

Financing Micro, Small and Medium Enterprises

An Independent Evaluation of IFC's Experience
with Financial Intermediaries in Frontier
Countries

Independent Evaluation Group

April 11, 2008

Independent Evaluation Group

- Independent of management; reports to the World Bank Group Board
- Discloses evaluation reports
- Why IEG evaluates
 - Accountability
 - Learning
- Micro (project level) and Macro (aggregate level) evaluations

Outline



- Context and background
- Strategies and operations
- Evaluation results and success drivers
- IFC's roles
- Lessons for improving results
- Main findings and conclusions
- Recommendations

Three main messages



- IFC's priority and strategies for supporting MSMEs through FIs have been relevant and effective; but outcomes can still be enhanced
- Environmental compliance of SME-FIs weak, needs improvement
- Advisory services have been a key success driver

Context and background



- Microcredit paradigm shift in mid-90s from subsidized credit by non-profit NGOs to, for profit lending
- MSME development an IFC strategic priority since the mid-90s
- Frontier market strategy adopted in the late-90s
- Confluence of these strategies (FY94-06) is the focus of this evaluation

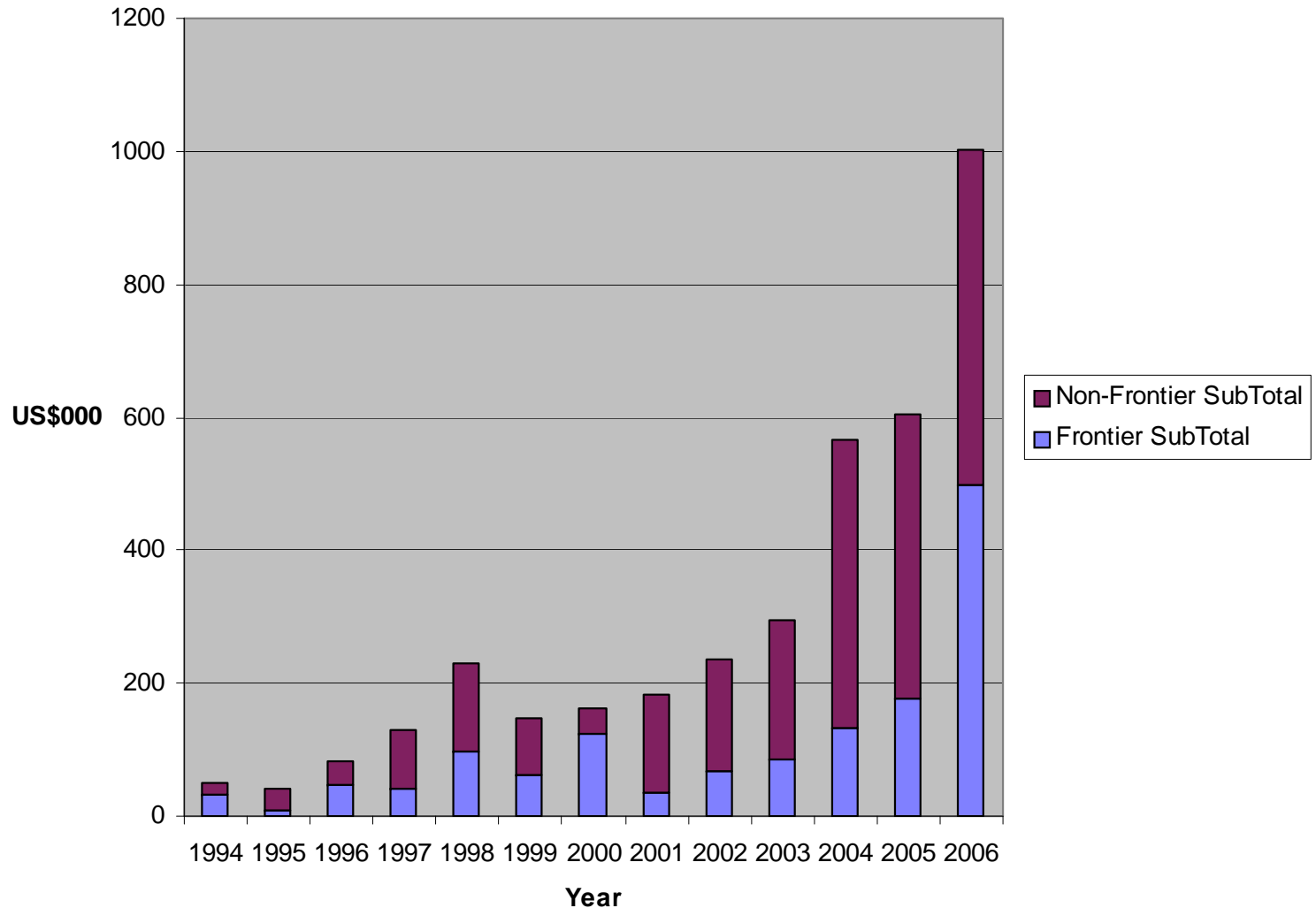
Four pillars of IFC's strategy



- Use local financial intermediaries (FIs) to wholesale loans to MSMEs
- Strengthen FI's equity base, ability to mobilize funds, and institutional capacity
- Support financial market development
- Use advisory services for institution-building and business climate improvement

IFC financing of MSME-FIs grew rapidly; frontier share uneven

IFC worldwide financing of MSME-FIs (in US\$)



Frontier countries received 37% of MSME-FI financing; MFIs 10%

IFC MSME-FI Investment Operations In US\$ millions

	FY94-02	FY03-06	Total FY94-06	
Frontier Countries			US\$	%
SME-Fis	473	796	1,269	90
MFIs	42	95	137	10
Sub-total	515	891	1,406	100
% Frontier Countries	41%	36%	37%	
Non-Frontier Countries				
SME-Fis	679	1,405	2,084	89
MFIs	67	195	262	11
Sub-total	746	1,600	2,346	100
% Non-Frontier Countries	59%	64%	63%	
Total All Countries	1,261	2,491	3,752	

Success of IFC's MSME-FI projects

Evaluated Population (no. of projects)	Outcome Success or Satisfactory Rate			
	Development	IFC Investment		EHS
		Loan	Equity	
All MFIs in study population (21)	71%	100%	22%	70%
MFIs under MFI Holding (13)	77%	100%	27%	85%
