

EX POST EVALUATION OF JOB CREATION PROGRAMMES

Programme aimed at financing private small and medium entrepreneurship

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Abstract

The ex post evaluation has assessed a Multi-project Programme in a Central European country approved in 1998. The Borrower was a national development bank. The evaluation is limited to the component of the programme for on-lending to small and medium-sized enterprises (SMEs), which totalled some 50 m€ for a CEB contribution of 23.5 m€.

Relevance obtained a marginal rating due to insufficient preparation and the choice for direct lending. Indirect lending through commercial banks would have been more relevant and would have allowed the Borrower to obtain better results. **This programme, implemented between 1999 and 2001, was the first framework agreement between the CEB and the Borrower. Since, practice on both sides has changed in favour of indirect lending.**

Effectiveness was marginal since, although final beneficiaries were satisfied with the credits they obtained, job creation through the programme was low and much of the SME portfolio has poor viability. Monitoring of the programme by the state bank and by the CEB was insufficient and not effectively acted upon.

The *efficiency* of the Programme was rated marginal because of the deterioration of the loan portfolio, a maturity mismatch which passed unnoticed to the CEB and weak financial control. Costs per job created were high as investments and companies often were capital-intensive. Job creation being the major objective of the loan, the beneficiary group should have been better targeted and the number of jobs to be created better specified at the outset.

The overall *impact* was negligible since the Programme had a neutral effect on the development of the SME sector and the financial sector.

Sustainability of the programme per se is not likely. Yet the Borrower has improved its strategy and procedures with regard to SME financing in favour of indirect lending.

The CEB's *value added* is questionable and its handling of the Programme could have been better with regard to institutional choices, target setting and monitoring procedures.

In sum, the Programme was not satisfactory. The general evaluation rating is marginal.

Recommendations

Appraisal and preparation

- The CEB should subject credit line projects to prior appraisal, set specific project objectives and check institutional alternatives. Objectives should take into account local needs and best practices, be translated into clear targets, conditions and reporting, and refer to SME viability and growth, as well as banking efficiency.
- The CEB should ascertain at appraisal the capacity of the intermediaries to allocate the credit line and provide them with technical assistance if needed.

Monitoring

- During the project implementation, CEB monitoring has been significant, pointing out some major issues. These warnings could have been followed by a review of the programme objectives relating to the viability and growth of the SMEs financed and, if necessary, by requiring independent audits.
- Particular attention should be paid to matching CEB-loan and sub-loan maturities; in case of a great time lag between the two, the principle of "revolving funds" should be used.

Internal communication

- The CEB should review its internal communication procedures to ensure that recommendations issued by monitoring units are effectively acted upon.