ove Office of Evaluation and Oversight

Approach Paper

Evaluation of IDB Group's Work through Financial Intermediaries

IDB
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Office of Evaluation and Oversight
1350 New York Avenue, N.W.
Washington, D.C. 20577
www.iadb.org/evaluation

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Abbreviations and Acronyms

2TFI	Second Tier Financial Institution
A2F	Access to Finance
ALIDE	Latin American Association of Development Banks
ASBA	Association of Supervisors of Banks of the Americas
BOP	Base of the Pyramid
CAF	Corporación Andina de Fomento
CAGR	Compounded Annual Growth Rate
IFD/CMF	Capital Markets and Financial Institutions Division, Institutions for Development Department - dealing with sovereign-guaranteed operations
DFI	Development Finance Institution
ESG	Environmental, Social and Governance
FELABAN	Latin American Bankers' Association
FI	Financial Intermediary
FIP	Financial Institutions Program
SCF/FMK	Financial Markets Division, Structured and Corporate Finance Department - dealing with non-sovereign-guaranteed operations
GDP	Gross Domestic Product
IDB	Inter-American Development Bank
IDB-9	IDB's Ninth General Capital Increase
IDBG	Inter-American Development Bank Group
IFEM	Finance Program for Specialized Financial Institutions in Mexico
IFIP	Finance Program for Small Financial Intermediaries
IIC	Inter-American Investment Corporation
IMIF	Finance Program for Microfinance Institutions in Peru
LAC	Latin America and the Caribbean
MDB	Multilateral Development Bank
MIF	Multilateral Investment Fund
(M)SME	(Micro) Small and Medium-Sized Enterprise
NBFI	Non-Bank Financial Institution
NSG	Non-Sovereign Guaranteed
OMJ	Opportunities for the Majority
OVE	Office of Evaluation and Oversight
PBL	Policy Based Loan
ROE	Return On Equity
SG	Sovereign Guaranteed
SME	Small and Medium-Sized Enterprise
TFFP	Trade Finance Facilitation Program
WEB	Women Entrepreneurship Banking

I. RATIONALE FOR THE EVALUATION

1.1 **This document describes OVE's approach to evaluating the work of IDB Group (IDBG) through financial intermediaries (FIs).** In OVE's 2015-2016 Work Program and Budget (RE-479-1), the IDB's Board of Executive Directors requested OVE to conduct an evaluation of "financial sector credit lines supported by the IDB Group, including both SG and NSG loans". This document details OVE's approach to this evaluation and seeks to focus the work on the key questions relevant to IDBG and its Board. It also affords OVE the opportunity to collect additional guidance from the Board; as well as to keep Management informed about the proposed activities to foster coordination during the evaluation.

1.2 **This evaluation will assess IDBG's work through FIs as a type of *operational mechanism* that uses regulated financial intermediaries (mostly commercial banks) to foster access to finance (A2F) for underserved final beneficiaries (mostly SMEs).**[1] The evaluation is not meant to be a financial sector review, even though operations using this mechanism – hereafter referred to as FI operations – will be reviewed in this context. It will rather focus on assessing an operational mechanism widely utilized by IDBG with the aim of sustainably increasing A2F for underserved beneficiaries, such as SMEs, importers/exporters, firms with green investments, or affordable housing buyers. FI operations are clearly not the only means to expand A2F, but the evaluation will focus on them as an important mechanism used by IDBG to contribute to it. Finally, A2F is typically not an end in itself, but there is evidence that its increase is associated with development.[2]

1.3 **In assessing this mechanism, OVE will consider FI operations managed by all IDBG windows, regardless of whether they reach FIs directly (typically without sovereign guarantee) or indirectly (typically with sovereign guarantee).** IDBG windows with FI operations include three IDB organizational divisions: i) Capital Markets and Financial Institutions within the Institutions for Development Department (IFD/CMF); ii) Financial Markets within the Structured and Corporate Finance Department (SCF/FMK); and iii) the Opportunities for the Majority Sector (OMJ).[3] In addition, the Inter-American Investment Corporation (IIC) and the Multilateral Investment Fund (MIF) also manage FI operations. IFD/CMF is the only window that typically reaches FIs indirectly, by first

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1 IDBG also works with non-regulated FIs, but this evaluation will focus only on regulated FIs, through which IDBG channels most of its funding. In addition, regulated FIs are key systemic players underpinning the stability of financial systems as well as A2F through ready access to public savings.

2 See for example Rajan and Zingales, 1998; Beck et al., 2000; Klapper et al. (2007); World Bank (Finance for All, 2007; IFC (Jobs Study, 2013). Some recent research also shows that there can be "Too Much Finance" (Arcand, Berkes, Panizza, 2012), but this occurs at levels (beyond 100% of GDP) far exceeding LAC's current financing for the private sector.

3 In all cases, references to IDBG departments and divisions include their predecessors fulfilling the same functions prior to the 2007 organizational realignment.

channeling resources through public development banks (second-tier FIs) and obtaining the sovereign guarantee (SG) of the respective countries. All other windows typically reach FIs directly, always without sovereign guarantee (NSG). In all cases, FIs make credit allocation decisions and usually bear the final beneficiaries' credit risk.[4]

1.4 **FI operations are likely to continue playing a key role within IDBG.** FI operations are considered to be a cost-effective mechanism to reach a large number of final beneficiaries.[5] They are also viewed as a source of significant, relatively stable, income for IDBG, and are thus important to its financial sustainability and growth.[6] In addition, the renewed vision of the IDBG towards the private sector estimates that over one third of IDBG's NSG lending will go through FI operations. Large FI operations will also likely continue to play a key role in keeping disbursements – and thus financial results – on target on the SG side.

1.5 **However, assessing the development results of FI operations is particularly challenging.** First, IDBG's FI operations rely on (mostly private) FIs to allocate credit, thus limiting IDBG's ability to influence and assess results. Second, because funding within FIs is fungible, development results are difficult to attribute to IDBG's involvement. Third, observed expansions in A2F may also have been driven by the mitigation of other market failures, only partially related to the funding provided through FI operations.[7] Fourth, five different IDBG windows work with (potentially the same) FIs, creating coordination challenges. And fifth, FI operations involve hundreds of FIs and potentially millions of final beneficiaries from whom information is not always readily available.

1.6 **There has not yet been a comprehensive evaluation of IDBG's FI operations**. In the past OVE conducted several partial evaluations on issues related to FI operations. OVE delivered an Evaluation of IIC's Financial Intermediary Lines

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4 This evaluation excludes IDB operations in sectors, such as municipal infrastructure, that use FIs primarily as a credit allocation mechanism, but whose objectives are not to expand / sustain access to credit. The use of FIs for purposes other than expanding A2F is to be expected, as FIs are known for playing a "pivotal role in promoting the efficient allocation of resources in an economy". Adapted from Unlocking Credit, The Quest for Deep and Stable Bank Lending, IDB Research Department, 2005. Assessing the use of FIs for these other purposes is better undertaken in their respective sector contexts.

5 For example, SCF reports that it aims to serve the financial needs of over 700,000 SMEs between 2011 and 2015 (Quarterly Report on NSG Operations – Fourth quarter 2014).

6 For example, IIC estimated that FI operations accounted for about 60% of the income generated by all projects approved in 2012. IIC 2014-2016 Business Plan, 2014 Administrative and Capital Budget Proposal, and 2014 Funding Strategy (CII/GA-69). The profitability contribution is likely even higher, due to lower capital charges and processing costs for FI operations.

7 For example, if information asymmetries, lack of know-how or "crowding out" due to high interest rates on government bonds are the problems, then liquidity may not be the most effective way to expand lending for SMEs or housing.

(CII/RE-6) in 2005, which was followed by a tripling of FI operation approvals.[8] Similarly, OVE issued an Evaluation of Global Multisector Credit Lines (RE-336) in 2007, just prior to a significant increase in this type of SG lending, reaching FIs through public, second-tier FIs.[9] Finally, a 2014 review outsourced to external consultants (Dalberg) by IDB's Vice-Presidency for Private Sector covered few FIs and relied heavily on self-reported information.[10]

1.7 **This evaluation seeks to document IDBG experience and extract lessons from past IDBG FI operations, as well as generate insights on trends having the potential to improve future FI operations.** The evaluation will attempt to account for the use of IDBG resources channeled through FI operations and assess whether their goals have been effectively, efficiently and sustainably achieved. The evaluation also aims to extract lessons learned as to the role played by IDBG and external country factors in achieving these results. Finally – and given the dynamism of the financial sector – the evaluation seeks to collect preliminary evidence on emerging trends and tools that the IDBG could use in the future to further expand A2F through FI operations.

II. Context of the Evaluation

A. Financial Intermediaries in LAC

2.1 **FI operations work through FIs, which in the LAC region are now generally sound and profitable.** There are about 1200 regulated FIs in the LAC region, about 700 of which are full service commercial banks.[11] Their capital adequacy has remained in line with international standards. LAC's resilience during the 2008 global financial crisis was due partly to its better-than-average FI capital position.[12] LAC FIs' capital has been buttressed by high profitability levels. In fact, LAC FIs are amongst the most profitable in the world, as measured by return on equity (ROE). These FIs have benefited from LAC's substantial progress towards financial reform, a process also supported by other IDB instruments.

8 In fact about half of the operations in this evaluation to be performed by OVE are by the IIC, and have been approved after OVE's prior evaluation of IIC's Financial Intermediary Lines (CII/RE-6).

9 In addition, other OVE evaluations, such as CPEs and project level validations, have touched upon FI operations, but not comprehensively.

