Operation Performance Evaluation Review

EU/EBRD SME Facility

(Regional)

(A Technical Cooperation Operation)

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OPERATION PERFORMANCE EVALUATION REVIEW (TC)
EU/EBRD SME FACILITY

ABBREVIATIONS

BD	Banking Department
CEB	Council of Europe Development Bank
CSU	Consultancy Services Unit
DG	Directorate General of the European Commission
EC	European Commission
EIB	European Investment Bank
EU	European Union
EvD	Evaluation Department
FI	Financial Institutions
IFI	International Finance Institution, also referred to as ‘sponsor’
KfW	Kreditanstalt für Wiederaufbau (German Bank for Reconstruction)
LGLW	Loan Guarantee and Leasing Window (of the Facility)
M€	EUR million
OCE	Office of the Chief Economist (EBRD)
OCU	Official Co-Financing Unit (EBRD)
OL	Operation Leader
OPER	Operation Performance Evaluation Review
PFI	Participating Financial Intermediary (in the Facility)
PF	Performance Fee
SME	Micro, small and medium enterprises
TI	Transition Impact
TA/ TC	Technical Assistance/ Technical Cooperation
ToR	Terms of Reference

DEFINED TERMS

the Bank	European Bank for Reconstruction and Development.
the Client	the participating Bank, leasing company or other financial intermediary (PFI)
the DGEnlarg	the Directorate General Enlargement at the EC
the DGEcFin	the Directorate General Economic and Financial Affairs at the EC
the Facility	the EU/EBRD SME Financing Facility, also referred to as the ‘programme’
the Facility window	Facility segmentation typically per lending or leasing activities, or activities within the rural ‘sub-window’
the Framework Manager	Senior Banker, responsible for the overall management of the EU/EBRD SME Facility at the Bank
The Framework Agreements	contractual agreements concluded with a number of Consulting firms for competing per Facility window for individual call-offs
the OPER Team	Staff of the Evaluation Department and the independent sector consultant who jointly carried out the post-evaluation
the Operation Leader (OL)	the staff in the Banking Department and/ or Resident Office in charge of individual project appraisal, implementation and monitoring
the SME	Micro, Small and Medium-sized Enterprises as per the EU definition
the TC Com	the Bank’s Committee for TC Review

OPERATION PERFORMANCE EVALUATION REVIEW (TC)
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Executive Summary

Imperfections in the financial market were affecting the development of micro-, small- and medium-sized enterprises (SMEs) in the EU accession countries of central and eastern Europe in the aftermath of the 1998 Russian crisis. To remedy these imperfections, an EU-supported SME Finance Facility ("the Facility") was established. The Bank and the European Commission (EC) launched the first EU/EBRD Facility phase together in April 1999, which was later followed by other sponsors. Generally, the Facility's aims are to create or improve access for SMEs to either loans or equity financing and to establish new business financing practices within participating financial intermediaries (PFIs).

The focus of this study is first and foremost limited to the EBRD share within the Facility. The second focus is on the so-called Loan Guarantee, Lending and Leasing Window (LGLW) to concentrate on the lending activities. The third focus is toward the Technical Cooperation (TC) work undertaken, which was funded from EU-Phare resources. The activities of the other sponsors (EIB and KfW/CEB) have been deliberately omitted from this report, as have the Bank's investment activities in relation to the Facility.

To manage the EU/EBRD Facility grant funds, the Bank and the EC have entered into several "contribution agreements". An intra-institutional steering committee supervised the implementation of the Facility. This committee consists of representatives from the EC, including Directorates Generale (DG) and all participating sponsors. DGEnlarg, for example, is in charge of approving the individual operations, including the scope and indicative budgets foreseen for TC, while the DG EcFin is entrusted with the Facility's daily operations.

Within the EBRD, the Financial Institutions (FI) team has established a small Facility-related operational team headed by a Senior "Framework Manager" who is supported by the FI TC Group. Project approval procedures follow established ones, that is, are subject to the Bank's TC Com. Similarly, the Project Operation Leaders (OLs) are in charge of individual assignments. For the selection of consultants, several framework agreements have been tendered and were concluded between 1999 and 2005.

