Boosting job creation through small enterprises: 
How the Council of Europe Development Bank promotes social cohesion

High Unemployment: a European reality threatening social cohesion

With European economies now showing clear signs of recovery for the first time in years, policymakers’ attention has been rapidly shifting from crisis recovery measures to structural reform aimed at stimulating economic growth. The idea is to boost job creation in a continent where unemployment rates remain stubbornly high: one in four persons is now out of work in some of the countries worst hit by the crisis, where the jobless rate among the under-25-year-olds is sometimes as high as 50%.

Employment is hugely important. Not only is it widely recognised as the main route out of poverty, but it is also a pillar of social cohesion. Decent work boosts the self-esteem of individuals, contributes to the integration of marginalised groups, fosters cohesion within and across communities, and helps to build an inclusive, productive society. This is why the creation of viable jobs is crucial, particularly in periods of economic recovery from a recession. And this is why the Council of Europe Development Bank (CEB) has become actively engaged in this sector.

Small enterprises, generators of economic growth

Micro, small, and medium-sized enterprises (MSMEs) are key to generating economic growth. Studies show that there is a strong, positive correlation between the relative size of a country’s MSME sector and economic growth. It is widely accepted that the expansion of the MSME sector is closely linked to job creation, which, in turn, reduces poverty, increases productivity, and raises the living standards of the population, including of disadvantaged groups.

Impeded access to financing: a chronic problem for small enterprises

Yet, smaller businesses consistently complain about the lack of access to adequate financing, which they see as the biggest obstacle to development. The issue is widespread in Europe: it is reported as the most or second most pressing problem facing MSMEs across the continent, from Southern Europe (Spain, Portugal, Greece) and the Balkans (Croatia, Slovenia, Serbia, Montenegro, and “the former Yugoslav Republic of Macedonia”) to the Baltic and Nordic States (Estonia and Lithuania, Iceland).

The most commonly reported prohibitive factors when it comes to MSMEs seeking financing are high interest rates and the absence of sufficient collateral or guarantee. Market imperfections, such as immature financial markets and incomplete information on MSMEs held by banks and tax authorities, contribute to the creation of an environment where small businesses experience major credit constraints. As a result, MSMEs face disproportionate barriers in access to financing and are disadvantaged compared with large enterprises. This inequality, in turn, undermines the potential of small businesses as generators of net employment and economic growth, which has a negative impact on social cohesion.

Supporting MSMEs, creating jobs: a development bank with a social mandate

The Council of Europe Development Bank (CEB), as Europe’s social development bank and the only International Financial Institution with an exclusively social mandate, attaches great importance to job creation and preservation. For over five decades
now, the Bank has been working with governments and other financial institutions to generate employment in all its member States – the number of CEB members currently stands at 41, following the accession of Kosovo in November 2013.

More specifically, between 1995 and 2013 the CEB approved close to €9 billion for MSME financing. Since the Bank was established in 1956, the largest shares of MSME financing in both absolute and relative terms were provided in 2013: 50% of total CEB approvals (i.e. €1.1 billion) was aimed at assisting MSMEs, with the specific objective of viable job creation and preservation. In 2008 and 2012, the highest shares of CEB financing in favour of MSMEs, 83% and 92% respectively, benefited CEB target countries, a group of States in Central, Eastern and Southeastern Europe with increased needs in development aid for social infrastructure.

With the unanimous approval of the CEB’s Development Plan 2014-2016, supporting MSMEs is now a stand-alone sectoral line of action and one of the four sectors on which the Bank’s lending activity is based – the other three are: strengthening social integration, managing the environment and supporting public infrastructure with a social vocation.

**Promoting inclusive social development**

An increase in long-term unemployment, the proliferation of temporary employment (e.g. part-time or fixed-term contracts), and a rise in the jobless rates of migrants are now common problems in most European countries and CEB members. In such a socio-economic environment, disadvantaged populations are running a high risk of marginalisation and social exclusion. The CEB is well aware that MSMEs present an excellent opportunity to re-integrate these populations, generate employment...
and promote economic growth. By offering its continued support to small businesses to create and maintain viable jobs, the CEB strives to achieve its ultimate goal of fostering social cohesion.

To ensure that it reaches disadvantaged populations such as migrants and women, the CEB occasionally uses the retail network of commercial banks, both in target group and non-target group countries, and channels its lending through microfinance providers. These include credit unions and financial cooperatives (in Romania and Poland), NGOs (in Bosnia and Herzegovina, Serbia and Turkey), microfinance banks (in Spain), specialised divisions of traditional banks, and support schemes run by existing entities and development banks.

Through its lending activity, the CEB increases the availability and affordability of external financing for small businesses and strengthens the MSME lending market. Thus, it promotes inclusive social development across Europe, particularly in non-EU target countries, where the financial sector tends to be a lot less inclusive than in the Eurozone.

What next?

Efforts undertaken by the CEB and other development banks are not sufficient on their own. Effective absorption of MSME support requires States to make a firm commitment to developing an operating environment conducive to MSME growth. Thankfully, in most non-EU CEB target countries the MSME policy framework generally advances towards EU standards and there is a pro-active approach in developing the necessary operational environment.

Recent developments, from the ongoing recession to the floods hitting the Western Balkans in May this year and the ensuing social problems, have repeatedly demonstrated the need for an institution consistently addressing social issues in Europe. The CEB, with its social mandate, is well placed to promote equitable growth and inclusive development, and continually strives to enhance its operational capacity so it can better respond to the needs of its members.

Meanwhile, the Bank is and will remain committed to fostering social cohesion by actively supporting micro, small, and medium-sized enterprises, especially at a time when job creation is essential for economic growth in Europe. «

This article is based on a comprehensive technical study entitled Micro, Small, and Medium-Sized Enterprises: CEB Financing and its Social Value, prepared by the Directorate for European Cooperation and Strategy, The Council of Europe Development Bank, and published in February 2013. The full study is available in the “publications” section of the CEB’s website: www.coebank.org