ECG

Evaluation Cooperation Group

Evaluating support to SMEs: Rationale, challenges and opportunities

ECG Paper #6

About the Evaluation Cooperation Group

The Evaluation Cooperation Group is dedicated to harmonising evaluation work among multilateral development banks. Its members are the evaluation departments of the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, European Investment Bank, Inter-American Development Bank, International Fund for Agricultural Development, International Monetary Fund, Islamic Development Bank and the World Bank Group. Observers are the Evaluation Network of the Development Assistance Committee of the Organisation for Economic Co-operation and Development, the United Nations Evaluation Group and the evaluation offices of the Black Sea Trade and Development Bank, Council of Europe Development Bank and Global Environment Facility.

Other evaluations and more information about the ECG can be found at: http://www.ecgnet.org.

This publication was led by the Evaluation Division of the European Investment Bank (R-L. Ballaguy) with the support of the External Communication Division of the EIB (T. Bending). Published as an Evaluation Cooperation Group paper, it does not reflect the ECG policy, or the views of ECG members or observers.

ECG

EVALUATION COOPERATION GROUP

Evaluating support to SMEs: Rationale, challenges and opportunities

ECG Paper 6

FINAL VERSION

June 2014

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The evaluation departments having contributed to this ECG Paper #6 belong to the following institutions: the European Bank for Reconstruction and Development, the European Investment Bank, the Inter-American Development Bank, the World Bank Group, and the Council of Europe Development Bank.

The definition of a SME varies from one institution to another. When a specific speaker or debater is mentioned, the SME definition used implicitly refers to the specific definition of the institution he/she represents. The definition used in the summary sections of the paper is the EU harmonised one (see http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/ for details).

Cover – Photos of SMEs supported as a result of EIB operations
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Abbreviations

CEB	Council of Europe Development Bank
DAC	Development Assistance Committee
EBRD	European Bank for Reconstruction and Development
ECG	Evaluation Cooperation Group
EIB	European Investment Bank
EU	European Union
EV	Operations Evaluation (European Investment Bank)
EVD	Evaluation Department (Council of Europe Bank)
FI	Financial Intermediaries
FMO	Dutch Development Bank
FVA	Financial value-added
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group (World Bank Group)
IFI	International Financial Institution
IFC	International Finance Corporation (World Bank Group)
MDB	Multilateral Development Bank
MIGA	Multilateral Investment Guarantee Agency (World Bank Group)
MTE	Ministry of Labour, Brazil
OVE	Office of Evaluation and Oversight (Inter-American Development Bank)
SMEs	Small and medium-sized enterprises
ToFA	Transfer of financial advantage
WBG	World Bank Group

Executive Summary

Small and medium-sized enterprises are recognised as playing a critically important role in job creation, economic development and social cohesion. However, the sector also faces constraints in terms of access to finance, particularly in times of economic crisis and in economies with under-developed financial sectors. For this reason, support to SMEs, principally focused on enhancing access to finance, is a strategic priority for many multilateral development banks (MDBs) and International Financial Institutions (IFIs).

In this context, evaluation can play a vital role in informing the design of support programmes for SMEs; helping to improve their relevance, effectiveness, efficiency and sustainability. But evaluating support to SMEs is also confronted with particular challenges that should be a source of concern to the evaluation community and all actors involved in this sector.
This paper presents key lessons from the Evaluation Cooperation Group (ECG) workshop on Support to SMEs, held at the European Investment Bank headquarters in Luxembourg on 29th March 2012. The aim is to re-launch debate and collaboration on the evaluation of support to SMEs within ECG and the wider evaluation community, as well as to encourage institutions to devote greater attention to the evaluative lessons generated.

The workshop

The workshop was structured with two panel discussions. The first focused on the rationale for supporting SMEs and the types of support provided, and gave non-ECG members an opportunity to share their perspectives. The second focused on sharing lessons from recent evaluations.

Key messages:

The rationale for support to SMEs: Participants discussed research and survey data available on the economic and social significance of the SME sector and the constraints that SMEs face. It was noted that while SMEs are undoubtedly important in terms of the sheer volume of employment they provide, the evidence is less clear on the role of the sector in net job creation. On the constraints side, data presented by Eurostat showed that the crisis in Europe has had a strong negative effect on the success of SMEs in obtaining finance. However, the data also showed that the role of access to finance has to be seen in the context of other constraining factors cited by SMEs.

What support is being provided to SMEs? Support to SMEs by MDBs and IFIs is mostly focused on improving access to finance. Most support takes an indirect form, including lending through local banks, private equity or venture capital participation through dedicated funds, the payment of performance fees to banks for SME lending, and the provision of portfolio guarantees. Such financing aims to pass on to SMEs the cost advantages of MDBs in raising finance. Technical assistance is also an important element of support. This typically targets financial intermediary institutions. Some MDBs have also targeted the reform of the business environment that influences SME outcomes.

What support reaches the intended beneficiaries? The first challenge facing evaluators of support to SMEs is how to tell whether the support provided is reaching eligible beneficiaries, and how to quantify the advantages that are being passed on. Institutions typically seek to monitor the eligibility of beneficiaries and the transfer of funding advantages through reporting requirements imposed on intermediary institutions. This approach was considered to be quite effective at a certain level, although institutions have to manage a trade-off between effectiveness and efficiency that limits the requirements that they can impose.

A more fundamental issue raised was that of the fungibility of financial support – how to determine what funding would have been provided to SMEs, under what conditions, had the support not been provided. In response to these concerns, participants mentioned efforts that were under way to go beyond a reliance on reported data, including *ex-post* visits to SMEs and wider surveys of these final beneficiaries. Nonetheless, it was suggested that assessing the transfer of benefits to SMEs remains conceptually difficult as long as one cannot make a comparison with the counter-factual scenario, something that itself remains a serious challenge.

What is the effect of support on SMEs? Many participants mentioned creating or sustaining employment as a key mandate objective for their institutions. Employment in SMEs, in terms of "jobs sustained" or "jobs created" is therefore frequently a key indicator. But participants noted that there are methodological and conceptual challenges in using this and other indicators of outcomes for SMEs. Most importantly, it is difficult to disentangle the effect of support from the effect of other factors, and difficult to interpret jobs data without counterfactual evidence of what would have happened if support had not been provided.

Evaluating wider impacts and relevance: Evaluation also needs to consider the net effects of support to SMEs on the economies and societies of which these SMEs are a part. In the workshop, there was extensive discussion about the extent of the evidence we have on the impacts of support to SMEs. There was a high level of consensus on the economic importance of the SME sector, but it was suggested that the evidence is less clear on the impact of supporting SMEs, relative to the impacts of other sectors. It was also noted that the "relevance" of support to SMEs might be highly dependent on the economic cycle. There was broad agreement that more evidence of impact is needed, despite the challenge this poses. The discussion also touched on the diversity of the SME sector, and the question of whether support should be focused, not on SMEs *per se*, but in young, innovative companies that are known to have a disproportionate potential to create employment.

Recent evaluations of support to SMEs

As a follow-up to the workshop, the EIB invited ECG members and observers to submit summaries of evaluations carried out or published since the workshop took place. The Annex therefore includes summaries of recent evaluations carried out the CEB, the EIB, the IDB and the World Bank Group IEG.

These summaries present key findings, recommendations and lessons learned from the evaluations. They describe innovative econometric and survey approaches and many lessons for future evaluation. They also describe evidence in terms of employment and other impacts, but stress the need for further research and programme approaches better able to track the impacts that they are having and ensure relevance.

Programme of the workshop

Opening	
Jan Willem van der Kaaij, EIB	Workshop chair
Jean-Christophe Laloux, EIB	Opening address
Panel One: Initiatives in support of SMEs: a general overview	
Cheryl Gray, IADB	Chair
Fabio Mucci, Unicredit	"SMEs in Central and Eastern Europe, a hidden driver of growth"
Manfred Schmiemann, Eurostat	"Access to Finance for SMEs: What can we learn from survey data?"
Ruurd Brouwer, FMO	"Support to SMEs in the view of a bilateral agency"
Debora Revoltella, EIB	"Support to SME policies in developing countries"
Panel Two: Evaluative lessons from recent evaluations	
Ivory Yong Prötzel, EIB	Chair
Bastiaan de Laat, EIB	"Evaluative lessons from SME evaluations"
Rachel Meghir, CEB	"SME evaluations in Europe"
Marvin Taylor-Dormond, WBG	"Lessons from World Bank Group support of SMEs"
Chris Olson, EBRD	"Evaluating SME projects at EBRD: some findings and challenges"

Introduction

This paper presents the key lessons that emerged from the Evaluation Cooperation Group (ECG) workshop on Support to SMEs, held at the European Investment Bank headquarters in Luxembourg on, 29th March 2012. The aim of publishing this paper is to re-launch debate and collaboration within ECG on the evaluation of support to SMEs, and also within the wider evaluation community. It is also to encourage institutions that provide support to SMEs to devote greater attention to the evaluation of such support, and to the lessons that are generated.

Support to SMEs

The importance of small and medium-sized enterprises (SMEs) for sustainable growth and employment is recognised worldwide. Accordingly, SMEs are a key priority area for many multilateral development banks. In developed countries, SMEs account for a majority share of value-added and as much as 67% of employment. They represent therefore a critically important part of the economy. In developing and transition countries, SMEs may account for a similar proportion of employment and play a central role in local private sector development. They are a critical part of the private sector mix, often addressing local niche markets, but also able to gain access to national and international markets.

The importance of support to SMEs as a strategic priority has grown with the global financial crisis. On the one hand, this is because of the significance of SMEs for creating and sustaining jobs. On the other, it is because SMEs are particularly dependent on bank lending as a source of finance and have been hardest-hit by the difficulties of the banking sector in many developed regions. This has greatly increased demands for intervention by MDBs and IFIs to support SMEs' access to finance.

Support to SMEs takes many forms. Financing is the most significant form of support, but may involve direct lending, lending through intermediaries, or other forms of finance such as private equity. Different forms of technical assistance and capacity building is also provided by many MDBs. Lastly, support can also focus on improving the business climate for SMEs through measures such as institution-building and promoting legal reforms.

The challenges of evaluating support to SMEs

Evaluating the support provided to SMEs presents challenges. Many of these have to do with the fact that most support is provided through financial intermediaries of some kind. The first challenge for evaluators is therefore to track exactly how, and to what extent, the advantages provided by MDB financing are being passed on to eligible beneficiary companies.

A further challenge is created by the need to measure the effectiveness of the support in terms of the difference it makes to the SMEs who are the final beneficiaries. There is a need to know, for example, what happens to these firms in terms of employment or financial standing. Evaluators are faced with the challenge of how SME business results can and should be attributed to the support provided.

Lastly, one of the goals of evaluation is to examine the wider impacts and policy relevance of support to SMEs. Evaluation aims to be a source of valuable lessons learned regarding the kinds of support that are really needed.

The structure of this paper

The following section gives a concise overview of the presentations and discussions that took place at the workshop. The main section then presents the key lessons that emerged from the workshop in terms of the rationale for supporting SMEs, the types of support that are being provided, and experiences, successes and challenges in relation to evaluating the support that reaches SMEs, its effectiveness for SMEs, and the wider significance of this support. The conclusion summarises the key lessons learned and discusses how stakeholders can build upon them.

Overview of the workshop proceedings

The workshop was held over one day and was divided into two main panels, each with four panellists. The first panel was formed by panellists representing institutions that are not all members of ECG. Its objective was to share different perspectives on the main issues concerning support to small businesses. The second panel was formed by representatives of ECG members and focused on sharing the lessons learned from recent evaluations of support to SMEs.

Opening

The workshop was **introduced** by Jan Willem van der Kaaij on behalf of the European Investment Bank (EIB), as the Chair of the ECG at the time. He described how ECG members come together through workshops like this one to exchange views and build on each other's experience. He also said the workshop was a way to try and build a bridge between the evaluation world and the practitioners on the ground – the people for whom the evaluations are done.

The **opening address** was given by Jean-Christophe Laloux, at that time Director of the Western Europe Directorate at the EIB. He provided an overview of EIB financial support to SMEs, noting that SMEs are a core priority for the EIB, even more so since the start of the crisis. He described the scale of EIB lending through intermediaries – mostly inside the EU, but also outside – as well as venture capital support to SMEs through the EIB's subsidiary, the European Investment Fund (EIF). He also talked about the constant challenge of having the right instruments to meet SMEs' needs, balancing the need for efficiency and effectiveness, and bringing added value to the market to complement the existing supply of SME funding.

Panels

Panel one was chaired by Cheryl Gray of the Inter-American Development Bank (IADB). It aimed to give an overview on the needs of SMEs for support and the types of support being provided.

Panel two was chaired by Ivory Yong Prötzel from the EIB Evaluation Department. It focused on the lessons from recent evaluations of support to SMEs by the Evaluation Departments of MDBs.

Panel One: Initiatives in support of SMEs: a general overview

SMEs in Central and Eastern Europe, a hidden driver of growth	**Fabio Mucci**, from **Unicredit** banking group, outlined the impact of the crisis on the SME sector in Central and Eastern Europe, particularly in terms of access to, and cost of, funding. He spoke about what the banking sector needs to improve conditions for SMEs in five key areas: providing integrated banking services; supporting recapitalization in order to better withstand volatility; targeting innovative firms; using IT to reduce costs and increase value-added; and providing services to support cross-border companies that can benefit from trade growth.
Access to Finance for SMEs: What can we learn from survey data?	**Manfred Schmiemann** (**Eurostat**) presented the findings of an *ad hoc* Eurostat survey carried out in 2011 on access to finance for SMEs. He presented results that show a dramatic increase in unsuccessful loan requests through the crisis, particularly for young, high-growth firms. He also covered the factors that influence why companies choose a bank for a loan; the relative importance of different sources of finance; and the factors cited as most likely to limit firm growth in the future.
Support to SMEs in the view of a bilateral agency	**Ruurd Brouwer** from the **Dutch Development Bank** (FMO) reflected on FMO's experience in SME-targeted lending and outlined some of the particular needs that exist for better evaluation results in terms of demonstrating the development and economic impacts of support to SMEs, as well as tracking the value-added that reaches intended beneficiaries. He talked about how the FMO is looking at how it can go beyond lending volumes to enhance non-financial added-value through an integrated approach.
Support to SME policies in developing countries	**Debora Revoltella** (**EIB**) reviewed the evidence that exists on the significance of support to SMEs in terms of impacts such as employment effects, promoting social cohesion and nurturing innovation, within both developed and emerging markets. She also talked about the support to SMEs provided by the EIB and the work the bank does to track the transfer of benefits from EIB involvement to final SME clients, as well as research to understand the effective conditions of access to credit for SMEs.

Panel Two: Evaluative lessons from recent evaluations	
Evaluative lessons from SME evaluations	**Bastiaan de Laat** (**EIB**) presented a synthesis of the findings of all the SME-related evaluations carried out by the EIB in the last decade, relating to lending through financial intermediaries as well as technical assistance and private equity investments through the EIF. He described findings in terms of outcomes for SMEs and added-value of EIB operations. He then went on to describe the instrumental use of evaluation results within the EIB.
SME evaluations in Europe	**Rachel Meghir** from the **Council of Europe Development Bank** (CEB) reported on the CEB experience of evaluating intermediated lending to SMEs in Europe, discussing the Development Assistance Committee (DAC) criteria of relevance, efficiency and effectiveness, sustainability and impact. She commented on the effect of the crisis and the economic cycle on the constraints SMEs face, and therefore on relevance to policy objectives. She put forward suggestions on how relevance could be ensured through better targeting and incentives.
Lessons from World Bank Group support of SMEs	**Marvin Taylor-Dormond** of the Independent Evaluation Group (IEG) of the **World Bank Group** (WBG) used his presentation to discuss the rationale for supporting SMEs, to describe the typology of interventions in support of SMEs that the WBG has carried out, and to present some key lessons that they have drawn on effective ways to support SMEs.
Evaluating SME projects at EBRD: some findings and challenges	**Chris Olson** of the **European Bank for Reconstruction and Development** (EBRD) described EBRD's SME mandate and wide range of activities for supporting SMEs. He spoke about the lack of data on business results outcomes experienced by SMEs supported, the cost and scale challenges that banks and private equity funds face when financing SMEs, and the chance to target those SMEs that are more likely to grow fast when job creation is an objective.

Discussions

There was extensive time for questions, answers and comments after both panels. Many questions and comments focused on the challenges and progress made on tracking the benefits passed on to SMEs through intermediated lending, and on measuring outcomes for SMEs - particularly in terms of employment effects that can be attributable to support, as well as incentives for commercial banks and the need to distinguish between different types of SMEs.

Key lessons from the workshop

The key issues

The presentations and discussions covered the full range of support provided to SMEs. Nonetheless, particular attention was given to funding SMEs through financial intermediaries, which is arguably the most important means of support for most MDBs. The evaluation of such support is quite complicated – because it is intermediated – and there is potential for talking at cross-purposes when using the DAC criteria or the familiar output-outcomes-impacts approach. For example, it can be confusing whether outcomes refer to lending activity by intermediaries, or the results of such lending for small businesses.

To help avoid possible confusions, the following sections will refer to the results of support to SMEs in quite concrete terms. The first section summarizes the key points made on the established rationale for support to SMEs. The second provides an overview of the different forms of support provided to SMEs, as described by the presentations. The third section addresses the issue of how to evaluate the support that actually reaches SMEs. It addresses, in other words, the question of what support is actually passed on by intermediaries to the intended SME beneficiaries. The fourth section summarizes the discussion on the actual effects of support on SMEs, for example in terms of business results and number of employees. Finally, the fifth section reviews the discussion on the challenges of evaluating the wider economic and social impacts of support to SMEs. This last section thus brings the discussion back to the question of the rationale and relevance of interventions to support the SME sector.

The rationale for support to SMEs

The economic and social role of SMEs

Support to SMEs is a very important area of focus for many MDBs and IFIs, most notably for those with a focus in Europe and its near-neighbours. Presenters explained that support to SMEs is a core priority for, for example, the EIB and the CEB, and that for the EBRD this mandate is even written in its founding documents.

The rationale for such support to SMEs was extensively discussed. It can be seen as having two sides: the first is the role SMEs play economically and socially, while the second relates to the different constraints that the SME sector faces. As a sector with enormous potential positive impacts, but facing constraints, SMEs are seen as a necessary and urgent focus of public intervention.

In discussing the role of SMEs in the economy, many participants cited the size of the sector, both in terms of the number of firms and the proportion of employment they account for. It was noted that 99% of the firms in Europe are SMEs, and that these represent 67% of all employment. It was also said that SMEs account for 80% of new jobs in Europe, although discussions made clear that we have less information about the net job creation effect. It was also noted that the SME sector has had a cushioning effect on employment in the current crisis, principally because it is more difficult for small firms to cut costs by shedding jobs. A question was raised about how long small firms could survive in this way, and how long this cushioning effect would last.

Research was cited that shows that SMEs account also for the largest share of employment and the largest share of job creation in emerging economies. This was said to be true even if one controls for the age of the firm. However, it was also noted that productivity growth appears to be stronger in larger firms. In other words, SMEs create many jobs, but not always the top jobs.

Presenters also cited evidence that suggests that the health of the SME sector is important for social cohesion, regional development and, in particular, innovation. The SME sector includes young innovative firms and can be seen as important for facilitating innovation *per se.* It can also be seen as a nursery for small firms with high growth potential. The innovation role of SMEs is regarded as particularly important in the US economy.

What are the constraints that SMEs face?