So far, the EC committed the largest share of its Facility grant resources to the EBRD, reaching some €160 million (followed by KfW/CEB with €98 million and the EIB with €51 million (EIB) respectively). This is firstly due to the fact that the EBRD is the EC's longest-term partner in this programme, and second, that the TC instrument has been primarily used by the Bank. For the TC work at the EBRD, almost €48 million was contracted in 119 individual commitments. TC assignments mostly consisted of institution building measures and advice, in support of SME lending or leasing activities of the local institution. From those, some 86 PFIs, such as local banks and leasing institutions, have benefited.

Overall, the EU/EBRD Facility TC work is rated *Partly Successful*. The overall fulfilment of the TC work is rated *Satisfactory*. Although the TC work was highly relevant for the objectives of the Facility and well implemented by the Bank, the achievements on an aggregate level are mixed and the impact in the medium and long term is uncertain. Compliance with the Bank's MSME policy is *Confirmed*. Transition impact (TI) is considered *Satisfactory.* Bank handling is also considered *Satisfactory* due to a very good performance with regard to administrative and operational matters but there are weaknesses with regard to project design, self-evaluation and impact assessment. The additionality is *Verified in Part* since the TC recipients were often wholly or partially owned by foreign financial institutions.

Developments in the financial sector during implementation of the EU/EBRD Facility resulted in international mergers and acquisitions of PFIs. These have impeded the Bank's additionality, reduced in cases the expected transition impact, delayed the implementation of planned TC activities and partly rendered the outputs produced by consultants obsolete. The main issues and corresponding lessons learned and recommendations have benefited from studying a corpus of earlier evaluation reports (both EBRD and EC funded), as well as visits in respect to four case studies in different countries.

The following summary can be presented of the issues that the OPER team learned during the evaluation exercise:

Issue 1: Discuss ways to increase competition among consultancies in large TC programmes
While there were several consulting firms included in the framework agreements, there was an overwhelming dominance of only two firms in the actual implementing of activities.

Lesson learned: Active measures should be undertaken to increase competition from consulting companies in TC assignments, especially if large programmes stretch over several years.

Issue 2: Application of adequate methodology and project management tools in TC
The design of individual assignments showed methodological weaknesses and fell short of good project management standards. Due to the shortcomings in the definition and monitoring of a set of objectively verifiable indicators of achievement, the overall success of the programme is presently not demonstrable.

Lesson learned: The Bank should consider working towards the adoption of the logical framework approach in TC operations with particular regard to the implementation of multi-annual programmes involving substantial grant funds.

Issue 3: Review the Bank's reporting duties required under "framework programmes"
There were a number of positive effects following the Facility's administration framework approach. Nonetheless, the suspension of individual assignments from the usual Project Completion Report (due to their nature as "call-offs") were not appreciated. Instead, substantial funds and potential for institution building impacts would have required a self-evaluation by the OL.

Lesson learned: Do not suspend the Project Completion Report (PCR) from call-offs of substantial size or with significant individual transition impact potential.

Issue 4: Adopt a standard definition on MSME in EBRD operations
The lack of a coherent application and reporting with regard to the EU definition of SMEs in individual PFIs makes it difficult to assess their overall volumes in respect of micro, small and medium business.[1] This, in turn, hinders a sound judgement on the effects that the TC work had on the entire PFI portfolio.

[1] Caused by either the absence of a reliable management information systems (MIS) in PFIs, or a different orientation of reporting lines.

Lesson learned: The EBRD should enforce the EU standard definitions of what constitutes micro-, small- and medium-sized enterprises in all its related sector activities.

Issue 5: Make large TC programmes subject to the Bank's TI monitoring system

The Bank's transition impact was not systematically monitored for the EU/EBRD Facility as a whole, but merely included in the Transition Impact Monitoring System (TIMS) of related investments.

Lesson learned: Discuss possibilities of expanding the Bank's current monitoring procedure for substantial TC programmes.

1. Evaluation rationale, focus and approach

1.1 Introduction

Elaborating an EU-supported SME Finance Facility ("the Facility" or "the programme") in 1997 reflected the need to remedy financial market imperfections at the time. These were regarded as hindering the growth and development of private micro-, small- and medium-sized enterprises (SMEs) in the EU accession countries of central and eastern Europe.[1] This programme's technical nature and multi-country approach required the involvement of specialised financial institutions, for which the EBRD appeared to be particularly qualified.[2] After the first EU/EBRD Facility phase was launched in April 1999, the Council of Europe Development Bank (CEB) joined the programme in 2000, in tandem with the Kreditanstalt für Wiederaufbau (KfW). This was then extended to include the European Investment Bank (EIB) in 2001.

