

CREDIT RISK MANAGEMENT PRIMER

Tool user guide
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1. Overview

- The Credit Risk Management Primer is a practical resource to identify and navigate internal credit risks. The tool supports institutions new to SME banking in understanding and enhancing SME credit delivery by presenting proven risk management practices and illustrating the strategic role of technical assistance (TA) through real-world examples.
- Intended users: TA funders, TA providers, and banks that are new to the SME market.

2. Use Case & Benefits

The primer is intended to support TA funders when designing SME banking programs and banks entering the SME banking space by helping them understand and enhance their credit risk management processes. It does so by identifying key internal risks that limit SME lending, presenting proven credit

risk management practices, and illustrating the role of TA in mitigating and scaling internal risk management through real-world examples.

The Credit Risk Management Tool addresses the SME credit risk challenges by providing a structured diagnostic and solution framework to help banks, TA funders, and implementing partners:

- Identify and prioritize internal credit risks that constrain SME lending performance, including weak credit assessments, insufficient collateral frameworks, and limited delivery capacity.
- Explore effective mitigation strategies, drawn from peer institutions and global experience, to improve credit risk practices and institutional readiness.
- Understand how TA has supported successful credit processes through spotlight cases that illustrate implementation models, results, and enabling conditions.

This tool supports informed decision-making by:

- Helping banks strengthen internal credit risk management and design operational reforms.
- Guiding TA funders in aligning their support with the most pressing credit risks and identifying where targeted interventions can unlock scalable SME lending models.

Ultimately, the tool builds the foundation for more inclusive, risk-managed SME finance, grounded in institutional capacity, proven practice, and real-world results.

3. Key Objectives

- Identify internal credit risks faced in SME lending
- Present risk management strategies that have proven effective and how they apply to different SME segments
- Highlight actionable TA strategies that have supported and scaled internal credit risk mitigation

4. Structure and Components

The *Credit Risk Management Tool* is organized into four key sections, each designed to help users understand, diagnose, and address internal credit risks that limit SME lending. These components guide users from risk identification to mitigation and TA design.

1. Internal Credit Risks

This section presents the three core internal credit risks that constrain SME finance across many institutions:

- **Difficulty assessing SME creditworthiness.** Limited financial data, informal operations, and a lack of SME specific scoring tools make it hard to evaluate SME repayment capacity.
- **Lack of collateral or enforceable security.** SMEs rarely have robust assets, and banks' dependence on traditional collateral frameworks may exclude viable SMEs.
- **Limited internal capacity to deliver SME credit.** Many banks lack the organizational structure, processes, and tools needed to manage SME credit risk efficiently.

2. Risk Mitigation Practices

The primer outlines a menu of proven risk management strategies for each risk area, such as developing SME-specific credit scoring models, using alternative or non-traditional data sources, and adopting cash-flow-based lending.

Each strategy includes an explanation of the approach, how it can be applied, and how other banks have used it in practice. The section also explores the specific role of TA in supporting the implementation of these strategies.

3. Segment-Specific Guidance

This section helps users apply a tailored lens by examining how different strategies align with common SME segments, including small and medium enterprises, women-led businesses, and agribusiness SMEs. This allows TA

funders and banks to align strategies with the characteristics, constraints, and potential of the SMEs they serve.

4. Other considerations

This section provides an overview of broader considerations that shape the effectiveness and sustainability of SME lending programs, including external factors, institutional buy-in, profitability, and the regulatory environment.

5. Additional resources

Lists reports, case studies, and research papers that provide further reading on SME credit risk management, innovative lending practices, and enabling policy frameworks.

Companion documents

- **PDF user guide:** Summary of tool function and instructions.

5. How to Use the Tool

Step-by-Step Instructions:

1. Familiarize yourself with the three core internal credit risks and assess how they appear within your institution or among your bank partners.
2. Reflect on and determine which risk(s) most constrain SME lending in your specific context, using both qualitative insights and available data.
3. Explore the corresponding risk management strategies and TA-enabled solutions associated with each risk area.
4. Examine the case spotlights to identify the practical lessons about implementation, costs, outcomes, and enabling conditions that these highlight.
5. Reflect on which risk management strategies are most relevant, feasible, and impactful for your institution or partners.
6. Use the primer as a live document that can be revisited whenever needed and adjusted based on your internal learnings and findings.

Tips

- **Take the time to understand the identified risks and proposed strategies.** Begin by reading through the three internal credit risk areas. A clear understanding of how they are described in the primer will help you assess which ones are most relevant to your institution or partner.
- **Map your institutions or partner's current challenges to the risk categories.** Consider how specific issues you are facing, such as low SME loan approval rates or operational delays, align with the risks outlined in the primer.
- **Compare your existing practices with those presented in the primer.** Use the list of mitigation strategies to identify what your institution is already doing and where there may be opportunities to strengthen or adapt your approach
- **Use the real-world examples to explore relevance and feasibility.** The spotlight cases show how other institutions have applied similar strategies. Reflect on what conditions made them effective and whether those conditions apply to your context.
- **Document your observations and potential next steps.** As you move through the primer, capture key insights, open questions, or priority areas. These notes can support internal discussions, TA scoping, or future planning.
- **Remember that the primer is a starting point, not a comprehensive solution.** It is designed to help structure early thinking and inform strategic conversations. Further analysis and tailored design will be necessary to move from insights to implementation.

6. Outputs & Interpretation

The Credit Risk Management Tool supports the understanding, reflection, and adjustment of credit risk processes. Key components of the tool include:

- A description of three common SME credit risks
- A menu of risk management strategies matched to those risks, with details on implementation pathways and TA implications
- Real-world case references that demonstrate the feasibility and potential impact of the risk management strategies and the enabling role of TA
- Segment-specific insights for small, medium, women-led, and agribusiness SMEs to inform program design or institutional focus

Rather than offering a step-by-step manual, the tool supports informed decision-making. It equips users with the language, structure, and evidence needed to start shaping risk-sensitive and context-specific SME finance strategies. It is most powerful when used collaboratively, as an anchor for dialogue between banks, TA providers, and funders working to unlock sustainable SME growth.