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ANTICIPATED IMPACT
MEASUREMENT & MONITORING

AIMM Sector Framework Brief
Sector Economics and Development Impact Department
International Finance Corporation

SME

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Development Impact Thesis – Increased availability of loans and lines of credit, including to those businesses without previous access to financing, relieves a binding constraint for growth. Availability of financing allows small and medium-sized enterprises (SMEs) to expand their working capital and fixed assets, which in turn leads to greater production, increased employment, and potentially increased productivity. IFC provides financing and advisory services to financial institutions (FIs) serving SMEs which:

→ Increases SME access to finance, including affordability
→ Results in better financial products and services for SMEs
→ Promotes greater financial inclusion for SMEs, including underserved segments
→ Facilitates job creation at SMEs

⇨ **Project Outcomes**

→ Increases the number of FIs serving SMEs
→ Expands the range and quality of financial products and services for SMEs
→ Expands the range of SMEs served

⇨ **Contributions to Market Creation**

Development Gaps Addressed

- Limited SME financing and access to financial services
- Low levels of SME job creation, investment, and revenue
- Low levels of SME sector competitiveness with static firm entry and exit and low aggregate sector productivity

Rating Construct – All AIMM sector frameworks include detailed guidance notes that help define project outcomes and contributions to market creation, aggregating to an overall assessment of development impact.

- For project outcomes, stakeholders, economy-wide, and environmental effects are the key components for which industry-specific benchmarks define the context in which an IFC operation seeks to drive changes. This gap analysis is combined with a separate set of impact intensity estimates that specify the expected results using predefined indicators.

- For contributions to market creation, industry-specific market typologies define stages of development for five market attributes (or objectives): competitiveness, resilience, integration, inclusiveness, and sustainability. These market typologies, when combined with estimates of how much an intervention affects the development of a market attribute, provide the foundation for IFC's assessment of an intervention's market-level potential for delivering systemic changes.

PROJECT OUTCOME INDICATORS	
Stakeholders	Access • Increase in volume of SME lending • Increase in number of SMEs reached • Introduce alternate delivery channels to reach SMEs (digital channels, agent banking) Affordability • Change in loan terms available to SMEs • Improvement in loan application process Quality • Non-Financial Services (e.g. training, consulting) • Expanded financial services (beyond traditional loans e.g. factoring, insurance) Effect on FI employees • Improve skills related to SME and other banking practices • Improve gender workforce participation and managerial/board representation
Economy-wide	• Effect on value-added • Effect on employment
Environmental / Social	• Efficacy of GHG emission reductions (for climate SME projects)

CONTRIBUTION TO MARKET CREATION INDICATORS	
Competitiveness	• Change in concentration structure in SME financing market • Change in product terms • Improve efficiency of serving SMEs through product offerings and processes • Introduction of alternative delivery channels • Change in offering of expanded financial products and services or non-financial services • Market-wide adoption and implementation of regulations related to functioning of SME credit markets
Resilience	• Increase lending to sectors that help diversify the economy • Introduction and market-wide adoption of local currency lending • Decline in systemic asset quality risk • Improve information, data availability and reporting on the SME sector • Adopt prudent banking risk management • Market-wide adoption and implementation of legal/regulatory frameworks relating to resilience of the SME finance market
Integration	• Introduction of replicable instruments to raise funds for SME banking and integration with local and international capital markets/investors • Promote data harmonization, standardization and dissemination • Improving FI reach including to remote borrowers via increased geographic presence of branches and/or use of technology • Integrating SMEs into domestic and/or global supply and/or value chains
Inclusiveness	• Market-wide adoption of business models, including product and/or processes to reach underserved SMEs/groups, and increase awareness of these groups • Market-wide enabling frameworks/standards supporting inclusive business/interactions with underserved SMEs/groups
Sustainability	N/A

Sector Specific Principles or Issues – The following principles will be applied for projects rated under this framework:

