

Small and Medium Enterprise Programme in South-Eastern Europe supporting a EU programme

Ex post evaluation Abstract

This ex post evaluation concerns the CEB contribution to an EU Loan and Guarantee Window for SMEs. This Sector-based Multi-project Programme (SMP), supported with EU grants (PHARE), was channelled through an intermediary Borrower, which also co-financed it. The purpose was to encourage local banks in eligible countries to expand their SME lending on a sustained basis. The EU programme met the CEB priorities of enhancing social cohesion in transition countries through the preservation and creation of jobs in SMEs. Initially geared toward financing mainly “promotional” (state-owned) and a few commercial banks for on-lending to SMEs, the programme was also extended to serve leasing companies as from the first Addendum of the initial programme. The evaluation includes up to the fourth addendum of the SMP, from project approval in July 2000 to December 2006, with a CEB contribution of 222.5 m€. The own commitments of the CEB Borrower over that period amounted to 693 m€ of which 516 m€ were disbursed to Participating Financial Institutions (PFIs) which, in turn, had disbursed 598 m€ to SMEs. Of the committed 86.5 m€ of EU funds, 38 m€ had been disbursed to PFIs. End-2006, 12 000 loans or lease deals had been concluded with over 10 000 SMEs and an expected job creation effect of nearly 20 000.

The programme’s job creation effects exceeded initial expectations. By extrapolating the results from SME surveys held in three countries, it would appear that job creation since programme inception lies somewhere around 50 000 rather than the 20 000 mentioned in individual loan applications. This good achievement reflects the overall strong growth of the eligible countries’ economies during the period under review.

Programme implementation by the Borrower was, on the whole, efficient, after a slow start-up due to procedural issues and the relative inexperience of the PFIs with this type of programme.

The effectiveness of the programme was relatively higher in smaller economies, with projects having clearly defined objectives and targets in view of obtaining EU funding. The participating banks financed, on average, smaller SMEs than the leasing companies, hence responding better to the hypotheses underlying the EU incentive funding. Opening up the programme to leasing, which became an important element although its rationale was never really assessed, did not contribute to a higher effectiveness of the programme with regard to job creation or targeting of small SMEs.

Although objectives were initially relevant, the overall relevance of the programme rapidly eroded as from 2002, because of the fast development of the financial and economic sectors in the eligible countries. Privatisation of the banking sector had stabilised and the PFIs refinanced themselves from their parent companies (mainly Western European) or from capital markets. With increasing liquidity available, SMEs rapidly gained better access to finance. In this respect, the programme lacked targeting with regard to specific needs in terms of sectors, regions or SME-types.

As a consequence, the value added of the CEB was not high. Moreover, the tenors granted by the CEB to the Borrower were much shorter than those granted by the latter to the PFIs, and the CEB’s standard monitoring procedures appeared ill-adapted to the size and complexity of the programme. By devolving implementation entirely to the Borrower, the CEB saw its influence and strategic overview curtailed.

Notwithstanding the above, on account of its effectiveness, efficiency and impact, the overall rating for the programme is **satisfactory**.

Recommendations to the CEB

- In devolving implementation responsibilities to a partner – to create a higher leverage – the CEB should ensure that it maintains ownership of the programme, keeps strategic overview and remains proactive.
- When cooperating with other institutions, it is important to assess to what extent the additional procedures required might be detrimental to the timely delivery of programme benefits.
- Approval of addenda, especially when they change a programme’s scope, requires a careful assessment of intermediate results and continued relevance.
- It is advised to clarify expectations and define an approach with regard to the leasing option as compared to regular credit, in line with the CEB’s mandate.
- Stricter procedures for the assessment of a PFI’s ability to serve SMEs should be designed. If it is judged weak, accompanying measures (capping of loan levels, technical assistance, etc.) should be proposed accordingly.
- Some EU funds were attributed on the basis of indicators which only indirectly reflected the underlying objectives of this funding. In line with common practice, indicators and targets should be derived directly from stated objectives.
- The programme was relatively complex and increasingly sizeable, for which the CEB’s standard monitoring procedures appeared ill-adapted. Monitoring efforts and design, and reporting requirements, format and presentation should be adapted to the size and complexity of a programme, so as to ensure compliance with eligibility criteria on the one hand, and oversight of the course that the programme is taking, on the other.
- Together with the Borrower and possibly other partners, the CEB should reflect on how to position itself with regard to the financial and economic crisis in Central, Eastern and Southern European countries and establish an action plan. This shall ensure that the CEB obtains optimal relevance of its action by choosing, amongst the channels and instruments available for SME funding, the ones most appropriate and adapted to the economic and financial context over time.