SPECIAL STUDY

Credit Lines - Lending through financial intermediaries : Annexes

December, 2018

EBRD EVALUATION DEPARTMENT

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Abbreviations

ASB	Advice for Small Businesses
ATC	Assessment of transition challenges
BT	Banca Transilvania
Bank, the	European Bank for Reconstruction and Development
BEEPS	EBRD-WBG Business Environment and Enterprise Performance Survey
BEPS	EBRD Banking Environment and Performance Survey
CA	Central Asia region
CEB	Central Europe and the Baltics region
CO2	Carbon dioxide
CSO	Civil society organisation
DFI	Development finance institution
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
ETC	Early transition country
EU	European Union
Evaluation Team	Victoria Millis, Hiromi Sakurai, Beatriz Perez-Timermans
EvD	Evaluation Department
FI	Financial institution; the Bank's Financial Institutions Group
FIF	Financial Intermediaries Framework
GDP	Gross domestic product
GEFF	Green Economy Finance Facility
GET	Green Economy Transition
ICA	Industry, Commerce and Agribusiness sector group
IDB	Inter-American Development Bank
IFI	International financial institution
MDB	Multilateral development bank
MENA ES	WBG-EBRD-EIB Middle East and North Africa Enterprise Survey
MSE	Micro and small enterprise
MSME	Micro, small and medium sized enterprise
NBMFI	Non-bank microfinance institution
NPL	Non-performing loan
OECD	Organisation for Economic Cooperation and Development
PFI	Partner financial institution (i.e. EBRD client bank or non-bank financial institution)
RAROC	Risk-adjusted return on capital
REUP	Rational energy utilisation plan
SBI	Small Business Initiative
SE	Sustainable energy
SEA	Sustainable energy assessment
SEE	South-East Europe region
SEFF	Sustainable Energy Finance Facility
SEI	Sustainable Energy Initiative
SEMED	Southern and Eastern Mediterranean region
SME	Small and medium-sized enterprise
TC	Technical cooperation
TIMS	Transition impact monitoring system
WBG	World Bank Group
WiB	Women in Business

Annex 1: Evaluation approach

The evaluation questions and general approach of the study are described in the Approach Paper approved in October 2016.

The questions as presented in the Approach Paper were:

1. Relevance: How is the need for increased financial intermediation assessed and determined to be the most effective solution to perceived challenges in the market?

   Implicit in this is interest in a set of questions around what specific challenges are identified to be addressed by a Bank operation (general access to credit; targeted access to credit; additional competition in the market?); and how those challenges are identified. The study will review how the Bank digs deeper into the access to finance issue to consider contributory factors such as regulatory barriers, risk assessment by intermediaries, sub-borrower capacity.

2. Design: How are targets and benchmarks structured and aligned with project objectives?

   Elements in this question include alignment with objectives; realistic scale and timing of targets and benchmarks; monitoring provisions to permit timely and accurate assessment of project results; systematic integration of lessons from previous experience into new project design; distribution and codification of Bank/client/sub-borrower obligations for performance monitoring; integration of TC or other activities intended to advance sector reform/regulations.

3. Monitoring and effectiveness: What are we currently able to say about the effectiveness of the Bank's loans through financial intermediaries?

   In addressing this question, the evaluation team will synthesise the information that the Bank obtains through its regular monitoring, together with findings from previous evaluations and studies, by EvD and others, both desk-based studies and those that incorporated field work. The aim will be to present the evidence we have on effects on the ground and gauge the extent to which regular monitoring produces adequate and relevant information to allow assessment of effectiveness and a capture of performance sufficient to ensure informed decision-making on new operations by Management and Board. It will seek to identify gaps in the Bank's knowledge and in the organisation and resourcing of its monitoring for further investigation in Phase 2.

The study was entirely desk based. It combined the following elements:

1. A review of EvD's existing large body of evaluation work relating to lending through financial intermediaries, comprising special studies, operation evaluations and validations. The evaluation team also reviewed self-assessments conducted in the past by operation teams, and evaluations prepared by other institutions, particularly other IFIs.

2. A desk review of EBRD policy and strategy documents from the early 1990s through to the most recent Financial Sector Strategy and Financial Intermediaries reports.

3. Portfolio analysis. The Financial Institutions Group provided EvD with a list of 672 credit line commitments in 2011-15. For this purpose, they defined credit lines as *senior term loans extended to financial intermediaries with a defined use of proceeds*. The database excluded equity, subordinated debt, guarantees, bonds, standby credit facilities, trade facilitation, securitisation, co-financing facilities, factoring and loans to deposit insurance bodies.

   Based on their classification, EvD extended the database backwards and forwards in time to create a historic database of credit line operations from 1991 onwards. This formed the basis of the historical overview of the portfolio. As the database was prepared on a best-efforts basis, there may be some uncertainty at the margins. Definitions and uses of funds have changed over the years (e.g. subordinated loans were used for credit lines in the past) and it was not possible to

consider each operation individually. But EvD considers it reliable for a broad overview of portfolio development.

EvD used a subset of the Financial Institutions list of operations for its analysis of *relevance* and *design*. It omitted the operations originally approved before 2011, to avoid including operations with an older design. This left a database of 374 operations. This sample was the basis of most of the analysis in Annex 5, with the exception of section 1.

4. A review and categorisation of the stated project objectives and transition benchmarks of the 374 operations.
5. A more detailed desk review of a large number of unevaluated lending operations through financial intermediaries covering a variety of different activities and countries. The evaluation team identified several "clusters" of operation types from the database of 374 credit line operations approved and signed in 2011-15: competitiveness lines; consumer finance; ETC (early transition country) local currency finance to non-bank microfinance institutions; mortgage lines; municipal credit lines; non-MSME lines; Partnership for Growth; value chain finance; and Women in Business. There was also one resource efficiency operation and a small number of very long-term client relationships. The evaluation team reviewed approval and monitoring documents relating to these operations with particular focus on project *relevance*, *design* and *monitoring approach*. The team did not revisit Sustainable Energy Finance Facilities (SEFFs), leasing operations or loans to specialist microfinance banks for this more detailed review, considering these to have been reviewed extensively in the past.

Annex 2 presents the Evaluation Design Matrix, as appended to the Approach Paper.

Annex 2: Evaluation design matrix

As appended to the Approach Paper.

Evaluation Question	Judgement criteria / indicators	Sources of Data	Collection Methods	Potential limitations of data and means to address this (eg triangulation etc)
Relevance:				
How is the need for increased financial intermediation assessed and determined to be the most effective solution to perceived challenges in the market?	Top down analysis in strategy papers identifies gaps to be addressed by lending through financial intermediaries. Project appraisal includes adequate analysis of market factors, sectoral and other wider issues; consideration given to other approaches / products; links to top-down analysis in strategy papers.	Internal documents: transition reports, transition gap analysis, BEEPS/BEPS, country and sector strategies, policies and documents relating to strategic initiatives. Assessments, studies and evaluations by other IFIs and donor organisations. Project approval documents. Findings from previous evaluations Views of EBRD staff: bankers, economists, Results Management. Views of financial intermediaries and local business groups, business analysts etc. (Phase 2 only)	Phase 1 document review Phase 1 staff interviews (general approach, interaction between Banking and other departments) Phase 2 staff interviews (project / country specific enquiry) Phase 2 country-specific external literature review Phase 2 country visits: meetings with financial intermediaries and local business groups, business analysts etc	Clarity of links between top-down analysis and individual operations. Hard to verify in practice: project documents may not be explicit.
Design:				
How are targets and benchmarks structured and aligned with project objectives?	Benchmarks are aligned with project objectives; adequate to measure achievement of the associated objective; scale is reasonable. Design builds logically and incrementally on previous operations and incorporates past experience. Adequate monitoring plan is in place.	Project approval documents: Board and delegated approval Findings from previous evaluations	Phase 1 document review: direct comparison of specific project benchmarks and covenants with project objectives; review of monitoring and evaluation documents Phase 2 staff interviews (project / country specific enquiry)	May need to go beyond the 2011-15 population to observe development relative to earlier operations. Application of experience may not be explicit in documents. If approval documents are not clear about the monitoring plan, the evaluation team will review TIMS/Credit reports to check how it worked in practice.

Evaluation Question	Judgement criteria / indicators	Sources of Data	Collection Methods	Potential limitations of data and means to address this (eg triangulation etc)
Monitoring and effectiveness:				
What are we currently able to say about the effectiveness of the Bank's loans through financial intermediaries?	In practice, EBRD monitoring collects adequate and relevant information to allow assessment of achievement of stated objectives.	TIMS/Credit monitoring, other internal reporting where available.	Phase 1 document review: project documents.	Information not collected on sub-borrowers and/or wider market. Problem of attribution of demonstration effects.
	Information is available from other sources.	Previous evaluation reports. Experience of other IFIs. EBRD experience of practicality / benefit of collecting relevant information in direct SME facilities (DIF/DLF, LEF, ASB) Client websites, Corporate social responsibility reporting, market surveys, due diligence on subsequent projects. Client experience.	Phase 1 document review: evaluation reports, other IFI studies.	
Are we able to assess effectiveness of our lending through financial intermediaries ex post?	The Phase 2 evaluation produces evidence of effects on the ground	Client experience. Experience of other informed parties in the case study countries	Phase 2 country visits and project/client specific research.	Information not collected on sub-borrowers and/or wider market. Problem of attribution of demonstration effects.
How has financial intermediation increased access to finance in the case study countries?	Evidence of increased access to finance. Evidence of non-financial barriers to access.	Research papers, financial statistics. Previous evaluations. Experience of other IFIs. Experience of other informed parties in the case study countries	Phase 2 country visits and country specific research.	Specificity and relevance of available information
What have the Bank's loans through financial intermediaries contributed to sustainable higher level effects in the market place?	Sustainability of lending after expiry of EBRD loans. Impact on the performance of clients and sub-borrowers. Improved access to [specific types of] finance.	Client reporting to EBRD. Client experience. Client public reporting/websites. EBRD due diligence on subsequent operations. Experience of other informed parties in the case study countries	Phase 2 project-specific in-depth document review. Phase 2 country visits: meetings with financial intermediaries, analysts and others	Financial intermediaries do not generally report on this to EBRD. Unclear whether they have the information available internally and would share it. Access to sub-borrowers unlikely. Difficulty obtaining information where client relationship has terminated. Where relationship continues, if a similar loan is provided again it may be impossible to judge whether the client would continue this product otherwise.