It was generally agreed that SMEs face a greater access to finance constraint than large firms. Research was cited suggesting that this was true even for high-performance firms that should otherwise be attractive to finance. In general, it was noted that industries that are highly dependent on external finance (a characteristic of SMEs) tend to develop faster in countries that are more financially developed. Being more dependent on external finance, and particularly bank lending, SMEs are more likely to be constrained by financial market failures and the high levels of risk aversion and funding costs characterised by, for example, the recent crisis.

Important inputs on this topic were provided by Mannfred Schmeimann (Eurostat) from the 2011 Eurostat survey on access to finance for SMEs. This survey revealed that loan refusals for SMEs increased quite dramatically through the economic crisis in Europe, and that the situation has been even worse for small firms with a high growth potential ("gazelles"). However, "not enough finance" was cited by respondents less often than the general economic outlook, limited demand and price competition as a factor likely to limit future growth. Banks were cited as the most important source of finance, but leasing companies, trade credits and advanced payments were also often cited as finance sources. The most important criterion for SMEs in choosing a bank for a loan was an established client relationship, but interest rates and other terms were also important.

Other constraints described by presenters included a need to strengthen companies' capitalization in order to withstand phases of larger volatility, the need for better linkages between large and small firms, lack of capacities or skills and institutional or regulatory failures. It was noted that in emerging economies, there may be a lack of capacity not only among SMEs, but also within the financial institutions that are needed as intermediaries.

What support is being provided to SMEs?

Providing finance

Probably all the MDBs represented at the workshop provide some kind of support that aims to supply finance to SMEs, or to reduce the financing costs that they face. This takes many different forms.

Direct financing of SMEs (lending or private equity) has been employed by only a minority of institutions, such as the World Bank Group and the EBRD, and has generally been replaced by intermediated support which is seen as generally a more efficient approach.

Intermediated forms of support include lending through local banks, financing of non-bank financial institutions such as leasing companies, private equity or venture capital participation through dedicated funds, the payment of performance fees to banks for SME lending, and the provision of portfolio guarantees on SME lending. Lending to financial intermediaries is the most significant form of support in terms of the volumes of funding involved and the number of institutions that use this approach. Private equity and guarantees may also play an increasingly important role.

Intermediated financing aims to pass on to SMEs the cost advantages that MDBs and IFIs enjoy as institutions with very high credit ratings. Some instruments aim to further reduce funding costs for SMEs by allowing a portion of the cost to be carried publicly (e.g. financed through public grants). These include guarantees, which share risk, performance fees, and partly corresponds to instruments blending grants and loans.

Technical Assistance

Although the amounts of money involved are smaller, technical assistance is also an important aspect of the support provided. The main targets of technical assistance are the financial intermediary institutions. Such technical assistance aims to increase their capacity to lend to SMEs effectively and at scale. As described by presenters, it is typically something provided alongside financial support, and often in connection with support to set up local financial institutions focused on SME lending, such as private equity funds and holding funds.

Some institutions, notably the World Bank Group, have also implemented programs that target technical assistance programmes at SMEs themselves. These include programs to provide direct consultancy services, to set up local training programmes and to strengthening local consultancy service providers.

Reforming the business climate

Support to relieve the constraints that SMEs face can also include interventions to promote regulatory reforms and to strengthen the capacity of small businesses to influence the political sphere (through, for example, supporting the formation of small business associations). Investments in large companies can also include elements that promote the development of supply chains that include SMEs. From among the presenting institutions, it was again notably the World Bank Group that was most involved in these areas.

What support reaches the intended beneficiaries?

Tracking relevance and effectiveness through reporting requirements

The first challenges facing evaluators of support to SMEs is how to tell whether the support provided is reaching eligible beneficiaries, and how to quantify the advantages that are being passed on.

The question of whether the final beneficiaries are eligible for support can be seen as an issue of "relevance" from a certain perspective, but is more narrowly about whether *ex-ante* funding criteria are followed and operations are consistent with policies. While the issue of "relevance" in terms of the wider impacts of support to SMEs is a challenging area for evaluation, the issue of eligibility was generally seen by workshop participants as something that institutions are able to track with relative ease. For example, Jean-Christophe Laloux (EIB) described how in the EU – where they typically work with client banks with which they have a well-established relationship – they are attempting to streamline the information required of clients, whilst carrying out *ex-post* checks. Outside the EU, by contrast, he said that more labour-intensive *ex-ante* controls of final beneficiaries are used to ensure eligibility, given the very different conditions.

Such reporting and monitoring approaches were also described as the basis for tracking the transfer of funding advantages to SMEs, such as conditions on loan maturity or interest rate discounts. One of the key issues raised with these approaches is an efficiency-effectiveness trade-off: the greater the reporting requirements imposed on intermediaries, the greater the administrative burden and the less attractive it becomes to participate in MDB and IFI support to SMEs.

The problem of fungibility

However, more fundamental issues were also raised in the presentations and discussions, and these concerned the fungibility of the support provided. Funding for SMEs is fungible in the sense that even if funds are correctly reported to have been lent-on to certain SMEs with certain conditions, it is very hard to know what funding would have been provided to SMEs, under what conditions, had the support not been provided. For example, it is hard to know the interest rate and maturity that would have been offered to a particular SME in the counter-factual scenario, and hard to know whether intermediaries have not merely chosen for MDB and IFI funding those SMEs that would anyway have qualified for funding under similar conditions. It may be assumed that low-cost sources of funds from MDBs and IFIs enable and promote greater lending volumes to SMEs, all things being equal, but this effect is nonetheless hard to measure.

In response to these concerns, participants mentioned efforts that were under way to go beyond a reliance on reported data. For example, Bastiaan de Laat (EIB) described a move towards greater use of *ex-post* visits to samples of SMEs, and wider surveys of these final beneficiaries, to see what funding benefits have been passed on and to get the view of SME owners themselves about the difference that support has made.

Even with such efforts, however, it was suggested that assessing the transfer of benefits to SMEs remains conceptually difficult as long as one cannot make a comparison with the counter-factual scenario. Chris Olson (EBRD) mentioned a randomized control trial that EBRD is carrying out with a micro-finance institution in Mongolia to assess the effectiveness of different kinds of lending practice, and there was some discussion of whether such an approach could, in principle, allow evaluators to say more about the causal relationship between MDB and IFI support and the experience of SMEs. Nonetheless, it was also questioned whether this would be either practical or conceptually valid in all contexts.

Another issue related to fungibility was raised by presenters, and that was the fact that there may be a tendency for the focus of intermediary institutions to drift away from small enterprises. This is important because one element of MDB and IFI support for SMEs is investment in the establishment and technical development of institutions specialised in providing finance to SMEs. This has been and is quite important in emerging markets. One example given was of private equity funds established with a focus on SMEs that have, over the years, gradually become focused on larger companies because these offer greater prospects of returns for this type of funding. This is another example of how the value added by MDB and IFI support can be fungible, and how the transfer of this value to the intended beneficiaries is not simple to measure and always visible.

What is the effect of support on SMEs?

Measuring the effect of support on final beneficiaries

A concern mentioned by many participants was the need to measure outcomes in terms of the effect support has on targeted SMEs. The main concern mentioned was with the direct employment effect within the SMEs supported. For at least some of the MDBs and IFIs represented at the workshop, this was a key outcome indicator. The question of whether supported SMEs become business "successes" or "failures" was also raised. More generally, outcome indicators for supported SMEs could include rate of profits or turnover, value, ability to service debts and credit standing, as well as business survival and number of people employed. Participants also mentioned cases where they had evaluated working conditions and the adoption of environmental standards.

It needs to be made clear that there is a conceptual difference between these outcomes for supported SMEs and economy-wide or region-wide effects on employment, growth, social cohesion, etc. These latter effects are discussed below as "impacts" of support to SMEs.

The mandate of many MDBs and IFIs, as described by participants, is strongly related to employment. Therefore a headcount approach of looking at the number of people employed in supported SMEs ("jobs sustained"), or comparing the numbers of employees before and after support ("jobs created") was mentioned as an approach used. While employment in supported SMEs is obviously an important indicator, there are methodological and conceptual issues with using it as a key outcome indicator that were repeatedly raised in the presentations and discussion.

In some simple respects, employment may not be a good indicator of the success of support. Different sectors and types of firm can be expected to show very different employment results per unit of lending. It depends on the capital intensity of the firm and whether finance is used for expansion or merely sustaining existing operations. It may also be the legitimate goal of investment to increase productivity and thus incomes, while reducing number of employed. In general, the headcount approach is insensitive to differences in the quality and duration of employment.

The problem of attributing outcomes to the support

More fundamental is the problem of interpreting jobs data without a solid counterfactual: what would have happened if support had not been provided? For example, the effect of the economic cycle on employment outcomes, and thus on the impacts and relevance of interventions, was an issue brought up in the presentations. In a down-turn, merely helping supported firms to survive and maintain employment might be seen as a good outcome. In a period of economic growth, by contrast, the counterfactual scenario might be that firms would have maintained employment anyway, and may have grown without support. It was pointed out that without a way to get at the counterfactual, it is very hard to evaluative the degree of causality between support and outcomes, whether in terms of employment or other factors.

Various participants described how they, as evaluators, are seeking to get a more reliable idea of outcomes for the SMEs that their institutions support. Again, this is one goal of increasing efforts to visit beneficiary SMEs to get a better picture of how support has been used and to learn how SMEs themselves see the effects of the support on their businesses. Such efforts are thus about assessing both the support actually provided and the effect of this on SMEs. Assessing employment or other effects for SMEs obviously depends on an assessment of what finance, under what conditions, the SMEs may have been able to access without the support. The discussion on whether other approaches, such as randomized trials, could play a role in how support is provided and evaluated was also related to this issue.

The discussion also touched on whether strategies to support SMEs should remain focused on creating and sustaining jobs, as a central outcome indicator. As part of a rethinking that was said to be taking place, one option considered was a more targeted approach focused on creating incentives for specific social impacts. An alternative approach was said to be to move away from defining expected outcomes in terms of employment and to restrict the focus more to financial sector development goals.

Evaluating wider impacts and relevance

"Impacts" here refers to more than the indirect effects of support on the SMEs that receive it. It refers to the net effects on the economies and societies of which these SMEs are a part. These include effects on overall rates of growth and employment, regional development and social cohesion.

Evaluation of the economic and social impacts of support to SMEs should play a critical role in informing the design of support programmes and showing why they are needed. It is about the rationale for support to SMEs, and also about the policy relevance of such support in a way that goes beyond the issue of whether particular counterparts are eligible for support according to defined lending criteria. Evaluation of impacts goes hand in hand with an understanding of the constraints that SMEs face, and therefore the way in which support is able to overcome these constraints.

At the workshop, there was extensive discussion about the extent of the evidence we have on the impacts of support to SMEs. As described above, there was a high level of consensus on the economic importance of the SME sector in terms of numbers of firms and the proportion of employment that if provides. There was also said to be evidence of particular importance for innovation and social cohesion. Evidence was also presented of the particular funding constraints that SMEs face, particularly young, high potential growth SMEs, and particularly through the recent crisis.

However, it was also repeatedly suggested that we do not actually have evidence of employment or development effects of SME sector growth that are disproportionate to the size of the sector. A comparison was drawn with the difficulties faced by the micro-finance sector in demonstrating development impact. Indeed, anecdotal evidence from visits to supported SMEs was reported as raising a question over how many of these beneficiaries could really be termed “successes” in business terms, even where the support programme (intermediated lending in this case) was not seen as unsuccessful.

Another finding of a comprehensive evaluation of intermediated lending by one MDB was that while beneficiaries had been eligible, the “relevance” of the intervention in terms of overcoming constraints, making a difference to SMEs and wider impacts, was probably largely dependent on the economic cycle.

There was thus broad agreement that more evidence of impact is needed, and also recognition of the challenge this poses. Measuring impact is challenging not only because of the difficulties already described in attributing outcomes to support, but also because a complex of factors contribute to impacts. Thus where a supported SME increases employment, this may have both positive knock-on effects for other firms and negative effects for direct competitors. It is thus difficult to estimate aggregate impacts on the basis of micro outcomes.

In the discussion on the rationale for support to SMEs and need for better evidence of impact, one suggestion was that maybe the approach of MDBs and IFIs is not targeted enough. It was noted a number of times that SMEs make up a huge proportion of the economy and encompass such diverse companies as small, well established family businesses with little desire or potential to grow; sophisticated, export-oriented firms; and young start-ups that may have great growth potential and are also likely to face particular finance constraints. It was suggested that perhaps support should be focused, not on SMEs *per se*, but on young, innovative companies that are known to have a disproportionate potential to create employment.

Conclusion

In his closing address to the workshop, Jan Willem van der Kaaij (EIB) thanked participants and offered a brief summary of some of the main conclusions of the workshop.

He suggested that one of the most important conclusions that could be drawn, was that SMEs are a key factor in boosting recovery, facilitating job creation, and attaining long-term sustainability. He noted that all the institutions represented were working on this basis. Nonetheless, he emphasised that there are questions about whether we really fully understand the causality between support to SMEs and these impacts. He said that there was still a lot of work to be done to get to the bottom of the relationship between the financing of SMEs and sustainable economic growth.

His second conclusion related directly to evaluation. It was that there are still many outstanding questions and room for improvements in how the transfer of benefits and the effects of support are measured. He mentioned the need to improve the measurement of the transfer of both financial and non-financial forms of added value from the support we provide. More work was also needed, he said, on the measurement of outcomes and, in even broader terms, regarding impact evaluation.

His last point was to emphasise the issue of how lessons learnt through evaluation can be more effectively channelled back into the process of designing and initiating operations. This, he said, was one of the reasons the ECG organises workshops of this kind, and expressed the view that this workshop had provided interesting food for thought for both the evaluators and the practitioners present.

Key lessons from recent evaluations

Many of the conclusions of the workshop are echoed in the four evaluation summaries from the CEB, EIB, IDB and WBG-IEG included in the following Annex. They also provide an update in the progress that is being made by ECG members and observers in effectively evaluating support to SMEs.

These recent evaluations reflect how evaluators are developing the methodological approaches used for evaluating SME support. For example, one lesson from the recent EIB evaluation is the usefulness of a large survey of SMEs in providing evidence to cross-check the findings of other methods. Meanwhile, a lesson from the recent IDB evaluation is that complex evaluations using micro-level data are feasible and can help address assessment of impacts.

Findings on the outcomes and impacts of support for SMEs are mixed. In some cases there is evidence for positive impacts on growth, employment and wages. But such impacts also appear to depend strongly on context, including the economic cycle. The usefulness of employment creation/preservation as a key indicator is raised.

Overall, these recent evaluations depict an area of support where there is still room for considerable programme development and refined approaches for tracking results, with an outstanding need for better understandings of the links between MDB support for the SME sector and wider social and economic impacts.

Annex 1:

Recent evaluation activities carried out in the field of SME support

At the time of the workshop in March 2012, many ECG members and observers were conducting or planning evaluations on support to SMEs. Since the workshop, many of these evaluation activities have been completed, and provide an opportunity to advance the discussion further by sharing methodologies, key findings, recommendations and lessons learnt.

For this reason, in the course of developing this publication, the EIB invited workshop participants to share key summary information on recent evaluations, using a common tabulated format. Contributions were received from The Council of Europe Bank, European Investment Bank, Inter-American Development Bank, the World Bank Group and the European Bank for Reconstruction and Development. These contributions are presented in this Annex.

CEB Job creation and preservation portfolio – Evaluation findings and strategic issues

Institution	Evaluation Department (EVD), Council of Europe Development Bank
Evaluation team/contact	Rachel Meghir, Director EVD
Description of the evaluation activities	
Aim	This evaluation synthesis report, which closes a so-called *evaluation cycle*, reviews the evaluation findings that emerged from the evaluation of a series of individual SME-support operations, in order to contribute to internal reflection on the positioning of the CEB in this sector.
Scope	The CEB “job creation” portfolio in the 1995-2008 period included 132 approved operations, of which 71 were completed at the time, representing loan approvals of 2.5 billion €. The purposive sample of in-depth evaluations covered 7 operations and 12% of the loan volume. The sample selection aimed to cover a broad geographical spread as well as the various implementation modalities identified within the portfolio.
Timeframe	The individual evaluations, carried out between 2006 and 2009, comprised a sample of 7 SME operations from among those financed by CEB in the 1995-2008 period and served as the basis for the synthesis report. The Synthesis report reviewed the findings from a broader, corporate perspective with a view to identifying strategic issues for the CEB. It was released subsequent to internal consultations at the end of 2012.
Methodology	The evaluation cycle is based on a detailed initial portfolio analysis and a selection framework for the individual evaluations comprising the sample, with a view to reflecting the portfolio structure as closely as possible. Individual evaluations are prepared through internal document reviews covering the full project cycle up to operational completion reports. All evaluations included field-based stakeholder consultations and final beneficiary surveys. The synthesis report includes a review of the contextual background in CEB member countries, the evaluation findings of other MDBs and a comparative analysis of evaluative lessons for corporate learning.
Resources	EVD staff and consultants

Main conclusions & recommendations

The CEB included lending through financial intermediaries to SMEs as one of its ten "sectors of action" through which it strives to achieve its corporate mandate, and has recently upgraded the status of SME operations by making it one of four major elements of corporate reporting. The overarching objective of SME programmes lies in their role in employment generation and preservation as one important vector for social integration. The EVD evaluations were carried out in this context, and the review of recommendations issued on the occasion of the individual evaluations revealed a number of recurrent themes that were highlighted in the synthesis report so as to derive higher level lessons for consideration of future operations, to wit:

CEB should reflect on and present its strategic position in terms of providing lending to the SME sector	This positioning could take into account options for a niche strategy (targeting a specific sub-category of SMEs and/or group of entrepreneurs), focusing on the quality of jobs rather than on quantity alone, and/or developing specific instruments to support a clearer profile of operations.
CEB should endeavour to achieve a stronger social targeting of SME operations	A stronger social connotation might be achieved by introducing more precise eligibility conditions for intermediary banks or enterprises seeking to participate in the programmes.
CEB should ensure good-quality institutional design	CEB should ensure good-quality institutional design in its arrangements with its borrower financial intermediaries. The evaluations pointed specifically to an assessment of the institutional capacity of intermediaries at appraisal, including the necessary outreach structure, sector experience and an explicit mission statement in the area of SME support.
CEB should reconsider the existing headcount-based approach to project objectives	The existing monitoring framework was found to have low informative content and is faced with methodological difficulties, particularly concerning job preservation effects.
CEB should be more thorough in programme monitoring	CEB should be more thorough in programme monitoring in order to identify, early on, potential under-achievements and departures from the original appraisal as well as compliance with established reporting requirements. A more regular and targeted assessment of project performance and rationale was recommended.

Lessons learned

- The social relevance of CEB-funded SME operations within the existing operating model crucially depended on their timing in the economic cycle.
- "Generic" SME-financing operations may be "socially" justified on the assumption that SME financing is needed for job creation and preservation. There are limits to a "one-size-fits-all" approach in job creation/preservation and the relevance of such operations is highly dependent on the market strategy of intermediary banks at country level.
- Several methodological and conceptual shortcomings are associated with an approach solely based on job creation and preservation objectives.
- Based on the findings and lessons, several options were presented to reflect on possibilities for enhanced social relevance of this sector.

