaluation of the demand, supply, usage and reach of service to SMEs, as well as performance. IFC analysis will be informed by the Development Outcome Tracking System (DOTS), although this data covers only a relatively short and recent period. Other World Bank Group data sources, including enterprise survey databases and investment climate indicator databases, may provide valuable indications of market failures or reform efficacy in specific contexts. Clearly, existing IEG microevaluations – of XPSRs, ICRs and PERs – as well as cluster evaluations, will importantly inform this work. Finally, the World Bank’s database of enterprise survey results will be tapped to better understand SME characteristics and constraints.
- **External database analysis:** External databases from the IMF, Berne Union, MDBs or other sources can be used to add context and create benchmarks for World Bank Group programs and in assessing the reach and efficacy of interventions.
- **World Bank Group Staff interviews:** Additional data for the evaluation as well as general context and strategic information will be gathered through interviews with World Bank Group staff and management. A number of interviews with relevant WBG officials have already informed this approach paper. Discussions will serve as a source of opinions, insights and hypotheses about the role and effectiveness of SME support activities, their importance in and contribution to private-led growth strategies and key development outcomes, and their relationship to other activities.
- **Stakeholder interviews:** Opinions and insights will be sought from other major stakeholders of World Bank Group support for SMEs, as identified in figure 3, above. In some cases, such as that of other donors, there may be actual evaluative evidence to be gained through consultation.
- **Micro-evaluation of MIGA SIP:** For MIGA SIP, there is little project-specific evaluatory information available, so IEG will conduct a desk review of all SIP project files, complete pending project evaluation reports and conduct additional reports of a sample of the portfolio of mature projects in accordance with a template agreed with MIGA. Field work will allow on site information gathering for a small subsample of projects, contributing to the macro-evaluation.

- **Country case studies.** To supplement other data sources and provide primary data, a purposive set of country case studies will be conducted, including missions to six countries reflecting a diversity of conditions (e.g. IDA/non-IDA, post-conflict, different regions), with a diversity of project performance characteristics (e.g. projects that achieved and did not achieve objectives as expected, projects that were innovative and new) in countries where multiple institutions of the World Bank Group have been active. In these cases, interviews will collect as much information from as many relevant stakeholders as possible³⁰, as well as from staff, intermediaries, counterparts and/or beneficiaries involved. In each case, the broader context of country circumstances and other World Bank Group activities in the country, as well as country or regional strategy, will be taken into account as highly relevant to the understanding of the project outcome and the evolution of WBG approach over time during the period. In addition, a stratified, random sample of 14 to 15 additional countries will be drawn for desk-based country case studies, to consider country experience holistically in light of the prevailing country strategy and full range of relevant activities implemented during the evaluation period.
- **Original survey administration and analysis:** In at least two country cases, IEG will utilize surveys of beneficiaries and non-beneficiaries to generate insights into the efficacy and outcomes of the focal projects and to test a potential methodology for self-evaluation of WBG institutions. In these cases, the evaluation will create matched samples between project beneficiaries and non-beneficiaries through the use of a beneficiary survey and a parallel enterprise survey from which firms of similar characteristics are drawn for comparison. Standard questionnaires would be administered through trained and supervised local consultants, and the results would be analyzed by the project team. The matched firms provide a counterfactual comparator of highly similar firms that did not benefit from project interventions, to help speak to the question of impact. Intermediary institutions will also be surveyed.

21. Information gathering and analysis will be largely sequential. A substantial amount of literature has already been reviewed in the preparation of this approach paper, a number of interviews were documented with relevant staff, and an initial portfolio analysis was executed. The main work will begin by completing the review of relevant literature and documents, including prior IEG micro and macro-evaluations. In addition, the team will commission a “state-of-the-art” literature review by a leading academic. This will provide a foundation for the evaluation and help to refine hypotheses to be tested. Portfolio analysis will be deepened and extended to better differentiate targeted projects and to examine performance characteristics of different projects. Field work will be designed early in the process so that case studies and any surveys

can be completed in time to provide inputs to the analysis. Following preliminary literature and document reviews, broader interviews and preliminary data analysis, focused interviews will be taken up with staff and stakeholders involved in particular service lines or products. Field visits can be designed to help validate assessments based on desk reviews, further test hypotheses, establish new findings, contribute to case study development, and illustrate findings and experience. Pilot field visits will help to refine methodology. The material from various sources will form background papers, which will be integrated into the main report.

22. The evaluations of SME support will be constrained by a number of factors. The tight timeline of the project is a primary constraint. Limited data availability, lack of baseline and control group data, and incomplete monitoring data number among these. Limitations in the literature and limited willingness of key participants and stakeholders to provide information may constrain the ability of IEG to base its evaluation on full information. The team will make practical accommodations to constraints as they arise, using the team’s judgment and experience about the reliability of various sources of information. In all of this work, IEG will rely on the full support and facilities of World Bank Group management and staff to assure the availability of quality information to inform the evaluation.

Quality Assurance Process

23. The draft evaluation report and any related working papers will be peer reviewed to ensure accurateness, credibility, and impartiality of the findings and recommendations. Peer reviewers for the evaluation will be Mary Hallward-Driemeier, Lead Economist in the World Bank’s (DEC DP) and Eric Oldsman, President of Nexus Associates. Additional peer reviewers can be added. The quality assurance process for the evaluation will also include an external technical advisory panel to advise the team on their research, findings and recommendations.

Expected Outputs and Dissemination

24. The primary output of the evaluation will be the report to the Board’s Committee on Development Effectiveness (CODE) that will contain the main findings and recommendations. Ultimately, the finished evaluation will be published and disseminated both internally and externally. Beyond the primary output, IEG will develop working papers, presentations, quick notes (briefs) and other output formats as appropriate to reach other audiences for the evaluation, including the key stakeholders (see figure 2 above).