Annex 3: Market context

EvD looked at evidence from

- the joint EBRD and World Bank Business Environment and Enterprise Performance Surveys (BEEPS);
- the joint WBG-EBRD-EIB MENA Enterprise Surveys (MENA ES);
- the EBRD Banking Environment and Performance Surveys (BEPS);
- the EBRD annual Assessment of Transition Challenges (ATC) for 2011-15; and
- the challenges identified in relevant EBRD sector strategies.

BEEPS and MENA ES

BEEPS surveys[1] assess constraints on doing business from the perspective of businesses.

In BEEPS V the top three obstacles identified by firms were (i) competitors' practices in the informal sector, (ii) access to finance and (iii) electricity. BEEPS IV had identified the same three top factors but with access to finance in first place. MENA ES, a similar survey conducted in SEMED,[2] found that only Jordan had access to finance as one of its top three constraints. The top three obstacles in SEMED were (i) political instability, (ii) corruption, and (iii) competitors' practices in the informal sector.

Table 1 Importance of access to finance as a business constraint according to the BEEPS V and MENA surveys

Countries citing access to finance as the no. 1 constraint	Countries citing access to finance as the no. 2 constraint	Countries citing access to finance as the no. 3 constraint	Countries placing access to finance as a lesser constraint
Armenia	Azerbaijan	Georgia	Albania (5)
Croatia	Belarus	Kazakhstan	Bulgaria (5)
Jordan	Bosnia & Herzegovina	Poland	Egypt (6)
Mongolia	FYR Macedonia	Serbia	Estonia (8)
Russia	Latvia	Slovak Republic	Hungary (6)
	Montenegro	Slovenia	Kosovo (4)
	Tajikistan	Uzbekistan	Kyrgyz Republic (5)
			Lithuania (6)
			Moldova (5)
			Morocco (5)
			Romania (7)
			Tunisia (5)
			Turkey (5)
			Ukraine (4)

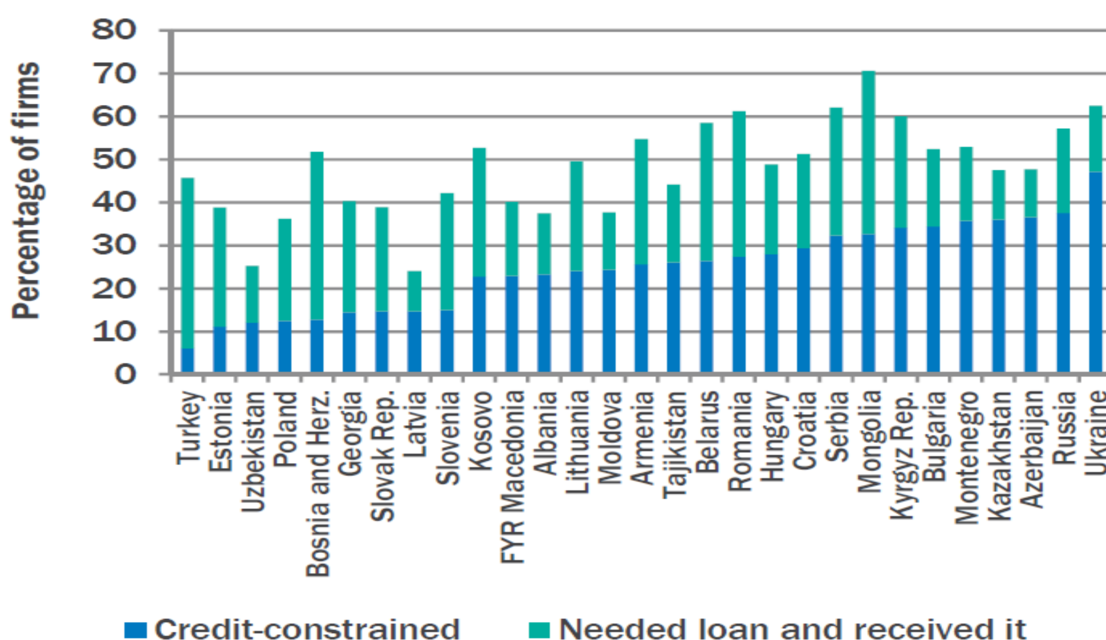
No data for Turkmenistan.

This is a comparative ranking, which may be affected by the severity of other constraints to doing business in a country. In contrast, Chart 1 below presents an absolute assessment of the scale of the access to finance constraint. Reproduced from the BEEPS V report, 'The business environment in the transition region', it shows the estimated proportion of credit-constrained firms in each country.

[1] The fifth Business Environment and Enterprise Performance Survey (BEEPS V) was conducted jointly by the EBRD and World Bank in 29 of the Bank's countries of operations in 2011-14 (SEMED and Turkmenistan were excluded). Senior managers were interviewed at more than 15,500 randomly selected firms. The results reflect the situation in countries of operation during the 2011-15 period. The earlier BEEPS IV survey was conducted in 2008-09 and informed strategy papers relevant to the 2011-15 period.

[2] The first joint WBG-EBRD-EIB MENA Enterprise Survey was conducted in 2013-15 and covered the four existing EBRD SEMED countries plus new COOs Lebanon, West Bank and Gaza, as well as Djibouti, Israel and Yemen. It was based on interviews with more than 6,500 randomly selected firm managers from a range of countries. The EBRD analysis covers only the four then-existing SEMED countries: Egypt, Jordan, Morocco and Tunisia.

Chart 1 Proportion of credit-constrained firms by country



By this measure, Ukraine, Russia, Azerbaijan, Kazakhstan and Montenegro are the most credit constrained countries.

Although Poland and Uzbekistan both report access to finance in their top three constraints, they actually have a relatively low proportion of credit-constrained firms. By contrast, access to finance is only the fourth biggest constraint for Ukraine, which has the highest proportion of credit-constrained firms in the survey.

The BEEPS V report showed that the number of firms with a loan or line of credit had fallen in most countries since BEEPS IV, while collateral requirements had risen. Based on numbers of firms needing credit but either put off applying or else turned down, there was "a fairly substantial decline in demand for credit and only a small reduction in supply."

Key points:
- Businesses in many countries see access to finance as an important constraint.
- Post crisis there was a fairly substantial decline in demand for credit and a small reduction in supply. Access to finance fell to second place as the major constraint in "old" (non-SEMED) countries of operation.
- An important change was an increase in required collateral in most countries. This particularly hits younger firms.
- Some important countries including Turkey, Poland and most of SEMED do not have a high level of credit-constrained firms.

BEPS

BEPS[3] assesses barriers to lending from the perspective of banks.

Over half (18) of the 31 country summaries published on the EBRD website cite lack of credit demand or a lack of creditworthy customers as the main constraint on lending in 2010. This is often especially acute among MSMEs.

These 18 countries include several, such as Russia, Azerbaijan, Kazakhstan, Bulgaria and Croatia, which BEEPS shows in the top 10 countries for credit constraints on firms.

[3] The EBRD Banking Environment and Performance Survey was conducted in 2010 and comprised a questionnaire to the Chief Executive Officers of 611 banks in 32 countries of operations. It enabled a comparison with the results of BEPS I from 2007.

Key points:
- From the perspective of banks in over half of countries of operations the main problem is not lack of funding so much as lack of demand or lack of creditworthy customers.
- There is a mismatch between business perceptions and bank perceptions of the major constraints.

Assessment of Transition Challenges

The evaluation team analysed "Key Challenges" from annual Assessment of Transition Challenges (ATCs) for 2011-15, and grouped them under a smaller number of headings. See Table 2 below.[4]

– Over 40% of the challenges were directed at financing: increased intermediation/access to finance or PFI funding and balance sheet structure.

– The majority targeted other issues: 17% focused on capacity building; 22% of MSME ATCs focused on MSME sector development; and both Banking and MSME ATCs targeted financial sector market structure and regulation and PFI capacity building.

– EvD notes that the non-funding issues are less easily bankable: capacity building is mostly TC-funded, while issues such as banking supervision, insolvency frameworks and an increased role for the private sector are addressed through policy dialogue.

Table 2 Transition challenges 2011-15

Key challenges	Banking	MSME
Financing needs	**44%**	**42%**
Increased bank intermediation	*7%*	*11%*
Alternative financial instruments	*-*	*22%*
Regional access to finance	*3%*	*8%*
Increased local currency funding and finance	*16%*	*1%*
PFI funding and balance sheet structure	*19%*	*-*
Skills and development	**17%**	**17%**
PFI capacity building (corporate governance, skills, product innovation)	*17%*	*8%*
MSME capacity building	*-*	*9%*
Financial sector market structure and regulation – total	**38%**	**19%**
Increased role for private sector / commercial lending	*8%*	*2%*
Sector consolidation or competition	*8%*	*1%*
Attract foreign strategic sponsors	*1%*	*-*
Policy / legal / regulatory and enforcement		
Banking supervision/regulation	*9%*	*-*
Creditor rights / insolvency/NPLs	*6%*	*13%*
Other / unspecified	*6%*	*2%*
MSME sector development	**1%**	**22%**
Business climate including excessive regulation	*-*	*3%*
Formalisation of MSMEs	*-*	*1%*
Credit bureau / collateral register	*1%*	*17%*

[4] During this period, the ATCs were organised by sector and country. The evaluation team considered that the sectors with the broadest relevance to this study were *Banking* and *MSME*.

Key points:
- Analysis at country level identifies a wide range of weaknesses in financial sectors and barriers to MSME access to finance. Skills, market structure and legal/regulatory issues slightly outweigh availability of funds.
- Many of the challenges identified are not easily translated into bankable projects.

Challenges identified in sector strategies

The evaluation team identified the 2010 Financial Sector Strategy, 2006 MSME Strategy and 2013 Small Business Initiative (SBI) Review as most relevant to this study.

The 2010 FI sector strategy drew on the 2009 ATC. It identified "remaining transition challenges" for each region, some of which were not relevant to bank lending and MSME finance. Among the relevant challenges were:

- South-Eastern Europe: banking supervision; limited MSME finance in rural areas and outside major cities; development of local money and bond markets; underdeveloped local currency markets and high currency substitution.
- Eastern Europe and the Caucasus: risk aversion to MSME lending; institutional environment for MSME lending; thin market liquidity undermining the potential of market-based finance in Ukraine. In other countries, low levels of financial depth among MSMEs; lack of efficient and comprehensive credit information services for small loans, weak legal frameworks for enforcing collateral and bankruptcy; need to enhance competition among MSME lenders, especially in rural areas.
- Central Asia: In Kazakhstan, access to finance in rural areas. Other countries show large transition gaps and shallow banking sectors; MSME lending is particularly important and impeded by poor collateral laws and lack of credit registries.
- Russia: underdevelopment of MSME finance and segments including mortgages and remote regions; weak legal and regulatory framework; need to restructure medium-sized regional banks, including improvements in risk management and liquidity management; underdeveloped local capital markets.
- Central Europe and the Baltics: although transition gaps are small, the financial sector still "not in a position to finance effectively the real economy, especially SMEs;" weaknesses in bank funding models and lending standards; need to strengthen regulatory frameworks; once growth picks up, need for better control over credit growth and foreign currency exposures; weakness of cross-border regulators, especially crisis management and burden sharing arrangements.
- Turkey: sector remains relatively small, concentrated and narrowly based; coverage of credit information services; enforcement of bankruptcy laws; need for a geographically unified collateral registry.