Principle or Issue	Treatment Under Framework
Job creation	SMEs are the major source of new jobs in economies and a key source of dynamism for the private sector. As major job creators in most countries, a vibrant SME sector is key to achieving the sustainable development goals (SDGs) and the World Bank Twin Goals. As lending is intermediated through FIs and non-bank financial institutions (NBFIs), the SMEs' growth and job creation are not directly visible to IFC. Hence, IFC has developed econometric models and a methodology to estimate job creation associated with its SME lending. When relevant, IFC SME projects will include an estimation of the number of permanent jobs created due to SME lending activities of the client.
Underserved segments	Even where banks are focusing on SMEs, there may be overlooked segments of the SME market such as women-owned, informal and SMEs in rural areas. These are untapped sources of job creation and economic growth that are financially constrained and, consequently, a potential focus of IFC SME lending in the more developed countries of operations. For instance, overall SME financing access may be relatively developed in Sri Lanka as it is close to the median among emerging economies. However, enterprise ownership by women is low, and financing constraints faced by women-owned enterprises is high (in bottom decile of developing countries), IFC's intervention may be targeted to this segment. When IFC investment is targeted towards underserved segments, or when a concurrent advisory engagement supports lending to such segments, the AIMM assessment will consider the higher marginal impact compared to interventions that target the general SME population.
Emerging technologies	IFC's engagement with FinTechs, other technological companies, or financial institutions could bring new services to SMEs through new emerging technologies. Data platforms and technologies deliver cost efficiencies and new value propositions across the entire financial services value chain with potentially large, market-creating effects. For instance, they can: (i) increase the speed, accuracy of and reduce the cost of credit decisions, (ii) reduce the costs of payment processing, trade finance, remittances, and clearing and settlement; and (iii) provide platforms for buying and selling goods and services, while also increasing information transparency and understanding of cash flow dynamics. Technology can also enable new competitors and new forms of competition and make it possible for emerging markets to leap-frog financial system development in many important ways (e.g. without building out a costly rural branch network to reach these underserved communities). However, technology can also lead to new kinds of risks that must be carefully assessed and monitored. For these reasons, IFC and the World Bank are supporting technological innovations that increase inclusion, balanced by the World Bank Group's (WBG's) experience, risk assessment experience, and social safeguards.
Integration of SMEs into domestic and/or global value chains (GVCs)	Multinational corporations catalyze the increase in cross-border trade as well as technology to link buyers, sellers and financiers in new value chains. The ability of SMEs to participate in GVCs can yield substantial benefits, including spill-overs of production technology and managerial know-how. IFC reaches these SMEs through trade finance solutions, working capital solutions to meet short term financing needs, and SME advisory services on value and supply chain financing. Where appropriate, the market-creating effects of these programmatic approaches will be considered in the AIMM assessment.
SME diversity	The WBG's SME interventions are diversified across multiple thematic product types (e.g. Working Capital Solutions) or targeted at specific populations (e.g. Very Small Enterprises). The WBG defines the SME market segment in terms of firm size, and SMEs encompass vastly distinct types of businesses and sectors – in agriculture, services, manufacturing, and trade. As the definition of SMEs includes a wide spectrum of firms, the AIMM assessments consider these variations where relevant.
Treatment of negative effects	There may be potentially negative effects from certain IFC SME finance projects, both on the project outcomes and on market impact. In some cases, IFC may reinforce the position of the dominant player, thereby diminishing market competition in a significant way. Another important negative effect could be IFC's inability to lend in the currency most appropriate to the financial institution and its borrowers. For example, IFC could lend in hard currency to a financial institution that does not have the capacity to hedge or swap to make local currency loans to end borrowers who have local currency income. This could expose end borrowers to currency risks. Where significant, these should be noted and reflected in the overall component rating.

Project Outcomes – The development gap is an estimate of the development challenge that is being addressed by the project and provides context for the project's development outcomes. The gap is sector- or segment-specific and is benchmarked against all emerging market countries. The gap assessment uses data collected by IFC from various public sources. The table below illustrates an application of some of the main outcome gap indicators and their benchmarking. Apart from gap indicators that are naturally bound, all gap indicators are normalized to be scale-free (e.g. relative to GDP or to total population).

