

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Uncovering the impacts of access to credit on small and medium enterprises
▪ TC Number:	RG-T4598
▪ Team Leader/Members:	Martinez Alvear, Claudia Paz (RES/RES) Team Leader; Yanez Pagans, Patricia (DSP/DVF) Alternate Team Leader; Vlaicu, Razvan Catalin (RES/RES); Larrain Aylwin Juan Ramon (RES/RES); Smith, John D. (RES/RES); Urquiola Ralero, Montserrat (RES/RES); Bonilla Merino Arturo Francisco (LEG/SGO); Parra, Aglae Elizabeth (RES/RES); Arraiz, Irani (DSP/DVF); Escobar Genes, Myriam Helvecia (RES/RES); Barrios Galvan, Juan Jose (CID/CPN); Figal Garone, Lucas Elian (DSP/DVF); Sarrazin, Tom (RES/RES)
▪ Taxonomy:	Research and Dissemination
▪ Operation Supported by the TC:	N/A.
▪ Date of TC Abstract authorization:	30 Aug 2024.
▪ Beneficiary:	Regional
▪ Executing Agency and contact name:	Inter-American Development Bank , Claudia Martinez (RES/RES) claudiam@iadb.org
▪ Donors providing funding:	OC SDP Window 2 - Economic Growth(W2F)
▪ IDB Funding Requested:	US\$200,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	30 months disbursement period and 24 months execution period
▪ Required start date:	December 13,2024
▪ Types of consultants:	Firms and consultants
▪ Prepared by Unit:	RES-Research & Chief Economist
▪ Unit of Disbursement Responsibility:	RES/RES-Research & Chief Economist
▪ TC included in Country Strategy (y/n):	NO
▪ TC included in CPD (y/n):	NO
▪ Alignment to the Update to the Institutional Strategy 2025-2030:	Productivity and innovation

II. Objectives and Justification of the TC

2.1 This TC's objective is to produce rigorous evidence on the impact of access to finance on small and medium enterprises (SMEs) in the LAC region.

2.2 Micro, small and medium enterprises (MSMEs) comprise 99.5 percent of the businesses, 60 percent of the employed population, and about 25 percent of the gross domestic product (GDP) in Latin America and the Caribbean (LAC) (Herrera, 2020).¹ Access to finance is one of the critical barriers for MSME growth. According to data from the SME Finance Forum³, the MSME financing gap for the LAC region is the second largest worldwide and is estimated to be US\$ 1 trillion, with 23% of formal MSMEs indicating they have unmet financing needs.

2.3 Although the impacts of access to finance on MSMEs have been well researched in the past, the literature has been mostly concentrated in microenterprises (Banerjee et al 2015, Blattman et al 2016, Martínez et al 2018) or in startups (Gonzalez-Uribe and Leatherbee, 2018). Less is known about the impact of access to finance on more established companies. Also, recent research is emerging looking at the impacts of different financial products (e.g Battaglia et al. 2024).

2.4 This TC will support the production of research that answers to the following questions:

- What is the impact of projects that facilitate access to finance on SMEs?
- What is the impact of different types of credit, such as long-term credit for fixed assets vs short-term credit for working capital or trade or others, on SMEs?
- Is there any heterogeneity in impacts observed by sector, gender of the owner or other SME baseline characteristics?

2.5 The impact evaluation component will be based on quasi-experimental methods using a staggered difference and difference analysis exploiting the timing of loan approval by the partner banks. Firms that were accepted to receive credit by the partner bank will be compared with those that were rejected and never receive credit or with those that receive credit at a later point in time. We will use all historic data to implement an “event study” specification. Key variables of interest are firm sales, survival and exports. Other variables of interest are firm employment and assets.

2.6 The theory of change is that firm growth is limited by access to capital, and that loans can lift this constraint and boost growth.

2.7 Administrative data provided by the partner bank will be merged with tax data using the tax ID. Partner banks will also provide firm-level data including the loan application date and result (accepted/rejected). It will also include variables such as the type of legal entity, business age and size, location, and sector. We will also conduct a data collection of sample firms, which will also be merged.