Ex-post evaluation of EIB Intermediated lending to SMEs in the EU, 2005-2011

Institution Operations Evaluation (EV), European Investment Bank

Evaluation team/contact Bastiaan de Laat (Evaluation Expert / Team Leader, delaat@eib.org), Ulrich H. Brunnhuber (Evaluation Expert), Marie Egret (Evaluator), Carlos d'Anglade (Senior Evaluator), Judith Goodwin (Assistant)

Link http://www.eib.org/attachments/ev/ev_synthesis_report_smes_en.pdf

Description of the evaluation activities

Aim The evaluation followed an explicit request by the EIB's Board of Directors in February 2010 for EV to carry out an ex-post evaluation of the Bank's *intermediated* SME lending that would (i) reflect on the implementation of the EIB's new strategies with regard to SME financing and (ii) provide insights into the benefits accruing to SMEs. For the EIB companies qualifying as SME have less than 250 employees (full-time equivalent) prior to the investment.

Scope The 27 Member States of the European Union. In this area, over 2005-2012, the EIB signed EUR 64bn in loans to around 370 FIs within the EU27. By end 2012, EUR 53bn of this was disbursed to those FIs, which in turn had on-lent nearly EUR 48 billion to SMEs through around 300 000 sub-loans (allocations). SME lending within the EU represented, in 2013, EUR 18bn – about one quarter of EIB lending in that year.

Timeframe 2005-2011

Methodology

- Policy and Portfolio review; reconstructing of intervention logic.
- In-depth evaluations of 19 loan operations, yielding 19 individual reports. This focused on all elements of the intervention logic (EIB, Financial Intermediaries, SMEs); FIs in particular were asked to provide benchmarks of the "EIB SME portfolio" against the rest of their SME portfolio in terms of sizes, risk profile and loan characteristics.
- 74 SME site visits (interviews with SME Director and relevant staff; inspection of premises).
- Telephone survey amongst 1003 beneficiary SMEs (notably focusing on the impact of the SME loan on the company and the economy).

Resources Internal EV team of 5 staff; supported by external consultant team of 4 consultants for about half of the in-depth reports; external survey company. Evaluation preparation started in September 2011, with a final report delivered in April 2013, first presented to the Board in July 2013 and finally discussed in September 2013.

Main conclusions and recommendations

What works:

- The contractual Transfer of Financial Advantage (ToFA) principle works: funds are passed on to SMEs at improved conditions.
- Most of the operations evaluated were consistent with EU/EIB objectives, with even an increased relevance due to the crisis. However, operations would need better alignment with national policies/needs.
- The L4SME is effective: 'it does what it says and says what it does'.
- Most FIs made substantial efforts to create EIB product, set up IT systems, train front office staff, make publicity, etc.

Issues: *By design* L4SME leads FIs to select stronger and less risky firms to be financed under "EIB portfolios".

No significant impact on growth and employment creation, and highly variable between countries, sometimes keeping the SME economy afloat (but these were not explicit objectives of the instrument).

Awareness is not a sufficient factor to transfer benefit, but visibility and transparency strongly enhance its control.

RECOMMENDATIONS

1. Clarify the objectives of intermediated SME lending
2. Adjust EIB Group product offering better to national needs and policy mixes
3. Prepare for smart targeting
4. Additionality: in order to avoid confusion, choose a more appropriate term
5. Optimise the benefits passed on to SMEs:
   a. Undertake a regular internal review of the actual benefits passed on to SMEs. Such analysis should be performed for a representative sample of operations. It should inform the future decisions about the level of FVA and ToFA, in view of optimising and possibly maximising the benefits passed on to SMEs.
   b. Undertake a review of the underlying principles on the topics of reuse of funds and maturity mismatch, and following that a clarification of the related contractual clauses and a better enforcement of such clauses.
6. Promote visibility and transparency even more
7. Assess clients' adherence to environmental and social regulations
8. Reinforce Central Allocation Unit's role
9. Improve internal and external SME reporting

Lessons learned

It was the first time EV used a major survey as one of its methodological tools within an evaluation and this turned out to provide a useful piece of evidence, giving comfort to the evidence coming from the financial intermediaries and the SME site visits.

After Board presentation, the evaluation was, also for the first time, closed with an EIB-internal "SME Week" during which a poster exhibition showed some 25 SME cases (of the SMEs visited for the evaluation), a general presentation of the Bank's SME Policy was given as well as a presentation of the detailed evaluation results. This created awareness both for the SME policy of the EIB in general and the role that evaluation can play.

A comparative analysis of the major programs assisting SMEs supported by the IDB in Latin America and the Caribbean

Institution Office of Evaluation and Oversight (OVE), IDB

Evaluation team/contact Jose Claudio Pires, Simon Lodato, Tulio Cravo, Saleema Vellani and Diether Beuermann

Link www.iadb.org

Description of the evaluation activities

Aim A comparative analysis of the major programs assisting small and medium enterprises supported by the Inter-American Development Bank in Latin America and the Caribbean.

Scope The analysis exclusively focuses on programs implemented by Brazilian institutions

Timeframe April 2013 – ongoing (estimated delivery date: April 2014)

Methodology This evaluation uses quantitative methods to evaluate major SME support programs implemented in Brazil from 2003 to 2012. The results of various SME interventions are assessed based on effectiveness criteria captured by impact evaluations. The evaluation analyses whether firms that received certain types of SME support performed better in terms of employment, exports and real wages than similar firms that did not receive the support.

The study exploits cross-section and panel datasets at the firm level, controlling for industry and region-specific effects. The panel data control for unobservable characteristics at the firm level that are time invariant.

The data provided by Brazilian agencies allow OVE to assess the impact of the main types of SME support: credit, value chain, training, innovation and export promotion. The impacts on employment and real wages are measured based on data provided by the Ministry of Labour (MTE).

The control groups are constructed based on the Annual Social Information Report of the MTE dataset, which provides information on employees and establishments from 2001 to 2012. This dataset comprises the universe of formal employment and firms in Brazil and provides detailed information on firms (i.e. activity, size and region) and employees, thus allowing OVE to construct robust control groups similar to treated firms.

The cross-section analysis applies difference-in-difference estimations, where firms are classified as treated or non-treated by an SME support program, regardless of the specific year they actually received the support. The analysis sets 2002 as the baseline since the treatments started in 2003. As a first step, a propensity score is calculated using average age and education of the firms' employees, controlling for geographical location and industrial sector. As a second step, the average treatment effect of program participation is estimated using the nearest neighbour estimators. Lastly, panel data estimations are conducted using fixed-effects, controlling for unobserved time-invariant heterogeneity.

Looking forward, the next steps are the multi-treatment and sequence assessments of the various combinations of support.

Resources OVE established partnerships with several Brazilian stakeholders that support SME interventions in order to construct a comprehensive dataset that allows for the evaluation of different impacts stemming from various types of SME support. The data for the assessment of outcomes and constructing control groups have been provided by MTE, the National Industrial Property Institute (INPI), which issues patents and trademarks, and the Ministry of Development, Industry and Foreign Trade (MIDIC), which deals with exports. The data on treated firms includes information provided by the Brazilian Small Business Support Service (SEBRAE), the Brazilian National Development Bank (BNDES), the Northeast Brazilian Bank (BNB), the Brazilian Innovation Agency (FINEP), the Brazilian Export Promotion Agency (APEX), the Brazilian Industrial Development Association (ABDI) and the National Institute of Metrology Standardization and Industrial Quality (INMETRO).

Main Conclusions & Recommendations

SMEs are a fundamental part of the economic fabric in developing countries, and they play a crucial role in furthering growth, innovation and prosperity. In Latin America and the Caribbean, SMEs account for about 99% of firms and 67% of employment. They generate employment and income for about 50% of the formal workforce in manufacturing and most new jobs and sales growth in the region. However, due to low levels of institutional development in the LAC countries, SMEs often face market and institutional failures that prevent them from reaching an optimal size to generate economic growth.

Several initiatives have been undertaken in the region to support SMEs. However, there are difficulties in extracting lessons from these experiences. First, there is no universal definition of SME. Second, the task of evaluating SME interventions is challenging since these interventions tend to occur simultaneously. Finally, there is little coordination among the vast number of SME support programs, and many experiences have been repeated without being assessed and without any lessons being extracted.

IDB has responded with various types of interventions to address market failures and support the development of SMEs across the Latin America and the Caribbean region. Based on the literature and project reviews, OVE identified five types of SME support in the region: credit, training, value chain, innovation and export promotion. These approaches aim to increase employment creation and productivity growth.

In Brazil, several Brazilian public institutions execute these SME support programs, although the systematic implementation of policies for the promotion of SMEs is relatively recent. The starting point was the approval of the SME legislation in the New Constitution in 1988. The legal framework was implemented only in 1996. It established a differentiated tax regime, federal funds and special credit programs for SMEs. Fiscal resources were allocated to regional and federal public banks and to national agencies and non-profit organizations funding programs aimed at financing SMEs' working capital investments, exports and innovation efforts under special rates and conditions.

The preliminary estimations show that on average, treated firms tend to have more educated and younger employees than non-treated firms. Regardless of the specific type of support, benefitting from a program tends to be associated with higher levels of employment, while the effect on real wages is not always significant.

When assessing the impacts of different types of interventions, those programs focused on supporting value chain show the highest positive effect on both employment and average real wage. In turn, credit support alone shows no impact on employment. One explanation for the negative association between receiving credit financing and employment could be that recipient firms are able to invest in capital goods substituting employees for technology. Finally, participating in innovation programs is associated with a significant increase in real wages.

Lastly, panel data estimations using fixed-effects, controlling for unobserved time-invariant heterogeneity, confirm that receiving SME support is associated with higher real wages and higher levels of employment.

Lessons learned

Stakeholders and policymakers have not yet scrutinized the multiplicity and significant amount of public resources spent by Brazilian Institutions on SME programs in the last decade. This study shows that complex evaluations using micro data level are feasible and can address the lack of assessment of impacts of these programs.

This evaluation should be followed up and replicated by development institutions in Brazil and other developing countries. Particularly in the case of Brazil, new analysis would benefit from complementary efforts to establish partnerships with other institutions that support SMEs and from the gathering of additional sensitive information on firms (revenues, amount exported, etc.). Preliminary results should be interpreted with caution but indicate that SME support programs tend to generate employment and increase wages.

The Big Business of Small Enterprises: IEG Evaluation of the World Bank Group Experience with Targeted Support to SMEs, 2006-2012

Institution	Private Sector Evaluation Department, the World Bank Independent Evaluation Group
Evaluation team/contact	Andrew H.W. Stone, Task Team Leader & Head, Macro Evaluation Team, IEGPE
Link	http://www.youtube.com/watch?v=jLuHsybPt8E https://ieg.worldbankgroup.org/Data/reports/chapters/sme_eval1.pdf

Description of the evaluation activities

Aim	This evaluation aimed to assess the relevance, efficacy, efficiency and work quality of World Bank Group efforts to provide targeted support to small and medium enterprises, support that focuses benefits on one size-class of firms to the exclusion of others. The central question was: Has the World Bank Group effectively promoted inclusive growth through its targeted support of SMEs aimed to address constraints relating to access to finance, services, information and markets?
Scope	It covered a portfolio worth about $3 billion a year over the six year review period, including about 17% of IFC investment projects, 42 % of MIGA guarantees, and 7% of World Bank lending projects, as well as 16% of IFC's advisory projects and 1% of World Bank analytic and advisory work.
Timeframe	Six-year review period FY2006-12
Methodology	Methods included a comprehensive portfolio review based on project databases, a review of internal and external literature, statistical and econometric analysis of World Bank enterprise survey data, interviews with World Bank Group staff at headquarters and field offices, interviews with counterparts, beneficiaries and stakeholders during field visits and through social media; and a programmatic evaluation of the MIGA Small Investment Program.
Resources	IEG staff, consultants

Main conclusions & recommendations

The World Bank Group (WBG) promotes small and medium enterprise growth through both systemic and targeted interventions. A critical challenge is to better root the many activities now in a clear understanding of the characteristics and dynamics of SMEs, their role in the broader economy, and their actual and potential contribution to jobs, growth and shared prosperity. A second challenge is to formulate clear strategies that connect interventions to intended outcomes and are accompanied by sold measurement systems that provide evidence of results and allow learning. IEG concludes that, to make targeted support more effective the WBG needs to:

Harmonise and clarify its approach to targeted support to SMEs	IFC, MIGA, and the World Bank should harmonize their SME approaches to make clear the objectives and analytic justification for targeted SME support, how it relates to systemic reform, where it is appropriate, what main forms it will take, and how it will be monitored and evaluated. Targeted support for SMEs needs to be firmly rooted in a clear, evidence-based understanding of how the proposed support will sustainably remove the problems that constrain SMEs' ability to contribute to employment, growth, and economic opportunity.
Enhance relevance and additionality	Relevant WBG management should refine its SME approaches to shift benefits from better-served firms and markets to frontier states (those with underdeveloped financial systems, especially low income and fragile and conflict-affected countries), frontier regions and underserved segments.
Institute a tailored research agenda	WBG Management should institute a tailored research agenda to support and assist these clarifications and refinements of its SME support approach, utilizing the best qualified researchers. This agenda should produce a more policy and contextually relevant definition of SME; a better understanding of the contributions of SMEs to economic growth, employment, and poverty reduction; deeper knowledge about how intervention design should vary, contingent upon country conditions; a project-relevant definition of the "frontier"; a clearer view of the correct sequencing and combinations of systemic and targeted interventions; and more rigorous analysis of the actual performance and impact of key interventions.

Strengthen guidance and quality control	Management should provide guidance and quality control so that project documents for WBG projects targeting SMEs define and justify the specification of the beneficiary group, provide specific targeting mechanisms, and include impact indicators in its results and M & E frameworks.
Reform MIGA's Small Investment Program	MIGA should radically rethink its approach to providing guarantees for investments in SMEs through the Small Investment Program programme, considering a merger with its regular program or a fundamental redesign to improve performance.

Lessons learned

- Challenges of portfolio review where coding is not aligned with evaluation scope.
- Value of careful, systematic literature review by an expert.
- Value of frequent interactions with counterparts in evaluated bodies.
- Importance of planning and field presence for beneficiary assessment.
- Value and biases of social media surveys.
- Potential to apply econometrics to portfolio data.
- Importance of understanding monitoring indicators and systems utilized.
- Importance of validating facts in broad use by development institutions.

Three types of evaluation activities carried out by the EBRD

Name of the evaluation department involved	**EBRD Evaluation department (EvD)**
Evaluation team & contact details	**Joe Eichenberger ph +44 207 3386107**
Other information & web link	**www.ebrd.com/evaluation**

1.1 Description of the evaluation activities carried out

Aim	To expand a bank's MSME lending capacity in a time of diminishing market liquidity. To transfer skills for MSE lending through a related TC project
Scope	Involved a loan to a leading bank in a country of operations. The bank was also supported by a large Asian financial institution. Luxembourg provided TC funding to develop a credit scoring system.
Timeframe	Approved in 2008, loan disbursed same year, repaid 2013.
Methodology	Involved a Validation of the self- assessment completed by the Operations team. Validations follow the OECD DAC criteria, and cover key EBRD mandate related criteria, including transition impact and sound banking. This was a desk study, no field trip was conducted.
Resources	Self-assessment, board approval documents, directors questions and answers, credit reviews, transition impact monitoring reports, credit monitoring reports

1.2 Main conclusions & recommendations

EvD rates this operation as *unsuccessful* mainly because operating and transition objectives were not achieved as intended (both rated by EvD as *marginal*) and there are no alternative unanticipated positive impacts that offset this finding. EvD found that the lack of completion of the TC element, lack of clarity around the meaning of lending to MSMEs and objectives being overtaken by the crisis environment contributed to the poor performance. The Banking team disagrees with the EvD assessment of achievement of operating objectives and emphasises that the operation was implemented in a progressively worsening crisis environment.

1.3 Lessons learned

<u>TC coordination with strategic shareholders for better chance of subsequent adoption</u>
It was expected that the TC would be implemented on time and result in greater transition impact for the project. What happened was that the TC was delayed and only ever partially implemented due to the Asian financial institution buying an increasing number of shares in the bank and integrating risk management systems with the Asian bank's advanced systems. The planned TC therefore became unnecessary. EvD commented that this experience highlights the need to take account of the expectations of strategic investors and to refine any on-going or future TC around new strategic priorities. Failure to do so may result in valuable TC spend on projects that lack the potential to be implemented. The Banking team notes that there was insufficient clarity, early enough regarding the intentions of the Asian bank. Had there been better guidance, the terms of reference for the TC would have been revised accordingly. The Banking team also comments that TC should always be calibrated to take account of possible integration of business models during a merger.

<u>Clarity and adaptability of the results framework</u>
It was expected that the investment and transition objectives would be clearly defined to allow for ex-post evaluation. What happened was that there was no clear explanation of what was meant by MSME lending, leading to the potential for multiple interpretations. This was further complicated when all of the meaningful transition monitoring benchmarks (except those that were disbursement related), were overtaken by the crisis environment in central Asia and poor loan portfolio performance of the bank.The basis on which transition impact monitoring indicators and benchmarks were established changed significantly during project implementation but the monitoring system used by the EBRD does not have a similar capacity to adapt. The monitoring system rating took a liberal view of the bank's performance relative to its peers rather than against the benchmarks, resulting in a continued transition rating of *good*. EvD identifies that incorporating mid project flexibility into the transition impact monitoring system would allow a line to be drawn under the ex-ante rating when circumstances change beyond recovery and enable the resetting of objective, evidence based benchmarks for the new circumstances.

2.1 Description of the evaluation activities carried out

Aim	To support SME lending in a country of operations through a loan to a private bank (community bank for small and medium sized enterprises (SME) and individual customers). The Bank was sound, but laden with non-performing public sector loans. The EBRD devised a crisis response action plan to improve portfolio quality The goal was to support the client bank in its efforts to revive SME lending in the region after the crisis and thereby to contribute to market recovery. The EBRD also expected with its involvement to support bank efforts to broaden/diversify funding sources.
Scope	Two US$ five year crisis response loans to support SME lending, with a covenanted crisis response action plan to improve portfolio quality. TC funds were allocated from a TC programme for training and capacity building in the areas of loan workouts and corporate recovery (2010 - 2011) and MSME lending support
Timeframe	Approved in 2009, loan disbursed 2009, repayment 6 years.
Methodology	Involved a Validation of the self- assessment completed by the Operations team. Validations follow the OECD DAC criteria, and cover key EBRD mandate related criteria, including transition impact and sound banking. This was a desk study, no field trip was conducted.
Resources	Self-assessment, board approval documents, directors questions and answers, credit reviews, transition impact monitoring reports, credit monitoring reports

2.2 Main conclusions & recommendations

The operation is rated *Successful* mainly because of the significantly increased SME lending, the maintenance of acceptable assets quality and the positive financial performance of the bank.

The operation's realized transition impact is *Good* because of the timely achievement of most of the transition monitoring benchmarks. There is a need for a Strategy Committee to help board and management formulate longer term strategy across product areas.

The bank has progressed well in the country's banking sector despite the testing time and has matured as an institution enough to establish a strategic function within it. The proposed new function is expected to turn the bank around to become a proactive competitor in the banking sector.

2.3 Lessons learned

<u>Importance of Strategic outlook: building a capacity for the mid/long-term strategy formulation within the client bank</u>

The EBRD expected from appraisal due diligence that the planning and budgeting process in the bank would be in line with general market practice. However, the main focus was on the one year horizon. A long-term vision was not given a priority in bank's planning practice.

The bank prepares the budget/financial plan on an annual basis, while a further 5 year strategy largely outlines key considerations for further developments/areas for improvements with no particular targets/strict timeline provided. Overall the bank's business models orients to the fulfilment of the current customers' needs rather than foreseeing future demand. So far, this business model has resulted in a stable customer base and a modest growth strategy over many years focusing on steadiness and predictability rather than aggressive growth through wholesale funding or acquisitions.