10 OVE will also draw on existing project level assessments produced by the different windows.

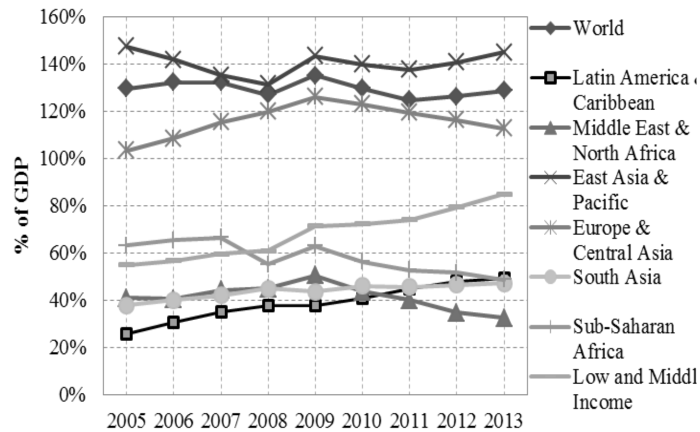
11 Source: MIF Financial Inclusion Study (2015). In addition, there are around 1500 unregulated financial entities that account for about 15% of total credit to the LAC private sector.

12 Between the 1970's and the 2000's, LAC was a region heavily affected by banking crises. During that period, almost all countries had a banking crisis and 27 countries had more than one crisis (Source: IDB 2005, Economic and Social Progress in Latin America). Since then, in general, the financial markets in LAC have faced a process of growth, sophistication and consolidation, which played a key role in the region's relatively positive performance during the 2008-2009 crisis.

Although reform is a continuous process in dynamic sectors, major financial reform is no longer the key issue in most LAC countries.[13]

2.2 **Despite this generally favorable environment, LAC FIs – as the key market participants – have not yet provided the levels of A2F observed in developed regions.** LAC's domestic credit to private sector as a percentage of GDP[14] has been increasing over the last decade (Figure 1), but is even now only on par with the Sub-Saharan Africa and South Asia regions (all at about 50%), and lags well behind East Asia & Pacific (145%) and Europe & Central Asia (113%) regions.[15] In fact, the world's average credit penetration to the private sector is almost triple that of LAC. The situation in LAC is even more dismal when looked at in terms of the distribution of credit, as LAC credit tends to be heavily con-

Figure 1: Domestic Credit to Private Sector (as % GDP)



Source: World Bank

Table 1: Smaller Firms Have Less Access to Finance
A2F in LAC by Firm Size
(Median in bold,10% and 90% deciles in parentheses)

% firms with bank loan/line of credit	**38.5** (25.2-53.2)	**59.0** (34-66.8)	**75.9** (42.7-87.4)
% firms using banks to finance investments	**21.4** (8-39.3)	**30.4** (21.4-50.6)	**43.3** (24.6-56.6)
% investments financed by banks	**12.3** (6.5-23.7)	**18.5** (12.7-35.1)	**22.4** (13.3-37)
By Firm Size	**Small**	**Medium**	**Large**

Source: Latest World Bank Group Enterprise Surveys (2009/2010) for 18 IDB client countries. Firm size by number of employees: Small (<20), Medium (20-99) and Large (>100).

13 There are noteworthy exceptions where regulatory progress is likely to be needed, related generally to emerging issues driven by technological innovation. These vary by country, but often include payment systems, integrated supervision, and compliance with anti-money laundering and consumer protection requirements, among others.

14 Domestic credit to the private sector as a percentage of GDP is a widely accepted proxy to measure A2F. Other common metrics include the number of bank accounts per 1,000 adults, the percentage of households with mortgage credit, or the percentage of firms with at least one line of credit.

15 Brazil – where credit to the private sector as a % of GDP more than doubled since 2005, going from 31.4% to 70.7% in 2013 – has played an important role in this improvement of LAC's averages.

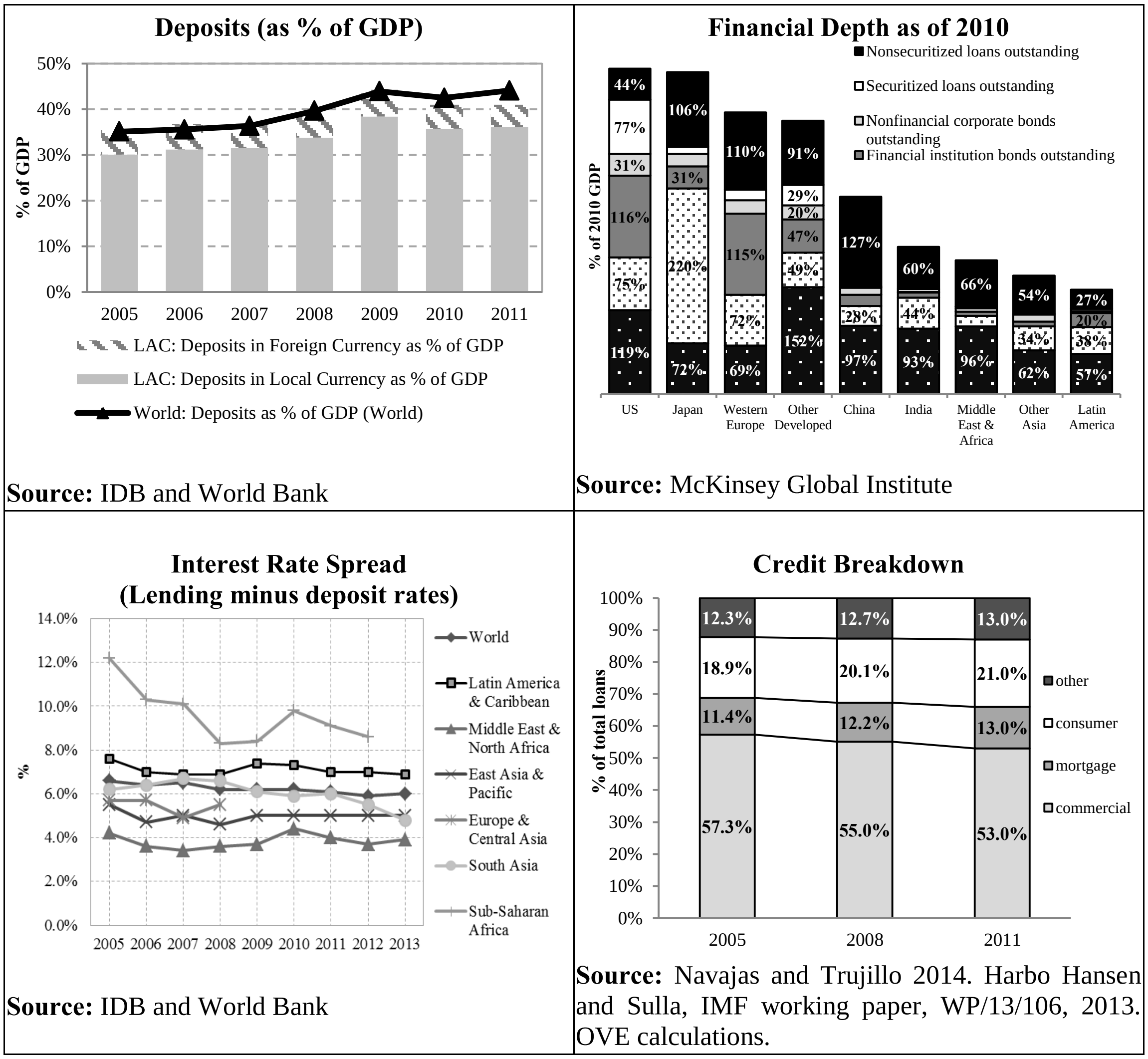
centrated in large borrowers, at the expense of MSMEs (micro, small and medium-sized enterprises) and low income borrowers.[16]

Box 1: Typical Market Failures Constraining A2F
✓ **Funding**: unavailability of funding with the appropriate tenor and currency – from deposits, credit lines or institutional investors – particularly affecting higher risk, private sector borrowers, and allowing its crowding out by the public sector;
✓ **FI Competition**: reduced product offering or high interest rates and fees due to weak competition among FIs, pricing borrowers out of the market, mainly smaller ones;
✓ **Risk Management Instruments**: unavailability of instruments for FIs to manage portfolio risk, e.g., guarantees and insurance, deterring them from even originating credit, especially longer term;
✓ **Regulatory Environment**: problematic laws and regulations, e.g., unclear creditor protection laws, or excessive capital requirements for lending;
✓ **Financial Infrastructure**: undeveloped financial infrastructure – consisting of shared financial services such as credit reporting, collateral registries or payment systems - imposing additional costs on FIs and pricing smaller borrowers out of the market; and
✓ **Beneficiaries' Creditworthiness**: characteristics inherent to the final beneficiaries - including their volatility, lack of collateral, sophistication and informality – that may also restrict their ability to access credit.

2.3 **While deposits have grown, financial depth is still low and interest rates high, constraining lending, particularly to SMEs.** LAC liquidity has grown steadily – particularly in terms of deposits which are now at par with developed markets – but it is still very low in terms of sophisticated funding sources such as institutional investors and securitization. Interest rates have remained stubbornly high – higher than in any other region except Africa – in part due to the low level of competition among LAC FIs. The share of commercial lending has decreased (compared to consumer, housing and other lending), particularly affecting SMEs. In general, products with higher transaction costs, including low income housing finance, have grown at a slower relative pace. Finally, government lending has also grown, with the region's governments relying on local FIs to finance countercyclical support, particularly in the aftermath of the 2008 financial crisis.