COUNTRY CONTEXT	Low Gap	Medium Gap	Large Gap	Very Large Gap
Access	– SME finance supply (% GDP) >1 STD above EM median – Share of SME credit constrained <1 STD below EM median – SME finance gap (%GDP) <1 STD below EM median – % of SMEs with a loan/LOC >1 STD above EM median	– SME finance supply (% GDP) within 1 STD EM median – Share of SME credit constrained within 1 STD EM median – SME finance gap (%GDP) within 1 STD EM median – % of SMEs with a loan or line of credit within 1 STD EM median	– SME finance supply (% GDP) <1 STD below EM median – Share of SME credit constrained >1 STD above EM median – SME finance gap (%GDP) >1 STD above EM median – % of SMEs with a loan or line of credit <1 STD below EM median	– SME finance supply (% GDP) below EM 15th percentile – Share of SME credit constrained above EM 85th percentile – SME finance gap (%GDP) above EM 85th percentile – % of SMEs with a loan or line of credit below EM 15th percentile
Affordability	– % SMEs who did not apply for a loan due to various constraints (e.g. complex application procedures, interest rates, collateral requirements, maturity, etc.) <1 STD below EM median – High interest rates not a major financing constraint for SMEs – Flexible collateral requirements tailored to availability of assets; un-collateralized loans offered – Broad availability of long-term financing for SMEs – Almost all SME-focused banks tailor products offerings to SMEs and follow customized processes for SME financing – Almost all banks servicing SMEs have specialized methodologies, department and/or personnel explicitly for SMEs and a robust risk management framework	– % SMEs who did not apply for a loan due to various constraints (e.g. complex application procedures, interest rates, collateral requirements, maturity, etc.) within 1 STD EM median – High interest rates not a major financing constraint for a majority of SMEs – Flexible collateral requirements tailored to availability of assets generally offered; – Very restricted availability of long-term financing for SMEs – Majority of SME-focused banks tailor products offerings to SMEs and follow customized processes for SME financing – Majority of banks servicing SMEs have specialized methodologies, department and/or personnel explicitly for SMEs and a robust risk management framework	– % SMEs who did not apply for a loan due to various constraints (e.g. complex application procedures, interest rates, collateral requirements, maturity, etc.) >1 STD above EM median – High interest rates present financing constraint for majority of SMEs – Large deviation between rates offered to SMEs – High collateral require-ments a concern; some low/no collateral loans – Long-term financing only available to selected SMEs in certain sectors – A few banks tailor product offerings to SMEs and follow customized processes for SME financing – Some FIs have specialized SME methodologies, risk analysis, departments, personnel, but majority not differentiate	– % SMEs who did not apply for a loan due to various constraints (e.g. complex application procedures, interest rates, collateral requirements, maturity, etc.) above EM 85th percentile – High interest rates present severe financing constraint for SMEs – SMEs not able to obtain financing because of high collateral requirements – Limited availability of long- and medium-term financing – Limited financial institutions separately target SMEs by offering differentiated products and services and mostly follow similar processes as for large firms – Most banks do not have specialized personnel, risk appetite, methodologies (i.e. risk analysis), or departments to serve SMEs

"Core outcomes" for SME operations relate to access and affordability. These are the main drivers of the overall project outcome potential. The rating guidelines award a higher collective implicit weight to core outcomes. Access relates to the availability of financing for SMEs. A key subcomponent of access relates to targeting of underserved SME groups or regions, or priority sectors. When the project focusses on such segments, these indicators should be reported separately. Affordability relates to changes in loan terms available for SMEs, or the client FI is offering loan terms that are better than the market in general. Access and affordability in SME operations also include improvements in product offerings and processes tailored for SMEs. An IFC operation's project-level impact is assessed based on the magnitude of its effects in relative terms, i.e. using a normalization rule that provides an indication of the intensity of impact (e.g. impact per dollar invested). The table below provides a summary for the intensity assessment categories.

<table>
<tr><th>PROJECT INTENSITY</th><th>Below Average</th><th>Average</th><th>Above Average</th><th>Significantly Above Average</th></tr>
<tr><td><u>Access</u>
• Number and volume of financing
• SME share of overall lending portfolio
• Qualitative: Introduction of alternate delivery channel</td><td>– Annual growth SME portfolio (volume) <1 STD below IFC portfolio median
– Change in SME share of total loan portfolio <0.5ppt
– Annual growth SME portfolio (number) <1 STD below IFC portfolio median</td><td>– Annual growth SME portfolio (volume) within 1 STD IFC portfolio median
– Change in SME share of total loan portfolio 0.5-2.0ppt
– Annual growth SME portfolio (number) within 1 STD IFC portfolio median</td><td>– Annual growth SME portfolio (volume) >1 STD above IFC portfolio median
– Change in SME share of total loan portfolio 2-ppt
– Annual growth SME portfolio (number) >1 STD above IFC portfolio median</td><td>– Annual growth SME portfolio (volume) above IFC portfolio 85th percentile
– Change in SME share of total loan portfolio >5ppt
– Annual growth SME portfolio (number) >1 STD above IFC portfolio median</td></tr>
<tr><td><u>Affordability</u>
• Qualitative: improvements in affordablility, products, loan terms, and process</td><td colspan="2">– Longer tenor loan offerings or differential with market is minor
– Loan application process improvement only superficially simplified, or differential with market is minor</td><td colspan="2">– Longer tenor loan offerings or differential with market is economically meaningful (such as, increase in average loan tenors for the entire portfolio by over 10% or increase in average loan tenors for long-term investment loans (>3 years) by over 20%.; Client FI offers loan tenors up to highest prevailing in the market)
– Loan application process improvement substantially simplified, or differential with market is meaningful (such as, New credit scoring methodology or model (CSM) specific to SME loans that is mostly automated and rule based. CSM significantly improves on information provided by country's credit bureaus; More than 50% decrease in loan processing time; Client FI offers (one of the) most efficient loan application processing (time, document requirement etc.) in the market)</td></tr>
</table>