The EBRD should expect a more sophisticated approach toward business planning and core products development, enabling the client bank to sustain its franchise in view of constantly growing competition. Going forward, the client bank decided its existing approach may not withstand aggressive competitive pressure, thereby leading to decreasing of the market share/position, including in a greatly competitive field of SME segment.

In the context of new project formulation, the EBRD encouraged the bank to consider setting up a Strategy Committee. Such a Strategy Committee would help the Board and management strengthen formulation of a clear and longer strategy, to implement strategic actions with a long-term vision on the competitive market in all products areas It will also help to create and maintain sustainability of SME lending, thereby facilitating the Bank's future policy dialogue on priority areas.

3.1 Description of the evaluation activities carried out

Aim	Local currency loan to a local bank to finance its SME regional lending business, focussing on economically underdeveloped regions in a country of operations. To assist the bank in establishing a programme for placing bonds in the local market. It was the market's first asset-guaranteed bond. The EBRD's investment was to add critical mass to the bank's efforts to mobilise funds from private and IFI investors.
Scope	Around €25 million loan from the EBRD. The asset pool consisted of SME loans of 12 months length or less with an average size of €11,000.
Timeframe	Approved in 2011, disbursed 2011 (not yet repaid)
Methodology	Involved a Validation of the self- assessment completed by the Operations team. Validations follow the OECD DAC criteria, and cover key EBRD mandate related criteria, including transition impact and sound banking. This was a desk study, no field trip was conducted.
Resources	Self-assessment, board approval documents, directors questions and answers, credit reviews, transition impact monitoring reports, credit monitoring reports

3.2 Main conclusions & recommendations

Overall EvD believes that the transaction has been *highly successful*, having achieved many of its key objectives, helping the bank to successfully launch a promising financial product in the market, and the fact that the bank remains an excellent client of the EBRD. EvD also considers that the impact of the project continues to be closely monitored given the recent turmoil in the market.

The EBRD's investment is adding critical mass to the bank's efforts to mobilise funds from private and IFI investors as demonstrated by commitments from a number of other multilateral and bilateral development institutions.

3.3 Lessons learned

The self-assessment was very good, although would have benefited from a discussion of the risks of change of ownership and monitoring of this.

Annex 2:

Edited transcript of the workshop

Introduction

Jan Willem van der Kaaij, EIB

I would like to welcome you all to this ECG Workshop on support to SMEs, in particular our guests from outside the Bank, EIB staff and our ECG members, and address a special word of welcome to our panellists.

For those who are not acquainted with all the acronyms within the world of evaluation, the ECG stands for Evaluation Cooperation Group. Twice a year, the evaluation entities of the main IFIs in the world come together to exchange views, to build upon each other's experience in the area of evaluation and to develop further our Good Practice Standards. This year the EIB chairs the ECG, and the spring meeting is traditionally held in the headquarters of the chair.

For the past few years the ECG has also organised workshops in order to reach out to the non-evaluation world; in fact, to those for whom we are doing the evaluations. In other words, we try to build a bridge between the evaluation world, the practitioners on the ground and the public at large. After having decided on a certain subject on which ECG members have worked, we bring together people from the evaluation world and people working in that particular field. This year, as agreed last year in Manila, the topic for the workshop is "Support to SMEs". I think this topic has been well chosen as the importance of SMEs for sustainable growth and employment is recognised worldwide, particularly in the current global economic environment.

To allow a more effective and efficient allocation of resources and ensure access to credit for small to medium-sized enterprises, including microenterprises, is in this respect of core importance and has real implications for growth.

So the objective of this workshop is twofold: first of all, to exchange lessons learned from recent evaluations and other studies performed regarding SMEs; and second, to bring together the views from IFIs, bilateral institutions, financial institutions and academia. For today, we have organised two panels, each with four panellists who will give presentations of 10 to 15 minutes each. Following each panel there will be ample time for discussion and exchange of views. The first panel is formed by representatives of non-ECG members, giving their views on the main issues concerning support to small businesses; the second is composed of ECG members who will elaborate on recent evaluations and findings in the area of support to SMEs.

Before giving the floor to the first panel, I would like to introduce to you Mr Jean Christophe Laloux, who is sitting next to me on my right side. We were very grateful that Mr Dario Scannapieco had kindly accepted our invitation to deliver the opening speech for this workshop. Mr Scannapieco is Vice President of the EIB responsible for SME financing and also the incoming Chair of the Board of Directors of the European Investment Fund, which is a fellow organization within the EIB Group that specialises in venture capital and guarantees geared mainly to SME financing.

Mr Scannapieco was, and still is, on his way to the Bank. But given that he is unfortunately stuck in the traffic; he called me and asked me to give you his regards and his apologies. But he has arranged, on very short notice, a very good replacement: Mr Jean Christophe Laloux, who is Director of the Western Europe Directorate of the EIB. At the same time, what also brings him here is that he is the Head of the Centre of Expertise for SME Financing within the EIB, so Mr Laloux knows what he is talking about. Anyway, I would like first of all to thank him for coming here at such a short notice, and secondly I would like to give him the floor. Thank you, Jean Christophe.

Opening address

Jean-Christophe Laloux, EIB

Jan Willem, dank je wel. Ladies and gentleman, good morning. Today's workshop on support to SMEs gives us the opportunity to ask some fundamental questions about why we support SMEs and, most importantly, how we do it and how we evaluate the impact of what we do for them. Ensuring a clear focus of our SME financing activities, evaluating the impact and incorporating the lessons learned into designing better structures and actions, ensures that the EIB, as I am sure other institutions around the table, maintains and increases its impact on SME financing in Europe and beyond our borders. So I am particularly pleased, and even on short notice, that today's workshop hosted by the EIB Group's evaluation service marks the first time that the group has held the chair of the Evaluation Cooperation Group, if I understand it correctly. The ECG brings together the evaluation services of the main IFIs to share both best practices on how we evaluate what we have done, and also conclusions about how to improve in the future. And indeed, as an operational person within the EIB, I will be very interested to incorporate such findings into better quality design.

Let me briefly introduce you to how we view SMEs here within the EIB. SMEs are one of our core priority objectives, it is an objective entrusted to us by the European Council, and you would understand why it is so. SMEs represent about 99% of all companies in Europe. They contribute to more than half of the total value-added in the non-financial business sector, and they provide about 80% of all new jobs in Europe for the past five years. The largest part of our lending is in the European Union and candidate countries, and such is also the case for SMEs. But we also do support SMEs outside of Europe, and outside the Union. To give you a couple of figures: last year, we signed almost 10.5 billion euros of new lending for SMEs – and lending for SMEs with us is intermediated lending, as I am sure many of you know – and of that figure about 9.5 billion was for lending to SMEs within the European Union. In addition, we provided 829 million euros during the past three years to more than 1,000 SMEs in neighbourhood and partner countries.

In parallel to that, the European Investment Fund, our specialized SMEs subsidiary (more than sixty per cent owned by the EIB), committed more than 1 billion euros in venture capital to underpin the growth of small businesses, and also provided 1.5 billion euros in portfolio guarantees. The combined impact of these two actions was as far as going to 120,000 SMEs having been supported last year, at a time when many SMEs were facing difficulty to access finance.

Surveys at the moment clearly point out that access to finance remains a difficult topic for many SMEs. The demand for debt and venture capital funding, both inside and outside Europe, remains extremely strong and whilst the Bank has provided more than 40 billion in SME financing since 2008, it has continued to reflect the importance of the SME sector through the Board of Directors' recent request to step up even further our support for SMEs at a time when total lending is decreasing in the EIB.

So really, we are talking about probably the core priority at the moment in terms of our action inside and outside of the European Union. In that regard, we face the constant challenge of having the right instruments to meet SMEs' needs, especially given the fact that we have to go through intermediated instruments that works through the banks, and we have to do that in a way which is efficient and effective and which also brings value added to the market and complements the existing supply of SME funding brought by commercial banks, whilst ensuring the transparency and accountability that the shareholders likely demand.

Let me briefly talk about the trade-off between efficiency and efficacy that we have known in the last years, also in terms of products. In 2008, we reformed our action in favour of SMEs and we introduced what we call, inside the EIB, the loan for SMEs, to focus on investments made by SMEs. And, whilst increasing the transparency of the EIB's role, we streamlined the information required from our financial intermediaries in order to ensure that it is efficient for them to work with us. We centralised the process of reporting information, aggregating information within the Bank to ensure effective monitoring, and we also requested from our financial intermediaries that they be more transparent vis-à-vis final beneficiaries and that they commit to a transfer of the financial benefit that we bring by pooling our resources with theirs.

All these changes were based on an extensive stakeholder consultation with the main banking associations within the EU, and it has to be said that operating in heterogeneous markets throughout the members states – intervening through both intermediated products and partnering with financial intermediaries – requires a lot of effort understanding the market needs and the needs of our commercial partners.

The inputs of evaluations and the consultations play a key role in that process and EV (the evaluation department of the EIB) is currently undertaking an in-depth evaluation of EIB's SME lending operations within Europe, focusing on the effects of our actions to final beneficiaries and, of course, we look forward to the output of this valuable exercise to bring about the next generation in product development.

A continued refinement and development of what to do clearly requires a culture of evaluation and learning, to draw the right conclusions from what we did not do that well in the past, and that requires a clear understanding of the intended policy outcomes, the actual results achieved, and the reasons for any differences, and amongst all these differences between countries and differences between intermediaries, in order to adapt our financing structures and our processes.

So this seminar, bringing together evaluators from a range of multilateral and bilateral organisations facing similar issues to ourselves, is an opportunity to gain insight into best practice for each organisation and bridging our experience – whether we operate within or outside the European Union. On-going evaluations of past initiatives provide the all-important reality check, which questions the continued relevance of current practice. And it plays a key role in demonstrating whether and how we are achieving overall objectives to shareholders and stakeholders – including SMEs. Finally, it provides an important internal role in indicating where and how we can do better in the future, and we shall therefore, collectively, and in particular in the Management Committee of this bank, look forward to the results and the findings of this important seminar. Thank you.

Opening address – Discussion

Jan Willem van der Kaaij

Thank you Jean-Christophe for this concise and clear explanation of the role of the EIB in the financing of SMEs. I will open the floor for a couple of minutes, if people would like to ask Jean Christophe a couple of questions about, in particular, the EIB's role in financing SMEs. Please go ahead.

Question from the audience

Thank you very much for being here at short notice and for such a clear and comprehensive summary. You mentioned about 40 billion euros in SMEs since 2008, or about 10 billion a year, that is a colossal amount of money. For the audience here in this room, this is a very substantial programme. So you mentioned one thing that you had done recently was to introduce some steps to streamline the processes of reporting requirements for intermediaries. And my sense is that if you are doing 10 billion a year or something close to that, this begins to establish a certain set of base standards that may affect also the standards that our institutions supply in terms of what we expect. So, could you just summarise one or two aspects of the streamlining process that you described and that you consider as particularly important or effective from your point of view?

Jean-Christophe Laloux

Yes, thank you for the very relevant and interesting question. I think your question addresses the point, the particular point and challenge of developing ways to cooperate with commercial banks that are efficient for both parties. From the point of view of not creating too much red tape for them, and at the same time ensuring that not only do we have the information of what they do with our money, but also making sure that our money is passed on efficiently to the final beneficiaries. So what we have tried to do is to decrease the red tape in terms of monitoring, whilst at the same time increasing their commitment to be as transparent and as comprehensive as possible with passing on the funding advantage of our financing. So what we did is taking out the non-essential information, in terms of what was being required from them in terms of reporting – and I can guarantee you that throughout the years we had starting pilling up requests for all types of reporting that we were, in fact, not using. So we streamlined that to a minimum. We also undertook to review with them two or three standard ways of communicating with final beneficiaries which we deem sufficient to ensure there was enough transparency.

For example, we establish what are the minimum requirements, in terms of communication on their internal website; we established what had to be the minimum communication in their contracts with final beneficiaries; and we also established, and even so more recently, the minimum transfer that has to be ensured contractually by the financial intermediary, knowing that of course its situation from a financial standpoint is different. The financial value-added, so the money on the table brought by the EIB, is different in function for the bank you are working with, because all banks do not have the same access to financial resources. Some have more deposits than others; some have better ratings than others; and therefore the cost of the resource for the banks is different. Therefore, they are also trying to streamline the way we view our financial value-added and the way we request them to pass it on to the final beneficiary.

Question from the audience

Thank you very much. Mine is a brief one. I know that the EIB is active in Southern Africa in supporting SMEs, and I would like to know what your experience is, especially looking at the risk profile? You said you use intermediaries. How successful have you been and what lessons can we learn from you? Because for us, it is a challenge trying to deliver on our mandate and at the same time maintain the right risk profile. If you can share some of your experience with us? Thank you.

Jean-Christophe Laloux

Let me try to venture a reply and maybe my colleague Debora can also step in. I will try to venture a reply because I have been active in non-European countries as well. I have some kind of experience in the matter. Let me first of all point out that operating in Sub-Saharan Africa and operating outside of the European Union in general – but it's more the case in Sub-Saharan Africa – a completely different ball game; and we do recognize this here within the EIB with all the processes that we apply. It is extremely different and it requires a much more hands-on approach by the EIB services compared to what I just described, i.e. the streamlined process that we have adopted in the EU.

Typically when we work in the EU, we will work with reporting lists and we will delegate a large part of the checks and balances to the financial intermediaries with whom we have repeat, long-standing relationships, and who indeed are acquainted with our requirements. So we will do sample checks rather than systematic checks. Now this logic is reversed when you operate in Sub-Saharan Africa, and that also explains why the figures that you can see in terms of our intervention in Sub-Saharan Africa are extremely modest compared to the figures that you see in the EU. In fact, when we operate outside the EU in general, and in particular in Sub-Saharan Africa, we do a systematic check of any proposed used of funds "ex-ante", and not "ex-post" as we would do within the Union, and that is the main difference between how we operate inside and how we operate outside the EU. And this systematic ex-ante check of course slows down the process quite a bit and makes it indeed heavier to manage. But on the other hand, at the moment it is necessary to ensure that the controls are in place and that our money is used effectively. Our experience – and I am sure that Ivory and her team have a view about this and would be able to compare the two things inside and outside, and that this will be part of the interesting conclusions – is relatively positive, and we have many SMEs financed through financial intermediaries. But there is a very high price to pay in terms of efficiency and manpower and the intensity of the work behind it.

Jan Willem van der Kaaij

I am sure we haven't forgotten anybody now. Jean Christophe, thank you very much for coming here on such short notice and for your thoughtful comments after your presentation. I am sure you have an agenda to fulfil today. Thanks again and we will tell you about the outcome of the rest of the workshop.

Let us now continue with our workshop and move on with our first panel, led by Cheryl Gray, who is the chief evaluator at the Inter-American Development Bank. I will stop here and give the floor to Cheryl.

Panel one – Initiatives in support of SMEs: A general overview

Facilitator: Cheryl Gray, Inter-American Development Bank

Thank you Jan Willem. Thank you for inviting me to chair this session today. I am really looking forward to this morning actually. I've moved just last year to the Inter-American Development Bank (IDB), and I had worked in the World Bank on the public sector, but I now work on the private sector side of things. IDB does quite a lot on the private sector, including having a separate arm that is dedicated wholly to SME finance. So I am still very much on a learning curve and I'm really looking forward to today and hearing from all of you.

I think there are a lot of issues about our organisations' role in the private sector and in SME finance. In IDB, for example, we are lending a lot of money through financial intermediaries. I mean billions to on-lend to SMEs, and I'd love to keep learning about how to evaluate those and what is the additionality of having development banks in this business. So I think I am going to learn a lot today.

But we are starting the first session this morning giving the background on the needs for finance in the SME sector and we have four very good panellists. I think they are complementary in what they are going to bring.

First, Fabio Mucci, who is Head of Central and Eastern Europe Strategic Planning in Unicredit Poland, and he has worked in Unicredit for a decade now so he can bring his experience in Central and Eastern Europe from that perspective, and he has a Master's degree in Economics from Bocconi University in Italy.

Then we move on to Manfred Schmiemann, who is Head of Section at Eurostat of the European Commission and his session is dedicated to business dynamics in Europe, and internationally, with databases that show all aspects of businesses. So I am very much looking forward for his perspective. He will be talking about what we can learn from survey data and access to finance for SMEs. Mr Schmiemann, interestingly, has a PhD in Genetics, so I am trying to figure out maybe he'll tell us how he is using all this wonderful knowledge of genetics for business dynamics, I think it is fascinating.

Then we will go to Mr Ruurd Brouwer, who is Director of Financial Institutions at the Dutch Development Bank, FMO, and he is going to talk to us about SME support in the view of a bilateral agency. Mr Brouwer has a degree in International Finance from the University of Amsterdam, and has been at FMO as Director of Financial Institutions for the last three years.

And finally, last but not least, we will move to Deborah Revoltella, who is Chief Economist here at the European Investment Bank and has a PhD in Economics from the University of Ancona, and she will talk about SME support in developing countries.

So I think we have a really very interesting mix here. Each of them will speak for more or less ten minutes and we will have some room for discussion from the floor. So why don´t we start with you, Mr Mucci?

SMEs in CEE: A hidden driver of growth

Fabio Mucci, UniCredit

Thanks to the chairman and to the EIB for the invitation. Being an Economist and working for a large European Banking Group with a strong footprint in Central and Eastern Europe, I'll try to elaborate on the prospects of the SME sector in the region, highlighting the key constraints to its growth and what banks can really do to support its development.

I will not talk extensively about the relevance of the sector because I am sure the other panellists will elaborate in more detail on the subject. It has been widely stressed on many occasions that this segment is an important driver of growth in Europe and CEE, as it contributes to half of the gross value-added of the region, and even more in terms of total employment.

As for the rest of the economy, the sector has been significantly affected by the recent crisis. However, the good news is that when looking back to 2010 and 2011, the indication is that the sector was recovering quite fast, probably supported to a certain extent also by the recovery in lending activity. Access to lending has quite often been reported as one of the major constrains to the growth of the sector. This is particularly the case in Romania, Russia, Bosnia, as well as Ukraine, where some 30% of the firms have identified access to finance as a major constraint.

Clearly, when comparing small enterprises to medium-sized ones, on average small enterprises, particularly in countries like Hungary, Turkey, Bulgaria, Slovakia, Czech Republic and other South Eastern European economies like Bosnia, tend to be on average 10% worse off than large enterprises, and in some cases even worse than medium enterprises. They are on average 7% better off than large enterprises in Slovenia, Poland, Serbia, Lithuania, Ukraine and Russia. When comparing small enterprises to medium ones, once again we see that companies in Estonia, Hungary, Turkey, Croatia, Slovakia, Poland, Czech Republic, Bosnia, Russia and Romania are on average 6% worse off, while companies in Slovenia, Bulgaria, Serbia, Lithuania, Latvia and Ukraine are on average 8% better off.

At the same time, when looking at micro data, and particularly to the constraints lending has been putting on the segment, there is quite important evidence suggesting that industries requiring a lot of external financing tend to develop relatively faster in countries that are more financially developed. This evidence tends to confirm that bank lending is clearly playing an important role in supporting the developments of these industries. This is pretty clear in Central and Eastern Europe when we look at the growth of capital expenditure throughout the cycle. Indeed, the observed growth tends to be effectively higher in sectors which are more dependent on external financing, thus reinforcing the message and the evidence that the financial sector plays a critical role in supporting the investment activity of this sector.

Clearly, as mentioned at the beginning, throughout the crisis the SME segment underwent a substantial correction, as a result of the micro-economic adjustment in most countries of the region. However, there are reassuring signals that thanks to the stronger revival, particularly starting from 2010 and in the first half of 2011, together with recovering lending activity, the most hit industries have been recovering quite importantly.

