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SME FINANCIAL INCLUSION INDICATORS BASE SET (SME FINANCE BASE SET)

SME FINANCE WORKING GROUP (SMEFWG)

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SME FINANCIAL INCLUSION INDICATORS BASE SET

This guideline note on the SME Financial Inclusion Indicators Base Set (SME Finance Base Set) was developed by AFI's SME Finance Working Group (SMEFWG) in consultation with the Financial Inclusion Data Working Group (FIDWG). The Base Set is intended to serve as a tool for measuring the access, usage and quality of financial services for small and medium enterprises (SMEs) in different countries.

The SME Finance Base Set is a limited set of indicators, but should still provide a reasonably comprehensive view of the state of financial inclusion for SMEs in a given country. The Base Set is intended to be used in conjunction with at least the AFI Core Set of Financial Inclusion Indicators to provide an overall assessment of the state of financial inclusion in a country.

ABOUT SMEFWG

The Small and Medium Enterprise Finance Working Group (SMEFWG) was formally launched at the September 2013 Global Policy Forum in Kuala Lumpur, Malaysia, following a decision by AFI members at a high-level meeting in Bangkok, Thailand in earlier that year to establish a dedicated new working group on SME finance to support peer learning in this area.

The vision of the SMEFWG is to contribute to the development of SMEs in developing and emerging countries through financial services. The SMEFWG promotes the development and implementation of policy frameworks that enable improved access to financial services for SMEs within national contexts.

The SMEFWG has two key objectives:

1. to advance a shared understanding of how different dimensions of financial services contribute to the development of sustainable SMEs in developing and emerging countries; and
2. to identify policy frameworks and interventions that enable and enhance the socio-economic role of SMEs, with a specific but not exclusive focus on financial sector policy.

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CONTEXT

Over the last two decades, three key aspects in economic development have created the conditions for the development of this basic set of SME Finance indicators.

The first aspect is a growing recognition and emphasis on the importance of evidence-based policy, and that policy decisions will achieve better development outcomes if they are informed by reliable, objective and timely data. The second trend is wider recognition of the important role SMEs could play in inclusive economic growth. Third, there is growing evidence that SMEs have been unable to harness this potential in part because of a lack of access and usage of appropriate financial products and services. Thus, there is broad consensus that reliable, rigorous, objective and timely data on financial access and usage can play a major role in developing evidence-based policies that improve SMEs access to financial services and promote inclusive economic growth.

When quality data is available, and the state of financial inclusion can be assessed objectively, there is a benchmark for crafting effective policies, informed financial inclusion goals and targets. This data also provides policymakers and other stakeholders with a consistent framework for cross-country comparisons, which in turn facilitates peer learning.

To meet the need for consistent financial inclusion data across countries, the AFI Financial Inclusion Data Working Group (FIDWG) has formulated the Core Set of Financial Inclusion Indicators. However, the Core Set does not address financial inclusion data and indicators specific to SMEs. Therefore, the SME Finance Working Group (SMEFWG), in consultation with the FIDWG, developed the SME Financial Inclusion Indicators,[1] or the SME Finance Base Set, to address the need for standardized measurement of SME financial services.

Given there is no single, internationally accepted set of SME financial inclusion indicators, the work that has been done by a number of international organizations, particularly the G20 Global Partnership for Financial Inclusion (GPFI) and the Organisation for Economic Co-operation and Development (OECD) was taken into account to formulate the AFI SME Finance Base Set.

PURPOSE AND CRITICAL ISSUES

The SME Finance Base Set is a limited set of indicators that aims to give a reasonably comprehensive view of the state of financial inclusion for SMEs in a given country, with an emphasis on access to credit. It is intended to be used in conjunction with at least the AFI Core Set of Financial Inclusion Indicators to assess the overall state of financial inclusion in a country. The interconnectedness of the Core Set and the SME Finance Base Set is further emphasized by the incorporation of some of the indicators from the Core Set. For further assessing the state of financial inclusion in any given country it is also advisable to consider the AFI's Mobile Financial Services Indicators for Measuring Access and Usage.[2]

The SME Finance Base Set is intended to facilitate comparability across countries. It must be stressed, however, that comparisons should not be made to set standards or produce rankings, but rather to inform policymaking. To generate deeper insights, the indicators must be used in conjunction with other, more general developmental indicators. Indicators to consider include the number of SMEs, the percentage contribution of SMEs to GDP, the ratio of SME loans to GDP, and the relative size of the workforce in the SME sector compared to the overall workforce.