Generally, the Facility's aims are to create or improve the SMEs access to either loans or equity financing and to establish new business financing practices in local financial intermediaries (PFIs) focused on expanding and improving lending to the SME segment. Over the 10-year lifetime, several phases emerged that reflected different political and economic circumstances and the progression of the beneficiary countries towards accession. For example, the starting phase reflected the overall infancy of the financial sector in CEEC in the aftermath of the Asian and Russian 1997/8 financial crises. As a result, the Facility's prime objective was to alleviate financing constraints for SMEs by expanding operations in financial sectors. The more mature period between 2002 and 2006 has included a greater number of overall objectives, such as assisting the candidate countries in meeting the goals of the Copenhagen Summit on Climate Change and contributing to reforming and strengthening the financial sector.[3]

The EU/EBRD Facility has two "windows": the loan guarantee and leasing window (LGLW) provides funds to banks and leasing companies in the beneficiary countries for on-lending to SMEs. The "equity window"[4] was to work as a wholesale instrument, allocating capital to private equity funds and supporting funds management. The leasing segment within the LGLW was introduced in 2001 and an additional "rural sub-window" was added in 2004 with a view to fostering lending or leasing activities to agricultural enterprises and other businesses in rural areas.[5] Most recently, in 2008, the European Commission (EC)-led steering committee of the Facility decided to introduce another window, to foster energy efficiency investments by SMEs.

The loans for on-lending originate from one of the participating International Financial Institutions ("IFI" or "sponsor") and are coupled with grant funding from the EC. The EBRD provides loans to PFIs for on-lending to SMEs, typically of €5 million or €20 million, for a tenor of five years, with a two-year grace period. The EC's minimum

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[1] At the time, these included Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia, and since November 2006, Croatia. KfW/CEB also implement EU/EBRD Facility activities in Turkey.

[2] Due to experience gained in providing long-term credit lines coupled with intensive specialised technical assistance within the Russia Small Business Fund (established in 1994) the EBRD was naturally a very desirable partner institution for this EU-supported programme.

[3] *Ex post* evaluation of Phare: MBP – SMEFF – October 2007, MWH Consortium, page 1.

[4] The EBRD was the only IFI to have an Equity Window, which was included under the first phase of the EU/EBRD Facility but not repeated in subsequent replenishments from the EC.

[5] Rural areas were defined as settlements with less than 25,000 inhabitants or as defined in national legislation. Exceptionally, settlements up to 50,000 inhabitants are considered as rural areas in Romania.

requirements for the domestic banks and leasing institutions participating in on-lending activities through the Facility are defined in the so-called “contribution agreements” (see section 2.2). These include, for example, the application of the EU definition of SMEs and limit the maximum sub-loan amount under the programme to €250,000.

The EC has provided grant funds from its Phare programme to support PFIs in developing and sustaining their business operations with SMEs. Together with the loan provided under the LGLW by one of the participating IFIs, an incentive package was offered, combining one or more of the following grant-financed supporting tools:

(i) Performance Fee (PF) – grant payments subject to the PFI meeting the pre-defined criteria
(ii) Technical Assistance/Cooperation (TC) – for institution building purposes at the PFI
(iii) (Partial) Loan Guarantee[6] – to be provided on the SME sub-loan portfolio managed by the PFI.

The focus of this report is the TC component of the EU/EBRD Facility used by the EBRD, as outlined in greater detail below.

