

## EX POST EVALUATION OF CEB JOB CREATION PROGRAMMES

### Programme for small and medium enterprises to support economic recovery from earthquake December 2008

#### *Abstract*

In April 1998, an earthquake struck a mountainous area of a CEB member state in Central and Eastern Europe and damaged infrastructure in three municipalities. Public funds were immediately mobilised and a special law enacted. Soon afterwards, the Ministry of Finance informed the CEB, which responded by offering an accelerated procedure to authorise a multi-sector programme loan to mitigate the effects of the disaster and to support reconstruction. In June 1998, the Administrative Council approved a loan equivalent to 5.2 m€, with a subsidy of 50 basis points on the interest rate. The programme included two components: (A) SMEs and public works and (B) social housing. The evaluation covered Component A only, which became a full SME programme after cancellation of the initially planned public works. In September 2000, an addendum increased the funding for SMEs by 2 m€. The evaluation found that the total SME disbursement funded over 110 sub-loans for an amount of almost 6 m€. However, 7 of the 57 sub-loans approved for the addendum had not been disbursed to SMEs and 11% of addendum resources were not allocated within the programme.

**Evaluation findings:** Due to the quick launching of the whole programme, preparation was not sufficiently specific for the SME component and the local implementation arrangements did not capture some of the inherent risks such as loan rationing and high collateral requirements. Because the borrower had no presence in the region, the selection of final beneficiaries was carried out with the help of local partners. Selected SMEs included small industry, service companies in the tourism sector, SMEs emerging from former state enterprises and some start-up companies. Programme effectiveness is satisfactory, as most beneficiaries were successful in creating and preserving jobs, especially in traditional family businesses. Overall, the programme was efficient, although some sub-loans were not allocated; and efficiency would have been higher had pre-paid loans been recycled in the region. Moreover, the borrower did not contact the CEB when implementation faced difficulties and did not follow reporting procedures to the end. Despite these shortcomings, the programme contributed to the region's high recovery from the earthquake and its impact is therefore sustained. Programme sustainability is likely, as the SMEs' development seems viable. The business environment in the tourism sector has improved and remains competitive for export-oriented sectors. Earthquakes and landslides still pose environmental hazards, but building standards improved through the programme and the beneficiary SMEs had to comply with new building standards. All in all the CEB loan supported job creation and preservation in the disaster area, contributed to economic recovery and prevented depopulation of the affected rural area. The programme is rated **satisfactory**. The CEB provided some financial added value to the programme which also profited from a fast-tracked approval. However, the intended benefit from the interest rate subsidy was not visible to SMEs, and was dwarfed by a well-publicized national grant.

#### **Recommendations:**

- The CEB could establish guidelines to define job creation and preservation in SME programmes, in which the employment effect is stated as an explicit objective; loan agreements should define suitable targets and adapted reporting formats.
- Clear agreements on the use of grant elements (interest rate subsidy) should be defined, especially in SME programmes; a visibility strategy should be defined, especially when SMEs can obtain grants from other sources.
- Programme preparation should clearly allocate resources, including grant elements, to distinct programme components. The relationship with Government programmes should be clear. Technical preparation missions should include all the expertise required in multi-component programmes.
- In case of substantive pre-payments of sub-loans by end-beneficiaries, a provision to recycle the CEB loan proceeds to similar projects should be foreseen.
- Monitoring and reporting by the borrower should cover all SME programme contributions. On-lending conditions should include adequate reporting in order to enable the CEB and the borrower to address emerging problems in loan allocations. Compliance with reporting requirements should be monitored more closely. A final report should establish the effective disbursements to SMEs and an agreement on any unspent balance should be reached.
- Loan conditions for SMEs should be carefully designed by the borrower (funding level, fixed vs. variable interest rates, security requirements, instruments to cover business and natural disaster risks). Funding requirements of SMEs should be met to ensure the viability of investment projects. If demand exceeds resources, complementary resources should be sought, which would also lower handling fees for service providers.