When developing the SME Finance Base Set, the SMEFWG recognized that some definitions and practices are specific to certain countries, and deliberately constructed the indicators to reflect this fact. For example, the definition of SMEs varies from country to country, so the Base Set relies on each country's definition, preferably one set out by law or a particular set of regulations. This therefore restricts SMEs to formal SMEs that have been registered by a recognized authority or agency. The SME Finance Base Set addresses the access, usage and quality of financial services for regulated financial service providers only. Although informal financial services are important in the SME finance landscape, the difficulty in consistently measuring the prevalence and use of such services, the lack of regulatory oversight over informal providers and, therefore, the lack of reliable data, convinced the SMEFWG to only focus on regulated service providers.[3]

KEY PRINCIPLES OF THE SME FINANCE BASE SET

The SME Finance Base Set is based on the following principles:

> **Completeness**
Used in conjunction with the Core Set, the SME Finance Base Set is intended to give a comprehensive picture of the state of access to financial services, particularly credit, for SMEs in a given country. As with other segments, information on the inclusion of SMEs cannot be reduced to one or two data points. In order to craft successful policies and understand the consequences of policy interventions, financial inclusion should be considered within a broader context. The SME Finance Base Set was designed to assist in this process.

> **Usefulness and relevance**
Data collection in financial inclusion should always serve a policy purpose, either to inform the formulation of policy or to monitor progress in implementation and assess the impact it is having. The SME Finance Base Set is intended to be useful and relevant for these purposes.

> **Consistency**
Since there is no single standard for SME financial inclusion indicators, the SME Finance Base Set offers standardized definitions that allow the indicators to be used consistently across different measurement periods and to be comparable across countries. The impact of policy on access to credit and other financial services can therefore be assessed within a consistent framework and in an objective manner.

1 AFI Financial Inclusion Data Working Group (FIDWG), March 2013, "Measuring Financial Inclusion: The Core Set of Financial Inclusion Indicators, Guideline Note No. 4".

2 Guideline Note No. 11, "Mobile Financial Services Indicators for Measuring Access and Usage", was developed by AFI's Mobile Financial Services Working Group (now the Digital Financial Services Working Group) and published in August 2013.

3 In this context "regulated" refers to financial service providers that are required to register with a mandated agency and are subject to either formal or officially recognized self-regulation.

Since AFI member countries are already collecting data using the Core Set and the MFS Access and Usage set, the SME Finance Base Set is designed to be consistent with those sets, without duplicating any data collection efforts. In fact, some of the access indicators of the Core Set have been directly incorporated into the Base Set.

> **Flexibility**
National data collection programmes are driven by a multitude of factors, including the country's particular approach to financial inclusion, its goals and targets, policy priorities and regulatory structure and processes. These are, in turn, influenced by the economic, social and cultural realities of each country. The SME Finance Base Set accommodates this diversity by relying on country-specific definitions for some key elements, by identifying proxies for some indicators, and by creating room for additional indicators that countries could incorporate in their measurement framework, depending on their specific needs.

> **Aspiration**
The SME Finance Base Set provides a holistic view of the state of financial inclusion in the SME space. Therefore, some indicators may not be readily available, as policy imperatives may not have required certain data to be collected. Countries are urged to expand their data collection efforts to either gather the data directly or to use alternative, existing sources of data, such as international surveys. Proxy information may also be useful in certain instances depending on the country context.

The SMEFWG intends to enrich the Base Set over time as policies develop and data collection efforts gather momentum with greater institutional capacity. For example, the role of shadow banking (when organisations perform bank-like activities without being subject to banking regulatory oversight) may be an area requiring specific data and indicators. This type of aspirational development will rely on the input of AFI member countries to identify new areas of focus, and should lead to a more complete picture of the use of financial services by the SME sector in the future.

DIMENSIONS OF THE SME FINANCE BASE SET

The SME Finance Base Set indicators include the three key dimensions of financial inclusion as defined by the FIDWG: access, usage and quality of financial products and services. The definitions used by the FIDWG for these three dimensions have also been used for the Base Set, without any modifications.[4]

The social and economic impact of greater financial inclusion for SMEs is critically important, but the impact assessment itself is a complex task that requires a much broader set of indicators. For the time being, the SME Finance Base Set does not include everything that may be required for a full impact assessment, but this will be addressed in the SMEFWG's future work.

Access Indicators

The first three indicators of the SME Finance Base Set are simply the Core Set indicators, as these are equally relevant to SME finance. The fourth indicator recognizes the increasing importance of electronic access to financial services, while the fifth indicator deals specifically with access to credit.

Usage Indicators

Usage indicators focus on two financial services: a deposit or transactional account in indicator 6 and the active use of credit in indicator 7. In time, the SMEFWG intends to add other appropriate financial services for SMEs to this list.