1.2 Approach and focus of this study

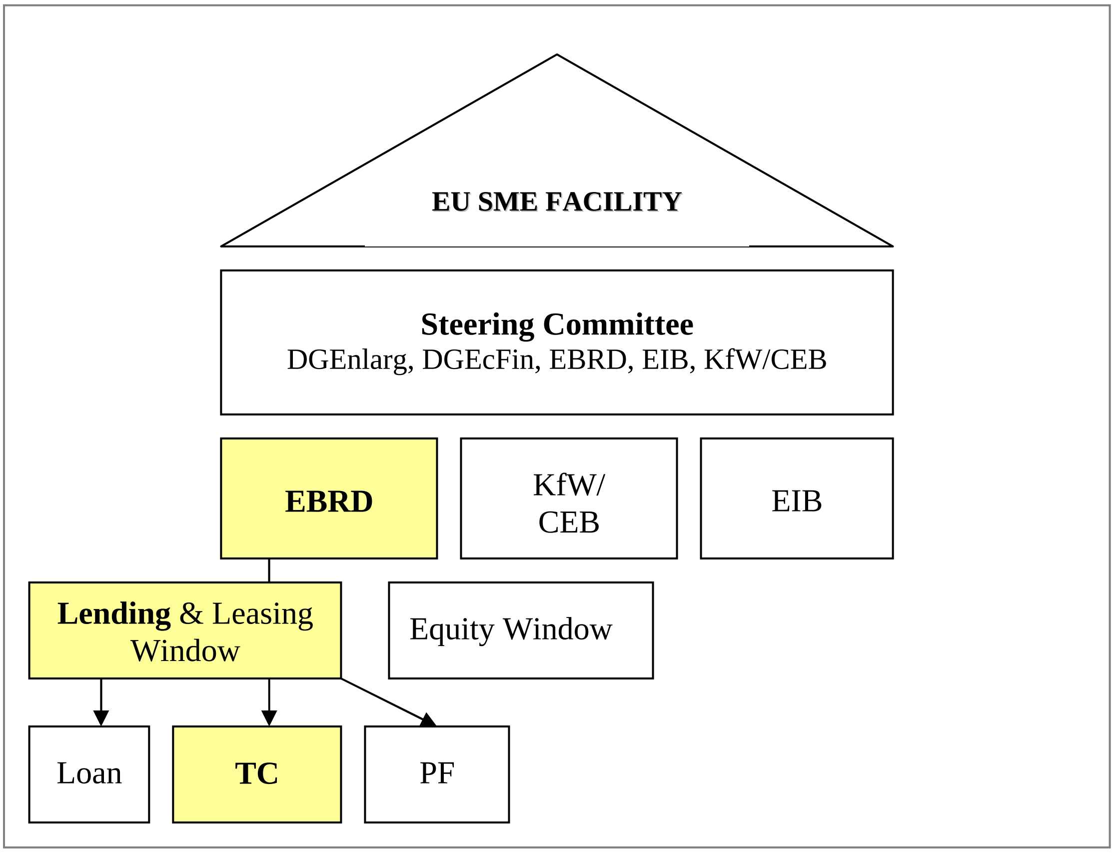
The evaluation of the **EU/EBRD Facility’s TC component** was included as a TC-OPER in the Bank’s independent Evaluation Department (EvD)’s 2009 work programme.[7] The Facility has been, and continues to be, subject to a number of assessment activities conducted by EvD, including a mid-term review undertaken in 2003,[8] a number of individual OPERs on banks that participated in the programme[9] and an ongoing Special Study on the Bank’s leasing activities, which includes a number of investments and TC operations.[10] In addition, the EC carried out extensive monitoring and evaluation work. This includes an early assessment of the EU/EBRD Facility in 2000,[11] an internal interim evaluation in 2003[12] and a comprehensive *ex post* evaluation in 2007.[13] All in all, more than half of the PFIs in the programme have been involved in one or more of these assessments. Thus, the OPER team was able to draw from a rich body of previous “evaluation experience” and to narrow the report’s scope accordingly.

The focus of this study is illustrated in Chart 1.2, in bold. Firstly, it is limited to the EBRD share within the EU/EBRD Facility, secondly to the lending activities in the LGLW, and thirdly to the TC work undertaken. The OPER team assessed three main dimensions of the programme, namely its inputs, outputs, and performance. The ***input*** part (section 2) assesses the Facility’s general compliance with the EBRD’s

[6] Although the EU/EBRD Facility included the possibility of providing a guarantee from its grant resources, the Bank had previously expressed in the Board document that it did not intend to make use of that option (BDS99-32, page 11).
[7] Evaluation Department’s Work Programme, Final Report for 2009 (BDS09-007), page 7.
[8] PE02-220 “EU/EBRD SME Finance EU/EBRD Facility (Regional)”.
[9] For example, the PKO/Poland (PE01-192), BGZ/Poland (PE04-292T), Ceska Sporitelna/Czech Republic (PE00-193), BCR/Romania (PE07-395) and Raiffeisen/Regional (PE03-252 and PE09-442).
[10] As a consequence of the leasing study, this evaluation focuses only on the lending segment, that is, TC assignments with participating banks under the EU/EBRD Facility.
[11] During the period when the EBRD was the only IFI participating in the Facility. The evaluation was conducted by the OMAS consortium (R/ZZ/SME/00088).
[12] Conducted for the entire SME Facility with the EBRD, EIB and CEB/KfW by EMS Central Office (R/ZZ/SME/02.146), 18 February 2003.
[13] Conducted for the entire Facility. *Ex post* evaluation of Phare: MBP-SMEFF, October 2007, MWH consortium.

mandate, policies and procedures, as well as the TC implementation framework chosen by the Bank, in particular the project management monitoring/reporting.