The 2013 SBI Review identified challenges at the level of the economy, intermediaries and firms:

- Economy wide: deficiencies in macroeconomic and general business environment, and in specialised SME institutional frameworks compared to countries at similar stages of development.
- Intermediary level: insufficient competition, weak institutional capacity, lack of specialised lending skills.
- Firm level: inadequate financial literacy, skills, corporate governance and a lack of productive investment opportunities.

Key point:
- Sectoral analysis builds on ATCs and identifies many of the same factors as country level analysis.

Annex 4: EBRD strategic response

How is the analysis linked to country and sector strategies?

The primary link between analysis and strategy is at the country level, although it was only recently that the new results architecture prioritised the country strategy over the sector strategy for results measurement.

Operations must be consistent with both country and sector strategy where applicable.

Neither country nor sector strategies focus on operational issues such as business volumes.

The primary driver of operational activities is the scorecard, approved annually since 2016 in the Strategy Implementation Plan (or the Annual Business Plan and Budget for the pre-2016 period covered by this study) derived from the 5-year Strategic and Capital Framework (formerly the Capital Resources Review).

The 2011 scorecard set targets in relation to:

- Transition impact (35% weight): expected and portfolio transition impact and SEI ratio
- Operational performance (45%): number and volume of operations, disbursements and net operating asset growth
- Financial and organisational performance (20%): net income, realised profit before impairment, productivity and budget/staffing management

By 2015 the scorecard had added further targets:

- Transition impact: additional strategic initiatives (Early Transition Countries, Local Currency, Small Business) and TC success ratio
- Operational performance: additional targets for business in SEMED and Cyprus, and annual mobilised investment
- Financial and organisational performance: staff engagement ratio

The Bank's newly enhanced Strategic Portfolio Management analysis has allowed more regional and sectoral breakdowns of transition, risk and financial performance. Two key tables from the 2017-19 Strategy Implementation Plan are reproduced below, as they cast a useful light on pressures on Bank operations going forward.

Table 3 Summary of strategic portfolio management dimensions by sector

	Energy	FI	ICA	Infrastructure
Transition	Highest	Below average	Lowest (still above floor)	Above average
Risk	Moderately high	Lowest	Highest	Medium
RAROC	High	Highest	Lowest	Moderately low
Pipeline Strength	Strong	Weaker	Relatively weak	Strong

Source: Strategy Implementation Plan 2017-19 (BDS16-190 (F)), page 30

Table 4 Summary of strategic portfolio management dimensions by region

	CA	CEB	Cyprus and Greece	ETC	Russia	SEE	SEMED	Turkey
Transition	Above average	Below average	N/A*	Below average	Well above average	Lowest	Below average	Highest
Risk	Moderately high	Lowest	N/A*	Highest	Medium	Moderately high	Moderately high	Medium
RAROC	Low*	Moderately low	N/A*	Medium	Highest	Moderately low	Lowest	High
Pipeline Strength	Strong	Relatively weak	Strong	Weaker	N/A	Relatively weak	Strong	Strong
Strategic Priority (SCF)	Priority	Not emphasised	Grow to potential	ETCs a priority	Not emphasised	Western Balkans a priority	Grow to potential	Not emphasised

Source: Strategy Implementation Plan 2017-19 (BDS16-190 (F)), page 28
Note: this analysis is Bank-wide, not specific to the FI sector

They show that FI is the best financial performer (low risk, high RAROC) but with lower than average expected transition impact.

Regionally, Russia (currently not available for investment) and Turkey look like the most attractive investment targets, with CEB useful as a low-risk region with moderate transition and RAROC.

Strategic priorities (bottom row) focus on Central Asia, ETCs and Western Balkans.

Key points:

- While strategic analysis is conducted at the country level, operations are governed by a balance of country and sector strategies but in practice are primarily driven by the scorecard.
- Analysis may identify the largest transition gaps in ETCs and Central Asia, but operational and financial imperatives tend to push the Bank towards regions such as Turkey and CEB.
- Financial and risk considerations make FI an important part of the business mix, although it has below average expected transition.

Overview: development of strategic approach

In the absence of a strategy or strategic objectives for lending through financial intermediaries, EvD has tried to derive a *de facto* strategy from statements in strategy and policy documents and the evolving use of credit lines over time.

EvD focused on strategies for Financial Institutions and MSMEs, with reference also to papers on special initiatives.

– In the 1990s there was a clear dual purpose to lending through FIs: (1) developing the financial sector and (2) channelling finance to SMEs / real economy through intermediaries for efficiency and to reach smaller borrowers.

– Credit lines addressed the second objective only and were expected to be a temporary "stop-gap" until the financial sector was more developed.

– In 1999, a new Financial Sector Operations Policy (BDS99-063) and SME Strategy (BDS99-074) blurred this distinction as PFI development and provision of funds for on-lending came to be seen as inseparable.

– During the extended period between the 1999 and 2010 FI strategies, other strategies and initiatives brought new uses for credit lines:

- The 2008 crisis response (BDS08-250) boosted use of credit lines as a means of simultaneously supporting liquidity of existing PFIs and channelling finance to the real economy.
- The Sustainable Energy Initiative, launched at the 2006 Annual Meeting, made substantial use of SEFFs (later superseded by GEFFs) as a delivery mechanism, following approval of the first SEFF in 2004.[5] The SEI 2 strategy paper (BDS09-096) proposed extending their use.

– The 2010 FI Strategy (BDS10-219) continued to blur the distinction between developing the financial sector and channelling finance to the real economy.

- The first strategic priority was: "Complete the crisis response activities and stimulate lending to the real economy," which combined "providing long-term funding for on-lending" with balance sheet restructuring, bank capitalisation, trade finance and "alternatives for supporting MSMEs beyond regular credit lines."

– The 2013 Small Business Initiative Review sought to define what specific products should be used for:

- Pillar 1 of the SBI, "Indirect financing via financial intermediaries" included credit lines, equity funds and trade finance. The main source of transition impact was "SME lending capacity building at intermediary level."
- The Small Business Initiative Review also noted using SME finance as a conduit for transition in other sectors, e.g. SEFFs which "aim to change SME behaviour to support transition to low carbon" (footnote 9 on page 14).
- It emphasised that the Bank's activities must induce systematic change: "The EBRD must demonstrate not the channelling of funds per se, but permanent or knock-on effects on the sector that are expected to survive after the Bank's lending stops."

Key points:
- Since 1999, we cannot just look at credit lines as a means of channelling funds to MSMEs. This element cannot be disentangled from the institution building of partner FIs (PFIs) and the capacity of the financial sector generally.
- Although some strategy documents seem to assume the intrinsic transition impact of MSME lending per se, the 2013 SBI Review emphasises that this is insufficient without "permanent or knock-on effects on the sector."

Strategic objectives in the 2011-15 period

EvD reviewed the 2010 FI sector strategy and the SME/SBI strategies of 2006 and 2013, as well as papers relating to Bank initiatives. Tables 5 to 7 show the full mapping from the individual strategy documents to the summary of strategic objectives in Table 3 of the main report.

[5] SEFFs: Sustainable Energy Financing Facilities. GEFFs: Green Economy Financing Facilities.

Table 5 Mapping of strategic objectives from individual strategy papers onto combined strategic objectives summary: financial sector development

Theme	Strategic objective (summarised by EvD)	2006 MSME Strategy (BDS06-012)	2010 Financial Sector Strategy (BDS10-219)	2013 Small Business Initiative Review (BDS13-342)
Financial sector development	Provide long-term funding and balance sheet support to selected PFIs, including in local currency - to support general growth strategy and boost competition	Strengthen the financial sector infrastructure dedicated to financing growth of MSMEs of all sizes. *The full development of the MSME sector requires a long-term commitment... to ensure that this specialised lending business will remain sustainable without the support donor and IFI funds...Continue financing and technical assistance programmes until this sustainability is secured, which can be a lengthy business.*	Syndicated lending to banks...where such loans form a component of a diversified funding base of client banks; Help develop [local capital markets and both] funding [and lending] in local currency; Explore alternatives for supporting MSMEs beyond regular credit lines *Risk sharing to stimulate lending*	Improving access to finance for SMEs: *1.1 increasing the amount of finance, especially in underserved SME segments/geographial areas;* *1.2 increasing availability of types of SME products*
	Promote better governance, improved business standards and skills in selected PFIs	Strengthen the financial sector infrastructure dedicated to financing growth of MSMEs of all sizes. *Technical assistance ... supports the intermediaries' ability to provide efficient and quality financing on a sustainable basis.*	Promote better governance, sustainable business models and improved risk management of banks and non-bank institutions	Improving access to finance for SMEs: 1.3 *addressing FIs' internal constraints (skills, capacity)*
	Support development of financial regulation, environment for financing and market structure	Improve the business environment for MSMEs. *Through policy dialogue, LTP [Legal Transition Programme], addressing environment around regulatory framework and enabling environment for provision of finance.*	Support development of new regulatory frameworks in close coordination with other IFIs, including in the area of cross-border regulation; Help develop local capital markets [and both funding and lending in local currency]	Improving business environment that supports SME and entrepreneurship development: 4.1 *Support to institutions and policies that support access to finance for SMEs (legal and regulatory frameworks):* *a. Registration systems and ability to offer and take collateral over immovable and movable property* *b. Credit information services (credit bureaus)* *c. Enforcing secured creditor rights* Supporting new entry / restructuring of partner institutions

Table 6 Mapping of strategic objectives from individual strategy papers onto combined strategic objectives summary: support to the real economy