25. Regular stakeholder interaction will be sought to enhance the evaluation process. This will include consultation and outreach while the evaluation is underway, and dissemination and outreach once the study is complete. During evaluation preparation, the team will solicit feedback and comments from stakeholders to improve its accuracy and relevance, with the added benefit of stimulating interest in the evaluation results. The principles of transparency and participation will guide this process. Stakeholder interaction will contribute important information and qualitative data to supplement data, interviews, case studies and other research. It is intended that, through these interactions, a core group of stakeholders can be identified through which the recommendations and findings can be disseminated when the evaluation is complete.

26. Online means will be used to engage stakeholders during the evaluation process and beyond. A dedicated webpage and associated blog will be developed. The webpage should allow the sharing of key resources, the posting of interesting findings, and the conduct of a series of online discussions on key issues and questions. Additional online channels that may be used include Facebook, LinkedIn and Twitter, where existing SME groups and communities of interest can be tapped.

27. In addition to outreach during the evaluation process, IEG will implement an outreach plan once the evaluation is complete. Once the report is complete, IEG will launch the report both in Washington DC and at a major international SME conference in a client country. Further dissemination will be pursued through face-to-face meetings, seminars, conferences, and online social media and web forums. The efforts will target key stakeholders, both internal and external to World Bank Group, including staff at headquarters and country offices, MDBs and other donors; NGOs and CSOs and counterpart officials. Through these means, the team will seek to maximize awareness and the value and use of findings and recommendations to strengthen development outcomes.

Resources

28. Timeline. The evaluation will be submitted to the Board of Directors by the end of the first quarter of FY2014.

29. Budget. The budget for the study is estimated at \$750,000, an amount consistent with other major IEG sector studies.

30. Team and Skills Mix. The skills mix required to complete this evaluation include (i) evaluation experience and knowledge of IEG methods and practices; (ii) familiarity with the policies, procedures and operations of IFC, MIGA and the World Bank;

(iii) knowledge of World Bank Group and external information sources; and (iv) practical, policy and academic expertise in key areas of SME support such as finance, business development services, and linkages. The evaluation will be prepared by a team led by Andrew Stone, Jack D. Glen, Geeta Batra, Stephan Wegner, Aurora Medina, Maria Elena Pinglo and Jacqueline Andrieu. Other external consultants and advisors are anticipated or being recruited. Together, this team affords substantial knowledge and experience on key subject matter, including SMEs and the financial sector; as well as on the respective institutions of the World Bank Group whose programs are being studied, as well as on evaluation methodology. The evaluation will also seek to partner with local consulting firms to conduct some of the case studies. The report will be prepared under the direction of Ade Freeman, Stoyan Tenev, and Marvin Taylor-Dormond, Director, IEGPE.

Attachment 1

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32. World Bank. *Financial Sector Strategy for the World Bank Group* (Washington DC, World Bank, 2007)

Attachment 2 Evaluation Design Matrix

Evaluation Question	Evaluation Sub-Question	Information required	Information sources	Data collection methods	Data analysis methods	Strengths and limitations
Overarching: Is the World Bank Group contributing to economic growth, job creation and inclusion through its targeted SME support activities?						
1. Relevance: Is there a persuasive rationale for the World Bank Group to offer targeted support for SMEs.						
1a. What has been IFC's, MIGA's, and the World Bank's engagement in targeted support for SMEs since 2006?						
What are IFC's, MIGA's and WB's SME Support instruments and how do they relate to each institution's development assistance strategy?		Description of each institution's SME strategy – theory, objectives, features, instruments and practice.	IFC, MIGA, WB documents, literature and portfolio (databases).	Interviews with key staff, document retrieval, data extraction.	Content analysis of program and database.	Diversity of portfolio will require elimination of rarer products and those not aligned with declared strategic objectives from the evaluation.
How and where has SME support been used?		Description of patterns and trends by region, country characteristics, product, and grouping.	IFC, MIGA, WB documents, relevant literature and databases.	Interviews with key staff, document retrieval, data extraction.	Content analysis of documents and qualitative data analysis.	
1b. Should IFC, MIGA and the World Bank be providing targeted support to SMEs?						

What market, institutional and policy failures are being addressed by WBG's support to SME's?	Does size matter? How are SMEs different from micro and large enterprises? How do patterns of SME development vary by economy characteristics such as income-level and sectoral concentration?	Qualitative and quantitative information on characteristics and constraints of enterprises by size.	Relevant literature including WBG and academic research, indicators and enterprise survey data and related analytics.	Literature review, data extraction.	Qualitative Analysis, descriptive statistics.	
	What market, institutional and policy failures especially constrain SME development?	Size-based rationale for development interventions. Types and incidence of market failures.	Relevant literature, WBG staff, other experts.	Literature review, interviews.	Qualitative Analysis, descriptive statistics.	
	How do WBG interventions correct the identified failures?	Theory of change, rationale guiding IFC, MIGA and WB interventions.	Relevant WBG literature and strategy documents, WBG staff.	Literature review and interviews.	Qualitative Analysis, descriptive statistics.	
Has WBG targeted SME support added value?	How do WBG targeted interventions fit into its broader development efforts and into the constellation of SME support offered by client governments and other donors? Is WBG competing, complementing or "crowding out" other players? Within the WBG, how do the portfolios of each institution complement, compete with or coordinate with those of the	Major areas of activities of MDBs and major bilateral donors in support of SMEs, typology of programs offered by a sample of countries. Country data on WBG projects.	Relevant literature and country reports, staff knowledge, knowledge of staff of other donors.	Literature review, web search, interviews.	Qualitative analysis.	