All Other MFIs (8)	63%	100%	14%	43%
SME-FI study population (72)	61%	79%	53%	25%

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SME-FI study population (72)	61%	79%	53%	25%
Comparator Groups				
Other commercial bank projects (60)	60%	76%	67%	55%
All frontier country projects (308)	61%	74%	34%	62%
All evaluated IFC projects (627)	59%	74%	31%	67%

Six common success drivers



- Sponsor and management quality
- Advisory services
- Operational standards
- Institutional equity and governance
- Transparency
- IFC work quality

One unique success driver for MFIs

- Supportive MFI regulatory regime

IFC's roles in MSME-FI projects

- Invest equity and Tier II capital for growth and capital adequacy
- Provide term loans to reduce maturity mismatches and improve liquidity
- Mobilize local currency funding to avoid currency risk
- Screen FIs committed to SME market
- Provide advisory services to build capability to serve MSMEs

MSME-FIs can enhance development

- FI offers services beyond loans
- FI increases (or gets license for) savings deposit mobilization
- FI increases outreach by expanding number and types of clients
- FI develops liquid asset management and investment (treasury) capacity
- SME-FI offers services to women-owned (or ethnic minority) businesses

Main findings and conclusions 1

- IFC's priority and strategies for supporting MSMEs were relevant and effective;
- The development and investment outcome success rates of MSME-FIs are at least as good as the IFC all-sector averages

Main findings and conclusions 2

- Compared to the IFC all-sector average, the environmental compliance of MFIs is better, but that of SME-FIs is very poor

Main findings and conclusions 3

- There are six common success drivers for MSME-FIs, including advisory services. There is one unique additional success driver for MFIs (a supportive regulatory regime)

Main findings and conclusions 4

- The development outcomes of MSME-FI projects can be enhanced by supportive regulatory regimes for MFIs, and by MSME-FIs offering more financial services/products

Recommendations for IFC



- Work with partners to encourage establishment of supportive regulatory regimes for MFIs
- Enlarge the scope of IFC advisory services to include provision of other financial services by MSME-Fis
- Improve EHS compliance of SME-FIs through closer supervision

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