2.8 IDB Invest has advanced conversations with Banitsmo in Panama (12174-02), which has shown interest in conducting an impact evaluation of their SME portfolio and with a particular focus on women-led/owned SMEs. IDB Invest has also signed agreements with other financial institutions in the region, such as Promerica El Salvador (11861-03), Jardín Azuayo in Ecuador (13943-01), and Banco Sol in Bolivia (14015-01), to provide technical assistance to strengthen their capacities for impact measurement; therefore, these financial institutions could also be potential partners to participate in a causal impact evaluation. In addition, IDB Invest has an agreement with Confecámaras in Colombia through which it has access to administrative data from all enterprises registered to the chambers of commerce in Colombia. This data could be used for the impact evaluation in collaboration with Financial Institutions working with IDB Invest in this same country, such as Bancolombia or Davivienda Colombia, among others.

2.9 The project is aligned with productive development and innovation through the private sector as capital markets in Latin America and the Caribbean remain small and underdeveloped. Interest rates are high, and financing is scarce. This not only

hinders economic growth, but it also has a negative impact on micro, small, and medium enterprises; trade; environmental initiatives; affordable housing; and services. All of these are key factors for the region's economic development.

- 2.10 This TC is well aligned with the IDB Group's Institutional Strategy: Transformation for Scale and Impact (CA-631). Specifically, it supports the strategic objective of "Driving sustainable regional growth" by focusing on productive development and innovation through the private sector, directly addressing the critical challenge of access to finance for small and medium enterprises (SMEs), which is essential for the region's economic growth.
- 2.11 The project aligns with the Ordinary Capital Strategic Development Program's (OC SDP) Window 2 – Economic Growth Priority Area (W2F), which aims to support initiatives enhancing knowledge or addressing critical knowledge gaps related to economic growth. By producing evidence on the impacts of access to finance for SMEs, the TC addresses a core objective of the W2F: fostering a more dynamic and competitive business environment by addressing financial sector market failures.
- 2.12 Furthermore, the TC incorporates cross-cutting elements of the Strategy, such as gender equality, by analyzing the differentiated impacts on women-led businesses. It also aligns with the Strategy's emphasis on development effectiveness and impact through rigorous impact evaluation methods

III. Description of activities/components and budget

- 3.1 The TC will be structured around 4 components: (i) Evidence review; (ii) Impact Evaluation; (iii) Capacity building; and (iv) Dissemination.
- 3.2 **Component 1. Evidence review:** TC funds will be used to produce a detailed white paper that gathers all the causal evidence available on the impacts of access to finance on SMEs, including a focus on the evidence available for the LAC region. The objective of this review is twofold. First, gather valuable information that can be used to guide the design of the impact evaluation work to be conducted under this TC. Second, generate a report that by itself can be also a valuable deliverable of this TC and that can be broadly shared externally, systematizing all the relevant evidence and the policy implications emerging from this work. We will hire an individual consultant for this component.
- 3.3 **Component 2. Impact Evaluation:** This component aims to conduct a causal impact evaluation, primarily focusing on Panama¹. The IDB country office has identified potential access to administrative data from the Dirección General de Ingresos (DGI), and Banistmo, an IDB Invest client, has expressed interest in participating. The TC team will also explore data access opportunities in other countries, leveraging IDB Invest's partnerships with financial institutions, and may consider evaluations in multiple countries, subject to budget and timeline constraints.

¹ Before carrying out any activity/evaluation in Panama and/or in any other country, the prior non-objection of the respective official liaison entity with the Bank will be requested and obtained.

If data access in Panama is not feasible, other countries in the region will be considered for the impact evaluation.

Among the activities to be covered under this component are: (i) impact evaluation design, (ii) primary or secondary data collection, (iii) data analysis, (iv) production of impact reports. We will hire an individual consultant for the data analysis, and a firm for the data collection.

3.4 Component 3. Capacity building: This component will focus on building impact measurement capacities in one financial institution in the region. The objective will be to support the institution in: (i) identifying data that is already being collected and could be used for impact evaluation; (ii) flagging data gaps that if filled could expand their capacity to measure impact; (iii) support in the definition of impact indicators and questionnaires to collect the desired data for all or a sample of their portfolio; (iv) design of technology platforms or provision of IT advice to include the data collection processes within their systems; (v) prepare impact dashboards that can be used by the institutions to visualize and report on their impacts. As part of the technical assistance, agreements will be made for the supported institutions to share their data with the research team.

The funds allocated for this component will be used to hire external consultants and a consulting firm to conduct data analysis and carry out the data collection required for the project's impact evaluation.