	others.					
What is the opportunity cost of targeted SME support activities for WBG?	Are there proven, alternative ways for WBG to be supporting private-led growth? What is WBG giving up through size-specific programs? Are there better alternatives to pursue economic growth, job creation and inclusion?	Resources for SME support vs. other areas of FPD support. Evidence in secondary literature of impact of alternative approaches to FPD. Relative performance of SME portfolio to the rest of the FPD portfolio.	Relevant literature, databases, IEG reviews.	Literature review, database review.	Qualitative analysis and descriptive statistics.	
	Are SME support activities well-adapted to country conditions such as income level and fragility?	Responsiveness to specific country conditions and global lessons about effective responses under such conditions.	Relevant literature, country strategy, portfolio and staff knowledge.	Literature review, portfolio review and interviews.	Qualitative analysis.	
2. Efficacy: Have the World Bank Group's targeted SME support programs met their objectives and led to desired outcomes?						
To what extent have targeted SME Support programs served their primary objective of easing obstacles and correcting market, institutional and policy failures constraining SMEs?	To what extent is there unmet demand for finance and business development services? To what extent are legal, regulatory and institutional reforms needed and not being provided by Governments or financial institutions?	Evidence on gaps between supply and demand for SME finance and BDS. Evidence on legal, regulatory and institutional constraints specific to SMEs.	Relevant literature, WBG analytic work, enterprise surveys and indicators.	Literature review, review of analytic work, database extraction.	Qualitative analysis, descriptive statistics and content analysis of documents.	Limitations of ability to precisely define and quantify demand or "gaps" between supply and. Problems with indicators in distinguishing SME-specific constraints. Limitations of coverage of surveys and prevalence of perception-based data.
	To what extent have the SME support programs reached the intended beneficiaries?	Project-specific data on beneficiaries, reach.	Existing reviews and monitoring data (e.g. from DOTS), WBG staff, intermediary financial institutions, country data.	Review of reports, portfolio (including both closed projects and a sample of active and too early to evaluate projects, monitoring and evaluation data collected by WBG,	Qualitative and quantitative (including statistical) analysis, comparative case analysis	Absence of counterfactual data, limited baseline information.

			interviews with relevant staff, clients, beneficiaries and stakeholders, case studies.		
Did the programs achieve intended reductions or eliminations of market, institutional and policy failures?	Pre-and post reform levels of SME financing, use of services, and/or transactions costs.	WBG databases, staff, intermediary institutions, country-level data, stakeholders, enterprise surveys and investment climate indicators.	Review of reports, portfolio, and monitoring and evaluation data collected by WBG, interviews with relevant staff, clients, beneficiaries and stakeholders, case studies.	Qualitative and quantitative (including statistical) analysis, comparative case analysis	Absence of counterfactual data, limited baseline information.
To what extent have complementary interventions contributed to the effectiveness of assistance? Has the presence or absence of multiple WBG activities and/or sequenced activities influenced outcomes?	Differences in outcomes depending on combinations and sequences of advisory, investment, policy or insurance interventions.	WBG databases, staff, intermediary institutions, portfolio, case studies, country-level data, clients, beneficiaries and stakeholders, enterprise surveys and investment climate indicators.	Review of reports, portfolio, and monitoring and evaluation data collected by WBG, interviews with relevant staff, clients, beneficiaries and stakeholders, case studies.	Qualitative and quantitative (including statistical) analysis, comparative case analysis	Weak counterfactuals and substantial variations in country conditions will make conclusions limited and contingent.
Have the programs contributed to employment, economic growth, and inclusion among beneficiary SMEs?	Pre- and post project levels of employment, economic growth, economic dynamism and inclusion.	WBG databases and evaluations, impact evaluation literature, DOTS, case studies and surveys.	Review of and extraction from existing sources and original data generation through case studies and surveys.	Quantitative and qualitative (including statistical) analysis, comparative case analysis, and survey analysis creating matched samples between project beneficiaries and non-beneficiaries.	Imperfect counterfactual information, limits on baseline information, other data limitations and challenges of variations imposed by country conditions and business cycle fluctuations.
3. Are the WBG's targeted SME support programs efficient instruments, from both a program and institutional perspective?					