Chart 1.2: Focus of this evaluation



Section 3 describes the ***output,*** that is, utilisation patterns of the TC portfolio in respect of issues such as the geographical dispersion, involved consultants, participating (local) banks, and others. This section is supplemented by four exemplary case studies. The OPER team visited the TC beneficiary and reviewed the results of the work on-site that had either recently been completed or was still ongoing. The field visits had the advantage of covering the countries that had joined the programme more recently (Croatia, Romania and Bulgaria). They also enabled the TC OPER team to learn about the impact that the current global liquidity crisis has had on the working environment of the PFIs. The individual assessments are included in this report in Appendix 4.

The evaluation of the EU/EBRD Facility's results and the Bank's ***performance*** can be found in section 4. The findings of earlier evaluation work are summarised, and supplemented with "fresh" observations deriving from the case studies. Finally, the overall assessment concludes with ratings for the TC component of this programme including "fulfilment of objectives", "transition impact", "bank handling", and "additionality" in accordance with the standard scale of EvD's evaluation methodology.

2. Input mechanisms for implementing TC within the facility

2.1 The role of the EU/EBRD Facility in the Bank

At the heart of the Bank's mandate is the provision of support for the growth and development of private SMEs. The EU/EBRD Facility's considerable volume is of strategic importance for the EBRD's operations. In the latest MSME strategy paper, the programme is described as *"the Bank's main instrument for financing small businesses in the EU accession countries".*[14] As Table 2.1 illustrates, the EBRD's "stock" commitments under the EU/EBRD Facility stood at €731 million at the end of 2008, which amounts to 29.4 per cent of all its operations in the SME sector at the time. For TC, the share of Facility-related projects appears even more substantial, reaching some 38 per cent of all Bank TC activities in this sector.[15]

Table 2.1: The role of the EU/EBRD Facility in the Bank's overall MSME-related activities

	EU/EBRD Facility		Overall MSME act.	
* figures as of 31 December 2008	*Amount*	*%*	*Amount*	*%*
Investment portfolio	€730.7m	29.4	€2,423.8m	100
TC projects ("committed" and "disbursing")	€10.4m	37.8	€27.4m	100

Since the start of the EU/EBRD Facility until the end of 2008, the Bank's related investment commitments amounted to €1.2 billion[16] and covered 11 countries. Fifty-seven per cent of the individual loan agreements were entered into with banks and 43 per cent with leasing institutions. Over 100,000 sub-projects had been financed for a total value of €2.23 billion. This represents a large recycling of funds into further SME financing, as PFIs use repayments to fund further SME lending and leasing. By the end of 2008, almost 60 per cent of the EU/EBRD Facility projects had been completed.

2.2 Inter-institutional governance and coordination

The EC and the EBRD have entered into several "contribution agreements"[17] to manage the EU/EBRD Facility, corresponding with the respective annual Phare budget allocations from the EC. As a general rule: *"Implementation policies and rules of the EBRD shall apply to all Projects and in particular insofar as the procurement of goods, works and services […] are concerned."*[18] The contribution agreements were signed by the Bank's Official Co-Financing Unit (OCU) who are also in charge of administering the Special Fund[19] for the provision of all Facility-related grants. The EU/EBRD Facility-related investment, as well as the use of the EC grant funds under

[14] BDS06-012 (Final), dd. 15 March 2006, page 10. Its prominent position in the paper also reflects that the EU/EBRD Facility is in full compliance with the Bank's MSME strategy.
[15] Figures based on available data. The TC numbers reflects the disbursement amounts of framework programmes with "open" and "committed" project stages and do not include performance fees.
[16] Out of the total EU/EBRD Facility credit amount of €2,603 million (EIB: €605 million; KfW/CEB: €804 million).
[17] Five contribution agreements have been concluded for the five "sub-accounts" between 1999–2006.
[18] EC Contribution Agreement with the EBRD, Contract No: 2006/131-923, April 2007, page 10.
[19] In accordance with Article 18 of the agreement establishing the Bank. It was not common practice to transfer the Commission's TA funds (for example, stemming from Phare) to an external fund. However, the EU Commission stated that this would allow for substantial facilitations in the drawdown of donor funds being released from the Phare annual budget commitment, disbursement and cancellation cycle (BDS99-32, page 19). The Bank receives a management fee of 1.25 per cent flat on each drawdown on the Fund to cover its administration costs.

the Special Fund, is governed by Board documents.[20] A short description of the different related actors and their tasks is provided below.