16 Hereinafter, the use of the term SMEs is meant to include micro-enterprises as long as they are supported via regulated FIs.

Figure 2: LAC FIs – Selected Indicators



Source: IDB and World Bank

Source: McKinsey Global Institute

Source: IDB and World Bank

Source: Navajas and Trujillo 2014. Harbo Hansen and Sulla, IMF working paper, WP/13/106, 2013. OVE calculations.

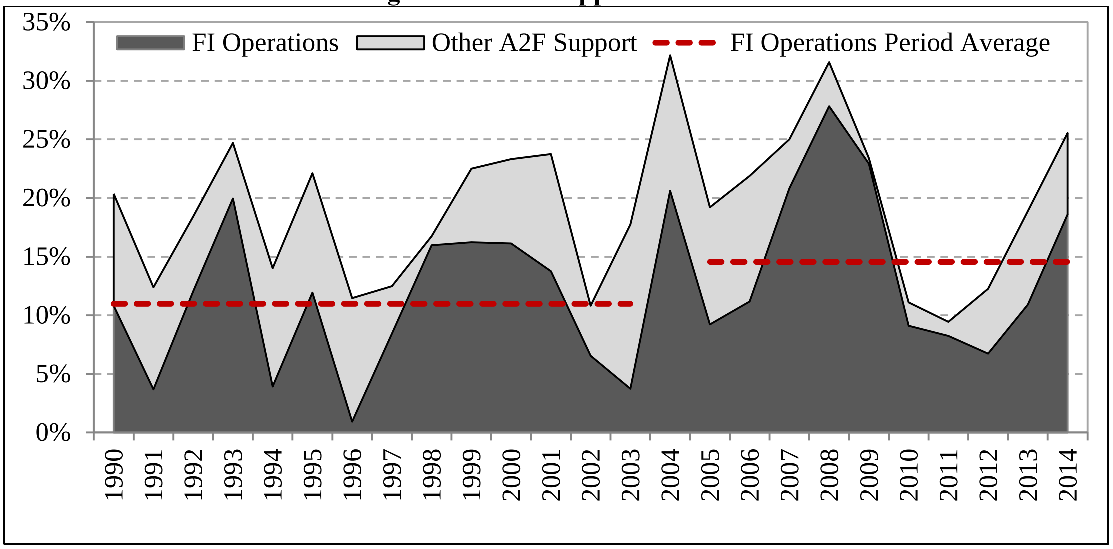
B. The Role of FI Operations in IDBG

2.4 **FI operations are not designed to address all of these constraints, but rather to play a role within IDBG's broader support, yet FI operations have always accounted for a significant share of IDBG's support.** FI operations directly address funding constraints, and to a lesser extent portfolio risk management via guarantees. IDBG also provides support via policy based loans (PBLs), grants (e.g. technical cooperation projects), and non-FI investment loans aimed at addressing other A2F constraints.[17] This evaluation will focus on FI operations, considering other IDBG support only to the extent relevant to understanding their

[17] *Non-FI investment loans* include loans not channeled through FIs, and loans that despite going through FIs, are not meant to be on-lent for enterprise or housing credit. This latter category includes loans for municipal infrastructure investment and equity-type funding lines managed by FIs, e.g., for green investments.

results. In fact, FI operations account for a significant share of IDBG's approvals, e.g., about 14% of IDBG's lending from 2005 to 2014. This share is even greater in absolute terms, as IDBG's total lending has increased, especially since 2005.

Figure 3: IDBG Support Towards A2F



*Amounts approved through IFD/CMF, SCF/FMK, OMJ, MIF and IIC, and their predecessor departments.

2.5 **FI operations are not conceived as an integrated program to address A2F constraints, but rather as a mechanism for reaching final beneficiaries.** IDBG uses FIs as a conduit to pursue development objectives for final beneficiaries. It does so by engaging FIs in the context of individual operations. Each operation sets objectives, mostly in terms of final beneficiaries. The same FI is often engaged repeatedly by different IDBG windows, but there is no clear continuity of IDBG objectives at the FI level. In addition, as of late 2014 IDB no longer has mandatory policy requirements specific to FI operations, but rather subjects them to standards applicable to all operations, such as Environmental and Social Safeguards.[18] Finally, FI operations have also been driven by other factors, as shown by IDBG joining the Nuevo León Declaration effort to triple funding through FI operations by 2007,[19] or IDBG's use of FI operations in support of the G-20 liquidity response to the 2008 financial crisis.

2.6 **FI operations play a key role in some IDBG windows such as IIC, where they have been promoted through various initiatives.** IIC's Charter specifically calls

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18 Prior IDB policies and guidelines were superseded by a Sector Framework on Support to SMEs and Financial Access (GN-2768-3), which also ceased the application of the only mandatory policy specifically applicable to the financial sector: Sub-Loan Interest Rate Sector Policy (OP-709).

19 "…support the work of the Inter-American Development Bank, so that through its mechanisms and programs for private sector development, it triples, by the year 2007, its lending through the banking system to micro, small, and medium- sized enterprises." Extracted from the Nuevo Leon Presidential Declaration (2004): http://www.summit-americas.org/specialsummit/declaration_monterrey-eng.htm

for SME support, either directly or indirectly through FIs.[20] Since 2005, FI operations accounted for almost two thirds of IIC approvals. In 2005, IIC set up a three-year, $480-million Financial Institutions Program (FIP) streamlining approval procedures for LAC's most creditworthy FIs.[21] In 2007, IIC introduced IFEM, a Program to Finance Specialized Mexican FIs.[22] In 2010, IIC set up IMIF, a similar Program for Funding Microfinance Institutions in Peru.[23] In February 2015 – and thus outside the period of this evaluation – IIC established yet another program (IFIP) targeting small FIs. IIC's FI operations involved mostly senior debt.[24]

2.7 **FI operations are also relevant to SCF, which also has specific initiatives.** The 2007 IDB's organizational realignment provided SCF with a critical mass of FI-oriented resources in the FMK division. In 2009, SCF introduced *beyondBanking*, an umbrella initiative to promote sustainable social, environmental, and corporate governance (ESG) practices among LAC FIs. More recent goals include Green Credit, and Women Entrepreneurship Banking (weB). These initiatives are not Board-approved programs, thus objectives are set at the individual operation level. A noteworthy exception is the Trade Finance Facilitation Program (TFFP), a delegated approval facility created in 2004. Overall, SCF FI operations involved lending and to a lesser degree guarantees, but no equity.

2.8 **On the SG side, IDB's FI operations are included within the country programming process.** IFD/CMF's FI operations are meant to support public policy objectives in their respective countries. They work typically through second-tier, public FIs that select mostly private first-tier FIs. Selection criteria are detailed in credit regulations set after the projects' Board approval, and ultimately determine the first-tier FIs to be funded. These FIs often coincide with those reached directly through other IDBG windows. Yet as these FIs cannot be anticipated, SG operations do not set objectives for specific FIs. These operations have also supported the creation or transformation of second-tier FIs in countries like Paraguay and El Salvador. Around the 2008 global financial crisis, IDB also initiated a bank Liquidity Program for Growth Sustainability.

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[20] Article III, Section 1.b, Agreement Establishing the Inter-American Investment Corporation, 1986.

[21] A related initiative, FINPYME Credit, sought to standardize credit analysis and documentation to access to credit for SMEs. In 2014, IIC proposed a $150 million FINPYME Credit Program applying these tools directly with small FIs.

[22] Under IFEM, 13 senior loans were provided to 10 specialized FIs in Mexico. IFEM was modified several times. In December 2009, it was extended to September 2013, and became revolving. In 2011, it incorporated the option to fund FIs in local currency. In 2012, it increased the size of allowable FIs from $15 to $35 million in net-worth.

[23] Peru's microfinance institutions had been regulated for over 15 years and were relatively larger than the entities targeted by IFEM in Mexico. So far, IMIF has approved operations with 4 FIs, meeting the initial target of S15 million.

[24] Only about 5% of IIC FI operations involved equity, subordinated debt, guarantees or technical assistance.

2.9 **Finally, FI operations are also important to OMJ and MIF.** Both windows focus on microfinance. OMJ has no designated FI program, but it has active FI engagement. More recently, OMJ has started collaborating with IIC in the BOP Direct initiative focusing on small FIs targeting the Base of the Pyramid. MIF until recently directed less than 10% of approvals to reimbursable FI operations. Yet, it also has some FI initiatives, such as *ProSavings* supporting savings products for low-income populations, and Technologies for Financial Inclusion, a partnership with IDB's IFD/CMF and CAF to introduce innovative technologies, and partnerships with SCF/FMK for women entrepreneurship and psychometric credit assessments.[25] MIF and IIC are now also exploring a Missing Middle Initiative targeting midsize FIs. OMJ and MIF FI operations involve lending, and to a lesser degree guarantees and equity (only MIF).

C. The Evaluation Portfolio

2.10 **Between January 1, 2005 and December 31, 2014, IDBG approved 466 FI operations for $17.0 billion, which accounted for about 14% of total IDBG approvals in the period.[26]** This ten-year period is long enough to observe the results of operations, particularly the sustainability of the earlier ones. It is also useful to account for the effects of key events within IDBG and in the LAC region. These events include, among others, the 2007 IDB organizational realignment, the 2008 global financial crisis, and various recent streamlining in IDBG's internal procedures. As to these latter ones, OVE will only consider the initial phases of the operations to assess the effects of recently changed procedures.

