

Small and Medium Enterprise Programme in South-Eastern Europe

Ex post evaluation Abstract

The Administrative Council of the CEB approved, in 2005, a loan of 5 m€ to a private bank in a member state for investment projects in the following three activity sectors: Job Creation and Preservation in small and medium-sized enterprises (SMEs), Protection of the Environment, and Health, with an estimated 90% of funds earmarked for the first sector. The total investment cost was estimated at 10 m€, of which the CEB was to finance up to a maximum of 50%.

Whilst provision of finance to businesses in the country rapidly improved as from 2002, the financing needs of SMEs – especially small SMEs – remained high in the first half of the 2000s, with long-term investments often being financed by short-term debt. Considering the CEB's mandate, the focus on smaller companies was appropriate as such companies are relatively high net job generators in the country in question. The choice of the intermediary was suitable: although its overall market share is small, the Borrower is market leader at the lower-size end of the SME market, with dedicated products and procedures. The programme was deemed highly relevant.

The loan was fully utilised. Under the programme, 107 sub-projects were financed to the same number of SMEs with a total investment cost of 12.6 m€, of which the CEB contributed about 40%. The projects achieved their job creation objective of 540 jobs in total; more generally, the investments played an important role in the growth of the beneficiary companies. About two-thirds of the companies surveyed stated that they did not have a credit history. Overall, the sub-loans performed well (only four loans, albeit one of considerable volume, were in arrears at the time of the evaluation), with an average tenor slightly higher than that of the CEB loan to the Borrower and with margins corresponding to market rates. Stakeholders (both at Borrower and SME level) expressed great satisfaction with the loan. Effectiveness of the programme was rated "very satisfactory".

The schedule was well respected. The programme used standard products and procedures for SME credit. The Borrower's extensive branch network allowed it to cover different parts of the country well. Site visits by loan officers were compulsory for each sub-loan. Companies were highly satisfied with procedures, timeliness and handling. Investment costs per job were 23 000 €, comparable to similar programmes financed by the CEB in the country or in other Central, Eastern and Southern European countries. The programme was highly efficient.

The impact of the investments on the companies was first and foremost economic: a large share of surveyed companies improved their financial performance, profitability and competitive position, and attracted new clients. Social impact was mainly related to job creation and to a lesser extent to improved working conditions. Environmental impact was modest, whilst institutional impact was not rated, as institutional capacity building was not a specific aim of the programme. Overall impact was rated "sustained".

The overall sustainability of the programme is deemed "likely", with reservations on the possible impact of the financial and economic crisis.

The added value of the CEB was high in terms of its financial contribution and the high additionality of the loan, as well as its flexible handling thereof; moreover, the beneficiary companies' profiles were very much in line with the CEB's mandate.

The programme can be considered as an exemplary CEB job creation programme in all respects; it therefore obtained an overall rating of "very satisfactory".

Recommendations to the CEB

- Despite programme intentions, no projects in Protection of the Environment and only a marginal volume in Health were financed. Also, inspired by general rules, ceilings imposed on company and project size were far above the values encountered in reality. It is advised to sharpen and justify programme objectives by making, in cooperation with the Borrower, more detailed ex ante evaluations concerning the local market structure, as well as the needs and characteristics of a Borrower's (potential) clients. Logical Framework Analysis might be a useful tool for this.
- The Borrower was a very appropriate intermediary to effectively and efficiently deliver the programme in line with the CEB mandate, given its special focus on SMEs and well-adapted products especially for the lower-size end of the SME spectrum. For future job creation programmes, it is advised to choose intermediaries carefully and give preference to those with broad experience and an explicit mission statement in the area of SME support and finance.