Theme	Strategic objective (summarised by EvD)	2006 MSME Strategy (BDS06-012)	2010 Financial Sector Strategy (BDS10-219)	2013 Small Business Initiative Review (BDS13-342)
Support to real economy, especially MSMEs	Channel long-term funding through PFIs to the real economy, including in local currency - MSMEs, consumers, women-led firms, rural borrowers	Provide support for MSMEs across all of the Bank's countries of operations. *Sustainable provision of finance and financial services to local small enterprises through financial institutions.*	Provide long-term funding for on-lending, particularly to targeted priority activities, such as MSMEs and Energy Efficiency; Help develop [local capital markets and both funding and] lending in local currency	Support innovation and access to markets for SMEs: *2a. targeted … financial support tools for specific groups of SMEs: export oriented; resource/energy efficient investments and standards; innovation and high growth SMEs*
	Develop skills and entrepreneurship among MSMEs	Develop the skills sets of entrepreneurs.*Through ASB*		Support entrepreneurship and SME skills:*3.1 Provide business advice to improve SMEs' bankability, knowledge of opportunities/ markets, financial literacy;3.2 Support management skills;*Support innovation and access to markets for SMEs: *2b. targeted business (products, processes-technology, marketing, organisational development) …support for specific groups of SMEs: export oriented; resource/energy efficient investments and standards; innovation and high growth SMEs*
	Improve business environment for MSMEs	Improve the business environment for MSMEs. *focusing in particular on conditions for MSMEs, especially in Stability Pact region and ETCs (p.9).*		Improving business environment that supports SME and entrepreneurship development: *4.2 Policy dialogue to improve business environment (e.g. taxation, customs administration, registration etc.)*

Table 7 Mapping of strategic objectives from individual strategy papers onto combined strategic objectives summary: impact on other sectors

Theme	Strategic objective (summarised by EvD)	Sustainable Energy Initiative Phase 3 2012-2014 (BDS12-020)
Impact on other sectors	Channel funds through credit line mechanism to support specific objectives other sectors (e.g. green economy)	The SEI operational model combines the following instruments: - project financing of specific energy efficiency or renewable energy investments with clear estimates of energy savings and carbon emission reductions;
	Skills development to support the desired objective in the wider economy (e.g. sub-borrowers and local consultants trained in energy efficiency / renewable energy)	- technical assistance to support project preparation, project implementation and capacity building; and
	Support development of legal and regulatory environment governing sector, e.g. green tariffs	- policy dialogue to support the development of an enabling environment for sustainability energy.

Other MDBs' experience

Credit lines are a long-standing product at other multilateral development banks (MDBs), distinct from the meaning of the term in commercial finance. Starting operations in 1991, EBRD used the existing concept and built on it.

In the early days, other MDBs were coming from a different place:

– started operations earlier than EBRD, often in less developed countries with largely unreformed financial sectors

– aimed at economic development and poverty alleviation rather than transition of market frameworks.

Therefore, initially, they had a different approach to credit lines:

– focused exclusively on the end user not the intermediary: credit lines primarily as an efficient means of channelling funds

– provided concessional rates to sovereign or sovereign-guaranteed on-lending operations including development banks

– accountability and monitoring tracked the use of funds, based on lists of sub-borrowers provided by PFIs

– enabling environment and quality of PFIs seen as risk factors rather than the main focus of activity.

Evaluations from the 1980s onwards brought changes in approach:

– recognition that the IFI does not have the capacity to close the "credit gap" itself but must develop capacity of the local financial sector to do so

– better outcomes observed from lending through private sector intermediaries

– recognition of the importance of macroeconomic conditions, regulatory framework and a strong, competitive commercial financial sector as success factors

– move towards measuring reach through growth in PFIs' portfolios rather than requiring lists of sub-loans.

As a result, MDBs started using commercial banks for on-lending. MDBs' FI on-lending volume peaked in the 1990s.

EBRD's market focus was well aligned with the changes in approach beginning to take hold at other MDBs from the 1990s. EBRD was able to build on their experience and take it further.

As a result, recent evaluations at other MDBs address similar questions to those encountered by EBRD:

– how to ensure alignment between the objectives of the MDB and the interests of a private sector PFI

– difficulty tracking outcomes at sub-borrower level because private sector intermediaries are less interested in impact and development outcomes - and less willing to report on them

Nevertheless, differences in approach remain. Interviews with EBRD staff particularly singled out the EIB as providing large-scale below-market funding to banks in south east Europe (described as "like a helicopter dropping cash"), reducing the demand for commercially priced funding from EBRD.

Key point:
- Other MDBs started from a different place, addressing different problems. For different reasons to EBRD's, they have concluded that working through commercial banks is the best approach, though it brings the same problems of alignment of interests and monitoring of use of funds with which EBRD grapples.

Recurring findings and lessons from other MDBs' evaluations include the following:

- Lending through private-sector PFIs is an effective and efficient means of reaching a critical mass of sub-borrowers.

- The capacity of the PFI is critical to credit line performance.

- Specialised intermediaries, rather than mainstream commercial banks, can be an effective model to deliver specific outcomes (e.g. poverty alleviation, micro-lending).

- Credit lines are generally profitable because of low transaction costs and generally lower risk than other sectors.

- Monitoring development-type outcomes is more difficult when working through private sector intermediaries.

- Where funds are lent below market rates, it is hard to ascertain whether the benefit is passed on to users or remains on the PFIs' balance sheets.

Annex 5: Operations

1. Development of credit line lending

Methodological note: FI provided EvD with a list of 672 credit line commitments made in 2011-15. Based on their classification, EvD extended the database backwards and forwards in time to create a historic database of credit line operations from 1991 onwards, which forms the basis of the description below. As the database was prepared on a best-efforts basis, there may be some uncertainty at the margins. Definitions and uses of funds have changed over the years (e.g. subordinated loans were used for credit lines in the past) and it was not possible to consider each operation individually. But EvD considers it reliable for a broad overview of portfolio development.

Chart 2 EBRD annual business investment in credit lines

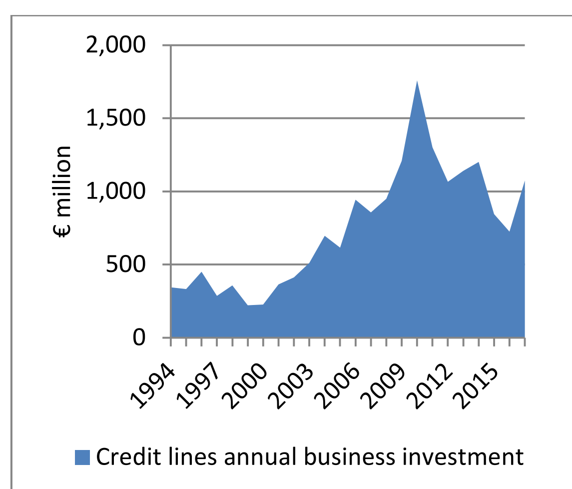
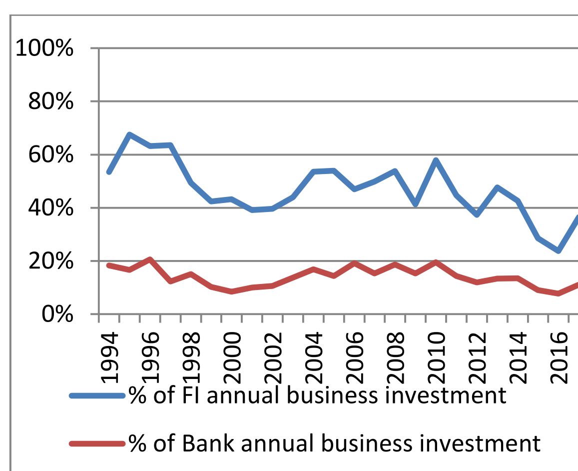


Chart 3 Credit lines as a percentage of Bank activity



Credit lines are at an all-time low as a proportion of FI investment and total Bank investment, though there are signs of an uptick in 2017.

They remain important in challenging environments (ETCs, Central Asia), new countries of operation (SEMED) and South East Europe. They are a major delivery mechanism for specific initiatives (e.g. Green Economy, Women in Business).

Classic credit lines took over from early APEX lines and Agency lines once EBRD had sufficient confidence in PFIs' credit capacity to delegate sub-loan approval to them.

Since the early 1990s, specific, narrow-focused lending has often been introduced with strong grant support, before becoming mainstream. For example: MSE/microfinance, mortgages, rural lending, local currency lending.

This has been built on in recent years with the "blended finance" model (loans plus TC and incentives or risk sharing, often bundled with ASB). SEFFs/GEFFs and WiB are the biggest examples. A somewhat standardised approach is apparent.

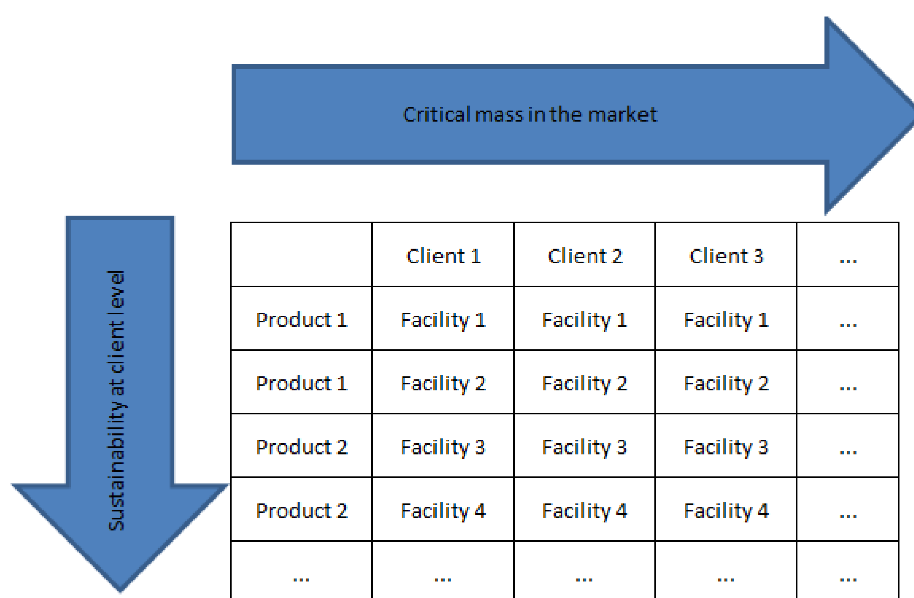
Nevertheless, the majority of credit line finance is still through facilities without blended finance.

Some credit lines without blended finance nevertheless have elements of risk sharing, especially through the ETC Local Currency Loan Programme (extended and broadened since 2016 through the SME Local Currency Programme).

Key points:
- Credit lines are a smaller proportion of overall EBRD finance than previously. They are still important in new or challenging countries and as a delivery mechanism for other initiatives.
- Blended finance facilities are a development of a long-standing niche approach, but now with a more standardised approach, greater linkages to ASB and growing importance. Credit lines without blended finance are still in the majority.

Sequencing of operations

Interviews and project reviews revealed the view that embedding a new product in a market required multiple clients to take it up and compete, and embedding a product or practice with a particular PFI required repeat facilities. This is particularly the case with larger markets or clients, where EBRD finance may be small compared to the target.