The AIMM methodology considers the uncertainty around the realization of the potential development impact being claimed, making a distinction between the potential outcomes that a project could deliver and what could be realistically achievable in the project's development context. The table below presents the key types of risk factors for SME operations.

PROJECT LIKELIHOOD	Operational Factors	Sector Factors
Assessment Considerations	• Experience and track record of the client FI in the target market (e.g. SMEs, WSMEs, young entrepreneurs) • Project's projected growth relative to the recent history • Expansion into markets (e.g. expansion into new region or sector), delivery using new channels (e.g. agent banking), or other untested innovations in product/service design. • IFC providing advisory service that mitigate any of these operational risks, including through joint WBG initiatives	• Target sector's market risks (e.g. lack of SME loan officers) • Specific regulatory risks (e.g. weak legal system for collateral, lack of credit bureau) • Central bank supervision perimeter and capacity (e.g. lack of staff relative to number of FIs lending to SMEs) • Supporting government policies and programs (e.g. promotion of SMEs) • Market competition for SME lending and financial services

Contribution to Market Creation – The market is defined as the SME finance (debt) market for the relevant country. In general, given the size of the overall SME finance gap, individual IFC SME projects are small. However, these SME projects may be part of a more concerted programmatic approach to changing market dynamics in a country. In addition, standalone IFC SME projects may also by themselves provide the right intervention to elicit positive reinforcing market reactions from other market players, and thus make meaningful contributions to market creation. For IFC's SME operations, market competitiveness and inclusiveness are two of the primary attributes.

SME market typologies provide the building blocks in the AIMM system to construct a narrative for how much an IFC intervention is advancing a market objective. These typologies provide a description of the market gap based on various stages of development for a given sector from least developed to most advanced and enable the location of the market before and after IFC's intervention. The table below summarizes the characterizations of the SME market for two market attributes (competitiveness and inclusiveness).

<table>
<tr><th>MARKET TYPOLOGY</th><th>Highly Developed</th><th>Moderately Developed</th><th>Underdeveloped</th><th>Highly Underdeveloped</th></tr>
<tr><td>Competitiveness</td><td>– State and national development bank participation does not distort market (e.g. partial credit guarantees)
– Financing needs of SMEs met by a diverse set of privately held banks
– High interest rates not a major financing constraint for SMEs
– Flexible collateral requirements tailored to availability of asset types
– Private credit bureau operates under well-defined rules and practices affecting coverage, scope, and accessibility of credit
– Well-developed secured transaction laws in place</td><td>– Limited lending but distortionary role of state and national development banks in financing SMEs
– A few privately owned financial institutions control large share of SME finance
– High interest rates present financing constraint for most SMEs
– High collateral requirements a concern
– Private credit bureaus exist but with limited coverage and basic credit information
– Secured transaction laws exist but not developed in line with country circumstances, leading to limited implementation</td><td>– SME financing market overly reliant on state banks and national development banks providing subsidized programs
– Private banks mostly concentrating on financing large corporates
– High interest rates present severe financing constraint for SMEs
– SMEs not able to obtain financing because of high collateral requirements
– Private credit bureaus or public credit registries not operational or have no coverage
– Secured transaction laws not developed to serve SME needs</td><td>– SME financing market dominated by state banks and national development banks
– Very limited lending by private banks in SME financing market
– Majority of SMEs unable to obtain SME financing due to exclusionary terms and conditions
– Private credit bureaus or public credit registries do not exist
– No secured transaction laws for collateralization of assets</td></tr>
<tr><td>Inclusiveness</td><td>– Most banks offer full range of products and services targeted towards underserved SMEs including broad use of digitization and alternative delivery channels
– Commercial viability of underserved SME- focused business models widely known across the market
– Adequate market-enabling frameworks/standards incentivizing lending to underserved SMEs exist</td><td>– Few banks offer products and/or follow processes to target underserved SMEs, including through increased use of digital delivery
– Proven commercial viability of underserved SMEs focused business models in a few banks but not widely adopted across market
– Adequate market-enabling frameworks/standards incentivizing lending to underserved SMEs do not exist but also not hinderance</td><td>– No banks have products and/or processes targeting underserved segments
– Lack of awareness on lending to underserved SMEs and commercial viability of underserved SMEs focused business model not well understood
– Adequate market-enabling frameworks/standards incentivizing lending to underserved SMEs do not exist</td><td>– No focus on underserved SMEs</td></tr>
</table>