In terms of future challenges for the SME segment, we can clearly identify a few of them which are pretty relevant. One is of course the cost of funding. This is a topic not only for SMEs but also for banks at the moment. Clearly, SMEs compared to large corporates, tend to be more penalised by the higher cost of funding that we are currently facing. A second important factor is also a slower than pre-crisis growth which is going to have important implications for the segment.

In terms of who are the winners out of the crisis and what banks can do to support SMEs, one can basically identifies five main areas. The first one is the offer of integrated 360º banking. To a certain extent, banks are investing quite heavily -and our group is clearly doing that- to pursue dedicated advice to SMEs to strengthen credit processes, and to offer better conditions in order to support their development. Then there is clearly a need for higher standing, particularly when comparing medium and large companies relative to small enterprises. So it is clear that there is quite a need for strengthening companies' capitalisation and networking in order to withstand phases of larger volatility. In this context, banks are trying to invest as much as possible in order to provide dedicated products to support recapitalisation.

There is also an important factor related to innovation. This is going to be a very important pillar that should discriminate in the new economic environment between winners and losers. In that perspective, banks can offer important instruments to support financially innovative start-ups through dedicated staff, and what we tend to call a sort of "innovation rating".

Internet and IT is clearly playing a very important role. The full use of internet and IT technologies to reduce costs and increase value-added should remain an important pillar and it is going to discriminate quite substantially among SME industries within the region. In that context, banks can support true credit automation, remote relationship management, and product innovation.

And last, but not least, a key pillar and factor is represented by internationalisation. Companies who can leverage on trade growth with a particular focus on emerging markets are clearly going to be the winners. From that perspective, groups like UniCredit can offer strong support to those companies, leveraging on dedicated international desks and specialists, specific products tailored to cross-border companies and instruments to support their search for counterparts.

I'd like to end my brief intervention with couple of examples of real initiatives taken by UniCredit to support the SME segment in Central and Eastern Europe.

In the case of Romania, a "prime service model" has been created. This is mainly branch-based and oriented to support the more complex needs of SME customers. A second model called the "easy service model" is instead focused on alternative channels and the simplification of interaction with the bank.

A different solution based on the same logic has been designed in the case of Hungary. In this specific case, tailor-made and highly complex transactions have been created in small business hubs whilst, at the same time, standard products and services are offered to the traditional branch networks.

Access to Finance for SMEs: What can we learn from survey data?

Manfred Schmiemann, Eurostat

Good morning! At Eurostat, as the Inspector-General has explained during his opening speech, we have tools available not only to provide statistics on a regular basis which serve the establishment of national accounts, but sometimes we also have a chance, in our legal framework, to do ad hoc statistics. And I am talking today about an ad hoc survey that we did last year where we surveyed, on the demand side of access to finance, in twenty countries in Europe, how businesses, especially small and high-growth businesses, were doing in terms of the provision of finance from all imaginable finance types and sources.

This survey complements a regular survey which is done jointly by the European Commission and the European Central Bank. If you are in the topic, you know that there is a regular survey on access to finance, but the one we did was much bigger. First of all, it surveyed twenty thousand enterprises in Europe. Our survey was based on paper questions whereas in other surveys, the managers had to answer on the telephone. So we have much more robust answer validity. And then we are lucky in choosing reference years in advance that happened to be around the crisis. One clearly before the crisis: 2007, and the other: 2010, somewhat in a recovery phase in many countries. Anyway, the figures would show that. We also surveyed across the non-financial business economy – I will explain later what that is – and we can thus breakdown by economic activities, by NACE, by enterprise type, by small-growth firms or high-growth firms, or even by "gazelles". And we had all relevant financial types and sources covered. We had eleven task force meetings in which the EIF, the ECB and many of the countries have participated and also contributed, so we believe we have a very robust methodology.

In the next slide, I show you the population of the survey – that you need to know at least – so the non-financial business economy, that's a well-established term.

When we talk about SME figures, we are often asked how many SMEs there are in Europe. There are twenty-one million in the non-financial business economy. But that doesn't cover the finance sector – which for our purposes is often very different, as you may imagine – and not the agricultural sector either. But sometimes you read figures about 44 million enterprises. That is more likely registrations in the business registers; just to explain that.

So, in this part of the economy, we surveyed all enterprises that have between ten and two hundred and forty-nine persons employed; and they had to have – to avoid the burden on very small ones – ten or more persons employed in the reference period. Then, we structured the survey results according to the growth characteristics of these firms. We observed all small firms of that size category, but we also observed the high-growth enterprises. And we observed, in that period from 2005 to 2008, three growth periods in which they have to have had 20% growth, in terms of employment and not turnover. Among those, a subpopulation is the famous "gazelles", which play politically a big role. These are high growth enterprises which are young.

This is just a breakdown of the types of enterprises. I am only showing that to illustrate. If you research the database – which you will easily find in Google searches for "access to finance" and "Eurostat", for example – you can do a breakdown by various dimensions across the NACE, the economic activity, but also by growth characteristics of the firms.

As a legal basis, we used an ad hoc model. We need to have a legal basis; otherwise countries will not follow if we offer a survey unless it's a European Council Regulation which allows us to do that. But we did not enforce, once it was mandatory, that all twenty seven member states took part. It was in fact twenty who took part voluntarily, that is good enough to give an overview of the EU.

We also have an interesting situation if you wonder why we don't use the ad hoc model more often. There are several countries that need a minimum time of one year before they may do a survey with enterprises. So that required the adoption of a Commission Regulation one year in advance before we did the survey. That explains the luck we had in the choice of reference periods, we had to decide the topics and the reference periods well before it became known that there will be a financial crisis.

And then we had to translate the questionnaire that we drafted in English into fifteen languages. That is largely unknown for the Americans amongst the audience. So now we have fifteen language versions of the same questionnaire, and it will be reused in many countries.

The source data comes from national business registers, by filtering a sample of the enterprises selected for the survey. And then at Eurostat we get the aggregated data, and we do intensive quality checks. After we first published, via press release, that we had the survey and offer the data for everyone, there was an intense media reaction – several thousand hits the day after the press release – and the database is well utilised. I was invited to speak at quite a few institutions after we issued the press release last October, including the European Central Bank and elsewhere. So the feedback was quite nice.

Now here some results. Most important for you I thought was to learn that, while we surveyed all financial types and sources (including equity, initial public offerings and other financial types), we focused here on bank loans, so one source, one type. So here I compare the situations between the two reference points, 2007 and 2010. We asked enterprises how often they were unsuccessful in approaching a bank for a loan, how was that in 2007, and how was that compared to 2010.

I don't need to say a lot, you see the dramatic credit crunch reflected here, but it is more dramatic in some countries; that is why it is important to have many countries on board. It is very dramatic in countries like Latvia and Bulgaria, but interestingly also in the Netherlands and in the UK. These results apply to small firms, which are politically interesting.

Now even more interesting, you see in comparison to the previous slides where all the small firms were included, that for the high-growth firms the loan situation is even worse and that ought to have us worrying, at least the policymakers and the banks.

On the next slide you see the scale changes, we see up to 80% unsuccessful loan requests by "gazelles". This is particularly worrying, especially in countries where this has so dramatically increased, such as in Bulgaria and Cyprus in 2010. You see Luxembourg and Malta empty here because they don't have any high-growth companies that fulfil the criteria that we applied, that's also an interesting observation.

One of the questions that we also asked was meant to find out why small enterprises choose a bank for a loan; and I take here the figures of 2010. I'd like to point out that you can read from the bottom of the column. The light-blue is the "best interest rate" situation. So the most important criterion for a small firm to approach a bank for a loan was the interest situation. But you notice in particular that the dark blue is a much bigger share, has thus much more importance in choosing a bank. If you can read that, "business was already a client", was the answer choice offered here. So, it is much more important for small firms to already be a client of the bank when they decide to approach the bank for another loan. As Fabio has asked "What can banks learn when they try to turn to SMEs?" the answer is that establishing a good client relationship seems to be an interesting option. But it differs from country to country, and that we found interesting. In Denmark, for example, in the Netherlands, and also in the UK, it is obviously more important than in other countries. When we compared that to the global alternative of forum shopping, enterprises looking around for where to get the best interest rate, it's in countries like Greece, Italy, and also Poland and Latvia where the enterprises obviously do a lot more forum shopping and where it would be important for banks to see if they offer the best conditions, whether in terms of interest or other conditions of the loan.

So we also looked a little bit into the future at the time of the survey and asked respondents what they envisaged as financial sources and you see – which will please you – that banks remain the most important source of finance, but also the importance of leasing companies, and also that of "other finance sources". In a detailed analysis that you can do in the database, you will find that "deferred payment" for example, often called "trade credit", or "customer advanced payments", are interesting options that firms cited often as being a finance source.

Then the last slide: we asked what respondents think are the factors most likely to limit their business growth in the future. And it is not the "access to finance" which is cited here most often. It is the "general economic outlook", as you see in the slide. But then it is also the "competitive arena" showing that enterprises work in price competition and in technology competition. It is interesting that, while the approach to banks was often unsuccessful, access to finance as such is not perceived as the most limiting factor for business growth.

I skip the conclusions because I've delivered all the messages I wanted and my time is over. Thank you very much for your attention and I invite you to research our online database.

Support to SMEs in the view of a bilateral agency

Ruurd Brouwer, Dutch Development Bank (FMO)

I would like to share two things with you: the key challenges, from our perspective, in SME support, and to briefly look at FMO's approach towards the future.

The first directly relates to recent research and discussions in terms of micro-finance. Even though we are all convinced, including my own organisation, that supporting SMEs is crucial for economic development, there is still no scientific evidence that there is a contribution of SMEs to economic growth that is disproportionate to their size.

In the extensive literature and research, the only study, dating back to 2005, that proved a strong relationship between SME development and economic growth, did not prove causality between the two.

Why is this, especially with all of us that are so convinced that targeting SMEs is the best way to target economic development? Well, I think this will come back to us.

First, we target SMEs because they ask us to target them because they have difficulty to access finance. That probably is not enough, because in emerging markets, energy plants and large corporates also have a lack of access to long-term finance. So SMEs in that respect are not unique.

The microfinance industry recently went through a cycle from the solution to poverty to a criticised industry. The microfinance industry today is in the situation where SME financiers can find themselves in 5 years. Microfinance has been under fire because nobody has been able to prove that there is a causal relation between poverty alleviation and microfinance. Until today, we have not been able either to prove a causal relationship between SME growth and equitable economic development nor poverty alleviation.

So why SME support? What is the development impact of SME support? We simply have no concrete scientific evidence and therefor do not really know.

A draft report from Eurodad – which is not out yet – targets the EIB, FMO and eight other IFIs or DFIs and their FI lending. What came out of their studies is that it is almost impossible for external stakeholders to track whether IFIs' lending actually reached the intended beneficiaries.

A recommendation from this report is that we need to demonstrate clear financial and development impact. But we are currently not able to do so and make development outcomes the overriding criteria for projects, also when we target banks. Because, at the end of the day, it is a lot more efficient to put 50 million in a really big bank than 5 million in a small bank that by nature will target more SMEs. But our own rules of internal efficiency naturally push us to the large banks that, of course, by nature, are less inclined to target SMEs. Targeting SMEs is just not as efficient as it is to target large corporates.

I would like to go on now to how we, at FMO, are looking to the future, because we do believe it does make sense to continue supporting SMEs.

Over the last couple of decades we have seen, especially within IFIs' rules, a continued focus on SME finance through financial institutions, even though currently if you open up an SME focused bank in Kenya, it is going to be really easy to find funding. Prices for funding in Eastern Africa are almost comparable to prices Banks pay currently in Western Europe.

Now of course that is partially a reflection of economic reality, but at the same time, it is also a reflection of the fact that the supply of funds for SME-targeting financial institutions currently has outgrown demand in many African countries. This is because, at the end of the day, most IFI's are also (partially) politically-driven organisations, and as a politically-driven organisation, targeting Africa is really important.

So looking forward, we thought that continuing SME finance is not about volume. We think that, in terms of trying to increase development impact, we should focus more on adding value outside the financial value. In order to forge a relationship with our clients that is stronger than just financially, we think we need to focus on adding non-financial value.

A small exercise that we've started recently is to send out a sort of "management letter" after financial due diligence. This letter reflects the key outcomes of our due diligence, also compared to other banks, and therefore serves as free advice to our clients. In practice we see that it opens a constructive discussion with our clients, it is greatly appreciated, it adds value and it does not cost the client or us anything.

Secondly, we tried to do some practical small research – I was very much impressed by the previously presented Eurostat research. Based on our client portfolio, we did a survey of 100 clients, and 50 roughly responded to the question "Why do they engage in SME lending"? Is it because it has development impact or for completely different reasons? The outcome was actually quite practical; they see the profitability of serving the SME segment as a key reason. Not the development impact. There is nothing wrong with that, but I do think it is important for us to understand that the people through whom we work have different objectives from us, and we should understand what that means for our cooperation and effectiveness. Thank you very much.

Support to SME policies in developing countries

Debora Revoltella, EIB

Thank you very much. I think I'm very much on the same lines. When you look, as an economist, in terms of why are SMEs relevant in economic terms for development, innovation and growth in different countries, the question is so obvious.

There are many studies which present different outcomes and different conclusions according to the environment they analyse, the period of time they analyse, and so on.

However, I am a little more positive because in the literature we find some areas where there is some convergence among economists in terms of results. One is in terms of innovation. I think the support given by SMEs to innovation is probably more recognised in the literature. We see quite a lot confirming, in the US literature, and maybe less in the European literature, the fact that there are differences in the way innovation is carried out in the US, versus more mature industries in Europe. But this is a quite confirmed concept in the literature. We have the support for social cohesion, for regional development. On that side, somehow, the impact in terms of employment can again be slightly different in terms of results.

One interesting result was the impact related to the euro crisis, the crisis in Europe and the current crisis. One interesting result is the effect that the SMEs had in the current crisis, in terms of providing a cushion for employment. What we have seen, and this is a mixed result as well, is that during the crisis SMEs have consistently kept labour much more than large companies.

What I am really concerned about as an economist is how long it lasts, because it is clear that SMEs in the short-term have much less capacity than large enterprises to readjust and become more efficient by just firing people. SMEs – the average size in Europe is five employees – cannot easily dismiss people because it means dismissing the accountant or a key function in the enterprise. So, in the short-term the impact on employment is proved so far; my concern is how long can we expect it for these companies which are not readjusting to market conditions, and how long will these companies survive in the current crisis?

When we look at the specific emerging markets - I've been asked to comment mostly on emerging markets – and when we look specifically to the emerging market literature, I was looking around some papers and I've found a very interesting one which is from the World Bank (Ayyagari, Demirguc-Kunt, Maksimovic). It is on the footnote. I think they used a quite interesting approach, because they are using all the World Bank surveys and the prices survey, in order to analyse the contribution of SMEs to employment and to job creation. We are also asking some very interesting questions, and I will just present a few outcomes and mostly the conclusion from the report, but it is an interesting one which is worth reading.

What they found out, and it is consistent with the most basic research in Europe – and not so much with the literature on the US – is that SMEs account for the largest share of employment. In a vast panel, which covers all emerging markets, it is 67% of employment. They also have a larger share in contribution to job creation. What is interesting is that this is also valid when you control for the age of the firm. In the US literature there is a very famous paper which says that when you control for the age of the firm, size doesn´t matter anymore. But the last and most critical point, which is very interesting, is that they find out that large companies are stronger in productivity growth and this at the end means that the SMEs create jobs, but don't create the top jobs. So this is somehow a critical message that we can pick out of it.

If we look at the second paper that I found – again, very interesting – on survey data for all developing countries, it is looking at the enterprise surveys for access to finance and again it covers all around the world, emerging markets and a large number of countries. What I find interesting about this analysis is that it is looking at SMEs, distinguishing between fully-credit constrained, partially-credit constrained, marginally-credit constrained and non-credit constrained. This is self-reporting from the companies, so it can be affected by self-reporting, but what you find out is that SMEs – and here I've only reported the data for those defined by up to 250 employees, actually the data were much more significant if you use the 100 employees definition – but what you see is that actually that SMEs, consistently all over the regions, tend to be more credit constrained than the overall sample of enterprises, which includes larger enterprises as well.

Another interesting element which is coming out of this research is that the high performing companies of all sizes tend to be statistically less credit-constrained, but the result is not so consistently clear among regions for SMEs. So again it seems to confirm what we were saying – that high performance companies are less constrained in terms of access to credit, but this is not correct for SMEs and this is an indication of one additional constraint for the high performance SMEs.

The last slides I wanted to present are more related to what the Bank is doing. I think Jean-Christophe has talked about almost everything that we find in this slide, that is to say the global involvement of the EIB in the development of SME financing. It is really one of the focuses of the Bank and there is a lot of focus in making sure that there is a clear transfer to the final clients of the benefit of the EIB involvement.

In terms of SMEs in developing countries, a few numbers, maybe going more into detail than what Jean Christophe previously mentioned: we have total signatures in the last three years of 829 million euros (outside EU) and the other strong involvement is in terms of equity funds where the Bank is active as investor for 1.2 billion euros, mostly in Africa and in the FEMIP region. In this case, I think the activity of the Bank is particularly relevant because of the strong involvement in supporting the strategies and the management of the funds in which the Bank is investing. We have seen a commitment to invest in 52 funds over the last ten years, and another interesting number is that, in 2011, thirty funds were in the investment phase, realising 127 million euros of new investments. And the Bank is also active in microfinance with 137 million in the 2009-2011 period.

I agree that we need to do more research in terms of understanding the effective conditions of access to credit for SMEs, and particularly in emerging markets. What we are personally now starting to do – we just agreed together with the World Bank and the EBRD, with a specific region in mind, which is the region of North Africa – we agreed to run a new enterprise survey, selected the bids currently covering Central and Eastern European countries, to run it in the next years or so. The reason why we wanted to run a survey on the market now: we think this is particularly important because in this phase where the region is changing its model of growth, and that we have all the employment constraints that we all well know, really understanding, particularly the part concerning access to finance, innovation, constraint for growth for enterprises, is really important to better define all of our policies for SMEs in the region.

Another point that was raised before was about the difficulties that all institutions have in terms of looking if the funds are really allocated to the final beneficiaries and how they are allocated. I think all our institutions try to do our best, we do a lot – as Jean Christophe was saying – particularly now in non-EU countries, of ex ante assessment of the projects, evaluating the capacity of the promoter, etc. We are now starting to work more on the results framework. In the Bank, we just approved the new system for ex-post monitoring and the big focus will also be on monitoring our activities in terms of SME financing.

Plenary discussion

Cheryl Gray

Well thank you, I think we have a lot of food for thought in those presentations. I very much appreciate it. I am actually somewhat more alarmed than when we started the session because some of my initial questions seemed to be boiled out.

What I am hearing, just to summarise, is first: not a lot of evidence that the focus on SMEs makes sense economically because it is not necessarily evidenced that they have a disproportionate contribution to the economy, whether in growth, or productivity, possibly even employment. Second, credit constraints are not a major problem to SME growth. I mean, I am maybe exaggerating a bit, but I think all of these things were stated. One person seems to say they were, but I think some others said that if we look to all the other constraints, the credit is actually minor compared to some of the others. Third, even if they are a factor, interest rates alone are not a key factor in choosing who you borrow from or having access to finance. And finally, even if we provide loans, we can’t tell whether the beneficiaries are the ones we are targeting. So, I think we have a lot of food for thought on the table, and I think as an evaluator this is something we need to take very seriously.