2.11 **The evaluation will cover FI Operations of all five IDBG FI-related windows.** A cross-cutting view of IDBG's processes through its different windows will likely allow lessons to be drawn. In addition, about a third of the FIs were reached by more than one IDBG window during the 2005-2014 evaluation period. This overlap is likely even greater since some FIs – to be identified during the evaluation – were also reached indirectly through IDB's SG operations with second-tier FIs. Overall, the 466 operations under evaluation comprise 42 SG operations ($9.5 billion) by IFD/CMF and 424 NSG operations ($7.5 billion) by the remaining four windows: 160 by SCF/FMK ($5 billion), 22 by OMJ ($151 million), 218 by IIC ($2.3 billion), and 24 by MIF ($71 million).

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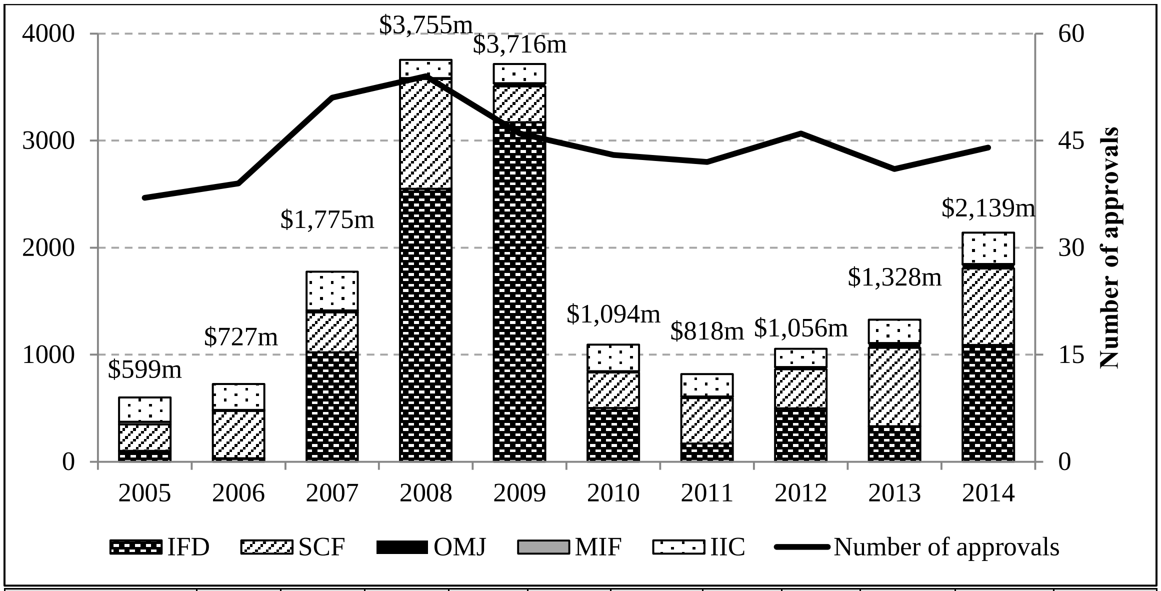
25 MIF also has a Green Finance program, which is co-financed by the Nordic Development Fund. This technical cooperation program supports microfinance institutions to develop green finance products.

26 Numbers and amounts may change somewhat following a more in-depth review during the evaluation.

Figure 4: FI-Operation Approvals by IDBG Window

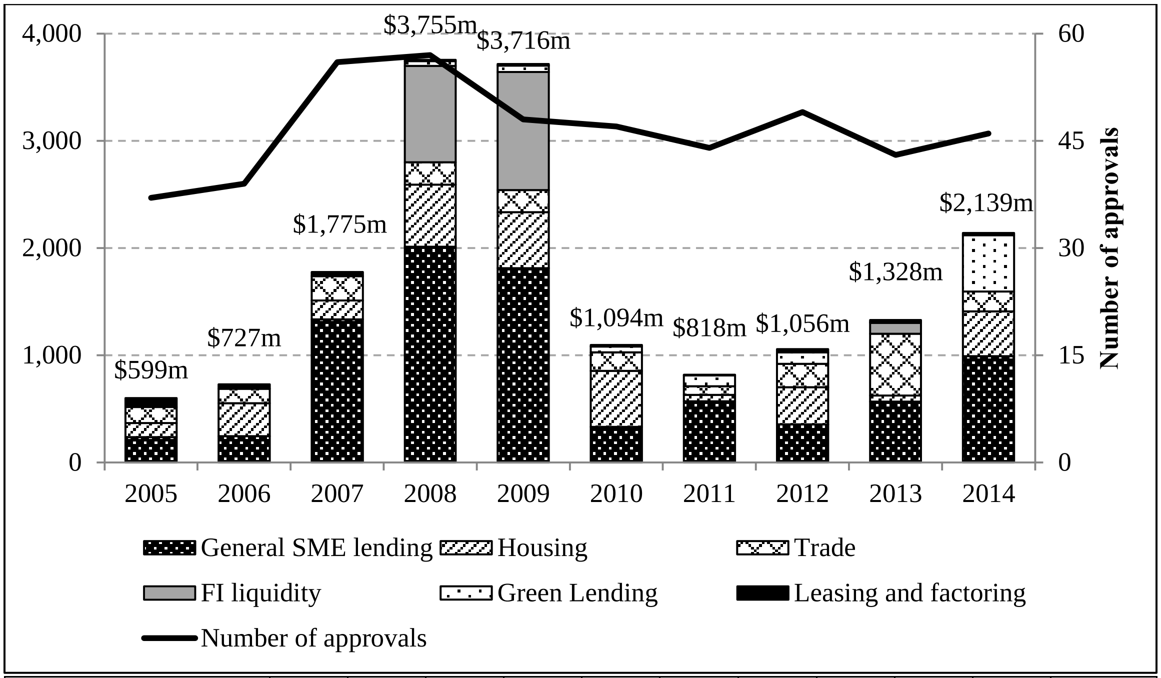


Number of Approvals	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
IIC	22	22	31	25	14	22	19	21	21	21	218
MIF	6	2	6	2	1		1	2	1	3	24
OMJ				1	3	4	2	3	4	5	22
SCF	8	14	15	23	21	20	18	18	13	10	160
IFD	1	1	4	6	9	1	4	5	4	7	42
Total	37	39	56	57	48	47	44	49	43	46	466

2.12 **OVE will also consider all variations of instruments and products.** Most FI-operation resources (84%) were in the form of (senior) loans. Hybrid-loan guarantee operations (used in trade finance credit lines) accounted for about 12.4%, pure guarantees (used mostly for Green Lending and Housing Finance) accounted for 3.3%, and equity investments (through the IIC and MIF) comprised less than 0.3%. IDBG's FI operations can also be classified into six main products: i) general SME support to A2F; ii) trade finance, mostly within the framework of a Trade Finance Facilitation Program (TFFP): iii) leasing and factoring for SMEs; iv) green lending to support the adoption of green technologies and renewable energy; v) financing facilities to provide liquidity for FIs (through the Liquidity Program for Growth Sustainability); and vi) housing finance.[27] Within the evaluation portfolio, general SME lending accounted for 50% of total approved amounts (in 251 operations); housing finance for 18% (50 operations); trade finance for 13% (in 101 operations); FI liquidity for 12% (6 operations); green lending for 5% (15 operations); and leasing & factoring 2% (43 operations).

27 IDBG also supported a handful of projects in consumer finance, e.g., payroll credit and student lending, that were excluded because of their different purpose and low level of IDBG approvals to date. Similarly, the evaluation excludes projects supporting other financial services such as insurance, as well as those promoting lending services provided through unregulated FIs, e.g., relying on NGOs.

Figure 5: FI-Operation Approvals by Product

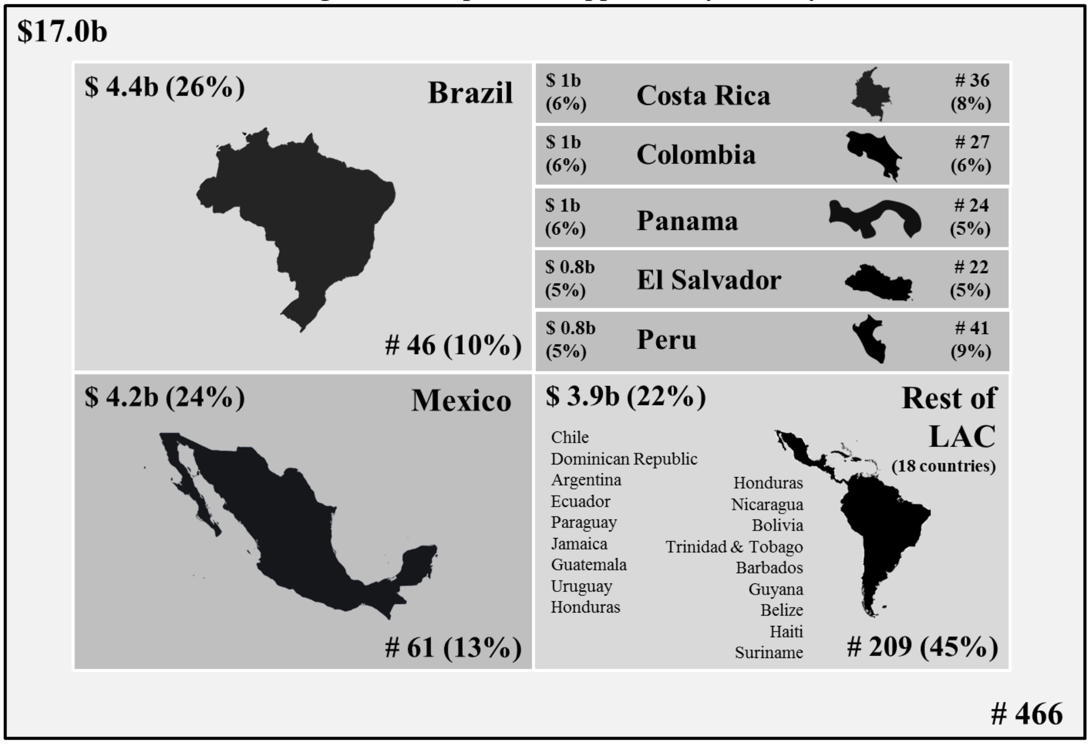


Number of Approvals	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Total
Leasing & Factoring	10	5	3	3	4	3	1	5	5	4	43
Green Lending				1	2	3	3	2	1	3	15
FI Liquidity				2	3				1		6
Trade Finance	7	10	12	13	15	13	6	12	9	4	101
Housing	5	4	7	5	3	6	3	7	3	7	50
General SME Lending	15	20	34	33	21	22	31	23	24	28	251
Total	37	39	56	57	48	47	44	49	43	46	466

