COUNCIL OF EUROPE DEVELOPMENT BANK
BANQUE DE DEVELOPPEMENT DU CONSEIL DE L'EUROPE

Evaluation Abstract

Evaluation of CEB lending to a cooperative bank in the Netherlands

The CEB's Office of Evaluation carried out an evaluation of the financial support provided by the Council of Europe Development Bank (hereafter "the CEB" or "the Bank") to a major cooperative bank in the Netherlands (Rabobank or "the Borrower").

The CEB loan, worth € 100 million, was approved by the Bank's Administrative Council in March 2016. The loan was channelled to beneficiary enterprises through "Social Impact Loans" (SILs), a financial product initiated by the Borrower in 2015 with a view to providing attractive conditions to enterprises generating social and environmental added value.

LEARNING FROM THE CEB'S SUPPORT TO A COOPERATIVE BANK

The Borrower of the evaluated loan is one of the largest cooperative banks in Europe and has been gradually broadening its activities to beyond its historic role as a financier of agricultural development. It defines itself as a financial institution with a strong sense of corporate social responsibility which has embedded the Sustainable Development Goals in its operating model, delivering products and services that respond to three global transitions: food, climate and energy, and to a more inclusive society.

> Cooperative banks tend to differ from stockholder banks by their organisation, their goals, their values and their governance. The International Cooperative Banking Association defines the cooperative bank as a financial entity which belongs to its members who are at the same time its owners and its customers.

Given the characteristics of the financial instrument supported by the CEB loan – the SILs – the evaluation provided concrete insights into the application of sustainable finance concepts and the implementation of financing practices that take ESG (environmental, social and governance) criteria into consideration when making investment decisions.

Moreover, the learning value of this evaluation stems from the cooperative banking sector's particular positioning as a key financier of the social and solidarity economy.

In the European context, the social economy covers specific types of private entities such as cooperatives, mutual benefit societies, associations (including charities), foundations and other social enterprises, all of which share some common principles and characteristics: the primacy of people and social and/or environmental objectives over profit, reinvestment of most of their profits and surpluses to carry out activities in the interest of their members, users or society at large, and democratic and/or participatory governance.

The majority of the enterprises that benefited from the evaluated CEB loan were small private enterprises, but also included large associations and foundations operating in the health and education sectors which, given the organisation of these sectors in the Netherlands, provide key social services to society.

Indeed, there is growing recognition of the contribution that these enterprises make to the social and solidarity economy by promoting inclusive growth and ensuring access to services in European countries.

Rabobank's contribution to the UN Sustainable Development Goals

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These companies operate by providing goods and services in an entrepreneurial and often innovative way, having social and/or environmental objectives as the reason for their commercial activity.

At the same time, given their business model where profits are mainly reinvested with a view to achieving their societal purpose, such entities tend to have particular financing needs.

THE EVALUATION PROCESS

Methodology

The theory of change for the evaluated loan was reconstructed by the evaluation team at the outset of the process and used as a guiding framework for the fieldwork and data collection activity. The theory of change explains how the activities supported by the CEB loan contribute to a chain of results that lead to intended or observed impacts.

Desk-based methods of data collection were employed due to the restrictions put in place during the Covid-19 pandemic.

A portfolio-level analysis of the Social Impact Loans was used to generate a qualitative description of the beneficiary enterprises. The evaluation team conducted in-depth analyses of the SIL documentation and results on a sample basis.

In consultation and agreement with the Borrower, an on-line questionnaire was submitted to all beneficiary enterprises. Several of them were then interviewed through video calls to discuss the impact of the SILs on their activities, organisation and clients.

Participation

CEB internal participation was ensured through the establishment of a Learning and Consultation Group to serve as interface for the Office of Evaluation throughout the various stages of the evaluation process.

Several rounds of interviews were conducted with CEB and Borrower staff to enhance the learning focus of the evaluation and to verify preliminary findings.

The draft evaluation report was shared with the CEB's operational directorates and the Borrower for comments. The final Evaluation Report was then submitted to the CEB's Governor and Administrative Council.

MAIN FINDINGS BY EVALUATION CRITERIA

Relevance

The evaluation underscored the added value of the CEB's partnership with a prominent cooperative banking institution in support of a highly relevant instrument – "Social Impact Loans" – in line with sustainability-oriented banking practices.

However, the CEB's initial classification of the loan under its "Supporting micro, small and medium-sized enterprises (MSMEs) for the creation and preservation of viable jobs" sector of action did not allow it to fully reflect the social and environmental results that could be expected given the characteristics of the supported sub-projects.

The CEB therefore decided to widen the sectoral scope of its loan to include the "health" and "education" sectors of action during implementation. This was achieved by modifying the initially approved Programme Loan instrument in support of MSMEs into a so-called Cross Sectoral Loan Programme including health and education as eligible sectors. This allowed for the financing of larger enterprises that could not be classified as MSMEs according to the European Union definition.

Coherence

From a policy perspective, the CEB resources were highly concentrated in the health sector and contributed to the national objective of promoting "the right care at the right place" by ensuring the availability of health services in local areas.

In terms of coherence with other international financial institutions (IFI), the Borrower took the initiative to clearly differentiate between the use of CEB funds and EIB funds in support of its SILs: the CEB lending was exclusively focused on two social sectors (healthcare and education) whereas the EIB supported larger volume SILs in a wider range of activity sectors.