In general, most individual projects are not expected to make a significant and immediate systemic market change, unless the project is a pioneer in a non-existent or nascent market. Instead, most projects are expected to have incremental effects on the market. In other words, it takes more than one intervention to move a market to the next stage. This means that integrated and concerted efforts are often needed to generate substantial market effects. For example, cumulative World Bank Group efforts over time will have a stronger effect on markets than non-integrated and non-concerted interventions. Where a project is explicitly part of a programmatic approach, the expected movement induced by the program should be the basis for the assessment where timebound movements, market effects, and indicators are available. The most important market creating effects from IFC's SME operations are:

<table>
<tr><th>MARKET MOVEMENT</th><th>Marginal</th><th>Meaningful</th><th>Significant</th><th>Highly Significant</th></tr>
<tr><td>Competitiveness</td><td colspan="4">Competitiveness in the SME finance market creates incentives for FIs to provide more financing for SMEs, and for more FIs to prioritize serving the SME segment. The market structure of the banking sector and the SME finance market, can either provide the right environment for healthy competition among FIs, or undesirable incentives for a few FIs with large market share to concentrate exclusively on large corporates. Competition in the SME finance market often involves SME loan terms. This can be along three vectors. IFC clients could translate higher internal efficiency and lower client acquisition costs into more competitive interest rates for SMEs. IFC client FIs may bring to the market loan tenors and products that more closely match the need of SMEs in the market, such as longer tenors for SME capital loans. Improvements, such as in credit scoring systems for SMEs by client FIs, could translate into a reduction of burdensome collateral requirements for SMEs who may not have the type of collateral that banks generally accept (real estate and other fixed assets). Market effects on SME loan terms could come from the response of other FIs in the market to meaningful changes on SME loans pricing, conditionality, and tenors advanced by IFC client FIs. Client FIs could also bring to the market specialized SME processes and diverse product offerings. These could include, for example, dedicated SME departments in the bank with trained loan officers, or methodologies such as market segmentation and product design. Specialized product and processes adopted by IFC's client FIs that better meet SME needs and overcome behavioral/institutional market failures, could induce market-wide adoption of these practices and bring about measurable competitive market movement.</td></tr>
</table>

MARKET MOVEMENT	Marginal	Meaningful	Significant	Highly Significant
Inclusiveness	IFC projects could target financial access for SMEs that belong to unserved/underserved groups or regions. The identification of such underserved groups or regions is country-specific but may also include some groups that are more universally underserved (e.g. women-owned SMEs). In a country, this could include certain racial groups or regions where there is recognition of large gaps in financial access relative to the country. The unevenness of SME financing within a country is sometimes a result of more ingrained social attitudes. Often, this translates into a higher perceived risk of targeting these groups and/or regions. Client FI success in lending to SMEs in these groups and/or regions can attract other FIs in the market to serve these groups by demonstrating its viability. This market demonstration is strongest when IFC clients are the first in the market to recognize a certain underserved market segment and implement successful business models and products around serving these underserved groups and/or regions. IFC clients could contribute to creating a financially inclusive market through developing business models, developing products and processes aimed at reaching underserved segments and raise awareness about opportunities for other market participants in these segments.			

The market likelihood adjustment follows the principles for the likelihood adjustment for project outcome potential. In general, the likelihood assessment includes sector-specific, as well as broad country risks that may prevent potential catalytic effects from occurring, plus political economy or policy/regulatory risks that may constrain market systemic change. Due to the diversity of market creation attributes and channels, most of the likelihood factors are expected to be sector, or intervention specific.

MARKET LIKELIHOOD	Sector Factors	Political / Regulatory / Policy Factors
Assessment Considerations	• Concentration in the SME financing and financial services sector (e.g. barriers to entry, number of market participants) • Strength of the channel for competitive pressures and incentives to adopt innovations • Regulatory scope and capacity (e.g. new regulatory framework for FinTechs or new products such as leasing), including through joint WBG efforts • Financial market readiness of underserved segments	• Government commitments and supporting policies/programs (e.g. SME financing) • Government capacity to implement policies and program commitments and track record • Medium-term macroeconomic outlook, and capacity to respond to shocks