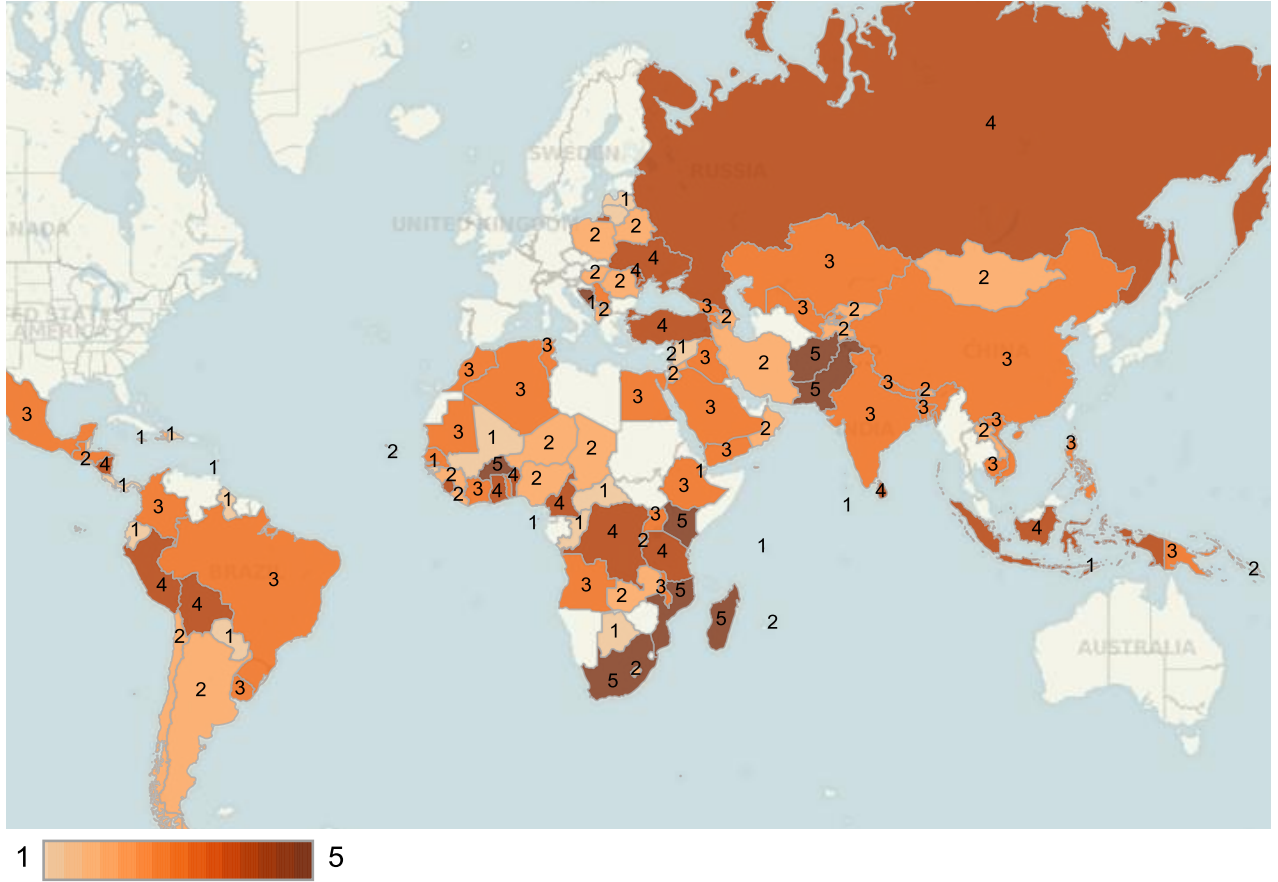
What is the utilization rate of support provided (e.g. lines of credit, guarantees, and other instruments for SME finance, business development services, training, etc.)?		Calculations and analysis of utilization rates	WBG databases and documents	Document retrieval, data extraction	Descriptive statistics, literature review, use of relevant benchmarks.	
What are the WBG resource requirements for delivery of each type of service? How do the risks associated with the SME support portfolio compare to those associated with other FPD activities?	What fixed and variable costs are involved in delivery of different types of project interventions or services? Capital usage?	Capital, staff, related expenditures; capital usage. Mix of fixed and variable costs.	Databases, staff, documents, case studies.	Data extraction, structured interviews, document retrieval, case study development.	Review of resource and capital use in programs, qualitative and quantitative analysis, comparative analysis.	Availability of data.
Are the activities profitable and /or sustainable? For World Bank and for any subsidized activities, are they meeting target rates of return?	What is the profitability of IFC and MIGA activities? What is the return on WB projects? After WBG interventions, is there an enduring impact on the market, policy or institutional failures addressed (e.g. is SME finance information failure reduced or eliminated)?	Return on capital employed, IRR, or other indices of profitability.	Databases, staff, documents, case studies.	Data extraction, structured interviews, document retrieval, case study development.	Review of resource and capital use in programs, qualitative and quantitative analysis, comparative analysis.	Availability of data.
4. Work Quality: Is the World Bank Group effectively managing factors within its control?						

Are WBG monitoring and reporting standards adequate?	Does each organization have sufficient information about its products to know if it is making effective and efficient use of its resources?	Quality of current Monitoring and Evaluation and Reporting. % of portfolio with timely and useful M&E data.	WBG documents, staff, relevant literature and M&E databases.	Structured interviews, document retrieval, and database extraction.	Qualitative analysis, literature review, descriptive statistics.	Diversity of products and underlying “value chains”.
Is the WBG effectively managing factors within its control?	Is each organization meeting its established service standards in the delivery of its SME support products? Has the performance varied by country conditions? Does performance depend on complementary or precedent reforms or projects?		Databases, WBG documents, other relevant documents, staff, outside professionals and stakeholders.	Document retrieval, data extraction, structured interviews, case studies.	Review of documents, qualitative analysis, descriptive statistics.	Difficulties in comparing performance across a diversity of products and country circumstances.
How are SME strategy and products evolving with market needs of SMEs and lessons of experience?		Description of strategic and product evolution and changes in market needs of SMEs.	WBG documents, staff and relevant literature, stakeholders	Information extraction, structured interviews, document retrieval	Review of WBG products and others in market, qualitative analysis.	Breadth and diversity of global SME support efforts.
To what extent are the different parts of the WBG collaborating or coordinating to achieve positive synergies?		Description of collaborative or coordinating activities of WB, IFC and MIGA. Information on outcomes of such activities.	WBG documents (e.g. CAS), WBG staff and relevant stakeholders.	Information extraction, interviews.	Qualitative analysis.	Imprecision and potential bias of institutional actors, lack of clear quantitative measures of collaboration, coordination and synergy.