Quality Indicators

While reasonable access and usage are necessary conditions for extending financial inclusion, the quality of financial services will in many cases determine whether the increased financial inclusion is beneficial and sustainable. It is therefore crucial that the quality dimension is assessed and policy reforms are introduced if quality standards fall short of the required levels.

Indicator 8 measures the extent of public support for SMEs through a specific tool, such as credit guarantee schemes. While the effectiveness of credit guarantee schemes can vary across programs and countries, a well-designed and executed guarantee scheme can help expand access to credit for SMEs and may indeed bring the overall cost of credit down.

Indicator 9 measures the risk premium charged to SMEs, calculated as the difference between SME loan rates and corporate loan rates. Indicators 10 and 11 capture the importance of focusing on women-owned (WO) enterprises, which tend to face greater credit constraints in many countries.

This is another instance where country-specific definitions need to be applied, as "women-owned" is defined differently in different countries. The Base Set does not impose a definition; countries should use their existing interpretation. Indicator 12 primarily captures the quality of credit risk assessment, but of course also reflects changes in the economic conditions of a country.

4 According to the FIDWG, "access" refers to the ability to use the services and products offered by formal financial institutions, while "usage" refers to the depth or extent of financial services and product use. The FIDWG has not yet arrived at a precise definition of "quality," however, it is generally agreed that "quality" refers to attributes related to product design and delivery that increase the value of the services to users.

ACCESS INDICATORS

CATEGORY	INDICATOR	PROXY INDICATOR	MEASUREMENT	NOTE	SOURCE
1 **Access points**	Number of access points per 10,000 adults		Physical access	AFI Core Set Indicator	Supply side
2 **Coverage of access points**	Percentage of administrative units with at least one access point		Distribution of access points	AFI Core Set Indicator	Supply side
3 **Coverage of access points**	Percentage of total population living in administrative units with at least one access point		Distribution of access points	AFI Core Set Indicator	As per Base Set
4 **Digital financial access** (Digital access to financial services)	Percentage of enterprises with access to digital financial services[5]	Percentage of population with access to digital financial services	Extent of access to digital financial services		Demand-side survey
5 **Credit access**	Percentage of SMEs required to provide collateral on any existing loan		Tightness of credit conditions	OECD Indicator	Demand-side survey[6]

USAGE INDICATORS

CATEGORY	INDICATOR	PROXY INDICATOR	MEASUREMENT	NOTE	SOURCE
1 **Formally banked enterprises**	Percentage of SMEs with a deposit account at a regulated financial institution	Number of SMEs with deposit accounts/Number of deposit accounts OR number of SME depositors/Number of depositors[7]	Usage of deposit accounts	G20 Indicator	Demand-side survey[8]
2 **Enterprises with outstanding loan or line of credit facilities**	Percentage of SMEs with an outstanding loan or line of credit at a regulated financial institution	Number of SMEs with outstanding loans/ Number of outstanding loans OR number of outstanding loans to SMEs/Number of outstanding loans	Usage of loan facilities	G20 Indicator	Demand-side survey

QUALITY INDICATORS

CATEGORY	INDICATOR	PROXY INDICATOR	MEASUREMENT	NOTE	SOURCE
1 **SME loan guarantees**	SME loan guarantees as a percentage of SME loan (in terms of value)	Number of SME loans with guarantees/ Number of SME loans	Extent of public support for SME finance	OECD Indicator	Supply-side[9]
2 **Relative cost of credit**	Difference between average SME loan rate and average corporate loan rate[10]		Risk premium charged on SME loans	Based on an OECD Indicator	Demand-side survey
3 **Women-owned (WO) SMEs**	Percentage of WO SMEs with a deposit account at a regulated financial institution	Number of WO SMEs with deposit accounts/ Number of deposit accounts	Gender equality in SME access to financial services		Demand-side survey
4 **Women-owned (WO) SMEs**	Percentage of WO SMEs with an outstanding loan or line of credit at a regulated financial institution	Number of WO SMEs with outstanding loans /Number of outstanding loans	Gender equality in SME access to financial services		Demand-side survey
5 **Non-performing loans**	Percentage of non-performing SME loans: > To total loans > To SME loans		Responsible lending/ Credit-worthiness of SMEs	Based on an OECD Indicator	Supply-side survey

5 "Access to digital financial services" is defined as an enterprise having reasonable and secure access to at least electronic payment services using the internet or mobile financial services or similar. The nature of the services, whether is access to a bank account or using pure mobile money, is not relevant — just the means of access to the services.