I must say, as a little foot note, we are actually starting an evaluation right now because one of the big fights currently at IADB is green lending through financial intermediaries for environmentally sustainable investments, and we are actually going to trace some of the money to see if it’s actually being used – there is a fungibility issue of course – for real positive environmental investments. And maybe you all need to do a bit more of this tracing down through the financial intermediary.

And my last point was, as I think one of you was saying, that one of the reasons why we do this lending is because it is actually more profitable for us. I think you said to focus you do better in your portfolio, but I didn’t know if that actually meant on SMEs alone. But then I’ve got the basic question of whether for, say the IADB or IFC, just doing credit lines which we are doing a lot of, is actually safer and easier than doing direct lending to the companies themselves. So it actually is more profitable and easier for development institutions to do credit lines that generally are core-targeted for SMEs. But is that a good enough reason to undertake the swap? So, at least for me, I think there are a lot more interesting questions on the table.

Let me open up now. We have about fifteen minutes or so, and let's get some more questions, and then we can go back to the panellists to get their final comments. And then we can go on to the second section where we'll hear how all this is really evaluated.

Marie Cibu, Kreditanstallt für Wiederaufbau (KfW)

I am from the evaluation department of KfW and in our small independent unit we are mainly dealing with the evaluation of interventions in developing countries. But as you all know, KfW also has a large share in SME lending within Germany, but this is not the part which is our daily work. First of all, I am very glad to be here and thank you very much for inviting us. I started to develop my thoughts when I heard that young SMEs have the largest share in job creation and I wondered whether established SMEs have the largest share in job destruction as well. So is that really a net effect on job employment creation by SMEs, or do we see rather coming in and coming out of employment with SMEs? And that brought me to the thought that maybe it is politically more comfortable to have this job destruction in smaller firms because, if you have it in larger firms, it is very inconvenient for politicians. So they have a strong incentive to push for SME financing to have this kind of cushion effect, you mention as well, in that sector, but not in the larger industries. But we are also struggling hard to prove these effects in SME lending, and in microfinance as well, and we do not yet have the best solutions but we work hard on it. So I appreciate very much to share views with you here and to learn about your experiences in that field. Thank you.

Debora Revoltella

One of the negative facts of the survey that was used in the developing world and in the analysis that I was presenting, is that it is valid for job creation, but not for job destruction. So clearly it is not another factor, and that is one point. Clearly, I think we need more detail in order to fully understand that. In the developing world, we don't have data which allow us to look at job creation and the destruction of jobs. I agree with you that it is an important point: on the one side, job creation is the dynamism for the economy, and the other side, I fully agree that it is much more politically acceptable to have lots of SMEs exiting the market rather than having big enterprises closing and exiting the market. I fully agree with you, and this is an additional analysis we have to do in developing countries.

Luigi Cuna, Council of Europe Development Bank (CEB)

Thank you, We just finished a report that Rachel will later present and we came across exactly the same literature that Debora and Ruurd were referring to, and somehow the answer to most of the questions that they are raising, maybe could be based on an effort to disentangle a bit the definition of SMEs. Because in the current definition, we've got 99% of European enterprises that are classified as SMEs, and this definition includes basically everything, from inward-oriented, low-specialisation companies to one-man shows – let's say little shops, as well as the more sophisticated and international companies. And the answer of the literature to the question: "Why is it relevant to support SMEs?" is actually already visible. We found out that whilst the universe can be disaggregated, the young companies are those that have the largest capacity to create jobs. So therefore, if we can bring these findings on a much more sophisticated and higher level, we may understand the justification of working not with SMEs in general, but just working with the young SMEs.

Likewise, in terms of the access to credit, the evidence shows that there are micro-companies, and usually the most innovative ones, that face problems to access finance, more than those normally and generally defined as SMEs.

So, in general, I am also surprised that there is not such a great effort by anybody in the development world to disentangle these definitions a bit. Sometimes EBRD is using micro, small and medium-sized enterprises, so it is even broadening a bit the universe. But from the perspective of an economist and an evaluator as well, it would make much more sense to talk about micro as opposed to SME, as well as young companies vs. more established companies.

Mark Pevsner, EIB

It is a question really for Mr Schmiemann. Towards the end of the presentation, you had a slide showing by country the SMEs choosing on the basis of best interest rates, or other terms combined, and I've noticed a considerable contrast between countries or groups of countries, particularly those who have got very low levels of interest rates choice – for example, in Sweden, UK and the Netherlands, which arguably have quite concentrated retail banking systems – and very high levels of choice on price in, for example, Greece and Italy. So, my question really is: do you see any link between the degree of competitiveness or concentration in the retail SME market and the ability of SMEs to get finance at either a competitive price or indeed at any price?

Cheryl Gray

Would you like to address that? And if anybody else wants to address the former point, which was a good point, to make comments.

Manfred Schmiemann

Okay, I take the chance also to comment a little bit on the SMEs figures, job creation and so on raised by others before.

Indeed, this famous 99% figure of SMEs in Europe doesn't say so much because we have a lot of “mom and pop” operations that have no salaried employees. That is why we would like to focus, in many of our analyses, on those companies that actually have employees, that is somebody who gets a salary. And we feed our data into an OECD project that we run jointly on entrepreneurship. This project analyses very carefully how the job destruction process and how the job creation process takes shape. In the phenomenon of entrepreneurship, you have indeed a lot of creative destruction here, as you would expect. If you want figures, it is roughly four million jobs created by entrepreneurship, by start-ups every year, but how many are being destroyed is much more difficult to determine, in particular because you don't notice how many jobs in the big tankers of the economy are being destroyed and how many firms die, because it is very difficult to find out after the death of a small firm, what has happened, why did they die. Was it increased competition or other obstacles,? We don't know that. Net job creation is an interesting issue of course, yet very difficult to determine.

One interesting figure, if you look at the weight of small firms in the economy in Europe, as we saw earlier in a presentation, is the figure of 67% of employment. That is a more trustworthy figure if you want to gauge the weight of SMEs, rather than the 99% of all firms which are SMEs – that figure is distracting.

And then, to the question from the colleague from the EIB, on an analysis of the link with retail banking, the situation compared to the choice of best interest or other credit conditions, and the divergence of replies. I can't really give an explanation for those figures, that’s up to analysts to take those figures and look into the reasons and the link to the banking structures in those countries. So, sorry I cannot offer an answer there.

Cheryl Gray

I was really surprised that the Netherlands, the UK and Ireland were the three that had the hardest access to finance. But two of those, the Netherlands and the UK, also had the highest answer – that already being a client was the most important link. And it did not quite make sense to me, to be honest. It probably needs some more work. But it wasn't obvious what was leading to SMEs in these countries having a harder time than Greece to get financing. The whole thing was a little bit odd to me, but anyway, we can explore it more.

Horst Wattenbach, CEB

I have a question for Mr Mucci from Unicredit. As a big bank working with SMEs in Eastern Europe, you explained the importance of economic growth – even though of course we have also learned that financing SMEs for growth is basically the same as financing all private sector for growth, just because everything is SMEs. But if an IFI has an interest in having not only growth promotion through its SME portfolio, but actually having some specific additional mandate on social effects, do you, as a potential client of such an IFI, see a sufficient financial advantage in the terms that you receive from the IFIs, that would justify picking particular SMEs which meet additional characteristics, beyond simply picking from amongst all the SMEs in the existing portfolio? Thank you

Fabio Mucci

That is quite interesting and thanks for the question. I am an Economist so maybe I can answer mainly from that perspective and based also on the experience that we had during the crisis concerning cooperation support that we received from IFIs in the region.

Funding and lending from IFIs is very crucial also for the banking sectors in the region to support the SME sectors. I think the crisis has proved that the role of banks and the IFIs in supporting the region is pretty crucial. And of course banks do rely on the new environment, and will continue to rely on the support of IFIs to support these specific segments.

I think also that one of the main messages that came from the Schmiemann presentation is that clearly there seems to be quite strong linkages between the intensity of the crisis and the kind of response that SMEs gave in the different countries. And there was not that much surprise that in Poland, I think that in the pool, there was not a big change between 2007 and 2010 in terms of numbers of SMEs quoting access to finance as the main constraint, or even a deterioration of the situation.

So there is clearly a strong rationale, particularly in countries in South Eastern Europe and the Baltic that have been badly affected by the crisis, for SMEs to receive this kind of support, also from IFIs. That is for sure.

Jan Willem van der Kaaij

One more question to Mr Ruurd Brouwer. You mention, at the end of the presentation, the importance of the focus on non-financial value-added, also the importance for FMO, and you also mention one of the reasons why the supply of funds is one of the biggest problems. Can you give us a couple of examples of what kind of non-financial added-value you are thinking about, in the provision you are envisaging for your institution?

Ruurd Brouwer

Gladly so. This time we have teamed up with a consultant company, “Shore Bank International”, that is specialised in SME financing and actually in advising the financial industry on how to finance SMEs in the right way.

So, we sat down with the potential client and we proposed, instead of working for five days only for financial due diligence, we have an offer here which includes a consultant specialised in SME finance, and instead of just getting a yes or no on your lending, we’ll include, for half of the price roughly, a report that also addresses the way you are currently doing SME finance, and includes advise on how you can increase your volume of SME finance and potentially increase the quality of the way you assess the credit risk of your SMEs.

For us, it was an experiment, interesting enough, and the client was very positive, had no problem whatsoever to pick up the bill for this. And from their perspective also, they see that as advice on how to increase their SME portfolio, but at the same time to get part of the funding to realise that. So, this is the best case scenario and it was the first time we tried it, and the first time it went down with the client really, really well, so I am quite optimistic about this type of support.

Cheryl Gray

Okay, we can close this session. Let me thank very much Mr Mucci, Mr Schmiemann, Mr Brouwer and Mrs Revoltella for coming. It was great to have you and I now look forward to the next session.

Panel 2 – Evaluative lessons from recent evaluations

Facilitator: Ivory Yong-Protzel, EIB

Jan Willem van der Kaaij

Welcome again to our second part of this workshop. I will immediately give the floor to Ivory, who will chair the panel on evaluative lessons from recent evaluations in the field of SME financing. Ivory Yong is currently Head of the Evaluation Department within the EIB, and like Cheryl she has a good background both in Economics and the Evaluation profession. I will give the floor to Ivory, please.

Ivory Yong-Protzel

Thank you Jan Willem. So, now we will be listening to the second panel, which will focus on the lessons from the evaluations carried out by the Evaluation Departments of the four IFIs on support to SMEs.

First we will have Bastiaan De Laat, who is an Evaluation Expert and Team Leader in the Evaluation Department of the EIB. Previously he worked at the Council of Europe Development Bank Evaluation Department, and prior to that he was leading a consultancy firm specialised in evaluation. So you see, this is the kind of experience we have here!

Then we will have Rachel Meghir. She is Director of the Evaluation Department at the Council of Europe Development Bank, where she also used to work as a country manager within the General Directorate for Loans. Before the CEB, Rachel was with the OECD.

We will then have Marvin Taylor, who is Director of Private Sector at the Independent Evaluation Group, the Evaluation Department of the World Bank Group. He will make the presentation, but his colleague Stoyan Dennett, manager of the team on the evaluation of this sector, will be available for a conference call from Washington to also reply to your questions.

Finally, let me introduce Chris Olson, Senior Evaluation Manager at the Evaluation Department of EBRD. Chris worked for 17 years for Citibank in the US, and now he is working in the Evaluation Department at the EBRD.

So I will leave the floor to Bastiaan. Each one of you has about ten minutes. Then we will have questions from the audience.

Evaluative lessons from SME evaluations

Bastiaan de Laat, EIB

What I would like to do with the ten minutes that I have is explain to you briefly the structure of the EIB Group. Jean-Christophe Laloux already mentioned it, but it is important to understand how we function. Then I will discuss the different SME evaluations we have been doing at the Evaluation Division over the past ten years, draw some conclusions from that, and then finish with a brief outlook to the future.

First of all, it is important to understand that EIB is what we call a policy-driven bank, and that our objective is to support EU policies. This explains both the way in which we work, and also the way in which we evaluate the work we do.

The EIB Group has two major parts: the European Investment Bank and the European Investment Fund. The EIB is the EU's long-term lending bank, set up in 1958. Just to give an indication, last year we signed 61 billion euros, of course not only SME lending. We have our daughter organisation, 60% owned by EIB, as Jean Christophe told this morning, the European Investment Fund, which is more recent, founded in 1994, and which signed 2.5 billion in 2011. The EIF only works in the European Union, contrary to the Bank which disbursed about 90% of its volume within the EU and the remainder outside the EU.

Now what does that mean? That means that there are policies within the EU, which we try to respond to, and these can be in sectors and themes as varied as water management and environment, and one of the things that has become increasingly important are SMEs, not to fund SMEs as such, but within a broader framework of growth and employment, the Lisbon strategy, in case you have heard about it, and more recently Europe 2020.

Now, what have evaluations done around SMEs during the past decade? We looked at the different evaluations we did – they are all available on the internet, at the end of my presentation I will give you the link – and we found nine evaluations which to a greater or lesser extent, and sometimes entirely, were focused on SMEs. You can see – these are the yellow ones in the table – that about half are focused on global loans, which is intermediated loan. Interestingly, going back to the discussion we started to have this morning, there is only one – and in fact it was also only a partially SME-focused evaluation – which focused on countries outside the EU.

So we have mainly been focusing within EV on global loans, and within the EU, taking into account that the EU has been enlarged since 2002, so the set of countries is bigger today than it was in the past.

Additionally you will see – that's the pink ones – the two evaluations related to EIF more on private equity. Another one related to EIF on an agreement the EIF had with the Commission, which is called JEREMIE. And an additional evaluation which is both touching SMEs and larger corporates, which is called the Risk-Sharing Finance Facility, the RSFF. I will come back to that later on.

Some orders of magnitudes before I go into the nitty-gritty of how we work at the evaluation division. If we take 2005 to 2011, the EIB signed nearly 500 operations with financial intermediaries within the EU 27, ranging from 20 to 600 million per operation. So it is a very broad size range. Of this, about 45 billion were effectively disbursed to SMEs. EIF signed in 2010 – which are the latest official figures – 5.4 billion in private equity and 14.7 billion in guarantee exposure. Just to give you the flavour: these are not exhaustive and, as Jean Christophe Laloux mentioned, if you add up the SMEs reached last year both by EIB plus EIF you will arrive at 150,000 only for last year. That is 75,000 at EIB plus the rest covered by private equity and guarantees by EIF.

Now what does this mean? As I said, EIB is a policy bank. That means that we have different themes, we work on different sectors. We have a great variety of financial instruments to offer. We also provide TA, for instance. And that means that evaluations are thematic. They start from a top-down approach, which means that once we have a theme, once we define a scope, which can be defined by ourselves or can be inspired by the request of, for instance, the Board, we do desk research, we try to understand what the portfolio has been over the past couple of years. From that, we design evaluation questions and an evaluation framework, and we visit, in the case of SMEs, the financial intermediaries and also the final beneficiaries, so the SMEs that were reached. This leads to a series of individual reports which are internal to the bank. Then a synthesis report is produced which goes through different steps of consultations with services and then to the management committee. Ultimately it goes to the Board and is published on the internet, as you will see if you go on the EIB website. So this is our evaluation approach.

I said that we take different approaches depending on the theme, but we use the standard evaluation criteria of relevance, effectiveness, efficiency and sustainability and also look at the added value of the EIB or the EIF and how the process was managed by our operational services.

Now what are the results of those nine evaluations when you analyse them? I will be very brief and I can provide more detail if you wish later on.

The first major conclusion is that operations are relevant and they perform well. They are generally aligned with EU policies, which is not completely surprising because they have to be made eligible, and they have to align with EU policies in order to be eligible.

What we also see is that financial intermediaries have increased their SME lending substantially as you can see from the figures. Large numbers of SMEs are reached and, if you look at the EIF's part of the evaluations, funds appear to perform slightly above the benchmark.

For EIB or EIF respectively, additionality was found to be significant, for the bank and for intermediated lending, and you can find this additionality in terms of the tenor we provide, so loans with longer duration. There are catalytic effects and – we had the discussion this morning around the Eurostat presentation – one of the objectives now is that the EIB intermediated loans especially should induce competition. We start to gather some evidence that they do. There is one exception in fact in the series of nine which I showed you, which is the evaluation of the dedicated global loans, which came at a point in time where it was not the crisis and the EIB added-value was a bit less.

Another element that is important is that the EIB group provides technical assistance and expertise, and a good example is the JEREMIE initiative, the first phase of which was evaluated last year.

Now of course, evaluation has as purpose not to just be an academic exercise, at least that is my view. The purpose is that the results are used, and they are useful, which is often something discussed in the ECG. And what you see over time is that there is a move from simple acceptance, to actual use. So increasingly, we have explicit evaluation requests by the Board, which can be seen as an indicator of perceived usefulness, and it also had an influence if you look at the recommendations that we made in the past, on the new EIB strategy which was launched into 2011, which together with the crisis explains the enormous boom in SMEs lending that you see in the table.

We also see clear evidence on what evaluators call "instrumental use", meaning that recommendations are fed into the process, more the operational process. So the new "Loans for SMEs" product, which was launched in 2008, clearly contains specific characteristics. At EIF, a Mandate Management Unit was created which was meant to liaise with the European Commission especially, or other mandators, to streamline those processes, rather than doing it on an ad hoc basis. And the RSFF evaluation led to taking out exactly the SME element that was managed by the Bank, in order to have it now managed by EIF (on the RSI product).

More recently, we have started to do mid-term evaluations or intermediary evaluations, mainly on partnerships and EU programmes and mandates, and they lead to visible modifications while on-going.

What is the future? The Bank evolves and – we saw this already with the first address – there have been major changes both quantitatively and qualitatively.

There is an increased desire to better understand outcomes, which, as was explained, traditionally was the case for EU external lending for projects. But that is increasingly the case for the EU 27. And the mechanism that Jean Christophe explained is aiming at this better understanding, especially at the level of the final beneficiaries. And there is a specific procedure set up and a specific unit created within the Bank to monitor loan allocations to SMEs. So we have a very good scrutiny on what is happening. But it also means for evaluation that we have to adapt. That means that at the level of our evaluation sub-criteria, we have to be innovative and say, well, the Bank changes but how can we measure the impacts of those changes in the procedures? We have designed new indicators and also new tools. For instance, in the evaluation that is now on-going, we will do a quite large SME survey amongst our final beneficiaries and that's a new element in order to account for these changes within the Bank.

I think that´s it. Thank you very much for your attention and if you want to go more into detail on the report, I invite you to go on the EIB website.

SME evaluations in Europe

Rachel Meghir, CEB

Let me just very briefly set the stage on the CEB and its involvement in SME financing and the evaluation work that we carried out. Then I will move on to present selected evaluation findings.

We present the evaluation findings structured around the five DAC criteria, and over the five, we focused on one, which was relevance, and on the options for strengthening relevance; this was an important aspect for our Bank. First because, of the five criteria, this was the one which was, across the sample, rated the lowest. And also it is of particular importance for the CEB, as an IFI with an overarching social mandate, to promote social cohesion by financing projects for a social purpose. So the questions centered on relevance are particularly important for us. And I would conclude, just for the record, on the follow-up process of the synthesis report from which these findings are extracted and which are circulating in the Bank right now.

Just to give you a snapshot of the structure of lending activities of the Council of Europe Development Bank. We have three main domains, or categories, which cover around ten sectors of action: creation and preservation of viable jobs, the one in red, is the one we are going to be talking about today, it's the SMEs.