Attachment 3

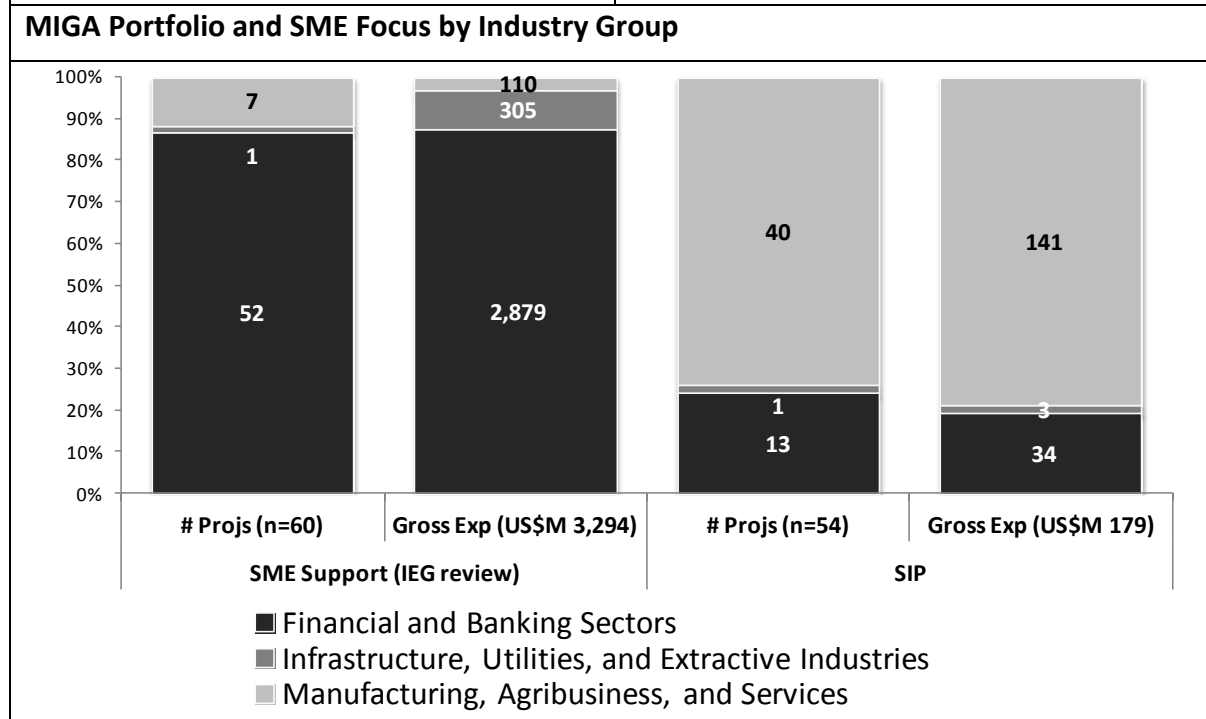
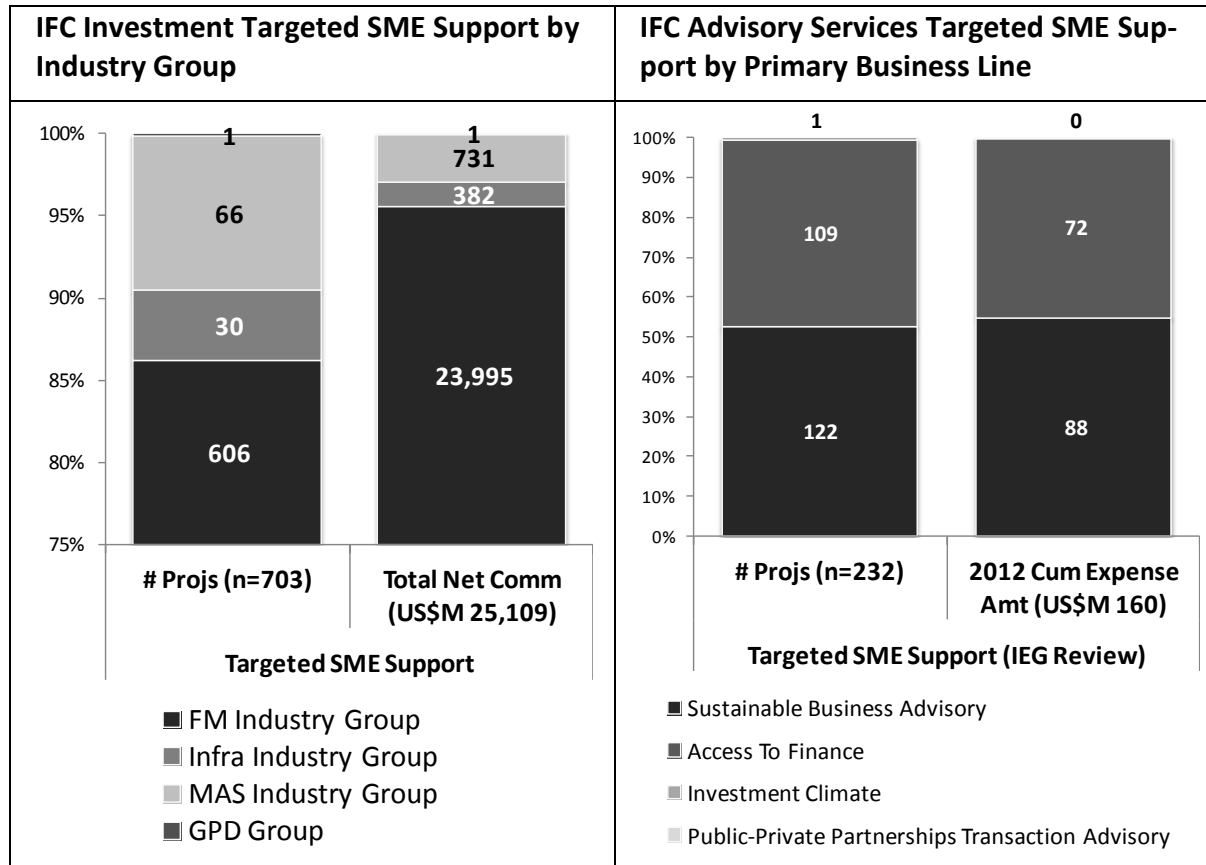
Preliminary Portfolio Review

Part 1: Geographic Distribution of Targeted SME Support in World Bank Group Product Categories by Country