3.5 Component 4: Dissemination: The activities under this component will focus on a wide dissemination of the results obtained from the impact evaluation and the evidence review, and other lessons learned as part of the capacity building components. Expected outputs include blogs, videos, in-person and virtual events, among others. This dissemination will share knowledge and benefit the entire region by spreading valuable insights and findings. To execute this component, we may hire individual consultants and firms depending on the activity required.

Indicative Budget

The resources for this Technical Cooperation will be funded by the Ordinary Capital Strategic Development Program –OC SDP- (GN-2819-14), specifically by the Window 2 – Economic Growth Priority Area (W2F). The W2F aims to support initiatives that enhance knowledge or address critical knowledge gaps related to Economic Growth. This TC has a total budget of USD 200,000, entirely financed by the W2F, enabling the full implementation of all outlined components including the evidence review, impact evaluation, capacity building, and dissemination activities.

Activity/Component	Description	IDB/Fund Funding	Counterpart Funding	Total Funding
Evidence Review	White paper on available causal evidence related to the topic	15,000	0	15,000

Impact Evaluation	One causal impact evaluation in one regional country	150,000	0	150,000
Capacity Development	Technical assistance on impact measurement for one financial institution	20,000	0	20,000
Dissemination	Blogs, events, brochures, etc.	15,000	0	15,000
TOTAL		200,000	0	200,000

3.6 The TC team, led by a Lead Specialist from RES, will monitor the implementation of this TC in line with the indicators established in the results matrix. As a result, no additional costs are anticipated for the monitoring and evaluation of this TC.

IV. Executing agency and execution structure

- 4.1 This TC will be executed by the Bank through RES/RES. The principal reason for this execution structure is that the literature review and the impact evaluation will be designed, coordinated, written, and disseminated by the IDB and IDB Invest. Additional reasons are that the scope of the project is regional; the execution of the project by the IDB will facilitate the communication and dissemination of study results across countries; and the activities supported by the TC will generate synergies and complementarities with Bank operations and research.
- 4.2 The Bank will contract individual consultants, consulting firms and non-consulting services to carry out the activities described. The activities to be executed will be included in the Procurement Plan and will be contracted in accordance with Bank policies as follows: (a) AM-650 for Individual consultants; (b) GN-2303-33 and Guidelines OP-1155-4 for Consulting Firms for services of an intellectual nature, and for other non-consulting services related to dissemination. The knowledge products generated from Bank-executed activities within this technical cooperation will be the property of the Bank and may be made available to the public under a creative commons license. They may be made available to the public under a Creative Commons license. However, at the request of the beneficiaries, following the provisions of AM-331, the intellectual property of said products may also be licensed through specific contractual commitments that shall be prepared with the advice of the Legal Department. The knowledge products generated as part of this TC will be produced and disseminated in accordance with AM-331 and AM-325.

V. Major issues

- 5.1 There are no substantial risks identified and that would emerge from the execution of this TC. The most important risks and mitigation factors are:

Limited commitment from private sector companies with the impact measurement exercise, which could hinder the successful completion of this work. For this, the TC team will carefully select the right partners, making sure that private partners are aware of what an impact evaluation is and what are the requirements from their side. It may be important to phase components so that partner banks are ready to collaborate and participate in the impact evaluation exercise. For instance, it may be the case that technical assistance is provided first to build impact measurement capacities before the causal impact evaluation is fully conducted. Moreover, it is important to have clear agreements signed with financial institutions. For instance, Client Beneficiary Agreements are always signed between the partner financial institution and IDB Invest when supporting on impact measurement and this agreement clearly delineates the scope of the work and the contributions expected from each part.

Delays in the execution of some of the impact measurement initiatives due to challenges in data collection, challenges in access to information or in the design and deployment of interventions². For this, the team will focus on the design and diagnostic phases of the impact evaluation, to ensure that the local context is carefully considered and included in the planning of these exercises. It is also important to be ready to adapt to the work's scope when external conditions substantially change.

VI. Exceptions to Bank policy

6.1 There are no exceptions.

VII. Environmental and Social Aspects

7.1 This Technical Cooperation is not intended to finance pre-feasibility or feasibility studies of specific investment projects or environmental and social studies associated with them; therefore, this TC does not have applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Results Matrix_89826.pdf](#)

[Terms of Reference_13415.pdf](#)

[Procurement Plan_77352.pdf](#)

² For instance, if there is an agreement with financial institutions to randomize access to credit. Although it is more likely that the evaluation will be based on a quasi-experimental method.