This actually constitutes the basis for several types of involvement in lending to financial intermediaries, which are aimed at developing SMEs and hence favouring and contributing to job creation. Just to give you an order of magnitude, creation and preservation of viable jobs is one of ten sectors of action, and it represents about 23% of approvals over the period 2007 – 2011 for an amount of 2.6 billion. We are much smaller than our sister institutions, but for the size of our institution, it is not bad.

The emergence of the job creation/preservation portfolio at the CEB actually goes back quite some time and over the years the stated objective and criteria have evolved. From an initial emphasis on fostering of employment / reduction of unemployment, we gradually moved to this formulation of creation and preservation of viable jobs as an instrument to foster social cohesion.

The first credit line for on-lending to SMEs took place in 1995 and, as I said, SME approvals over a period of 2007 – 2011 were 23% of the total 2.6 billion. With one instrument, global loans or intermediated loans, we work with various financial intermediaries: commercial banks, leasing companies, seed banks. And, of course, the end beneficiaries are the SMEs. We also, as a bank, have one monitoring or yardstick indicator, which is the quantitative one: job creation or preservation; number of jobs created and number of jobs preserved.

Just very quickly on the evaluation approach: what we do is, of course, like in any evaluation department. We did a portfolio analysis, we did a series of individual project evaluations which had their recommendations and we recently finalized the synthesis report for which we are presenting the findings today. And here the purpose, of course, was to review and summarize the findings and distil some high-level strategic issues to be considered by Management and the Board, with the overall objective of improving the quality of the projects that the Bank finances in the SME sector, and to reinforce alignment with what we like to call our social mandate.

The evaluation cycle is based on seven CEB-financed programmes, and we have five one-country and two multi-country programs. A total contribution of 281 million euros was covered by the evaluation and we had diverse implementation arrangements with the different financial intermediaries that actually channelled the loan proceeds from the CEB loan.

Relevance, as I said earlier, was the lowest-rated evaluation criterion across the sample. It had a satisfactory score in four out of the seven programmes.

We found this particularly interesting and tried to analyse a bit further the reasons why.

First of all, the timing of the CEB loan with respect to the economic cycle highly influences the relevance of the instrument employed, which is financial support. Of course, in times of economic boom and competition in the banking sector, credit is easily available so relevance declines, but when access to credit becomes more difficult, relevance starts rising again.

Second, supporting job creation was in general a relevant objective, but these objectives, and eventually an announced preference for small and micro-enterprises, were not always transformed into operational criteria. In fact, with regard to the social relevance concerns that we have at the Bank in the targeting of our final beneficiaries, the choice of the implementing partner and the market strategy of this implementing partner are of course crucial in determining the project's capacity to reach the intended final beneficiaries, assuming of course that these are well defined at the outset: flexibility in responding to SME needs, extent and density of the branch network, and other such elements.

In our sample, there was an overall satisfactory performance in efficiency and effectiveness; in efficiency especially, where there were experienced partners with proved capacity of servicing the SME sector. Regarding effectiveness, it tended to be higher, of course, since the eligibility criteria were clearly defined upfront and effectively fulfilled during implementation.

Overall, it was satisfactory, but there were some methodological and conceptual constraints, associated with the indicator which is used in the Bank, which is the number of jobs created, which makes benchmarking and comparisons a bit difficult. Despite the limitations of this measurement and the monitoring indicator, the intended overall employment effects were found to have been achieved and, indeed, in some cases to have exceeded expectations.

Sustainability was rated positively in six projects, largely thanks to the nature of the financial intermediary. These were most often well-established financial institutions or government financial agencies. But sustainability is naturally highly dependent on the evolution of the economic context. And indeed, with regard to financial and economic sustainability, the financial crisis and the economic slowdown have affected the banking sector.

We also found that there was non-systematic monitoring by the operations department of the Bank of the partners' portfolio at risk. This concerned mainly the variation of the financial sustainability of

the final beneficiaries (SMEs). For some, macro-economic difficulties took their toll, and for others, notwithstanding the business risks, the prospects were better.

One of the other findings – and I think this goes back to the issues that were raised this morning – is that very often one of the key challenges for SMEs is not so much expanding the number of employees or access to finance, but finding the required skills and qualifications. And this was found to be a significant constraint to the growth of SMEs in some cases.

On social effects or impact, in terms of employment generation, as I said, it was satisfactory performance in line with the monitoring framework and the objectives that had been set upfront at approval. We also found that there were some unintended positive dimensions which came out, such as improved working conditions in some SMEs.

There were no other complementary qualitative criteria that were assigned to employment effects, such as environmental issues, which in some cases would have been actually useful to scrutinize. And of course, the macroeconomic impact on the SMEs is quite evident: notwithstanding the fact that sometimes they already have high debt levels, the fact that they did have loans and access to finance helped improve their position vis-à-vis their competitors and strengthen their access to markets.

The overarching strategic issue for our Bank was the social relevance of these SME operations. As I said, it depended on the economic cycle and the timing in which the cooperation took place. So the risk of declining relevance can be mitigated by strengthening the social development focus and the social development content of the projects that we were financing.

In order to favour the participation of a specific sub-group of enterprises to be identified on the basis of social considerations, one would need to have clear operational definitions of the project objectives, and to establish the corresponding eligibility criteria at approval. This would enable, for example, better targeting of specific types of SMEs: micro-entrepreneurs, women entrepreneurs and young enterprises, as was said this morning, and those owned by specific groups. They could also be targeted on a regional or sub-national basis to address particular unemployment problems. Another option is to focus on the quality of employment, and not just on quantitative aspects; focusing on skills or, in the context of the Council of Europe, which is our umbrella institution, to focus on employment standards and working conditions along those guidelines promoted by the Council of Europe. Another option would be the strategic use of incentives, where these are available, to try and influence the behaviour of some of the intermediaries to better serve SMEs in particular areas, or particular groups or categories. Of course, the other option could be to develop explicit financial sector development objectives with the eligibility criteria and the indicators that go with it, and not to have such a social focus, and to say that financial sector development and deepening the financial sector is the objective. But I don't think it would really be an option that the CEB would go for because it is an institution with a strong conviction in fulfilling a social mandate.

Just to conclude on a procedural note, Bastiaan has also raised the issue that evaluations are very informative exercises but the ultimate goal is the use of evaluation findings. This synthesis report has been shared with our operational directorates. It has been discussed at length. In fact, it is coming out in a timely fashion because the key evaluation findings are going to be taken up. Initiatives are actually being launched within our operational directorate to review and revise their approach to SME lending in general, and this "soul searching" is going on concomitantly with the revived interest and greater questioning emanating from our Board on finding better evidence of the intended social effects of the interventions of our bank in the SME sector.

Lessons from World Bank Group support of SMEs

MarvinTaylor-Dormond, World Bank Group

I would like to say that what we are presenting here is not an evaluation, but rather, for this session, we have distilled the lessons reviewed, the lessons of a number of our projects, micro-evaluation projects and macro-evaluations, that we have conducted over the last ten years. We have packed this in, perhaps packed in too much for the ten minutes of this session. In preparing this especially for this session, it's been a good exercise because we are getting ready to undertake an evaluation of SMEs next year.

This is what I would like to cover, quickly in these ten minutes: the rationale for supporting SMEs, the typology of interventions of the World Bank Group, the areas specifically in which the Word Bank Group has been intervening, and finally some lessons. Those are the four things I would like to cover with you. I would just like to remind you that my colleague, who has prepared this presentation with us, is on the line and he would be available for answering questions.

First on the rationale, I could not agree more with the first panel on the benefits of intervening in this space, over SMEs. For using public money to intervene in the private sector space, there has to be a good rationale explained a) by the benefits and b) by the costs that you are trying to mitigate for the private sector to operate. And it is correct that the literature is not clear on the side of the benefits. But it is quite clear on the side of the cost that the SMEs are confronting, that is quite clear. It is clear that this sector is impeded by market and institutional failures that are for government to intervene or do what they have to do in the case of natural impediments to the market. And it is clear also that SMEs often lack capacities or skills needed to access markets, to influence public policy, etc.

Based on these understandings, this rationale, there are three types of intervention that the World Bank Group has undertaken over the last years: those who act through the public sector, those who act in partnership with the private sector, and those that we call "blend".

Through the public sector, the Bank is itself, and interestingly enough, the IFC as well, operating with the public sector, more and more in the area of business climate. Intervention through the private sector is basically IFC investment and MIGA guarantees that have small programmes and guarantees for small investments. And finally, blend interventions are interventions that are done in the private sector but with a strong public sector component.

This is the typology and so there have been four areas in which the World Bank Group has been intervening: the size bias of the business climate, improving access to finance, creating linkages and building capacity, based on the understanding of which are the obstacles that are confronted by this firms.

With respect to those, relating to reducing the size bias, these are basically initiatives to reform legislation, and these take the form of direct interventions or indirect interventions; direct through governments or indirect through business associations.

What are the lessons? Well, there had been a strong record of success in changing legislation, but there is not a clear relationship between the changes in legislation and better performance and growth of SMEs. Why? There are a number of reasons: the long-term effect of reforms, a failure of the teams to measure the impacts beyond the changing of the legislation, and because in developing countries very often regulations are non-binding. In other words, there is a strong difference between the "de jure" and "de facto" conditions. This graph here rapidly shows what I am saying. Here you can see, these are a number of days to obtain construction permits, and on the left hand side you have the actual days, at the bottom here at the x axis, you have the "de jure", as registered in the Doing Business report. And what you can see is that most of the countries that are in this graph are below the levels that are reported in the "de jure". In other words, you remember that in trade finance we used to call "water" when the tariff was too high? Well here, there is lot of water in the legislation affecting the business climate.

And so what type of reforms would work in these conditions? Well, those that are very large, that's the lesson, for them to have an impact, and which are also accompanied by other specific reforms to affect business registration.

With respect to indirect approaches, the results have been positive: associations have enriched the dialogue between private and public to enable reforms, but also tend to be taken over by large firms and this is something to watch when supporting reforms through indirect mechanisms.

The second area of intervention is improving SMEs' access to finance. This has taken three forms: reform in financial intermediation, advice to change laws, especially regarding the creation of credit bureaus and credit lending which are critical for lending to SMEs. We can come back to that in the question period; why they are so critical for SMEs. And indirect financing to SMEs, three forms in this space.

Lessons through financial intermediation: financing through financial intermediaries tends to be far more effective than financing directly; something that Cheryl mentioned a while ago – the trend is very clear in this respect.

Further to this, working with second-tier banks tends to be more effective than working with larger banks, although this seems to be changing in the latest experience of IFC. Larger intermediaries tend not to be too motivated to work with SMEs, unless there are incentives that they have to compete with the capital markets to finance the larger firms, then they are motivated to work with SMEs.

Lessons with respect to the creation of credit bureaux and secure lending: basically it is important to look at the entire environment before setting up a credit bureau or before financing a credit bureau, or setting up of a company that would provide secure lending to SMEs. Basically that is the lesson: look at the entire spectrum, not only at the specific company.

Lessons with respect to direct financing: this sort of financing has not been very successful. That is the message, except for specific financing such as in equity for strategic purposes, such as ICT, in which evaluations have shown that this can be a successful instrument.

The third area is the creation of linkages between SMEs and large companies. This does not come naturally. SMEs tend to compete to supply the larger firms that are being created in developing countries, and have a very strong competition with the larger firms. So support to them is important; we can come back to some of these cases. Lessons with respect to linkages are that programmes have to be based on a strong economic rationale, not on the view that they constitute an instrument to provide a social license to operate. Strong economic rationale is the key lesson, and that the incentive has to be comparable, so that it has to be a rationale for the SMEs, and also a rationale for the larger companies.

And with respect to the fourth and final area, building capacity: there have been a number of areas in which the World Bank has operated: direct provision of financial advisory services, consulting services for improving practices, training programmes, capacity building of local consultants, and capacity building of local intermediaries. Lessons? With respect to financial advice: this not been very successful. But advice to improve practices; very successful: high economic returns in all the projects we have seen. With respect to capacity building: very successful projects in what we have seen, especially for those that provide capacity to consultants in the field, so that the provision of advice by the World Bank Group does not crowd out the local consulting company. One important lesson with respect to financial intermediaries: the combination of provisional financing to financial intermediaries with technical capacity building has proven to be a very important instrument to facilitate a popular operation with financial intermediary.

And with this I come to the end of my presentation.

I summarize: first, I call it an important rationale, because of what we saw from the first panel. Second, support for SMEs can take different forms for the business environment, access to finance, etc. And finally, what has been proven to be successful is: number one, large and simultaneous reforms in business environments; number two, financial intermediation as opposed to direct financing; number three, linkages with economic rationale, not social rationale but economic rationale, and number four, advisory services that improve business practice and not aimed at the financial activities of the companies.

Evaluating SME projects at EBRD: some findings and challenges

Chris Olson, EBRD

I will be speaking to a degree based on my own experience both in my early days as a lending officer, in some cases making loans to SMEs, being very familiar with the working conditions in doing that kind of work, and then on my experience at EBRD for the last ten years. I would like to share with you some of my own experience as well some of the broader conclusions that we might reach.

In facing this challenge – how to address this topic today – I was very aware that there is a great deal of information available within the EBRD about SME projects and what I provided in the notebook I believe is some supplemental information looking more at a set of lessons that some of my colleagues have put together.

I think since SME lending is roughly about a third of the bank's activity over the last twenty years, we must have evaluated at least 100 projects and maybe more. I think our lessons database probably has over 1000 lessons, if not more, related to this topic. And we are now updating and synthetizing the lessons database to improve its usefulness internally and externally. We do have our external database, an external lessons' database, which has a synthesis and I have provided a copy of the twenty years lessons that are synthesized from the hundreds that are on the database, for you to consult.

Now why SMEs? Well, unlike I think any of the other institutions that are represented here today, SMEs are actually in EBRD's mandate in the foundation documents of the bank. And I break a good rule of presentations by putting too much text on the slide, but let me read this to you.

We have two articles that we basically work with. The first article, article one, says that EBRD is set-up to foster the transition to a market economy of the former Central Eastern European and broadly the former soviet-bloc countries, to a market economy under regimes that are considerably democratic and under the rule of law. We have a very unique mandate in that sense. And this is, of course, a bank that was founded much later than other institutions here around the table, in 1991, with the collapse of the eastern block and the experiment with communism and central planning. These were highly industrialized countries to a great degree, and the challenges I think that the founders were facing were quite different to the challenges which might be considered to be more traditional development challenges faced by some of the other institutions.

Article two I think is very important. It says that to help this transition to an open market-oriented economy and promote private and entrepreneurial initiatives, the bank should assist the recipient countries to influence structural and sectoral economic reforms, including de-monopolization, decentralization and privatization. And that is very important because, as you know, they were very highly-centralized economies with very large-scale industrial enterprises, sometimes highly integrated, a very large number of enterprises combined, what they call "KOMBINAT" in Russia in particular. And the challenge was that this was going to be privatized, broken up, reorganized, and that presented a certain challenge. And the measure was to promote, through private and other interested investors, the establishment and expansion of competitive private sector activity, and – this is the main one – in particular SMEs.

I think it is important to notice that in this context, and this is the only place it appears in the mandate, in this section, and that it is directly related to this question of de-monopolization and de-centralization. And I think that what people were expecting, was that there would be privatization and a break-up of these enterprises, and many people would be in the streets, and as well as there would be opportunities to create small enterprises out of these big enterprises.

Now because of this mandate, the bank has spent twenty years doing SME lending. We do it through direct loans and equity, looking at all the sectors. We have special products for poor countries, where grant money is involved. There is technical cooperation activity, very heavily active, across two dimensions. We do the same kind of work that our sister institutions do, lending money to banks of all shapes and sizes across our region. For purposes of reaching micro and small enterprises, we provide technical assistance. We pay performance fees to banks to make loans to small enterprises. There was a very big programme sponsored by the European Union; I think at least 100 million euros were spent providing performance fees to banks. We work with leasing companies and we are a principal founder and owner of many microfinance banks across the region. And we have equity funds initially targeted at SMEs. The whole rationale for investing in equity funds at the EBRD began with this mandate to focus on SMEs.

So there is a great deal that has been done and I am not going to tell you about it because the numbers are on our web site, about our reaching many, many SMEs.

But we are not alone facing the challenges that we discuss today. What is the relevance of the interventions? To the scale of the problem? There is a very large-scale problem. Is what we are doing only a drop in the ocean in relation to the demand and the problem to be solved?

We don't have very much data. We know a lot about the numbers of loans that we made and the size of the SME loans that have been made by some of our intermediaries, but we don't really have much information about the outcomes at the SME level. And this has been a big challenge for evaluation. A question has been very clearly pointed out regarding the adequacy, in the design of our projects, to clearly specify the outcomes that have been sought, to find and measure baseline data, and to collect data on the outcomes as they come along. So we have had to basically improvise in evaluations over the years to try to deal with this.

So I can give you some examples of how I have searched for outcomes in different evaluations. Just to give you an example, I visited, or had a team visit, 90 SMEs that were provided loans by three partner banks in Uzbekistan about a decade ago. That was really quite unusual because the first mission I made was to visit twelve of the projects and I came back and said, well, half of these projects are failures. That wasn't how they had been characterized by colleagues and I said these are economic failures, business failures, and we have a problem. So we went to visit substantially all the SMEs to which we provided loans under this programme and we came to the same conclusion.

In 2006, I did a study of private equity funds. This was interesting because the fact has been that, being a limited partner in a private equity fund, we received regular reports on the financial value of the investments in SMEs held by the funds. So I can tell which of these companies that we have invested in were small and which were large. And I was able to tell how much change in the value of the company had occurred. And the main finding from the study was basically what I called a low efficacy – maybe better say low efficiency – challenge to SME investment through private equity funds. These are directly out of my study lessons. The economics of private equity funds are driven by the high intensity of the labour factor and the high returns of scale to the size of the investment and size of the funds.

As I mentioned earlier, basically we tracked and saw that the SMEs rationale for investing in private equity funds actually disappeared from the equity fund projects as the years went by, as the funds that we were investing in went from being country-level, country-targeted funds looking at SMEs, and became regional funds where the private equity investors were very interested in being able to have a broad range of opportunities, and look for the biggest/most interesting investments. The best ones were in the telecom area and generated almost all the financial returns that these funds were able to generate. And the experience showed that the private equity funds had much poorer financial return performance from investing in SMEs. I think basically the lesson our private-sector general partners, who run the equity funds, learned from that experience was that they didn't really want to invest in SMEs.

So it is the cost structure that limits interest in SMEs, because it costs as much for a general partner to deploy its highly paid people to make an equity investment in a small company as to invest in a big one. And the returns are simply much better. You have much better chance of floating large firms on the exchange, in an investment reality where 20 % of your projects generate 80 % of your returns, or more.

And basically, my conclusion was that if the SMEs were having difficulty in getting access to equity, the private equity funds that we had helped to develop, and the private equity capacity that we have helped to build in these fund managers, were not going to be providing much of the solution for SMEs in the future.

Finally, another example of trying to get at outcomes: I did a study of all EBRD loans to leasing companies and we tried to survey them. We surveyed both the leasing firms and many of their lessees, their clients. We got some interesting information back, I think. Of course you know this was my first trial doing this and I would probably do it differently learning from experience.

Access to funding was said to be for the leasing firms a key success factor, and that is absolutely the case. Leasing firms basically failed when they run out of money, and many of them had in this crisis. They basically leased equipment, and half of the equipment leased is passenger cars and road transport. So what these leasing companies are basically doing is leasing automobiles and trucks to small enterprises. Unfortunately, what that led to in many cases was a concentration in the transportation sector, where the leasing companies were focusing on the equipment risk of cars and trucks, and had not paid attention to the sector concentration. And when the crisis hit in 2008 and 2009, they had a lot of trucks being parked on the leasing company lot with their keys in, because the guys who leased had all been running the same kind of business, such as hauling materials for larger companies, and that was easily cut back in the crisis. Some of these leasing companies were in a very desperate condition after that experience of having so many transport SMEs turn back their equipment in default of payment.