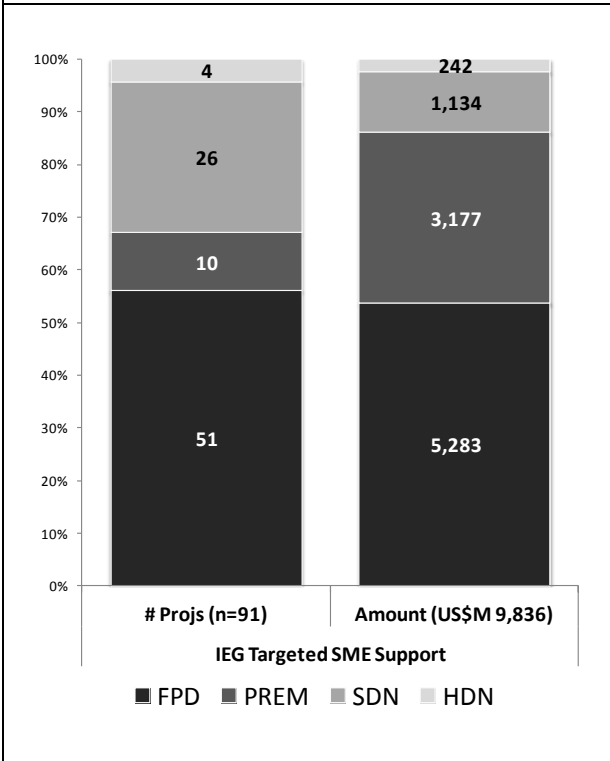


Note: Each country receives one point for having at least one project in each of the following categories: IFC Investment, IFC Advisory Services, WB Lending, WB AAA, MIGA non-SIP SME Support, and MIGA SIP, for a maximum of 6 points. No country received 6 points.

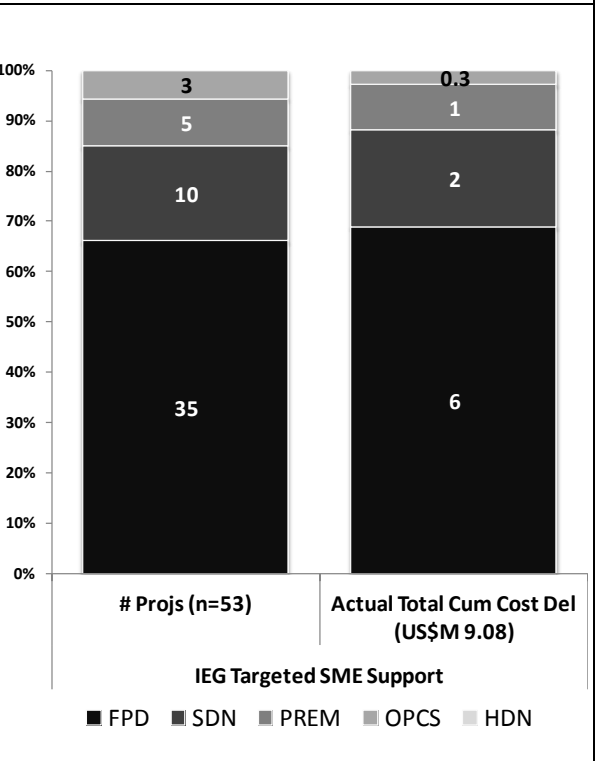
Part 2: WBG Targeted SME Support by Major Product Categories & Themes FY06-12^{xxxxi}



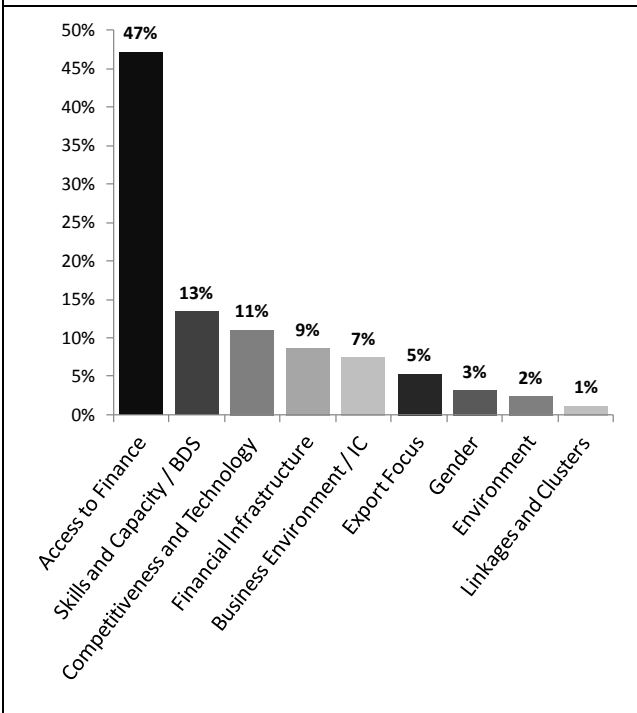
World Bank Investment Targeted SME Portfolio, by Network



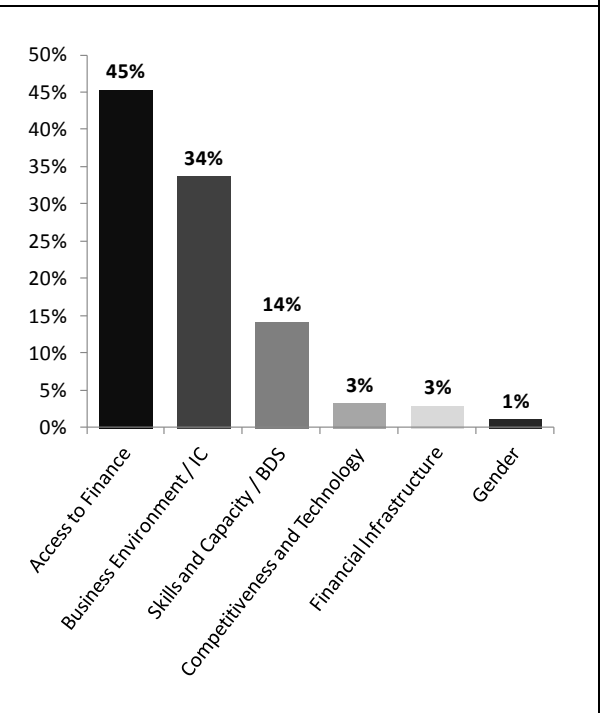
World Bank AAA Targeted SME Portfolio, by Network