2.13 **OVE will cover all country groups, and attempt to assess why some countries had few FI-operations.** The group of more advanced "A" countries received 52% of approved amounts, while the B, C and D country groups averaged about 16% each.[28] By contrast, the "D" country group accounted for 34% of the number of FI operations, followed by the "A" (28%), "B" (19%), and "C" (17%) country groups. Regional operations represented only 2% of the number of approvals, and 1% of approved amounts. In terms of individual countries, Mexico and Brazil accounted for over 50% of approved amounts. Nevertheless, OVE will also focus on countries with fewer FI operations, as well as on understating country conditions that may have led to low use of the FI mechanism.

28 As per IDB's classification, "A" countries are: Argentina, Brazil, Mexico, Venezuela; middle developing "B" countries: Chile, Colombia, Peru; "C" countries with insufficient markets: The Bahamas, Barbados, Costa Rica, Jamaica, Panama, Suriname, Trinidad and Tobago, Uruguay; least developed "D" countries: Belize, Bolivia, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Nicaragua and Paraguay.

Figure 6: FI-Operation Approvals by Country



2.14 **The operations under evaluation involve at least 262 FIs – banking FIs, non-bank FIs and second-tier FIs – that were counterparts for the IDBG FI operations – In fact, 96 of these FIs had more than one operation with IDBG during the evaluation period.**[29] About 89% of the operations were channeled through first-tier FIs (63% by 159 banking FIs and 26% by 77 Non-Banking FIs (NBFIs)), while the remainder was channeled through 26 second-tier FIs (2TFI). These 262 FIs averaged 1.8 operations with the IDBG during the evaluation period. Out of the 96 FIs that had more than one operation during the period, about half (or 57 FIs) engaged with IDBG in connection with more than one product (General SME Lending, Housing Finance, Trade Finance, Green Lending, FI Liquidity or Leasing & Factoring).

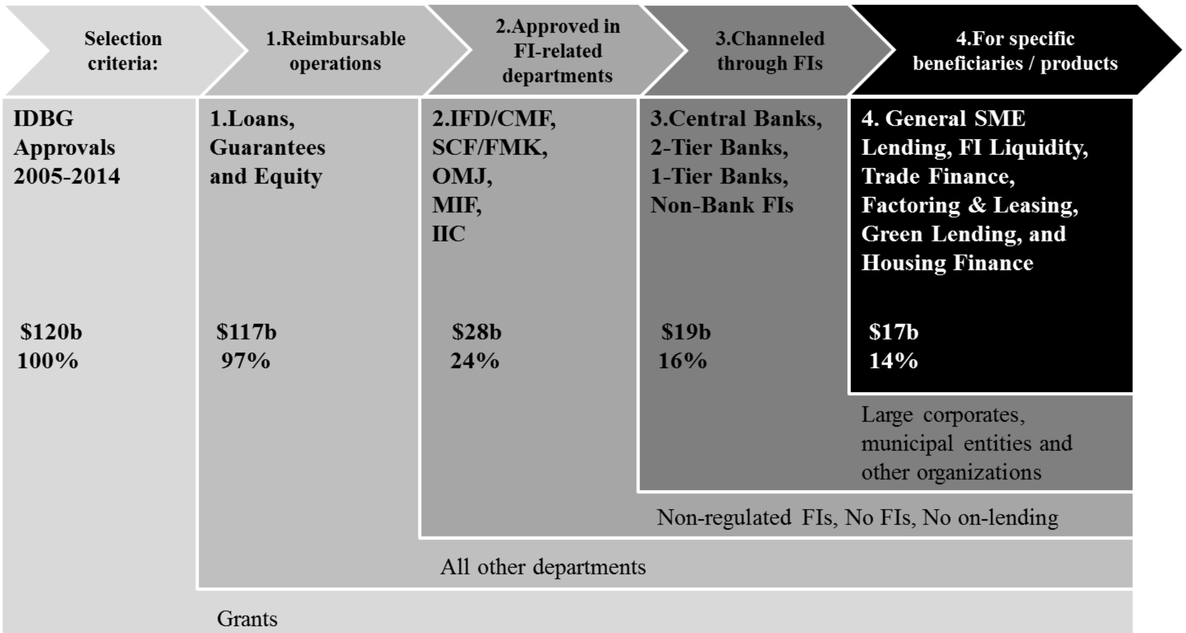
2.15 **In sum, the evaluation will focus on reimbursable operations handled by IDBG's FI-related departments, channeled through regulated FIs, to support lending for relevant beneficiaries/products – together approvals of $17 billion or about 14% of IDBG's total approvals.** First, grants will be excluded, except for those associated with FI operations covered by the evaluation. Second, the evaluation will focus on FI-related windows, since this covers the vast majority of FI-related operations. Third, it will cover only operations that support lending by regulated FIs.[30] And finally, the evaluation will focus on the most relevant products and/or beneficiary groups, namely general SME lending, FI-liquidity,

29 This excludes FIs reached through second-tier FIs, which will be identified during the evaluation.

30 However, instruments covered include not only IDBG lending, but also guarantees and equity.

trade finance, leasing and factoring, green lending and housing finance, because of their potentially larger effect on economic activity (see Figure 7 for a summary of these criteria).

Figure 7: Selection Criteria for Evaluation Portfolio (2005-2014)



III. Evaluation Questions

3.1 **The overarching evaluation question is whether IDBG FI operations have contributed to sustainably increase (or maintain) A2F for relevant beneficiaries.** As explained before, IDBG FI operations are a mechanism used to achieve goals for final beneficiaries. Since these goals are not always explicit and consistent across windows, answering this overarching question will first require OVE to *identify the goals of FI operations*, both in terms of objectives and requirements. Second, it will require the gathering of the available evidence as to *whether these goals have been effectively, efficiently and sustainably achieved*. Third, it will require *connecting these results to IDBG's FI operations* by looking for direct and indirect effects, such as demonstration / replication effects. Fourth, it will imply identifying *contextual country factors* that may have influenced these achievements. And fifth, it will benefit from *distilling lessons* arising by comparing the approaches to FI operations within IDBG and at other similar institutions. OVE will not address all these questions at the same level of detail, nor seek to prove causality via an

Overarching Question	
Have IDBG FI operations contributed to sustainably increasing A2F for relevant beneficiaries?	
Key Evaluation Questions	
Goals	What were IDBG FI operations' goals?
Achievement	Were they sustainably achieved?
Attribution	Can results be attributed to IDBG?
Factors	Did external factors influence them?
Lessons	What can be learned for the future?

experimental approach. OVE rather seeks to focus on the practical aspects and observed results of the FI mechanism.[31]

3.2 **The first evaluation question revolves around the *goals* of FI operations.** The implicit and explicit goals applicable to FI operations will need to be identified in order to guide the evaluation efforts. Goals include both objectives at the strategic and program level, at the client FI and final beneficiary levels, as well as any applicable requirements, such as ESG standards. Goals will also be assessed in terms of their relevance vis-à-vis the most pressing A2F constraints in each market, and in terms of the alignment between operational and higher-level A2F goals.

Goals: What were IDBG FI operations' goals?
Applicable Goals: What were the goals – comprising both objectives and requirements – of FI operations?
IDBG Differences: What were the differences in goals for FI operations by the various IDBG windows?
Final Beneficiaries: How were final beneficiaries defined by IDBG, the FIs and country sources?
Relevance of Goals: How relevant were FI operations' goals to addressing A2F constraints in each market?
Relevance of Design: Were project level objectives coherently linked to these higher-level A2F goals?

3.3 **The second evaluation question seeks to verify the *achievement* of these goals.** OVE will assess the achievement of goals set for client FIs and the final beneficiaries reached through them. Emphasis will be placed first on the parties closer to IDBG (client FIs); and particularly on verifying whether client FIs had achieved the expected lending portfolios of relevant beneficiaries (e.g., SMEs), and whether FI operations' proceeds have cost-effectively reached the expected final beneficiaries. In addition, the evaluation will seek to assess – subject to data availability – whether goals set for these final beneficiaries have been met (e.g., job creation, increased productivity); and whether these are likely to be sustained over time, both from the perspective of the FIs and the final beneficiaries themselves. Finally, the evaluation will assess compliance with the requirements applicable to FI operations (e.g., ESG standards).

