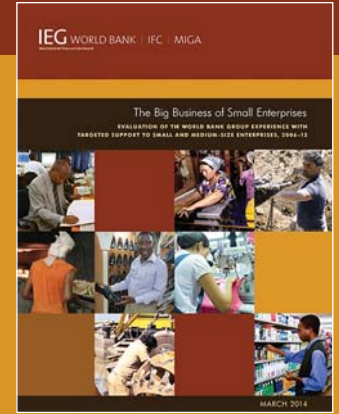


The Big Business of Small Enterprises:

Evaluation of the World Bank Experience with Targeted Support to Small and Medium-Size Enterprises, 2006–12



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Summary

The World Bank Group promotes small and medium enterprise (SME) growth through both systemic and targeted interventions. Targeting means focusing benefits on one size-class of firms to the exclusion of others. Targeted support for SMEs (TSME) is a big business for the World Bank Group, averaging around \$3 billion a year in commitments, expenditures, and gross exposure over the 2006–12 period. In the context of broader reforms, TSME support can be a powerful tool; given the size of the recent program, it is vital for the World Bank Group to use it effectively.

Background

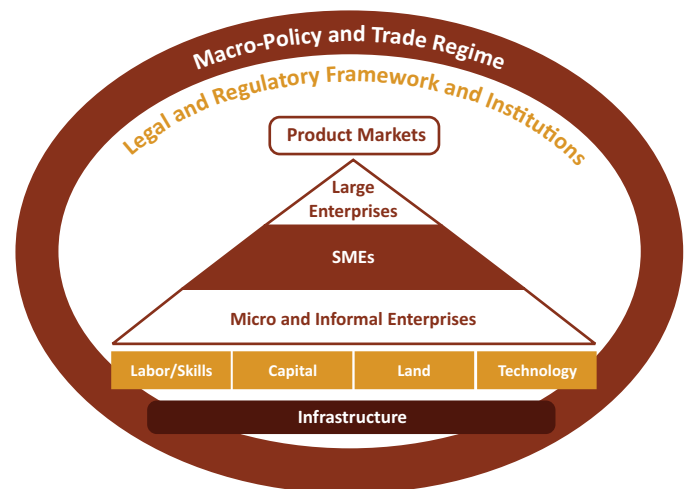
An IEG literature review found that financial sector development can have both a pro-growth and pro-poor impact by disproportionately alleviating SMEs’ financing constraints, enabling new entry of firms and entrepreneurs and better resource allocation. Layered on top of this are targeted forms of assistance, which are often assumed to make up for deficiencies of the ecosystem (Figure 1). These targeted interventions may build on a foundation of more systemic reforms, may come in tandem with them, or may in fact be a means to build systemic reforms from the bottom up.

Because the scale of gaps identified for SME services — especially finance — dwarfs the direct benefits the Bank Group can deliver, any credible justification of targeted support to SMEs must be focused on leaving a sustainable supply of the service (such as financing, business development services, or training) by establishing well-functioning markets and institutions and not simply providing a temporary supply of benefits to a small group of firms. Thus, targeted interventions need to be strategic, leveraging resources to produce broader benefits for institutions and markets.

Key Findings

Each Bank Group institution operates differently, but there are benefits from collaboration, communication, and shared strategic objectives. Inconsistencies and lack of coordination across institutions result in missed opportunities. The lack of institutional consensus on what constitutes an SME, when it is appropriate to support them, and what constitutes success seems especially inappropriate as the Bank Group moves toward global practices crossing traditional boundaries under a “one World Bank Group” model.

The International Finance Corporation (IFC) has had a long-standing commitment to the support of SMEs, starting with its first project development facility more than 30 years ago. IFC’s strongest contribution to SMEs is developing markets and institutions that can then operate sustainably on their own. Many clients value IFC’s support, professionalism, and standards, especially when it is able to tailor its products to their needs.



SMEs are part of broader economic systems and can benefit from both systemic and targeted reforms.

However, these projects often lack key features that would enhance their relevance to the targeted firms. TSME projects have improved their performance over time, although they generally have been less successful than the overall portfolio and the rest of the financial markets portfolio. IFC's indicators for SME lending raise questions about the effectiveness of its TSME on-lending projects in growing the SME portfolio compared to bank projects in the non-targeted portfolio. In general, IFC's TSME investments lack sufficient monitoring and baseline information to enable reliable measurement of impact. That said, IFC's TSME advisory services overall have performed better than the rest of the advisory portfolio, except in low-income countries. On average, where TSME investment projects were delivered in tandem with advisory services, IFC achieved superior development outcomes in its investment projects.

The Multilateral Investment Guarantee Agency's (MIGA) support to SMEs takes two approaches: directly (retail) to cross-border investors making small investments in SMEs through its Small Investment Program (SIP), or indirectly to financial intermediaries for their investments in subsidiaries to on-lend to SMEs (wholesale).

The viability of SIP projects is more challenging because of the location of most SIP projects in high-risk countries and the inherently riskier nature of smaller firms. Several projects experienced problems from weak capacity of management. SIP's streamlined processing of guarantees has not produced efficiency gains in terms of reduced processing time. MIGA's regular guarantees also offer a means to channel large amounts of political risk coverage to benefit SMEs. However, as applied currently, there is no mechanism for targeting funds to SMEs and guarantees are highly concentrated. MIGA's lack of systematic tracking of TSME project performance at the intermediary and borrower levels makes it difficult to determine project results or whether the expected project objectives were achieved.

The World Bank's TSME lending portfolio is dominated by lines of credit, matching grants, and business development services projects. The majority of closed projects achieved successful development outcomes; however, efforts to judge the efficacy and efficiency of World Bank TSME support are inhibited by the lack of serious quantitative evaluation of its leading product lines. The relatively low level of commitments in International Development Association (IDA) countries raises questions of whether the Bank is building markets and market institutions where they are weakest. TSME advisory work, delivered mainly to governments, is only a small

fraction of the overall portfolio, but is generally both relevant and important to SME challenges.

Recommendations

- Clarify its approach to targeted support to SMEs. IFC, MIGA, and the World Bank should harmonize their SME approaches to make clear the objectives and analytic justification for targeted SME support, how it relates to systemic reform, where it is appropriate, what main forms it will take and how it will be monitored and evaluated.
- Enhance relevance and additionality. World Bank Group management should refine its SME approaches to shift benefits from better-served firms and markets to states with underdeveloped financial systems, frontier regions, and underserved segments.
- Institute a tailored research agenda. World Bank Group management should institute a tailored research agenda to support and assist these clarifications and refinements of its SME support approach.
- Strengthen guidance and quality control. World Bank Group management should provide guidance and quality control so that project documents targeting SMEs define and justify the specification of the beneficiary group, provide specific targeting mechanisms, and include impact indicators in its results and M&E frameworks.
- Reform MIGA's Small Investment Program. MIGA should radically rethink its approach to providing guarantees for investments in SMEs through the SIP program.



The Independent Evaluation Group (IEG) is charged with evaluating the activities of the International Bank for Reconstruction and Development (IBRD) and International Development Association (the World Bank), the work of International Finance Corporation (IFC) in private sector development, and the Multilateral Investment Guarantee Agency's (MIGA) guarantee projects and services.

This is a short summary of an IEG evaluation containing evidence that can inform the realization of the **Financing for Development** agenda and the World Bank Group's engagement therein. Other IEG resources specifically dedicated to the agenda can be found at ieg.worldbankgroup.org/f4d.