World Bank Investment Targeted SME Portfolio by IEG-coded Themes (out of US\$M 9,836)



World Bank AAA Targeted SME Portfolio by IEG-coded Themes (out of US\$M 9.08)



Part III: Definition of IFC Advisory Services Projects with Targeted SME Support

The evaluation’s literature review and interviews with IFC AS strategy staff revealed the following product lines as most likely to provide targeted SME support: SME Banking, Trade Finance, GEM Access to Finance, Farmer and SME Training, and Strategic Community Investment. Given that projects are coded by product line (often containing more than one product line per project), the evaluation’s preliminary review categorized any project containing at least one of these product lines as SME support and where either the client or beneficiary of said project was specified as being a SME in the AS database. The evaluation will review projects categorized as non-targeted SME focus to ensure these are not in fact providing targeted SME support.

Key

Targeted SME
Non-Targeted, SME Focus
Not SME focused

Primary Business Line	Product Line	Primary Business Line	Product Line
Access to Finance	SME Banking	Investment Climate	Business Regulation
	Trade Finance		Industry-specific IC: Real Sectors
	A2F-Other		IC-Other
	GEM Access to Finance		Special Economic Zones
	Risk Management		Debt Resolution & Business Exit
	Microfinance		Indicator-related Reform Advisory
	Credit Bureaus		Investment Policy
	Housing Finance		Business Taxation
	Agribusiness Finance		Trade Logistics
	Retail Payments & Mobile Banking		IC for Infrastructure & Social Sectors
	Leasing	Farmer and SME Training	
	Sustainable Energy Finance	Strategic Community Investment	
	Collateral Reg/Secured Transactions	SBA-Other	
	E&S Risk Management	E&S and Trade Standards	
	Securities Market (ESMID)	Clean Energy	
PPP	Advisory Mandate	Sustainable Business Advisory	Corporate Governance
	PPP-Other		Resource Efficiency
	PPP Upstream Work		Sustainable and Inclusive Investing

Attachment 7

Tentative Outline of Evaluation Report

1. Executive Summary
2. Targeted SME Support – Rationale and World Bank Group Response
3. IFC Targeted SME Support – Efficacy, Efficiency and Work Quality
4. MIGA Targeted SME Support – Efficacy, Efficiency and Work Quality
5. World Bank Targeted SME Support – Efficacy, Efficiency and Work Quality
6. Conclusions for World Bank Group Strategy and Issues Going Forward

Endnotes:

¹ See, for example, G. Fields, P. Cichello, S. Freije, M. Menendez, and D. Newhouse *Escaping from Poverty: Household Income Dynamics in Indonesia, South Africa, Spain and Venezuela* in G. Fields and G. Pfeffermann, Pathways out of Poverty: Private Firms and Economic Mobility in Developing Countries (Norwell: Kluwer Academic Publishers, 2003). It finds: “[O]f the households that escaped poverty, many more of the heads worked in the private sector than in the public sector. Thus, the private sector is the main engine to help families escape poverty.”

² Definitions of SME vary widely (box 1). This evaluation uses the IFC definition – having 10 to 300 employees, assets between \$100,000 and \$15 million or sales in the same dollar range. However, the research cited here used the criterion of firms with up to 250 employees. Thorsten Beck and Asli Demirgüç-Kunt. *SMEs, Growth, and Poverty: Do Pro-SME Policies Work?* (World Bank Public Policy for the Private Sector #268, February 2004)

³ J. McMillan and C. Woodruff. **The Central Role of Entrepreneurs in Transition Economies** (*Journal of Economic Perspectives* – Volume 16, Number 3 – Summer 2002 – Pages 153–170)

⁴ On the contribution of SMEs to employment creation in developing countries, see, for example, Ayyagari, Meghana; Demirguc-Kunt, Asli; Maksimovic, Vojislav; *Small vs. young firms across the world : contribution to employment, job creation, and growth*. (World Bank Policy Research Working Paper 5631, April, 2011) and the forthcoming synthesis piece, *IFC Jobs Study Report* (IFC, 2013).

⁵ For example: “Some of the major nonfinancial obstacles identified by MSMEs are infrastructure-related (for example, lack of electricity), regulatory, tax-structure-related, and corruption-related. These nonfinancial barriers are particularly challenging in many developing countries, and are often strongly correlated with the ability of MSMEs to obtain financing.”

⁶ Beck and Demirgüç-Kunt, Op cit. “[A] large SME sector is a characteristic of fast-growing economies but not a cause of their rapid growth.” Also published in Thorsten Beck, Asli Demirguc-Kunt, and Ross Levine. *SMEs, Growth, and Poverty: Cross-Country Evidence* Journal of Economic Growth, Vol 10:3, 197-227. September 2005.

⁷ F. Schneider, *Shadow Economies Around the World: What do We Really Know* (European Journal of Political Economy, Volume 21, Issue 3, pp. 594-642). Doing Business 2004 noted the

⁸ Aterido, Reyes, Mary Hallward-Driemeier, and Carmen Pages. 2011. *Big Constraints to Small Firms' Growth: Business Environment and Employment Growth Across Firms*. Economic Development and Cultural Change 59(3):609–647. Available online at <http://www.jstor.org/stable/10.1086/658349>.

⁹ See, for example, Leora Klapper, Luc Laeven, and Raghuram Rajan. 2006. “Entry Regulation as a Barrier to Entrepreneurship.” *Journal of Financial Economics* 82 (3): 591–629.

¹⁰ Mary Hallward-Driemeier *Who Survives? The Impact of Corruption, Competition and Property Rights across Firms* World Bank Policy Research Working Paper No. 5084, 2009.