What we learned, interestingly, from the survey, was that SME leasing is at least as profitable any other category of lessees. So there are a lot more interesting things that you can read about this here, but we've tried to gather information about leasing firms and how they would work.

And just to finish, I think most business people believe small is beautiful, but bigger is better. The successful entrepreneurs start small but they really don't want to stay that way. So the ones that we know about, the famous and rich like Richard Branson or Bill Gates, they started small but didn't want to stay small. And it has been brought to my attention that perhaps we should be targeting SMEs better, to find which ones can create the better alternatives for becoming big companies, which are firms that will employ more people, if that is an outcome being sought as well.

We have to focus better on how we design these projects. I think we have to look at impact evaluation. There is a project in Mongolia being run by the EBRD which is doing a random control trial process. They have control groups and treatment groups to see how SME lending works best in Mongolia. And this impact group is coming to the EBRD next week, or at the end of the month, and I am going to take part in that meeting and see what they say. Thank you very much.

Plenary discussion

Ivory Yong-Protzel

Thank you very much Chris. All those presentations from four different IFIs have showed us the diversity of instruments that we are using to support SMEs, from intermediated loans, private equity, to support to reforms.

Now, I can relate to Cheryl and I must say that I am very worried because one of the commonalities is that we have very little evidence in terms of the outcomes, either for SME growth and even less for general economic growth, or even less for overall benefits for society.

In that sense, I appreciate that Chris' presentation has closed the four presentations from Evaluation Departments and is the one that is so clear in saying, "Well, these are the outcomes".

So I think we as an Evaluation Department should be asking ourselves some questions: is it a problem with the impact? Or is the problem with us, not being able to design proper evaluations in order to find them? But having said that, I would invite the audience to ask questions, both to our evaluators and also to our presenters from the first panel, if you so wish.

Ruurd Brouwer

I am here to learn as well. I have a lot to learn. On the operational side we have our own internal Evaluation Unit to steer us in the right direction, so for me it is very valuable to be here. I've got a question specifically to the colleague from the EIB, since you did mention that due to EIB's focus on financial intermediaries, you could see that financial intermediaries increased SME lending and that you actually reach large numbers of SMEs above benchmarks. Could you please explain this to me, because I think this is part of the solution. How do you establish causality between your loan, and the fact that financial intermediaries increase SME lending?

Bastiaan de Laat

Thank you very much for this question. I would also like to invite my colleague Ulrich Brunhubber to jump in if he thinks it is necessary, since he is currently leading the SME evaluation I was referring to that will be ready by the end of this year.

What the bank is doing currently, and that was what we were referring to earlier this morning, is that we scrutinize which are the SMEs that have been funded by our financial intermediaries under our loans. So we have a list of SMEs per financial intermediaries, and we also know what the relative benefit that was passed on. That is something that we are currently investigating. I don't know if that answers your question, but there is a tag if you wish on the SMEs that would have been funded by the EIB today. In the past this has been more complicated because we had mixed approaches. Either we asked the banks to provide us with portfolios that would be a mirror image of the portfolio that would have been financed with the funding of the EIB, so that we could see whether there was a relative increase in SME lending. That allows us to say whether there was one.

Currently, we are even looking at the SMEs individually. We did that a little bit in the past. We did it especially for the external activities, external to the EU, of the EIB. But we now do it for all intermediated loans to SMEs. And we are currently, at the Evaluation Division, looking into this new process, which started in 2008, to see whether, first of all, it is worthwhile because it is very costly to do this type of scrutiny, and then to see whether indeed funding benefits are passed on to the SMEs and what SMEs themselves think. So we go and visit SMEs, like Chris was explaining for the EBRD. And we do this survey that can be shortly launched. Ulrich if you want to add to this…

Ulrich Brunhubber, EIB

Just to add a few words from my side. As Bastiaan has already indicated, we are in the middle of an evaluation that looks to see how the EIB has supported SMEs between 2005 and 2011. And getting into the exercise, we have seen the shortcomings in terms of having evidence on the outcomes for the SMEs. This particular evaluation is indeed at the explicit request of the Board. They've asked us to not only look into the intermediated portion, but to try to get evidence from the ground. And as Bastiaan has already indicated, we are trying to have at least two sets of evidence. One is the systematic way of doing things. Site visits: we will have 80 to 100 site visits at the end of the day, and we have engaged the Gallup organization to help us with the survey across twenty operations in eleven countries in the EU 27 to shed some light on that question that you pose in the beginning when you said it is impossible to track the transfer of a funding advantage. And in fact, the new product that the EIB developed in 2008 was trying, or is trying to, put in place a mechanism to give us a greater sense of comfort that, indeed, we can track that. One of the guiding questions of this evaluation is to try and see whether there is evidence that this transfer has occurred, and what its impact is.

Alejandro Soriano, IDB

Following up on that, basically the question is to what extent do you rely on self-reported information (basically, what they tell you about the companies that they finance; what they tell you they did with your money, given the high level of fungibility)? And if you do so, how trustworthy is that self-reported information, given that there seems to be more interest in doing large operations at low cost? They are interested in showing us their best SMEs within their portfolio and saying that "These are the ones". By the way, we do have horror stories in our house, in which several lenders provided money to be lent-on, and the financial intermediaries actually reported the same SMEs to different lenders, basically because they were the ones that looked better with regard to employment. And how trustworthy is all this?

MarvinTaylor-Dormond

Well, of course, trust is good, but control is better, and as good evaluators that should be our principle. I have to say that with respect to the information that we used, although our system worked, as we were saying yesterday, through self-evaluation and independent evaluation, we have a good degree of confidence in the information that we have to report, the lessons and the information that we have brought to you and that we report in our evaluations.

I am talking about the system that we have in place in IFC and also in MIGA. In MIGA, it's basically the information that we have reported, based on direct evaluation, because, as I explained yesterday, there is an excellent self-evaluation system. And in IFC, the self-evaluation system is very strong, we can verify the information and we can go to the field as well. So I wouldn't place doubts on the quality of the information that we are using to report on the effectiveness of the intervention in this phase.

Bastiaan de Laat

Very briefly on Mr Soriano's question. There are mechanisms in place now, and as I explained, they are not self-evaluation mechanisms but in fact it is reporting from the financial intermediaries. If I limit myself to the global loans, and not to the other five types of intervention we also evaluated over the past ten years, there are checks within the bank that we called central allocation units. So if they had doubts, for instance, on the eligibility of an SME, and they had checked it with AMADEUS, which is an SME system, and then they may eventually go back to the bank and say, "Well this is not what we wanted to find". It is one thing, it is on the website of the financial intermediaries as well, as was mentioned, and in fact the EIB contribution is written into the contracts with the individual SMEs, and we can individually check that and we currently check it in the evaluation, whether that is really followed through. But it is a huge system.

Alejandro Soriano

My question, very quickly, is much more on causation. I don't doubt that actually the information that will start being reported, on the financial institutions, would be on SMEs that qualify. My question is more on the chain of causation; on whether our funding was the one that caused that SME that we wanted to be financed to be financed, and whether that SME was already in the portfolio, and whether it was reported to us after the fact.

Ivory Yong-Protzel

We will collect the first four questions and then go for a second round.

Todor Dimitrov, Black Sea Trade & Development Bank

I have a question addressed to Rachel. As your bank is focused on the social dimension, you've mentioned that you are looking at job creation and job preservation, and you evaluate this. I have a couple of questions. The first is, do you have a target of job creation/preservation per loan, for money invested? What is the result of the evaluation report? And how do you measure the attribution? How do you know that the jobs created were a result of your loan that you have extended and not of other factors? Thank you.

Ashwani Muthoo, International Fund for Agricultural Development (IFAD)

I also have a question for Rachel. What caught my attention in your presentation was something very surprising and opposite to what we found in IFAD. It was that you have highlighted that the relevance of many of the operations included in your evaluation was quite low as compared to effectiveness and efficiency, which is the opposite that we came to see at IFAD. I am curious to know what the management reaction to that was, because if I was the management, if you wish, I would be a little bit embarrassed to be funding projects that are not relevant to the mandate of my institution or to the country's needs, and it also goes back to the question of the quality assurance at entry in your institution. So maybe if you can share with us what the management's reaction was to that particular evaluation finding?

Cheryl Gray

I think it is very interesting that I have two questions and they are actually exactly the questions that people have raised, but I am going to repeat them because I think they are very important ones. One is exactly Ashwani's question, and I've asked myself even more basically, how can you have effective loans if they are not relevant? You reported low relevance and high effectiveness, and I didn't know that was actually possible, and maybe you can explain that. But actually, the second question which other people raised, which I honestly think that it is something that we have to treat very seriously. I would even go so far as to say that we are doing this correctly. I do not think it is conceptually right to track our money to each individual loan, and say that is the causal factor. I just don't think it is correct, conceptually. I think the only way you can do this is looking at the counterfactual, and the counterfactual is what would have been lent to whom, without ADB or EBRD or World Bank lending. And while it is harder to do, I think that this is the only accurate way. And I think we are probably doing it wrong, and my guess is that it is very true you can manipulate this. It is as if I had one hundred dollars for a Christmas present and I go out and buy a computer. Would I buy the computer anyway? You will not know unless somehow you get a sense of lending patterns of the intermediary with and without our lending. And I think that we need to think of the methodology here, because I honestly don't really think we are doing it right. And I do think we are in the same boat, so I guess I pushed pretty hard on that one.

Grace Kyokunda, African Development Bank (ADB)

My question is to Rachel. You said you have focused on social intervention and employment creation and then you use intermediaries. How do you ensure that this is achieved, because I imagined that your loans are commercially priced? So if you give me a loan and there are no subsidies, how do you enforce that the intermediaries will be focused on job creation and whatever?

My second point has to do with our experience with ADB. I actually agree with what the World Bank said, maybe because they have a lot of exposure to Africa. SMES to us, their biggest constraint is access to credit, but also capacity and institutional issues. And we are faced with not only SMEs lacking capacity, but the intermediaries themselves. So we have tended to facilitate the creation of regional financial institutions to help us with the outreach.

My third point is when we are evaluating lines of credit, we take a sample of some of the beneficiaries, and at times it is very easy to tell that company X actually has benefited from our funding because we have other conditions, like environmental issues. They will know, they will tell you that actually, "We got money from banks; they insisted that we conform with environmental standards". So at term, it is very easy to check that. Thank you.

Mr Weber, KfW

I have this question specifically to Mr Olson. You mentioned you undertook a randomized control trial in Mongolia, and my question is more a general question because the latest findings of the randomized control trials in the last two years specifically made all of us a little bit nervous, even in our bank we're a little bit confused. Do you really produce impact with micro-finance, or more generally with SME finance? And my question is that you undertake such a study in Mongolia: do you think it is feasible or it is an adequate approach to measure the impact of micro-finance or of SME finance specifically in your case? Or shouldn't it be better to stick to the fact that a lack of finance leads to underinvestment, which is a proven fact in investment literature? And as long as there is an un-met demand for finance, so that we can close the gap and do not distort the market as development finance institutes, and thus we do the correct job and achieve our goals?

Bernard Ziller, EIB

Thank you Ivory, actually, I have one comment and one question. My comment is to support Cheryl's conceptual point on how to do these things and whether we do them right. I would actually even go a little bit further and say that I am not convinced, with possibly some exceptions, that in the space of SME lending, it is actually conceptually possible to get it right, because I don't think that randomized control trials are very effective in this case, because you would rarely have a case where access to finance for SMEs doesn't exist. And so the counterfactual would be very difficult to establish for that reason. Now I am sure that there could be some marginal exceptions depending on the environment, but this would be some rare event.

Then my question is to Marvin Taylor on a very specific point. You mentioned in your typology of World Bank Group interventions a number of possibilities on the lending side. One of them is still the old model – at least that's the way I interpreted them – of the sort of APEX type of loans where you work through the public sector. I don't think that you said anything specifically about this model and what kind of evaluation results you have regarding that modality of using sovereign loans to ultimately reach SMEs. I know other institutions do it as well, we still do it in some cases, but you have the luxury of having two different channels, two different tools to target the same goals, and so it would be interesting to see what the difference is in terms of results. Thank you.

Ivory Yong-Protzel

Thank you very much. With this we will close the questions and I give the floor to the panellists.

Chris Olson

In response to the question about the impact evaluation of microfinance programmes, I should clarify that this, I think, is an experiment that has not been run up by our department but as a joint effort between our Chief Economist's Office and the Financial Institutions Team, where they identify a financial intermediary in Mongolia that specifically wanted to test certain approaches to microfinance lending. And, because I saw a presentation of the preliminary findings of this effort, they wanted to test if lending to groups on a joint basis was more effective and efficient than lending to individuals. And there were also some strict controls on whether with or without a loan it would be difficult to have access to finance. I don't think they were testing the access to finance; they were testing how the access to finance was structured. It was a lengthy presentation to describe how all the control groups had been structured, how the randomization was imposed geographically. So I think that was a breakthrough in our bank because I think, in general, it was a very challenging and costly to set up. But this seems to be much more promising than lending through financial intermediaries, and then trying to see what happened afterwards.

MarvinTaylor-Dormond

I agree with Cheryl: we have to think better how we have to conduct evaluations. And it is true for the use of counterfactuals, but it is also true for all the things that we do. But I do agree that in this case, it is particularly accurate because money is fungible, so you can use it in different ways. So we conducted an evaluation on intermediaries four or five years ago, and I am not very pleased with what we came up; a very thorough evaluation about intermediation by IFC. But in this second round, IFC is conducting as of next year, I promise I will come back with a better answer to this, as of next year.

In one second, I comment on what Ivory said at the very beginning. I don't think that there are no outcomes; there are clear outcomes. And I agree with the first panellist that there are some questions on the rationale. That is a different issue to whether SMEs deserve special attention by multilateral and public authorities. That's the broader issue; but once you intervene in this space, there are outcomes and I mentioned many of them. The lessons are based on the outcomes precisely; there would be no reason to come up with a lesson if there are no outcomes. So there are outcomes once you intervene in this space. The thing that is not clear here is the rationale, again as was explained by the first panellist. This has to be strengthened and again we will have to come back to this issue on the second round of our assessment.

Rachel Meghir

Thank you for all the questions. A lot of the issues raised stemmed from the fact that, within the Bank, the rationale for getting involved in SME lending was the social justification for doing so, and that was perhaps not commensurate with all the implications that that really had. Moreover, the indicator, as I said earlier, was a headcount approach. So, somehow, all of this determined the approval and the monitoring framework and what we looked at as a bank in the life of the project and the project cycle, and it is also what provided the data or the lack thereof. In terms of the evaluation work we did later, the global loan, or intermediated loan, is the classic example, where we would lend to financial intermediaries.

As a triple A borrowing institution, we borrow our funds at very interesting rates and though it is not concessional, it has the advantage of a triple A rating which we would transfer as much as we could with a small intermediation margin to cover our cost. We would also insist with the financial intermediaries, and at least try to get information on the interest rates or the benefits that they derive from using our funds and on whether there would be repercussions in the interest rates they would charge the SMEs.

Having a target of how many jobs we would want to create upfront and what would be the cost of the jobs created is a problem and it is difficult to benchmark. The diversity of SMEs and the diversity of sectors makes benchmarking a bit difficult. It was more ex-post reporting by the SMEs themselves, through the financial intermediaries with big listings of which enterprises were financed. Our monitoring department went through the listings, and would look for eligibility criteria and at the description of the SME and the number of jobs initially; it was a before/after approach. There are many drawbacks with that, granted, and I think that was one of the difficulties and, to be perfectly honest, I think our "operationals" were also quite uncomfortable with that for a long time. So when we came up with this conclusion that the headcount approach was not the best one, there was a sort of sense of relief, at least there was someone to say it. They were in agreement and this is why I talked earlier about a kind of a "soul searching" on what is it that we should really do.

On the relevance and effectiveness/efficiency issue: what I meant when I said that the relevance was low, is basically that it was cyclical. If we were financing projects in an economic boom, we were just one of many. And it wasn't only just some IFIs, it was also the commercial banks that were in there, and from our point of view as a bank, the relevance was low or less than when credit was not available and we would be there providing funds that could not be found elsewhere. Yes, there is the conceptual question of how can you do effectively something which is not relevant. But what we meant on relevance as that it was cyclical, so we don't have control over it. And I think a lot of that stemmed from the fact that there wasn't an adequate relationship between the objectives that were announced and the instruments that were used. And this is why we are now having this debate on "why do we want to do SMEs?": is it volume? Because we want to help economic growth, spillover effects, in an indirect way or a direct way? And as a bank with a social mandate, if we want to really say that we are doing it with social targeting, then we have to adapt our approval and monitoring indicators so as to be able to track it later in the evaluation. So it is basically a choice of: do we want to accept that our relevance is cyclical, or do we want to have a more contextualized and differentiated approach across the Member States? And then really decide upfront if we have to take into account the special features of the SMEs, national credit markets or employment levels. Or do we really want to target particular population groups? Employment projection objectives can be validated in some circumstances, but they may not be so relevant and so valid in other cases, and then we would have to narrow our focus if we really want to stay in line with our social mandate. And of course, if we take a contextualized approach, that would mean that we would really have to do some revision work and adapt and adjust the monitoring framework and indicators, and possibly some of the financial inclusion indicators as well.

Bastiaan de Laat

The very short answer to Cheryl would be "yes" and "yes". If the relevance is low, then you have to ask yourself the question, if you are a public bank with public objectives. I would agree with that. It is not only SME lending, but can also be in other type of projects.

And yes, counterfactual is a tool amongst others, but it is logistically, and in terms of costs, very difficult to put into place and it is very difficult to find the right counterfactual. And before you get there, there are many things you have to do, and that is the job of the evaluators in finding benchmarks which you can use, and that is not obvious. But that we can discuss.

Ivory Yong-Protzel

Thank you very much. I give the floor to Jan Willem to provide us with concluding remarks.

Concluding remarks

Jan Willem van der Kaaij

First of all, I would like to thank all of you, the audience and, of course, the speakers who have so thoroughly presented their findings and thoughts in this meeting. From a more procedural point of view, this workshop will be followed by the preparation of proceedings that will be presented at a next meeting of the ECG, and we will take care of the distribution of the final results to all of you who have been here.

In terms of content, I think it is not wise to try to repeat all the findings, there have been many. Maybe one of the main conclusions I think we can draw is that, effectively, SMEs are a key factor in boosting the recovery and facilitating job creation and long term sustainability. I think we are all working on that assumption, but there are however questions about whether we have sufficient knowledge yet to see how this causality works. So I think there is a lot of work still to be done in the relationship between the financing of SMEs and the establishment of sustainable economic growth.

Second, in terms of evaluation, there are also still a lot of questions and points of improvements in terms of measuring our outcomes, in terms of financial terms, in terms of non-financial added-value, and also, even in broader terms, regarding impact evaluation. So here also we have more work to do.

A last point, mentioned in particular in the last session, is the issue of lessons learned and how we can try to be more effective in channelling back our findings as evaluators into the process of the initiation of operations themselves. This last point is also one of the reasons why we intend, as ECG, to organize more often this kind of workshops. And I think with regard to this workshop that – thanks to you all – it was a very interesting one. I learned a lot; we all learned a lot on the side of evaluators. And I hope that the participants who are working on the ground will also take some lessons with them from this event. So once again I would like to thank you all.

Annex 3:

Clickable versions of the presentations