The Borrower was thus successful in establishing a strategic coherence by positioning and promoting the EIB and the CEB funds in a way that reflected the specific characteristics of each IFI.

Effectiveness

The Borrower successfully set up the SILs and allocated the CEB loan to a total of 46 enterprises between 2017 and 2019. Of these, 43 operated in the health sector and 3 in the education sector. The average sub-loan amounted to € 2 million with individual amounts varying between € 125 000 and € 7.5 million.

Under the SILs, the CEB funds were channelled to enterprises with an adequate "sustainability profile", as ascertained by the Borrower's internal classification and assessment system, which screened investments based on both their economic and social justifications.

The social justification was related to the location of the investment (as in the case of enterprises providing services in underserved areas), the nature of the investment (such as the purchase of environmentally-friendly technologies) and/or the profile of the beneficiary enterprises (such as enterprises with a socially-oriented business model and management vision).

Efficiency

The sub-loans financed through the CEB funds were issued by the Borrower at a reported discount of 20 to 80 basis points compared to the Borrower's overall business loan portfolio.

The Borrower thus successfully translated the CEB's advantageous lending conditions into a reduction in interest rates for the SIL eligible end-borrowers, representing an even lower rate than that expected at the CEB loan approval stage.

According to the information collected by the evaluation team, the low interest rate was an important but not decisive factor for loan uptake by end-borrowers. Indeed, most of them took a SIL because they were already clients of the Borrower.

From a credit risk point of view, no SIL beneficiaries were in default at the time of the evaluation.

Impact

Analysis of the loan proposals and the interviews with beneficiaries revealed that the financed investments generated a broad range of effects. These included increased outreach by health services to less developed areas, and increased availability of health services in the Dutch territories, in line with the policy objective of ensuring "the right care at the right place".

From a territorial development point of view, the SIL portfolio is concentrated in municipalities with average or below average incomes. Even in high income areas, SIL beneficiaries were often located in lower income neighbourhoods.

Some investments contributed to increased protection of the environment through the purchase of environmentally-friendly equipment and technology.

From the point of view of the beneficiary enterprises' employees, the recorded effects of the SILs were in the working conditions and enhanced workplace organisation. Interestingly, if evaluated solely against the impact domain formalised by the CEB at loan approval, the performance of the project would be quite limited, with a total of 599 new jobs created including 400 concentrated in a single beneficiary enterprise. In fact, job creation should be considered as an indirect and unintended effect rather than the driving objective of the SILs.

Sustainability

The Borrower has significantly expanded its portfolio of social impact-oriented financial products over the past few years. In line with this trend, there is scope for the CEB to continue supporting similar social impact schemes focused on improving social cohesion and environmental sustainability.

In terms of public policy, the strategic orientations of the Dutch healthcare and education sectors remained the same during implementation of the evaluated loan, with further emphasis placed on developing new private sector social service providers.

The Covid-19 crisis severely impacted the social sectors during the period 2020-2021, underlining the need to maintain vital services and to ensure the sustainability of healthcare, education, and elderly and child care services.

KEY LESSONS AND RECOMMENDATIONS

The CEB can draw a number of lessons from this evaluation with regard to the role played by IFIs in supporting cooperative banks operating in an advanced national/institutional context (such as the Netherlands).

■ The CEB's support was appreciated not only because of its attractive financial conditions but also because of its coherence with the objectives of an innovative financing tool targeted to social enterprises.

For the CEB, the financing of an impact-oriented financial scheme generated valuable social benefits, but it also entailed challenges in terms of defining appropriate eligibility criteria and a relevant monitoring framework.

The CEB has traditionally supported financial schemes targeted to private sector enterprises through Programme Loans under its "Supporting MSMEs for the creation and preservation of viable jobs" sector of action. The Borrower's SILs supported not only MSMEs, but also a wider range of enterprises, including larger socially-oriented enterprises and foundations operating in the health sector.

From a results monitoring point of view, the SIL scheme was guided by a holistic definition of social impact; effects were recorded in several domains with job creation being only an indirect effect.

■ Given the increased focus on private sector sustainable finance practices aimed at generating social and environmental results, the CEB's sectoral eligibility constraints (supporting solely private sector MSMEs for job creation and/or preservation purposes) may have limits when dealing with social enterprises which have broader social and environmental objectives.

Because of its social development mandate, for the Bank to support the financing of non-MSMEs would require a thorough review and clarification of which eligibility criteria, monitoring and reporting requirements should be put in place to guarantee the use of CEB funds in line with the Bank's mission.

■ A key recommendation stemming from this evaluation thus relates to the importance for the CEB to both clarify and strengthen its support to "social enterprises" and to the "social and solidarity economy". The clarification process would entail adapting the CEB's loan policy framework and eligibility criteria so as to better respond to the specificities of "social enterprises" and other actors in the "social economy".

To strengthen CEB support in this field would mean continuing and reinforcing the Bank's partnerships with cooperative banks and its contribution to developing innovative financial products oriented towards social cohesion and development. This would allow the Bank to more clearly underscore these orientations in its strategy and communication, given its role as a multilateral development bank with a social mandate.