6 Data could also be obtained from the supply side, for instance credit providers, but this should be considered a proxy, as it is not necessarily true that credit providers will keep all information on failed credit applications.

7 This proxy indicator could be obtained from a supply-side survey or existing supply side information.

8 Where countries do not have a demand-side survey in place, when feasible existing surveys could be used, such as the World Bank Enterprise Survey.

9 The value of loan guarantees extended should be available from the providers of the loan guarantee scheme(s).

10 The indicator here is the realized difference in the risk of SME lending and corporate lending.

ADDITIONAL INDICATORS TO CONSIDER

As a first step, countries are encouraged to collect data to populate the SME Finance Base Set as completely as possible. Where this is an easy task or where specific policy priorities have already mandated data collection, countries could consider incorporating the following additional indicators.

Additional Access Indicator

The indicator on geographic distribution below may not be intuitively easy to construct, but it could yield very useful practical insights. In essence, it matches the distribution of SMEs with the distribution of financial services access points.

This may be of particular interest in areas where there are relatively fewer access points than others, for example rural areas as compared to urban areas. In this case, the methodology could consist of a ratio analysis of the number of SMEs in each selected administrative area divided by the number of access points. Areas with an especially high ratio would have a lower number of access points and might represent an opportunity for service providers.

CATEGORY	INDICATOR	MEASUREMENT
Geographic distribution of access points vis-à-vis geographic distribution of SMEs	Matching access points distribution to SMEs distribution per administrative area, either on a numerical ratio basis or geographical information grid basis	Extent to which access point distribution matches SME distribution

GENERAL NOTE

From the above it is clear that the number of SMEs in a country must be determined in order to calculate the various percentages. Since the indicators are limited to formal or registered SMEs, this information should be available from the relevant registration authorities or agencies. If this is not the case, then an estimate based on an enterprise survey could provide a usable figure.

ADDITIONAL USAGE INDICATORS

CATEGORY	INDICATOR	PROXY INDICATOR	MEASUREMENT	NOTE / SOURCE
Enterprises with formal insurance	Percentage of SMEs with formal asset insurance products		Usage of insurance	Demand-side survey
Enterprises with loans from informal providers	Percentage of SMEs with informal loans		Usage of informal credit	Demand-side survey
Enterprises with direct loans from state-owned financial institutions (SOFIs)[11]	Percentage of SMEs with an outstanding loan or line of credit at SOFIs	Number of SMEs with outstanding loans at SOFIs/ Number of outstanding loans	Usage of SOFI loan facilities	Based on an OECD Indicator
Loans granted to start-up SMEs[12]	Start-up SMEs obtaining a loan as a percentage of total number of start-up SMEs		Ease of entry for new SMEs	

ADDITIONAL QUALITY INDICATORS

CATEGORY	INDICATOR	PROXY INDICATOR	MEASUREMENT	NOTE / SOURCE
Share of SME loans of total business loans for regulated financial institutions	Total SME loans as a percentage of total business loans		SME access to finance compared to corporations	OECD Indicator
Success of SME loan applications	SME loans granted/SME loans requested		Tightness of credit conditions; banks' willingness to lend to SMEs	OECD Indicator
Relative cost of credit	Difference between average SME loan rate and average consumer loan rate[13]			OECD indicator
Youth-owned (YO) SMEs	Percentage of YO SMEs with a deposit account at a regulated financial institution	Number of YO SMEs with deposit accounts/Number of deposit accounts	YO SME usage of deposit accounts	
Youth-owned (YO) SMEs	Percentage of YO SMEs with a deposit account at a regulated financial institution	Number of YO SMEs with outstanding loans / Number of outstanding loans	YO SME usage of loan facilities	
Enabling environment for SME finance	Percentage of SME loans assessed with information from a credit bureau or a credit rating agency		Availability and use of credit information infrastructure	

Additional Usage Indicators

The indicators below measure additional aspects of financial services usage.

Insurance, especially asset insurance for an enterprise's operations, is increasingly playing a part risk management for enterprises.

Measuring the extent of informal services may be challenging, but could be essential to understanding the role of the informal service sector. For example, in some countries, state-owned financial institutions (SOFIs) play a major role in credit extension and it would be useful to include that as an indicator.

Additional Quality Indicators

A number of quality indicators are listed below, each dealing with a specific aspects of service provision. Where policy imperatives or service concerns have already been identified, it could be useful to include the appropriate indicators below.

11 Care should be taken not to include loans from private credit providers with state-provided loan guarantees, as this should be reflected in indicator 7.

12 Start-up SMEs" are enterprises in their first year of operations.

13 The indicator here is the realized difference in the risk of small enterprise lending and unsecured consumer lending.

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