The pattern of delegated approvals tends to mean that the Board sees new products and sometimes new clients, whereas the view from the perspective of the committees approving projects under delegated approval procedures is more one of ongoing client relationships - repeat operations with existing clients.

2. Credit line activity in the 2011-15 period

Methodological note: The list of 672 credit line commitments in 2011-15, which FI provided to EvD, forms the basis of most of the portfolio analysis that follows. A substantial number of these commitments were incremental amounts under existing (previously approved) operations. Therefore, when the report analyses operational objectives or relevance to specific transition challenges or project approvals, it considers only the 374 completely new operations that were undertaken in 2011-15. This avoids double-counting objectives that applied to multiple individual commitments under a single operation.

Types of credit line

Table 8 Distribution and approval of 672 credit lines committed 2011-15

Type of credit line	% of total (vol)	% of total (no.)	Approved at Board (vol.)	Approved at Board (no.)
Credit lines without blended finance	62%	66%	83%	43%
Blended finance facilities	38%	34%	84%	56%

Most credit lines had an MSME focus. Those that did not included SEFFs and GEFFs, the Municipal Finance Facility and a few very broad-focus credit lines allowing on-lending to medium-sized corporates or to any private sector corporate borrower.

Countries

Countries of operation with no credit lines committed in 2011-15 were Cyprus, Estonia, Greece, Latvia, Lithuania, Slovenia and Uzbekistan. Table 9 below shows the top countries for volume of credit line investment in 2011-15.

Table 9 Top countries by volume of investment 2011-15

No.	Country	Amount (€m)	% of total	ATC ranking for Banking 2011	ATC ranking for MSME finance 2011	BEEPS ranking for credit constraint
1	Turkey	901.8	17%	3	3-	29/29
2	Russia	617.0	12%	3-	2	2/29
3	Serbia	577.0	11%	3-	3-	9/29
4	Poland	427.3	8%	3+	3	26/29
5	Croatia	340.0	6%	3+	3-	10/29

The "BEEPS ranking for credit constraint" refers back to the data in Chart 1 of Annex 3. The most credit constrained country, Ukraine, is ranked 1 and least constrained, Turkey, 29.
While the results of the BEEPS V survey became available after the 2011-15 period, EvD considers them relevant because they reflect the reality of the situation in countries during the period.

To allow for the difference in size of national financial sectors, Table 10 below shows the top countries for EBRD credit lines 2011-15 as a proportion of 2010 credit to the private sector (World Bank figures).

Table 10 Top investment countries as a proportion of total credit to the private sector

No.	Country	Investment Amount (€m)	2010 Domestic credit to private sector (US$m)	ATC ranking for Banking 2011	ATC ranking for MSME finance 2011	BEEPS ranking for credit constraint
1	Kyrgyz Republic	80.0	654.2	2	2-	7/29
2	Armenia	156.5	2,634.1	2+	2+	15/29
3	Tajikistan	33.6	799.5	2	1	14/29
4	Mongolia	100.7	2,455.6	2+	2	8/29
5	Moldova	73.9	2,057.4	2+	2	16/29
6	Serbia	577.0	19,733.3	3-	3-	9/29

The table is extended to six places to show that Serbia is the only country near the top of both tables; all the other countries in Table 10 are ETCs.

Review of the full list shows that with three exceptions, the top half of the list (i.e. the top 15 countries for EBRD investment as a proportion of total credit to the private sector) are either ETCs or had large transition gaps for Banking or MSME lending (or both) in 2011. The three exceptions are Serbia in 6th place, Croatia in 14th and Bulgaria in 15th.

But most of the countries with a high intensity of EBRD business have small financial sectors, so the investment represents a fairly small proportion of EBRD's portfolio. They simply do not have the market size to generate large business volumes.

To break down types of credit line, EvD classified the 374 newly approved operations in 2011-15 in terms of which sector(s) of the annual Assessment of Transition Challenges (ATC) is/are applicable to them.

The tables below present the top 5 countries by volume for the most relevant ATC sectors: Banking, MSME Finance and Sustainable Energy. There is considerable overlap between the Banking and MSME sectors, but Sustainable Energy operations are separated out completely because of their fundamentally different purpose (see Annex 4, page 14 and Table 7 above).

Table 11 Banking excluding sustainable energy operations: top 5 countries for 2011-15

No.	Country	Amount (€m)	% of total non-SE Banking	ATC rating in 2011	ATC rating in 2015	BEEPS ranking for credit constraint
1	Serbia	463.3	15%	3-	3-	9/29
2	Turkey	437.7	15%	3	3+	29/29
3	Russia	389.8	13%	3-	3-	2/29
4	Egypt	234.7	8%	NA	2+	NA
5	Croatia	210.0	7%	3+	3+	10/29

Notes: EvD has constructed this group to comprise operations with industry classification "Depository Credit (banks)" but excluding sustainable energy (SE)-focused loans. It overlaps with the MSME category.

Table 12 MSME Finance excluding sustainable energy operations: top 5 countries for 2011-15

No.	Country	Amount (€m)	% of total Non-SE MSME	ATC rating in 2011	ATC rating in 2015	BEEPS ranking for credit constraint
1	Turkey	544.4	18%	3-	3	29/29
2	Serbia	383.3	13%	3-	3	9/29
3	Egypt	234.7	8%	NA	2-	NA
4	Croatia	210.0	7%	3-	3-	10/29
5	Russia	182.2	6%	2	2	2/29

Notes: Investments identified as MSME based on the SBI Pillar Current classification in Data Warehouse. SE loans excluded. Russia was the third largest investee country before 2014.

Table 13 Sustainable energy: top 5 countries for 2011-15

No.	Country	Amount (€m)	% of total SE	Transition score in 2011	Transition score in 2015
1	Turkey	357.4	25%	3+	3
2	Poland	312.1	22%	3	3
3	Russia	90.8	6%	2	2
4	Bulgaria	89.0	6%	3-	3-
5	Ukraine	76.9	5%	2+	2+

Notes: Investments identified as SE based on the SEI Code Current classification in Data Warehouse. Russia was the largest investee country before 2014.
BEEPS ranking is not shown for this category as it does not seem directly relevant to sustainable energy financing.

Many leading investment countries show small transition gaps (rank 3 or 3-) including four of the top five investment countries for banking, three of the top five for MSME finance and three of the top five for sustainable energy finance. Turkey also has relatively very low credit constraints.

In advanced transition countries, only Croatia had substantial lending that was not for sustainable energy or other blended finance. (Baltics, Slovenia: no credit lines. Hungary, Poland, Slovak: 75-100% sustainable energy).

Only 3 of the 10 ETCs had more than 20% blended finance: Georgia (86%), Moldova (49%) and Kyrgyz Republic (22%).

Transition scores for the major investee countries are mostly around the middle of the range (1-4+). It might be expected that scores for countries with substantial Sustainable Energy credit lines would be higher because this kind of lending may require a framework to be already in place, but this is not apparent.

Key points:

- The Baltics and Slovenia appear to have "graduated" completely from credit lines.
- Over half of finance in 2011-15 went to five countries: Turkey, Russia, Serbia, Poland and Croatia.
- As a proportion of national credit to the private sector, there is a focus on ETCs, plus Serbia.
- Sustainable Energy finance had a somewhat different set of investee countries than the rest of the database.
- There does not appear to be a close connection between volume of credit lines and credit constraints in the country reflected in BEEPS V or to ATC rankings.
- Of advanced transition countries, there is large-scale lending in Poland for sustainable energy (with ATC ranking and gap 3/small), and large-scale lending in Croatia in the Banking and MSME sectors (with ATC ranking 3+/small and 3-/small).

The tables below split the database between blended finance facilities and credit lines without blended finance.

Table 14 Credit lines without blended finance: top 5 countries for 2011-15

No.	Country	Amount (€m)	% of total	ATC ranking for Banking 2011	ATC ranking for MSME finance 2011	BEEPS ranking for credit constraint
1	Russia	526.2	16%	3-	2	2/29
2	Serbia	496.0	15%	3-	3-	9/29
3	Croatia	251.0	8%	3+	3-	10/29
4	Egypt	216.3	7%	NA	NA	NA
5	Belarus	176.4	5%	2	2	13/29

Table 15 Credit lines without blended finance: top investment countries as a proportion of total credit to the private sector

No.	Country	Investment Amount (€m)	2010 Domestic credit to private sector (US$m)	ATC ranking for Banking 2011	ATC ranking for MSME finance 2011	BEEPS ranking for credit constraint
1	Kyrgyz Republic	62.5	654.2	2	2-	7/29
2	Armenia	136.3	2,634.1	2+	2+	15/29
3	Tajikistan	31.7	799.5	2	1	14/29
4	Mongolia	86.9	2,455.6	2+	2	8/29
5	Serbia	496.0	19,733.3	3-	3-	9/29

Table 16 Blended finance facilities: top 5 countries for 2011-15

No.	Country	Amount (€m)	% of total
1	Turkey	735.1	36%
2	Poland	312.1	15%
3	Georgia	91.2	5%
4	Russia	90.8	4%
5	Slovak Republic	90.0	4%

Table 17 Blended finance facilities: top investment countries as a proportion of total credit to the private sector

No.	Country	Investment Amount (€m)	2010 Domestic credit to private sector (US$m)
1	Kyrgyz Republic	17.5	654.2
2	Georgia	91.2	3,709.5
3	Moldova	37.7	2,057.4
4	FYR Macedonia	34.0	4,160.3
5	Armenia	20.3	2,634.1

The two types of credit line target different markets.

The top countries for credit lines without blended finance are similar to those for the entire credit line portfolio, while blended finance facilities target other countries.

The top investment countries for blended finance facilities include two advanced transition countries (Poland and Slovak Republic), Turkey, Russia and - surprisingly - Georgia.

Client type

EvD analysed the 374 new operations in 2011-15 (excluding those commitments that were incremental additions to existing operations). EvD identified 183 distinct PFIs; Table 18 shows the distribution of ownership type.

Table 18 Ownership of PFIs 2011-15

<table>
<tr><th></th><th>Local</th><th>Other COO</th><th>Western</th><th>Other/mixed</th></tr>
<tr><td>State</td><td>6</td><td>9</td><td>0</td><td rowspan="3">6</td></tr>
<tr><td>Commercial bank or holding company</td><td rowspan="2">67</td><td>9</td><td>55</td></tr>
<tr><td>Other (CSO, IFI, co-op, microfinance organisation)</td><td>0</td><td>31</td></tr>
</table>

NB CSOs and microfinance organisations mostly own non-bank microfinance institutions (NBMFIs), or former NBMFIs, mostly in early transition countries.

Looking at different types of credit line, there are differences between credit lines with and without blended finance.