Achievement: Were they sustainably achieved?
Client FI Goals: Did client FIs (including those reached indirectly) evolve as expected by the FI operations?
FI Portfolio Objectives: In particular, did client FIs increase A2F for the relevant type of beneficiaries?
Actual Beneficiaries: Did FI operations cost-effectively reach the expected type and number of beneficiaries?
Beneficiary Objectives: Did actual beneficiaries evolve as expected by the FI operations?
Sustainability: Is this A2F likely to be sustainable for both the client FIs and the actual beneficiaries?
IDBG Requirements: Did FI operations comply with IDBG requirements, and how were waivers managed?

31 OVE is pursuing complementary efforts to assess the effects of A2F on final beneficiaries, such as SMEs in Brazil, where detailed data allow further analysis.

3.4 **The third evaluation question explores the extent to which these achievements can plausibly be attributed to IDBG.**[32] First, the evaluation will explore whether the way IDBG selected client FIs, structured and executed its FI operations could have plausibly had an effect on the results observed. Likely relevant issues are the relative positioning of client FIs in their respective markets, whether IDBG brought to them terms and conditions not otherwise available in these markets, and the alignment of incentives built into the structuring of FI operations. Second, the evaluation will also seek to capture any indirect effects of FI operations, such as those achieved via demonstration or replication. Finally, the evaluation will leverage existing evidence to preliminarily explore the extent to which favorable effects on final beneficiaries (e.g. SMEs) can plausibly be linked to their greater A2F. However, the evaluation focus will be on the IDBG-FI interaction arising out of FI operations, rather than on the assessment of the effects of A2F on final beneficiaries further downstream.

Attribution: Can results be attributed to IDBG?
FI Selection: Did IDBG select client FIs that out-performed non-clients, particularly in expanding A2F?
Structuring: Did IDBG structure FI operations in a manner that promoted sustainable A2F?
Commitment: Did IDBG promote A2F even through operations that ended up not committing resources?
Engagement: Did IDBG engage client FIs to influence how they operate and sustainably increase A2F?
Demonstration: Have IDBG FI projects been replicated, and if so, has IDBG promoted this replication?
Effects of A2F: According to available evidence, can A2F be linked to better final beneficiaries' outcomes?

3.5 **The fourth evaluation question explores the extent to which external *factors* may have also influenced these achievements.** Country-specific factors – such as business environment (e.g., level of formality), financial regulation (e.g., reserve requirement for SME portfolios), market liquidity, financial infrastructure (e.g., existence and scope of credit or collateral registries) and the intensity of competition among FIs – are likely drivers of the level of A2F in the respective countries where FI operations are embedded. Thus, the evaluation will seek to connect these drivers to the results achieved by IDBG FI operations, in order to understand what worked best and what didn't work for IDBG FI operations in each context.

Factors: Did external factors influence results?
Business Environment: What country conditions were associated with increased (or reduced) A2F?
Financial Regulation: What regulatory factors were associated with increased (or reduced) A2F?
Market Liquidity: To what extent was access to liquidity a factor in increasing (or reducing) A2F?
Financial Infrastructure: Was market financial infrastructure a constraint to A2F?
FI Competition: What FI market competition conditions were associated with improved A2F?

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32 Even though the key evaluation question is about "attribution", OVE is aware that the evidence may point rather to "contribution", as IDBG FI operations are often too small in the context of the respective markets.

3.6 **Finally, the fifth evaluation question seeks to extract *lessons* for future FI operations, by drawing from IDBG's own experience, and that of relevant external parties.** The evaluation will attempt to derive lessons by comparing the effectiveness of the approaches towards FI operations of the different IDBG windows, including their use of complementary technical assistance. This comparison will also include a consideration of the evolution of these approaches over time within the same window. Provided that management agrees to identify "best practice" cases where IDBG significantly helped to improve ESG performance, OVE will also review these projects with a view to identifying additional lessons. In addition, IDBG FI operations will be contrasted with those at other Development Finance Institutions (DFIs) such as IFC, CAF, and other relevant entities to be selected during the evaluation. Finally, the evaluation will also seek to gather early evidence on trends affecting future IDBG FI operations. This includes collecting examples of potential external partners bringing relevant tools (including those relying on technological innovation); as well as assessing the probable importance of FI operations within IDBG's future portfolio. As explained before, the emphasis of this evaluation will be on IDBG FI operations, but in the context of that review OVE will attempt to cast a wider net and report back on relevant external trends that may affect IDBG's future FI operations.

Lessons: What can be learned for the future?
IDBG Lessons: What can be learned from IDBG windows' different approaches to FI operations?
IDBG Coordination: How can IDBG enhance coordination, including between the public and private sector?
Other Institutions: What can be learned from other institutions using FI operations to improve A2F?
External Partnerships: What can be learned about engaging – FI and non-FI – external partners for A2F?
IDGB Business: Role of FI-operations (both SG and NSG) on IDBG's financial results and objectives?

IV. EVALUATION METHODOLOGY

4.1 **OVE will use a mix of complementary methods (Table 2) to collect and analyze the information required to answer the evaluation questions.** The core evaluation method consists of comprehensive project reviews to be applied on a sample representative of the portfolio of FI operations under evaluation. This will be complemented by lower-cost methods, such as literature reviews and analysis of IDBG document and systems. OVE will also use surveys to expand coverage to all FIs beyond the ones involved in the project sample. In addition, OVE will conduct internal and external interviews to identify objectives, contextual issues and best practices. Some of them will be conducted with clients, financial supervisors and industry experts in the region. Selected country and client profiles will be developed in more detail, potentially also using focus groups. OVE will also

rely on inputs from a complementary evaluation on green lending.[33] Finally, OVE will incorporate insights derived from benchmarking other institutions with similar FI operations.

Table 2: Key Evaluation Questions and Main Methods Used

Evaluation Questions	Methods and Tools			
	Core Methods			Complementary Methods
	Document & System Review	Project Review	Interviews	
1. Goals: What were IDBG FI operations' goals?	✓	✓	✓	Country A2F Profiles FI Profiles Literature Review Focus Groups & Surveys Product Profiles Other DFI Benchmarks
2. Achievement: Were they sustainably achieved?	✓	✓	✓	
3. Attribution: Can results be attributed to IDBG?	✓	✓	✓	
4. Factors: Did external factors influence them?			✓	
5. Lessons: What can be learned for the future?			✓	

4.2 **Project review: A standardized project template will be used to assess a sample of projects representative of the portfolio under evaluation.** OVE will design a template compatible with IDBG's current project evaluation methodology covering the evaluation questions. This will be applied to a sample of projects representative of products, IDBG windows, country groups and regions. OVE will also add (i) the largest operations by volume, (ii) operations involving FIs served by multiple IDBG windows; and (iii) all impaired/written-off operations.[34] Information for the templates will be drawn from sources including project documents, IDBG and external databases, IDBG staff and client interviews. Information will be collected remotely according to a data collection protocol, and complemented by country missions in about one-half of cases. OVE plans to visit 6 to 8 countries that account for a significant share of the portfolio, while also encompassing income and geographic diversity in the region.

33 The Green Lending Evaluation relies on in-depth project analyses to highlight market failures constraining green lending. Its findings will complement this evaluation's broader analysis of FI-operations (including both SG and NSG) as a key mechanism to support green lending.

34 Overall, OVE estimates that the sample will account for over 70% of the IDBG resources under evaluation. Some strata will need to be oversampled in order to achieve representativeness, e.g., SG operations.

Box 2: Project Sample – Rationale and Criteria
Out of the 466-project FI portfolio, the comprehensive project review will be performed on a random sample of approximately 125 operations, which will be representative – at a 90% confidence interval, with a +/- 20% error margin – of all FI products, IDBG windows, country groups and regions, and FIs operating with multiple IDBG windows. Each one of these criteria will be considered sequentially, so that the representative sample selected at each stage (e.g., by FI product strata) will be enlarged as needed to also have representativeness by the criteria at the subsequent stage (e.g., by window). Finally, this random representative sample will be expanded to also include (i) all FI operations above a certain approval level ($100 million); (ii) FIs that had operations with multiple IDBG windows; and (iii) all impaired or written-off operations. The sampling criteria are detailed in an annex, together with the country distribution of the expected sample (whose ranges are anticipated using a Monte Carlo simulation).

4.3 **Product profiles and OVE analysis: The results of the project review will also be aggregated into product profiles and OVE analysis addressing specific evaluation questions.** Product profiles (e.g. SMEs, housing, trade finance) will document relevant product trends and product specific findings. OVE analysis will also draw from the project review to highlight cross-cutting evaluation questions, such as the difference in approaches by IDBG windows to environmental and social safeguards (ESG); or the effects obtained by engaging the same client FIs through multiple IDBG windows.

4.4 **IDBG document and system review: OVE will review IDBG documents and systems to identify FI operations' objectives, achievements, processes and lessons.** OVE will review the relevant strategic documents, policies, frameworks, programs, guidelines, project approval and supervision data. Among other purposes, this information will be used to assess the alignment of individual FI operations with the higher-level documented objectives of IDBG windows and programs. Data from IDBG systems will expand coverage of the project review for certain readily-obtainable variables to the entire FI portfolio, instead of just the project sample. Similarly, data from the document review will be used to contrast compliance with covenants and requirements by IDBG windows.

4.5 **Interviews: OVE will use interviews to identify and confirm relevant issues.** OVE will conduct structured interviews with operational team leaders to gauge the relative importance of objectives, perceived achievements and challenges. OVE will also interview client FIs from the sample of projects to gain qualitative insights on the growth and sustainability of their SME and other relevant portfolios, the effect of IDBG in the way the FIs do business, and the general experience of working with IDBG. In addition, OVE will interview financial supervisors and industry experts in the visited countries to illustrate constraints to A2F.