¹¹ See, for example, the seminal article: Stiglitz, Joseph and Weiss, Andrew, *Credit Rationing in Markets with Imperfect Information*, *The American Economic Review*, Vol 71, No. 3 (June 1981).

¹² The role of dominant state-owned banks in many transitions economies is notable in this regard. See, for example, Neil Gregory and Stoyan Tenev. *The Financing of Private enterprise in China*. Finance and Development (March 2001, Volume 38, No. 1)

¹³ Thorsten Beck, Asli Demirgüç-Kunt, *Small and medium-size enterprises: Access to finance as a growth constraint*. Journal of Banking & Finance, Volume 30, Issue 11, November 2006, Pages 2931-2943.

¹⁴ “The role of the State is mainly to provide an enabling business environment that opens access to markets and reduces policy-induced biases against small firms.” Kristin Hallberg. *A Market-Oriented Strategy For Small and Medium-Scale Enterprises* (Washington: IFC 2000).

¹⁵ In one formulation, “Business Development Services (BDS) are non-financial services provided to businesses on either a formal or informal basis. SME Competitiveness is constrained by factors which can successfully be addressed by BDS. These include low levels of education, poor management, weak marketing skills, inadequate technical know-how, limited access to markets, lack of information, and unreliable infrastructure.” Commonwealth Secretariat, *Business Development Services' Strategies For Enhancing SME Competitiveness For Commonwealth Developing Countries* (Singapore: March 2005) A common approach is to seek ways to strengthen both supply and demand for services so to encourage the emergence of sustainable private markets. Some interventions aim specifically to raise the productivity of SMEs through technical upgrading and technological adaptation. This may involve combinations of business services, matching grant or other finance, matchmaking, technology transfer and other approaches. Training is often paired with financing or linkage schemes.

¹⁶ For example, Beck et al. (2004, 2005) find “no support for the widely held belief that SMEs promote higher growth and lower poverty.” Recent work of Ayyagari et al. (2011) suggests the importance of small firms in employment creation relative to medium and large ones,

but is qualified by many caveats including the inability to account for job destruction and the lack of data on the microenterprise and informal sectors. It also cautions that small firms are not associated with productivity growth.

¹⁷ For example, in the first logical framework (or causal chain), IFC or the Bank would identify a “financing gap” (potentially indicated by a low credit to GDP ratio, a low “financial penetration ratio” or survey evidence of substantial unmet SME demand for credit) driven by a market or institutional failure it knows how to address. This market failure may have to do with ignorance on the part of the banking community of the potential profitability of SME lending (an information failure) or of appropriate screening and risk management techniques.

¹⁸ U.S. Department of Treasury. *G-20 Financial Inclusion Initiative: SME Finance Challenge* (G20 Pittsburgh Summit, 2010)

¹⁹ IFC. *IFC ROAD MAP FY13-15: Creating Innovative Solutions in Challenging Times*. (Washington, International Finance Corporation, 2012).

²⁰ IFC. Scaling-Up SME Access to Financial Services in the Developing World (G20 Seoul Summit, November 2010).

²¹ MIGA *Development Impact Reaching out to Small and Medium Enterprises* (www.miga.org)

²² Michael U. Klein, Bitá Hadjmichael The Private Sector in Development (Washington: World Bank, 2003).

²³ Gladys López-Acevedo and Hong W. Tan, editors, Impact Evaluation of Small and Medium Enterprise Programs in Latin America and the Caribbean (Washington: World Bank, 2011). The authors continue: “The Bank has been largely disengaged from developing country efforts over the past decade to support SMEs, including ongoing reforms in many countries to introduce market principles into service delivery.”

²⁴ World Bank. *Financial Sector Strategy for the World Bank Group* (Washington DC, World Bank, 2007).

²⁵ All figures in this paragraph are IEG estimates based on portfolio research.

²⁶ “[D]eveloping country governments rarely evaluate their SME programs, and when they do, most rely on beneficiary satisfaction surveys or simple case studies which cannot tell program administrators (or development partners) whether a program is working. In the absence of research on which SME programs work, why, and how programs can be better designed and implemented to maximize economic benefits to firms and workers, most developing countries continue to spend scarce resources on SME support programs, many of dubious value.... International financial institutions such as the World Bank have also been largely silent on enterprise support programs.” López-Acevedo and Tan (2011), *Op. Cit.*

²⁷ See, for example, IDB News Release. *IDB approves \$100 million facility to support financing for small and medium enterprises* (IDB: May 19, 2011).

²⁸ An IFC’s Primer on additionality poses four questions to establish it: “Is our money really needed? Why is the private sector not willing or able to undertake this project on its own? What risks are we taking that others are not? What services are we providing that commercial financiers are not?” (*IFC Additionality: A Primer*, September 30, 2010)

²⁹ The database sources include: for IFC Investment, the MIS project extracts and MIS Cubes; for IFC Advisory services, AS Cognos; for MIGA SME Focus and SIP, the MIGA Projects Portal; and for World Bank Investment and AAA: the Projects and Operations Database.

³⁰ One benefit of the country case-study approach is the ability to consider the fit of WBG activities with those of governments and other donors, as well as NGOs. Another is to consider benefits over time during the evaluation period – for example, projects undertaken early in the period may yield longer gestating benefits or demonstration effects that can be considered at the country level even when not revealed by country-specific information. A third is to be able to look at the interaction of the full range of interventions, ranging from policy dialogue and policy-based financing to WBG-generated “public goods” such as indicators, enterprise survey data, analytic work and other knowledge resources.

^{xxxi} Sources: AS Cognos Project Detail Listing as of June 30, 2012, IFC MIS Extract as of March 2012, WB BW, and MIGA Projects Portal. Note: IFC AS expenditures by FYTD are only available in the databases for FY09-12. IFC investments include all projects including, for example, rights issues and B-loans, and will be further cleaned.