Table 19 Ownership of PFIs 2011-15: blended finance facilities versus credit lines without blended finance

Blended finance facilities	Credit lines without blended finance
Proportion of operations with clients owned by: Western Banking Groups 45% CSOs, IFIs etc 9% Local non-state ownership 29%	Proportion of operations with clients owned by: Western Banking Groups 24% CSOs, IFIs etc 24% Local non-state ownership 36%

Table 20 shows the proportion of new versus existing PFIs by region.

Table 20 Proportion of new clients 2011-15

Region	No of new clients	Total no of clients
Central Asia	8	26
Central Europe & Baltics	1	15
E Europe and Caucasus	8	46
Russia	4	20
South East Europe	11	46
SEMED	19	19
Turkey	6	11
Total	57	183

NB: this analysis applies only to the 374 new operations. By definition, the 298 commitments which were incremental to existing operations were also with existing clients.

– Although over 30 per cent of clients were new, the distribution is concentrated in new countries: 19 new clients in SEMED (became countries of operation 2012), 3 in Kosovo (2012) and 6 in Turkey (2009).

– Other countries with more than one new PFI in 2011-15 were Albania (3), Belarus (3), Bosnia & Herzegovina (2), Kyrgyz Republic (3), Moldova (2), Russia (4) and Turkmenistan (2). 17 countries had either one or no new PFIs in 2011-15.

– Only 12 of the operations with new clients were blended finance facilities, of which 4 were combined with other facilities in a funding package. Most operations with new clients were credit lines without blended finance.

Some established client relationships are very long term.

– The 2011-15 database includes a "Credit Line VII" for a Tajik PFI and an "MSME VI" line for an Azeri bank. Several PFIs have lines numbered III, IV or V - in addition to any other types of EBRD facility they may have;

– Some relationships featuring in the database date back to the 1990s.

Furthermore, there are some indications of an expectation that EBRD funding will continue to be provided on an ongoing basis:

– Some recent evaluations of facilities with banks in Russia and Russian state-owned banks in other countries (including Belgazprombank in Belarus) have noted the suspension of further EBRD support in 2014 as having a negative effect on the performance of the PFI and its existing facilities.

– A feature of the Greek Banks evaluation among others was the view among PFIs, independent analysts and central banks that a relationship with EBRD conferred a "stamp of approval" and cessation or suspension of the relationship at a sensitive time could send a negative signal.

Key points:

- Almost half of blended finance facilities are with clients controlled by western banking groups, and most are with existing clients.
- Credit lines without blended finance lean more towards local commercial banks and operators owned by non-commercial players, particularly non-bank MFIs in early transition countries. They are also often used to launch relationships with new clients.
- There appears to be a drive for new clients in newer countries of operation and some other countries, mostly ETCs.
- There is a large group of mature countries where the Bank's client base changed little in 2011-15.
- There is some evidence that an expectation has developed of ongoing EBRD support to existing PFIs.

Syndication

FI generally is not the biggest generator of syndicated loans at EBRD: its volume of syndicated finance as a proportion of the EBRD total is lower than its annual business investment (ABI) as a proportion of the EBRD total.

In 2011-15, credit lines accounted for pretty much all the syndicated loans in FI - although this appears to be no longer the case in 2016-17.

Table 21 Syndications volumes linked to credit lines 2011-15

	2011	2012	2013	2014	2015
Syndication volume (€ million)	188	210	6	53	9

Volumes in 2011-12 were pushed up by a few large syndicated loans in Romania and Russia. Subsequent volumes have been lower but more even distributed. Most of the syndications were in ETCs.

Table 22 Credit line syndications total by country 2011-15

Country	Syndication volume (€ million)	No. of syndications
Albania	3.0	1
Armenia	19.5	3
Azerbaijan	23.9	1
Belarus	25.8	2
Kyrgyz Republic	10.4	2
Mongolia	21.2	1
Romania	113.0	2
Russian Federation	234.7	3
Tajikistan	4.6	1
Turkey	9.2	2
Grand Total	465.4	18

Key points:
- Syndication is not a strong feature of FI operations, but credit lines have accounted for most or all of them.
- Syndications have been distributed among several countries including early transition countries.

3. Project objectives

Methodological note: EvD reviewed the principal approval documents for the 374 new operations committed in 2011-15. 10 were removed because they were restructurings or expansions of existing operations or approved by Credit, and EvD could not find a full approval document.
EvD reviewed the broad project objectives set out in President's Recommendations, Summary Fact Sheets and introductory sections of documents. Separately, it reviewed transition benchmarks set out in the Transition Impact or Measuring/Monitoring Success sections.
Without turning into a review of all FI's activities, this report cannot comment on the balance between credit lines and other types of activity (other finance, TC and non-TC grants, policy dialogue) with other objectives. But for most of the period covered, credit lines accounted for 40% or more of total FI finance.

Using the same schema as in Table 3 of the main text, Table 23 below summarises project objectives set out in project documents. It shows the proportion of operations targeting each type of objective and distinguishes between blended finance facilities and non-blended finance or "traditional" credit lines.

Table 23 Stated objectives of 374 new operations in 2011-15

	Financial sector development		Support to real economy (non-GET)		Impact on other sectors (GET)	
	Blended	Trad	Blended	Trad	Blended	Trad
Finance (loans and incentives)	53%		72%		32%	
	37%	64%	31%	100%	80%	-
Skills and governance (mostly transactional TC)	26%		8%		31%	
	19%	30%	15%	3%	76%	-
Regulatory and business environment (policy dialogue)	3%		2%		5%	
	2%	4%	5%	0%	13%	-

Note: "Finance to the real economy" excludes GET finance, unless the approval document also mentions a more general lending objective. This is why only 31% of blended finance operations target this objective.

EvD also looked at the transition objectives as stated in the Transition Impact Monitoring System (TIMS) table of the approval document.

Table 24 Transition objectives of 374 new operations in 2011-15

Source of transition	Blended finance facilities	Credit lines without blended finance	All ops
Competition	5%	9%	8%
Market expansion	41%	97%	74%
Private ownership	0%	0%	0%
Frameworks for markets	3%	2%	3%
Skills transfer	96%	34%	59%
Demonstration effect	83%	25%	49%
Business standards	6%	35%	23%

EvD conducted a similar analysis on 33 frameworks (23 for GET and 10 other) approved 2011-15 that governed many of the sub-operations in the sample.

Table 25 Stated objectives of 33 new frameworks in 2011-15

	Financial sector development		Support to real economy (non-GET)		Impact on other sectors (GET)	
	Blended	Trad.	Blended	Trad.	Blended	Trad.
Finance (loans and incentives)	12%		42%		61%	
	0%	40%	17%	100%	87%	0%
Skills and governance (mostly transactional TC)	36%		15%		58%	
	13%	90%	17%	10%	83%	0%
Regulatory and business environment (policy dialogue)	15%		6%		39%	
	4%	40%	9%	0%	57%	0%

Table 26 Transition objectives of 33 new frameworks in 2011-15

Source of transition	Blended finance facilities	Credit lines without blended finance	All ops
Competition	9%	0%	6%
Market expansion	57%	100%	70%
Private ownership	0%	0%	0%
Frameworks for markets	26%	30%	27%
Skills transfer	100%	70%	91%
Demonstration effect	91%	20%	70%
Business standards	0%	50%	15%

Key points:
- The main stated focus of individual operations is on providing finance to the real economy or other sectors.
- Over half of individual projects had objectives to support the PFI itself, through balance sheet restructuring or financing general expansion and development. A small number of projects focused only on the PFI, e.g. syndicated loans, Partnership for Growth operations, but most combined this with a real economy or other sector focus.
- A substantial proportion of projects targeted skills and governance of PFIs or GET-related skills. Fewer addressed general training for MSMEs (mostly Women in Business, Competitiveness Support Facilities and Agricultural Finance Facilities). Framework approvals had a greater focus on this than individual operations.
- Objectives relating to the regulatory and business environment were few, and mostly mentioned at framework level.
- Blended finance facilities listed skills transfer and demonstration effects as their main sources of transition, with market expansion some way behind (less than 50%).
- Credit lines without blended finance almost universally targeted market expansion, with skills transfer, business standards and demonstration effects some way behind.
- Very few operations mentioned competition and market structure, even though PFI growth was a frequent objective and competition was identified in ATCs, the FI sector strategy and the Small Business Initiative Review.

In interviews, bankers, economists and other operations staff mentioned the following purposes or benefits of credit lines:

- Efficiency, to reach a large number of smaller businesses than the Bank could reach directly;
- A means of reaching the financial sector to raise standards, improve skills and introduce new products. (There was a comment on SEFFs that if the EBRD just wanted to reduce emissions, it would work with energy companies);
- A channel through which to achieve other objectives (e.g. sustainable energy) or promote growth in a targeted segment (e.g. women-owned businesses).
- Add to EBRD's "voice" in policy dialogue through established contacts, direct experience in the sector, and the fact that EBRD is "putting its money where its mouth is" by bringing finance as well as advice;
- A product on which to hang TC;
- An "entry point" for new clients or countries: Non-blended finance credit lines with institution building TC attached have fewer prerequisites than many other types of operation in terms of institutional framework and client capacity, and build the fundamental skills needed before more complex (blended finance) facilities can be attempted.

Interviewees commented that customers of blended finance operations did not just want finance, but the whole integrated package of expertise, policy dialogue and consultancy advice.

They mentioned sustainable energy lending as an example of an area that was being entirely pushed by the EBRD, launching a product and creating a market where there was previously neither demand nor supply.

Economists associated with strategic initiatives, as well as SBI staff, all emphasised that the Bank had a temporary role to create sustainable or systemic change which would remain after the Bank's withdrawal from financing. It should not be simply providing ongoing or permanent finance.

EvD also notes some other points from its own research:

- Annex 4 above identified the financial attractions of credit lines.
- Senior debt is particularly attractive with lower economic capital requirements than equity or subordinated debt.
- Alongside other FI facilities, credit lines boost the Bank's private sector ratio in countries where this is low.

Therefore a stock of credit lines provides a firm basis for more exciting (risky or expensive) work at the margins. Credit lines are effectively FI's default product, with a role in simply creating volume to increase the Bank's influence.

Key point:
Credit lines can be used for their benefits
- to sub-borrowers: allowing the Bank to reach more and smaller MSMEs;
- to PFIs: to build fundamental lending capacity and skills, as a stage in development of the relationship with the EBRD, and allowing institutional development and the introduction of new skills and products;
- to the EBRD: as a "fundamental product" supporting riskier work.