4.6 **Focus groups and surveys: OVE will use focus groups and surveys to incorporate the views of the financial sector and relevant beneficiaries.** As needed, OVE will convene focus groups with local FIs, country supervisors, industry experts and representatives of relevant beneficiaries to identify factors affecting FI operations' results. In organizing these discussions, OVE will leverage local sup-

port (e.g., banking associations), as well as existing relationships with the Latin American Banking Federation (FELABAN), the Association of Supervisors of Banks of the Americas (ASBA) and the Latin American Association of Development Banks (ALIDE).[35] OVE will also survey FIs to expand coverage of a few critical questions to all FIs, beyond the ones in the project sample.

4.7 **Literature review: A focused literature review will take advantage of existing findings regarding constraints to A2F and its effects on final beneficiaries.** OVE will use a literature review to draw from the existing body of research on the conditions affecting A2F, best practices to increase A2F, the international definitions of relevant beneficiaries such as SMEs, and evidence on the effects of increased A2F on relevant beneficiaries. The review will focus on LAC – at both a regional and country level, and incorporate comparisons with other regions. OVE will draw from relevant research at IDBG and other DFIs, as well as academia, think-tanks, and private sector sources.

4.8 **Country A2F profiles: OVE will profile A2F in all LAC countries relying on existing metrics, and illustrate typical A2F issues in selected countries.** OVE will use existing A2F metrics (e.g., Enterprise Surveys, IMF, World Bank, MIF) to compare A2F in each LAC country against the objectives of IDBG's FI operations. This will be complemented by country cases illustrating A2F's main drivers and constraints. Among other factors, country cases will be selected to reflect: (i) different market/macro conditions, (ii) availability of relevant A2F information, and (iii) high number of IDBG FI operations to facilitate in-person project data collection. For these few countries, OVE will conduct in-country interviews and focus groups with clients, local authorities, experts, and beneficiaries.

4.9 **FI profiles: OVE will profile client FIs using financial sector databases, and also illustrate progress in A2F through selected FI cases.** OVE will use financial sector databases, (e.g., country supervisory data, commercially available banking data, etc.) to characterize client FIs vis-a-vis the rest of the FI market. This will be complemented by FI cases analyzing the growth and sustainability of relevant portfolios. For these illustrative cases, OVE will try to obtain access to detailed portfolio data in order to deepen the understanding of the effects of IDBG's operation on the client FI and the relevant final beneficiaries.

4.10 **Other DFI benchmarks: OVE will benchmark critical aspects of other DFIs with similar FI operations to gain insights on their terms and best practices.** With the help of interviews and document reviews, OVE will identify a set of comparator DFIs that fund similar FI operations. CAF, IFC, FMO and OPIC are likely comparators from where OVE plans on comparing practices in terms struc-

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[35] Felaban is a nonprofit institution with member associations in 19 countries across the region, representing more than 500 banks and financial institutions. ALIDE represents 80 development-focused financial institutions in 22 countries in Latin America and the Caribbean. ASBA represents the banking supervisors of the Americas, including in connection with the adoption of Basel prudential principles.

turing, supervision, internal coordination and external partnerships. This information will be complemented with input from IDBG client FIs that have experience working with multiple DFIs. Through interviews and surveys, OVE will try to identify differences in the DFIs' approaches to clients FIs. Lastly, OVE may conduct a focus group with FIs dealing with different DFIs to compare their perceptions.

4.11 **Interaction with management and dissemination: For this evaluation, OVE will test a more interactive collaboration and dissemination with management.** Unlike other evaluations, this Approach Paper has benefited from inputs by the five IDBG windows with FI operations during an Early Feedback Session held on March 16, 2015. Management has also provided access to systems, as well as designated counterparts meant to enhance coordination during the evaluation. OVE plans on holding discussion sessions to share early evaluation findings, and ensure proper notice about OVE's client visits. Finally, given that recommendations are likely to require buy-in not only within the IDBG, but also with key partners such as the FIs and financial sector participants, OVE will attempt to disseminate final findings within these wider audiences.

V. TIMELINE AND RESOURCES

5.1 **Given the broad scope of IDBG's engagement with FIs, the evaluation will involve a large number of OVE staff, as well as external consultants on selected topics.** The evaluation core team includes Roland Michelitsch and Alejandro Soriano (team leaders), Jose Claudio Pires, Juan Manuel Puerta, Roni Szwedzki, Danya Churanek, Mauricio Torres, Eva Bolza-Schunemann, Juan Murcia, Felipe Vargas, Maria Cabrera and Ana Ramirez-Goldin.[36] As needed, the team will also be supported by external consultants, as well as industry experts in advisory capacities. The expected timetable is shown in Table 3.

Table 3: Expected Timetable

Approach Paper to Board	May, 2015
Evaluation Tool Design	April-May, 2015
Project Review (including country missions)	May-August, 2015
Draft to Management	November, 2015
Final Report to Board	December, 2015
Board Discussion	January-February, 2016
Dissemination Activities	February-May, 2016

36 A parallel green lending evaluation will be conducted by Juan Manuel Puerta, Carlos Morales Torrado and David Suarez, who will also support this evaluation as needed.

ANNEX I - EVALUATION PORTFOLIO AND SAMPLING APPROACH

Evaluation Portfolio

Annex Table 1. Distribution of FI Products by Country (approved amount in millions)

Region	Country	General SME lending	Housing Finance	Trade Finance	FI Liquidity	Green Lending	Leasing &Factoring	Total
A	Brazil	3,485	190	527	0	175	0	**4,377**
A	Mexico	1,414	2,148	162	0	400	40	**4,164**
B	Colombia	702	10	160	0	40	70	**983**
C	Costa Rica	306	51	98	500	15	34	**1,003**
C	Panama	153	181	101	500	20	0	**955**
D	El Salvador	251	9	61	500	0	12	**833**
B	Peru	335	350	55	0	45	12	**796**
B	Chile	104	80	260	0	50	68	**562**
D	Dominican Republic	44	0	65	300	0	0	**409**
A	Argentina	189	0	156	0	30	0	**375**
D	Ecuador	247	20	87	0	0	0	**354**
D	Paraguay	317	3	37	0	0	0	**357**
C	Jamaica	406	0	12	300	0	0	**718**
D	Guatemala	122	30	93	0	0	0	**245**
	Regional	9	43	45	0	100	35	**232**
C	Uruguay	151	0	28	0	0	0	**179**
D	Honduras	41	0	45	0	30	0	**116**
C	Bahamas	0	0	100	0	0	0	**100**
D	Nicaragua	69	10	21	0	0	4	**104**
D	Bolivia	20	0	38	0	0	0	**58**
C	Trinidad & Tobago	40	0	0	0	0	0	**40**
C	Barbados	35	0	0	0	0	0	**35**
C	Suriname	0	1	4	0	0	0	**5**
D	Guyana	2	0	0	0	0	0	**2**
D	Belize	1	0	1	0	0	0	**2**
D	Haiti	1	0	0	0	0	0	**1**
	Total	**8,445**	**3,126**	**2,155**	**2,100**	**905**	**275**	**17,006**

Annex Table 2. Distribution of FI Products by Country (Number of operations approved)

Region	Country	General SME lending	Housing Finance	Trade Finance	FI Liquidity	Green Lending	Leasing &Factoring	Total
A	Mexico	34	14	4	0	3	6	61
A	Brazil	31	3	10	0	2	0	46
B	Peru	26	8	3	0	1	3	41
C	Costa Rica	15	4	7	1	1	8	36
D	Paraguay	25	1	8	0	0	0	34
D	Ecuador	19	2	6	0	0	0	27
B	Colombia	13	3	4	0	2	5	27
C	Panama	9	5	8	1	1	0	24
A	Argentina	11	0	11	0	1	0	23
B	Chile	6	1	3	0	1	10	21
D	El Salvador	12	2	3	2	0	3	22
D	Nicaragua	10	1	3	0	0	5	19
D	Honduras	8	0	7	0	2	0	17
D	Guatemala	7	2	5	0	0	0	14
D	Bolivia	3	0	7	0	0	0	10
D	Dominican Republic	6	0	4	1	0	0	11
C	Uruguay	7	0	2	0	0	0	9
C	Jamaica	2	0	2	1	0	0	5
C	Suriname	0	1	1	0	0	0	2
D	Belize	1	0	1	0	0	0	2
C	Bahamas	0	0	1	0	0	0	1
C	Barbados	1	0	0	0	0	0	1
C	Trinidad & Tobago	1	0	0	0	0	0	1
D	Guyana	1	0	0	0	0	0	1
D	Haiti	1	0	0	0	0	0	1
	Regional	2	3	1	0	1	3	10
	Total	**251**	**50**	**101**	**6**	**15**	**43**	**466**

Sampling Approach

A comprehensive project review will be performed on a sample of approximately 125 operations, which will be representative of all FI sub-products, IDBG windows, country groups and regions, and projects with FIs operating with multiple IDBG windows. Representativeness of each one of these strata will set at a minimum of a 90% confidence interval, with a +/- 20% error margin.

Each one of these criteria will be considered sequentially, so that the representative sample selected according to the prior criteria (e.g., FI sub-products) will be enlarged as needed to also achieve representativeness for the current criteria (e.g., IDBG window). In addition to the random representative sample, a purposive sample will also be drawn to select (i) all FI operations above a certain approval level ($100 million); (ii) a sample of FIs that had operations with multiple IDBG windows; and (iii) all impaired or written-off operations. The sampling criteria are detailed below:

<u>Random sample</u>:

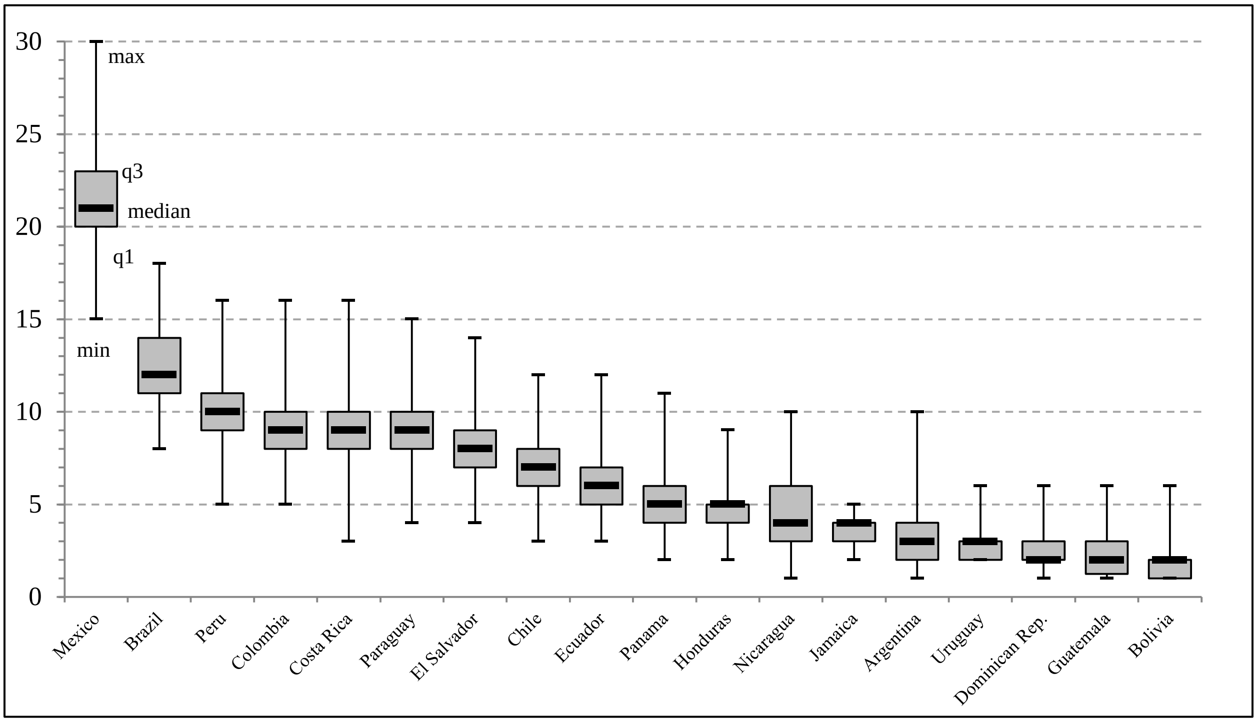
1. **FI Sub-Product**: Random selection to have a representative sample of seven sub-products: i) General SME Lending, ii) Housing Finance General, iii) Housing Finance Securitization, iv) Trade Finance, v) FI Liquidity, vi) Green Lending, and vii) Leasing & Factoring.
2. **IDBG Window**: Random selection to add the minimum number of projects to be representative of the five windows: i) IFD, ii) SCF, iii) OMJ, iv) MIF, and v) IIC.
3. **IDBG Country Group**: Random selection to add the minimum number of projects to be representative of the four country groups: i) A, ii) B, iii) C, and iv) D.
4. **IDBG Region**: Random selection to add the minimum number of projects to be representative of the IDBG regions: i) Southern Cone, ii) Andean Group, iii) Caribbean, iv) Central America, and v) Haiti.
5. **Multi-Window**: Random selection to add the minimum number of projects to be representative of the operations whose executing agency (FI) worked with 1, 2, 3 and 4 or more windows.

<u>Purposive sample</u>:

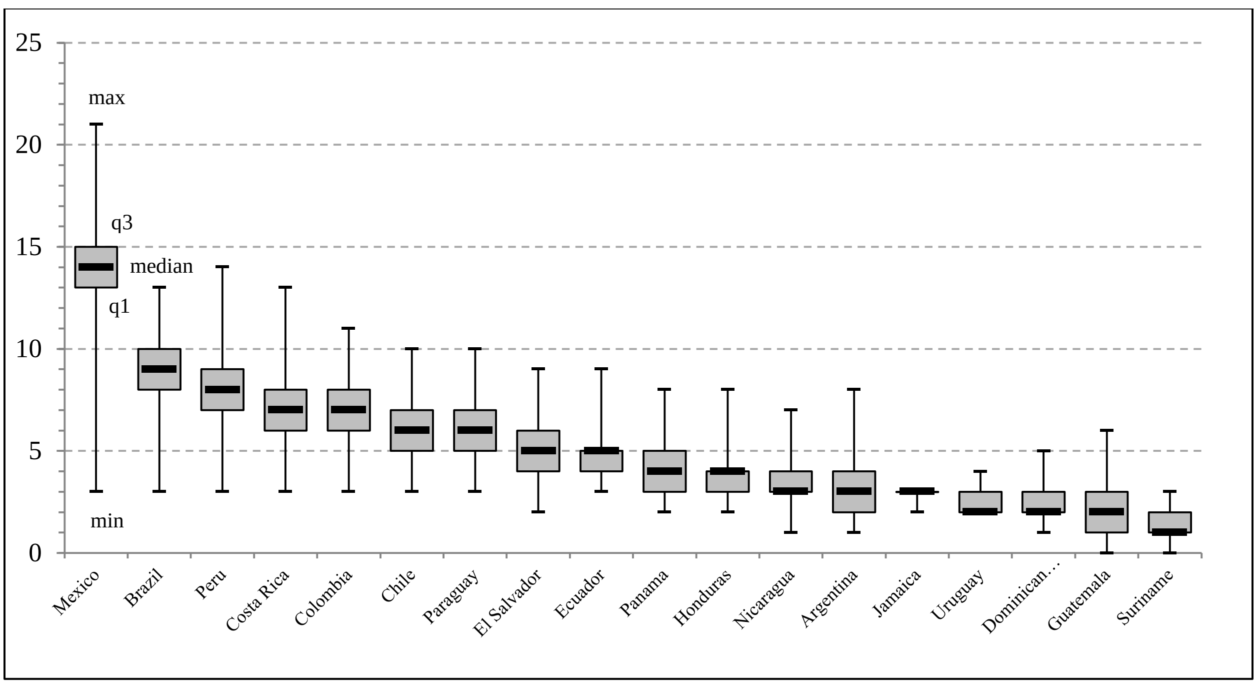
6. **Large Approval Amount**: Forced inclusion of operations which original approved amount was greater than $100m.
7. **A small set of FIs with operations with multiple IDBG windows**, with the specific purpose of exploring different approaches and collaboration issues.
8. **Impaired / Written-off**: Forced inclusion of written-off operations.

OVE will draw the statistically representative sample at the beginning of the evaluation, but for the purposes of anticipating the average results of the sampling process and the countries with most projects – conducive to select those for field assessments of the projects – OVE conducted a Monte Carlo simulation of the evaluation portfolio sampling with 1000 draws. Results are presented in the charts below, giving expected ranges of projects to be sampled by country.

Annex Figure 1:
Number of Projects Randomly Included in the Evaluation Sample (18 out of 25 countries)



Annex Figure 2:
Number of FIs Randomly Included in the Evaluation Sample (18 out of 25 countries)



Overall, the top 5 countries are expected to account for 62% of the total projects in the sample, while the top 10 countries account for 74% of all the projects in the sample. For logistical purposes, OVE will select the combination of evaluation tools – either missions or remote data collection – taking into consideration

the number of projects, as well as the availability of information, and the suitability of the country to illustrate important issues related to A2F.

Annex Table 3: Comparison of Evaluation Portfolio and Illustrative Random Sample

Indicator	FI Evaluation Portfolio	Average Sample	Average Sample (% of Portfolio)
Original approved amount ($ millions)	17,005.6	5,976.8	35.1
Number of operations	466	116	25.0
Number of FIs	262	93	35.4
Number of countries	25	22	88.0
Approval years covered	10	10	100.0

Average Amount per Operation ($ millions)	FI Evaluation Portfolio	Average Sample	Average Sample (% of Portfolio)
Number of Sub-Products	**7**	**7**	**100**
- General SME Lending	33.6	33.3	
- Housing Finance General	61.9	61.1	
- Housing Finance Securitization	65.6	65.6	
- Trade Finance	21.3	21.1	
- FI Liquidity	350.0	350.0	
- Green Lending	60.3	60.3	
- Leasing & Factoring	6.4	6.4	
Number of Windows	**5**	**5**	**100**
- IFD	225.3	248.8	
- SCF	31.2	42.8	
- OMJ	6.9	6.8	
- MIF	3.0	2.9	
- IIC	10.7	9.0	
Number of Country groups	**4**	**4**	**100**
- A	68.6	78.9	
- B	26.3	26.4	
- C	32.9	68.8	
- D	18.0	36.2	
Number of Country regions	**5**	**5**	**100**
- Andean Group	20.9	20.6	
- Caribbean	81.8	93.7	
- Haiti	1.1	1.1	
- Central America	37.1	67.1	
- Southern Cone	44.2	38.7	

* Purposive sample of all operations greater than $100m will increase the coverage to 73%.