4. Project design and benchmarks

This report does not go into great detail on issues such as variety and quality of individual indicators and consistency of monitoring. This has been covered many times in the past[6] and, partly in response to EvD's previous comments, the new results architecture and Compendium of standardised indicators introduce a new approach to many of those issues (see Annex 6).

Nevertheless, it is worth identifying some general findings from the analysis of project benchmarks.

Specific characteristics of credit lines

Credit lines at EBRD have certain characteristics that can present particular challenges for design and monitoring:

- Two-layer structure (i.e. intermediation) - the fact that at least some of the effects are intended to be achieved at one or more remove from the direct client;
- Fungibility of PFI funding - which makes it harder to attribute results specifically to EBRD funds;
- Relatively high use of frameworks and delegated approvals - but not uniquely high: direct finance frameworks such as the Local Enterprise Facility and Direct Lending Facility as well as the Trade Finance Programme and Medium-Sized Co-Financing Facilities also lead to high levels of delegated approvals.

Monitoring approach

- The common EBRD approach of monitoring portfolio growth contrasts with the more traditional MDB approach of requiring lists of sub-borrowers.

[6] For example, in evaluation papers on Evaluability (PE11-540S) and Performance Metrics (PE12-560S)

- EBRD mostly abandoned the list approach many years ago for reasons reinforced by the recent IDB study on financial intermediation: fungibility of funding especially in private sector FIs makes it impossible to attribute specific sub-loans to EBRD funding. The PFI can simply supply a list of compliant sub-loans with no assurance of increased lending in the segment.
- The SEFFs and GEFFs make some use of the list approach because the verification of projects required for payment of client incentives means that an exact list of sub-loans is available.

Number of indicators

The number of indicators per project ranges from 4-5 in broad-focused credit lines to 10+ in some blended finance facilities.

Where there are multiple simultaneous or overlapping operations with a single client, the number of benchmarks in a client relationship can proliferate. One multi-operation financing package had more than 20 benchmarks approved at one time.

- This is a potential burden on the client, given that many benchmarks require client reporting for monitoring.
- It may create an absorption problem for EBRD: while data from SEFFs and GEFFs are successfully aggregated, WiB for example has not yet fully resolved how to absorb and aggregate the data collected.

Types of indicators

Most indicators measure outputs: volume of on-lending or completion of a specific action. Examples are given in the operation descriptions in sections 5 and 6 of the main report.

Some indicators measure an intermediate level of impact, e.g. replication by other FIs or continued effects at the PFI after the EBRD facility is complete. Where these indicators exist, EvD did not generally find consistent reporting, and then only circumstantially, given the difficulty proving a definite link to a specific EBRD operation.

There are few indicators for sector-wide or country-level impact. Again, reporting is inconsistent and circumstantial.

Qualitative output indicators are commonly used to measure business standards and institutional capacity, demonstration effects and policy dialogue. They are generally based on activities not results and show a wide variation of client-specific or market-specific activities, which makes them hard to aggregate.

Quantitative indicators are commonly used to measure market expansion (generally in terms of PFI portfolio expansion), geographical outreach and sound banking objectives. They more easily lend themselves to aggregation.

The objective of providing long-term funding and balance sheet support to PFIs for general growth (see Table 3 of the main text) was not often represented in transition indicators, which more commonly measured growth of a specific (MSME, female-led, green) portfolio and actions relating to skills and governance.

Implicit assumptions

Many indicators measure easy-to-monitor actions and outputs at PFI level as a proxy for wider impact. This approach depends on certain implicit assumptions.

- Increases in loan volumes, number of new clients and regional coverage at the PFI level all comprise a net increase for the sector - otherwise these indicators would be measuring competition rather than market expansion.[7]

[7] In the early days of MSME on-lending, some PFIs asked their loan applicants if they were first-time borrowers and where they had obtain financing previously, and reported to EBRD the significance of new borrowers in all loan applications. The current sample does not include examples of this.

– The experience and performance of sub-borrowers need not be measured directly as they are reflected in the successful expansion and balance sheet strength of the PFI.

Meetings with Banking confirmed that they recognised and agreed with these assumptions. They commented:

– The objective is to increase access to finance, not to promote the growth of individual MSMEs, which could be negatively affected by factors outside EBRD/PFI's control;

– PFIs are best placed to assess MSME creditworthiness, so successful applicants are assumed to be sustainable and likely to grow and hire staff in future;

– If the PFI's MSME portfolio is growing, access to finance is growing.

Frameworks

There was a lot of variety in the handling of frameworks.

– Whereas EvD found TIMS reviews for most standalone operation, a wide variety of monitoring approaches found for frameworks: sometimes there was a framework-level report, sometimes one or more sub-operation was monitored. Benchmarks did not seem to be consistently measured or aggregated.

– In 2015, many MSME facilities were combined into the Financial Intermediaries Framework (FIF), which does not have an overall TIMS report but is reported on in the SBI Annual Review to the Board only.

– In some cases, framework level benchmarks were translated and tailored to individual sub-operations. Sometimes this showed evidence of careful thought and tailoring, while in other cases there was straight copying that did not appear to be adjusted to the specific client.

– A particular issue was that baseline studies assumed for WiB were often not in place by approval, so project-specific benchmarks were not found. As no monitoring was found for many sub-operations, their status is unclear.

Key points:

- Credit lines have particular challenges arising from intermediation, fungibility of funds and use of delegated approvals.
- EBRD generally monitors portfolio growth rather than lists of sub-loans, but SEFFs/GEFFs are an exception because of lack of fungibility.
- Multiple operations with a client can lead to a large number of benchmarks for simultaneous monitoring.
- Most indicators are PFI-level outputs for ease of monitoring. The smaller number of outcome and impact indicators tend to show inconsistent reporting.
- Indicators rely on some assumptions including that there is no need to measure sub-borrower performance because it is reflected in the successful expansion and balance sheet strength of the PFI; and if the PFI's MSME portfolio is growing, access to finance is growing.
- Benefits of longer tenor loans and local currency lending likely benefit the PFI balance sheet more than the sub-borrower.
- Design and monitoring of frameworks varies in approach and quality.

Donor support

Methodological note: This report does not go into great detail on donor funds, as it is not a sector review of FI activities. It has considered TC and non-TC as described in Financial Intermediaries Reports, which discuss TC for the FI sector in general but not for credit lines specifically. It has also looked at the use of TC as described in approval documents for credit lines.

Total TC in the FI sector has fallen from €28 million in 2011 (and an exceptional €39 million in 2010) to €14.2 million in 2016.

Non-TC grants have increased from €14.6 million in 2011 to €44.22 million in 2016. Throughout this period, two-thirds to three-quarters of these funds have gone to energy efficiency facilities.

Up to and including 2010, around half of TC went towards institution building. This fell to 39% in 2011, 33% in 2012 and 13% in 2013; more recent reports do not give a breakdown.

Credit and risk training fell from 4-5% in 2009-10 to 1% per year from 2011 onwards. Training and seminars account for 2-4% per year throughout.

The main beneficiary of the rebalancing has been energy efficiency, which has risen from around 40% to around 75% of total TC over the same period. in 2016 it fell to around 58% as increased TC went to the Gender Initiative.

Annual Financial Intermediaries Reports last gave a sectoral breakdown of the use of non-TC funds in the report for 2014, when energy efficiency facilities accounted for €28 million out of a total €36 million of non-TC grants, or 78%.

The 2015 FI report did not give a lot of detail on donor funds, but the 2016 report showed SEMED region as the largest recipient of donor funds, with Turkey, Western Balkans and Caucasus some way behind. This was a change from 2013 when 51% of non-TC donor funds went to SEE and 41% to Central Europe.

Project approval documents show institution building TC fairly common with new PFIs especially in ETCs (but not in SEMED, where most new partners were considered too advanced, or had strong western banking sponsors).

– Credit lines without blended finance with existing clients rarely had TC attached. The few cases were mostly under the ETC Non-Bank MFI Framework where the EBRD helped PFIs develop into full banks.

– There was substantial non-TC support for local currency lending in ETCs through the ETC Local Currency Programme (extended in 2016 to become the SME Local Currency Programme).

A comment by interviewees on the use of donor funds is that it is naturally constrained by the availability of funds, and it is hard to obtain funds for more advanced transition countries.

A review of the use of donor funds with credit lines in 2011-15 tends to support this assertion, with the caveat that the geographic constraint does not appear to have been so limiting for sustainable energy lines (SEFFs and GEFFs) or for Women in Business.

Key points:

- Regular TC support has halved in recent years. The proportion going to institution building is falling.
- Non-TC donor funding has increased significantly. Around 75% goes to energy efficiency, including in more advanced transition countries. A substantial amount also goes to ETCs to subsidise local currency lending.
- There is a "TC gap" after initial institution building has been completed with a new client; TC is not generally used again until it forms part of a blended finance facility with a mature partner.
- New clients in SEMED mostly did not need institution building TC because they were too advanced or had strong sponsors.
- An increasing proportion of credit line business is dependent on donor funds.
- Limitation of the availability of donor funds to earlier transition countries does not appear to apply to funds for sustainable energy or Women in Business.

Annex 6 The Bank's monitoring and reporting infrastructure

The new results management architecture

Reporting of aggregate results has not historically been a focus of EBRD, but it has recently made moves in this direction.

- EBRD does not publish a Development Effectiveness Review in the manner of the Asian Development Bank, African Development Bank, Inter-American Development Bank and others.
- However, it now has a Country Strategy Coordination & Results Management Team, which has been progressively introducing a new results architecture and Compendium of standardised transition indicators.
- Interviewees expressed the opinion that an increasing use of grant funds is likely to bring pressure for more reporting on results, as initiatives such as ASB and Donor Co-financing in general have experienced in the past.

The new Compendium aims to measure transition qualities in a more consistent way and allow aggregation at the country level.

The draft Compendium as seen by EvD includes:

- impact indicators for measurement at economy level, e.g. the loan-to-deposit ratio across the sector, asset share of private banks, asset share of five largest banks, NPLs to total gross loans; and
- a much reduced number of output and outcome indicators to be measured at project level.

In reducing the number of project-level indicators, the Compendium removes those that are hard to monitor at the level of an individual project.

The results frameworks in early country strategies approved under the new template are aligned with this approach.

The new approach removes some intermediate indicators that fall between the level of the project and the level of the economy. For example, the following types of benchmarks feature with varying frequency in the 2011-15 projects reviewed, but not in the draft Compendium:

- continuation of specific lending (e.g. MSME lending, sustainable energy lending) from a PFI's own resources after utilisation of the EBRD loan;
- replication of a product by other FIs or increased availability of finance on the market for particular types of borrowers or uses;
- improved competition evidenced by falling market interest rates;
- syndication or other debt capital market transactions by the PFI or other FIs without EBRD/IFI involvement.

Key points:

- Results measurement is relatively underdeveloped at EBRD. Recent years have seen improvements, and demands for results are likely to rise with increased use of donor funds.
- The new results architecture should improve efficiency, consistency and aggregability but it loses some indicators for intermediate outcomes that are difficult to measure at project level.

The SME Management Information System

A new SME Management Information System aims to improve the efficiency of the existing monitoring process and make it easier to aggregate data from the Bank's clients.

The new system has been combined with a standardised reporting template attached to recent credit line Loan Agreements, requiring standard portfolio data for all facilities and additional fields for specific types of operation such as WiB.

FI inputs data from client reporting into the Management Information System. The aim is to allow the data to be input once and then accessed by the multiple internal users: Banking, Operations Administration Department, Credit, Economics Policy & Governance, and others.

Recent SBI Annual Reviews contain more aggregation of data from Bank clients and more detail on sub-borrowers as a result of the new Management Information System. The completeness of the system is expected to improve over time as new facilities with standardised reporting replace older loans.

FI reports that investment in more automation of the system could allow greater efficiencies.

> **Key point:**
> - A new Management Information System and client reporting template are expected to make monitoring more efficient and standardised, and have already allowed more aggregation of data for Board reporting.

EBRD corporate reporting

The main reporting instruments are the annual Financial Intermediaries Report and Small Business Initiative Annual Review.

Both focus only partly on credit lines: the Financial Intermediaries Report covers all FI activities, while the Small Business Initiative Annual Review also covers direct financing, equity funds and ASB.

The Bank has delivered Financial Intermediaries Reports since 1993. Its primary focus is on EBRD activities and outputs, especially volume. The 2015 and 2016 documents report on:

- description of macroeconomic environment
- number and volume of projects, broken down by Bank initiatives, exposure by country, project lists (in annexes)
- information on volume of grants and number and volume of blended facilities
- a description of activities and several case studies, reported against the strategic objectives of the 2016 FI Strategy [8]
- outlook for the following year, considering economic outlook and expected business focus by region and initiative
- an annex reporting against the performance measurements in the 2016 FI Strategy, which are framed in terms of number and volume of particular types of investments.

The Small Business Initiative Annual Review first reported on 2015 and is now annual. It has a greater focus on outputs by PFIs and consultants. It covers:

- description of types of EBRD operation; business volume, number and geographic distribution of operations;
- information on use of proceeds: number, volume, size distribution of loans in MSME portfolios financed;
- extra reporting on use of loans enabled by the new SME Management Information System, including working capital versus investment; sector of sub-borrowers; number and volume of sub-loans disbursed

[8] The Financial Intermediaries Report for 2014 was the last to report against the objectives in the 2010 Strategy.

in local currency; maturity of sub-loans; and proportion of lending outside capital cities and to women-led businesses.

- a section on impact reporting on expected transition impact scores and the high proportion of loans provided in local currency, outside capital cities or to women, or with maturity greater than 12 months.
- a section on ASB similarly reporting on number and type of consultancy assignments and the number of beneficiaries that subsequently obtained EBRD finance.

Key point:
- The annual FI and SBI reports to the Board focus on EBRD outputs and some description of the portfolios financed.

What does the Bank not report?

In general, the Bank does not report on aggregate outcomes or impact. This does not apply just to credit lines or to financial sector projects but across almost all activities in all sectors including direct finance, grant funds and policy dialogue.

EvD has found three exceptions across all the Bank's activities, of which two (ASB and Green Economy) are at least partly related to credit lines.

Internal and external reporting, including the Annual Report and the report "Donors and the EBRD", report on:

- job creation and increased turnover in beneficiaries of the ASB;
- aggregate savings in CO_2 emissions as a result of Green Economy activities; and
- the number of people expected to benefit from investments in municipal infrastructure and urban transport systems.

Credit lines generally aim at increasing access to finance or developing a market for new products. It is difficult to measure such broad impacts and link them to specific EBRD activities. EBRD reports generally avoid the problem.

Annex 7 What can we say about the effects of credit lines?

Long-term overview

There are two main difficulties in commenting on the overall impact of credit lines:

- attribution - trying to link specific changes on the ground to the EBRD's activities;
- separating out the effects of credit lines from the EBRD's other activities in the financial sector or with MSMEs.

But sections 2 and 3 of the main report and Annex 3 above described the changing market context in the region and it seems likely that the EBRD's credit line operations have contributed to this.

- SME and even MSE lending is now well established in most countries of operation;
- commercial banking and non-banking sectors have grown hugely;
- regulatory bodies have developed;
- in more recent years, the Bank's financing and the visibility of its continuing support was important to bank stability during and after the financial crisis.[9]

Effects at country level in 2011-15

The 2011-15 period has been a time of difficult economic conditions and slow exit from crisis. The picture painted by the changes in ATC rankings for the period is not encouraging. There were 29 countries with ATC rankings for both 2011 and 2015. Table 27 below summarises how many saw their rank rise, fall or remain the same over the period.

Table 27 Changes in ATC rankings 2011-15

Sector	ATC rank improved	ATC rank unchanged	ATC rank deteriorated
Banking	2	25	2
MSME finance	13	15	1
Sustainable energy	2	25	2

Only MSME finance has seen an improvement in a large number of countries of operation.

Changes in the rankings seemed to be detached from the volume of EBRD credit lines:

- The Sustainable Energy rank fell in Kazakhstan (with no SEFFs over the period) and Turkey (with a huge volume of SEFFs). It improved in Azerbaijan and Serbia: neither of them major focus countries for SEFFs.
- The Banking ranking improved in Poland (mostly SE lending) and Turkey (high non-SE lending) and declined in Hungary (no non-SE lending) and Kazakhstan (high non-SE lending).
- The MSME ranking improved in countries including Turkey and Serbia, with high EBRD volumes, and Estonia and the Slovak Republic, with low volumes. It fell in Slovenia.

Specific examples: countries and client groups

It is possible to draw out some long-term effects at specific client or country level, subject to the caveats mentioned at the top of this section.

[9] See the EvD report on *Crisis Response to Greek Bank Subsidiaries in Southeast Europe* (CS/AU/16-29).

A client relationship: Banca Transilvania, Romania

EvD briefly reviewed a relationship dating back to 1999.

It encompassed equity, a convertible bond, trade finance, subordinated debt, syndicated loans, and senior debt for MSME lending, leasing, rural lending and energy efficiency. There was also around €1.3 million of TC funds, mostly for staff training.

BT was a small regional bank with market share of 1.4% in 2001 when the initial equity investment was made. In September 2013 BT was the third largest bank in Romania by total assets, with a market share of 8.57%.

The review concluded that:

> *"EBRD supported the development of a relatively small, locally owned, regional, private-sector bank into a major national competitor in the Romanian banking sector, with a particularly strong presence in MSME lending. The EBRD has helped BT improve its governance and set a good example to the market. The relationship has promoted competition as BT grew to number 2 in the MSME segment."*

It also concluded that BT should be considered to have "graduated" from institutional development activities.

EBRD provided a post-crisis financial package in 2010. Since then its only financing has been very distinctive facilities such as a convertible bond and energy efficiency lines.

In 2015, EBRD began divesting its equity holding in BT. In 2017 BT became its partner in an investment in the troubled Victoria Bank Moldova - an indication of the strength of BT and of the relationship with EBRD.

Countries that have effectively "graduated" from credit lines

In 2011-15, there were four advanced transition countries with no credit line operations: Estonia, Latvia, Lithuania and Slovenia (plus Czech Republic which has formally graduated from all EBRD operations.) Hungary had only one very small energy efficiency commitment.

It seems that the lack of credit line operations in these countries was a mix of strategy and business opportunity:

- In 2011, the countries all had high (3 or higher) ATC rankings (i.e. small transition gaps) for both banking and MSME finance, as did Poland and the Slovak Republic.
- The country strategies for the Baltic states do not really leave room for credit line operations, but the country strategies for Slovenia (2010) and Hungary (2011) both leave open the possibility of credit line operations.
- Therefore it can be assumed that at least in Hungary and Slovenia the lack of credit lines is due to a lack of demand rather than deliberate avoidance.

The other countries with high ATC rankings were Poland and Slovak Republic.:

- The Slovak Republic had one (large) energy efficiency facility and no non-specialist credit lines
- Poland had 75% of facilities in energy efficiency. However, it did still have over €100m of non-specialist credit lines in 2011-15.

Nevertheless, this small group of countries with small transition gaps appears to have largely "graduated" from regular credit lines.

Russia

Russia presents an interesting case because there has effectively been a natural experiment with the suspension of EBRD finance in 2014.

Russia has been a major recipient of credit lines since the early 1990s. It also had the original MSE-focused prototype "blended finance" programme, the Russia Small Business Fund.

In 2011-13 (before the suspension) it was by far the largest recipient of credit lines, the largest for non-SE bank sector credit lines and the fifth largest for SE lending (after Poland, Turkey, Bulgaria and Slovak Republic).

In 2014, when lending ceased, its ATC ranking for MSMEs was 2 (large transition gap) and for Banking was 3- (Medium transition gap).

Interviewees report that following the suspension of EBRD funding, MSME finance in Russia is now effectively limited to state-owned banks. Commercial banks have withdrawn from the segment.

Annex 8 List of interviews conducted during the evaluation

The following people were interviewed in the course of the review, either for the approach paper, main study or draft review stage.

Organisational Unit	Name	Position (at time of interview)
Financial Institutions Group	Nick Tesseyman	Managing Director
	Alexander Saveliev	Director, Head of Operations & Portfolio
	Jana Sivcova	Senior Banker, FI Operations & Portfolio
	Trevor Watson	Senior Banker, FI Operations & Portfolio
	Alfonso Vega Acosta	Senior Banker, FI SME & Blended Finance
	Maggie Koon	Analyst, FI Portfolio Data
SME Finance & Development	Caroline Van Copenolle	Principal
	Anna Wilson	Principal
Economics, Policy & Governance	Barbara Rambousek	Associate Director, Inclusion
	Elena Ruiz Abril	Principal Gender Adviser
	Bojan Markovic	Deputy Director, SEP, Financial Institutions
	Aziza Zakhidova	Economist, Financial Institutions
	Isabel Blanco	Associate Director, Strategic Resource Initiative
Legal Transition Team	Jelena Madir	Director, Chief Counsel, Financial Law Unit
Procurement	Jan Jackholt	Director
Country Strategy Coordination & Results Management*	Christoph Denk	Director
	Anita Taci	Deputy Director

* Combined meeting on developments in results architecture for EvD studies on Energy and Transport sector strategies and Credit Lines.