Steering Committee: The Steering Committee includes representatives from the EC, namely the Directorate-General Enlargement (DG Enlarg), the DG Economic and Financial Affairs (DG EcFin) and the DG Enterprise, as well as from the participating IFIs, CEB/KfW, EIB and the EBRD. The committee is chaired by the EC and makes its decisions in unanimity. It convenes, at the request of its members, at least twice a year. The committee supervises the implementation of the Facility, and monitors overall progress of projects in order to evaluate the use of the Phare contributions. Until 2006, tasks included the approval of projects proposed by the IFIs,[21] which are now carried out by the DG Enlarg (see below).

DG Enlarg/DG EcFin: The DG Enlarg is described as the strategic and analytical head of the EU Facility. Through a sub-delegation arrangement, the DG EcFin was entrusted with the Facility's daily operations and acts as the Secretariat for the Steering Committee. Its tasks are to review and comment on the project proposals individually, and to screen the pipelines of the participating IFIs for consistency with the Contribution Agreement. Furthermore, the DG EcFin coordinates with the other EC services and prepares the relevant documentation related to the release of contribution tranches to the EU/EBRD Facility's Special Fund. DG Enlarg is in charge of approving the individual operations, including the scope and indicative budgets foreseen for TC and other incentives as submitted by the IFIs and reports on the overall utilisation of the Facility to the Steering Committee.

Technical Meeting: The Technical Meeting is an operational-level semi-annual meeting involving the IFIs and DG Enlarg and DG EcFin. The purpose of this meeting is to discuss and agree on any implementation issues or matters for clarification between the sponsors. In addition the meeting reviews the SME Facility project pipelines of the three IFIs to identify potential overlaps. Decisions made at the Technical Meeting that affect the future implementation of the Facility are put forward for endorsement by the Steering Committee.

2.3 Internal TC management arrangements and procedures

Framework Manager: The Bank's Financial Institutions (FI) team has established a small EU/EBRD Facility-related operational team, headed by a Senior "Framework Manager".[22] Although there is no separate job description available for the Framework Manager, it is understood that this position is essentially responsible for, first, the EU/EBRD Facility's implementation in compliance with the Board approval and the EC defined criteria[23] and, second, representing the Bank to the other IFIs and donors in the Steering Committee and Technical Meeting. In respect of the TC work, the Framework Manager was essential in a number of areas. These include ensuring the approval of TC framework programmes at TC Review Committee (TC Com), advising project OLs on the structure of TC assignments in order to achieve the EC objectives, sharing lessons learned from other projects under the Facility,

[20] BDS99-32 dd. 26 March 1999 includes a number of addendums, the latest being No.11 from June 2008.

[21] Among others, these were checked with a view to "an appropriate" country coverage. DG Enlarg, Commission Decision of 2001 establishing a Phare multi-beneficiary programme: "SME Finance EU/EBRD Facility Phase 2 with the EBRD" (R/ZZ/SME/02.146), page 10.

[22] In the first period, the Framework Manager responsible for the EU/EBRD Facility's implementation was supported by another Senior Banker for the Equity Window. Over the lifetime of the Facility, the Framework Manager position (which includes assistants for the leasing window) consisted of five senior (bankers) managers, the current one being in the job since April 2006.

[23] Board Document BDS99-032a10, page 24.

managing the interaction with framework consultants at the relationship level, and reporting on the progress of the programme on a biannual basis to the EC.

FI TC Group: This group plays an important role in the implementation of the TC Component of the EU/EBRD Facility. It supports the Framework Manager and the individual Project OLs in coordinating and managing administrative tasks related to the contribution agreements, and pursuant to consultancy contracts under preparation and implementation. More specifically, the FI TC Group assists with the elaboration of terms of references (ToR); the selection of consultants, contracting and subsequent amendments; the collection and checking of monthly/quarterly reports (from PFIs and consultants); administering loan statistics in the database(s); preparing and processing Performance Fee (PF) calculations and memoranda in accordance with EU approved amounts (including adjustments to PFs); the maintenance of reporting templates and procedures documentation; assisting in the preparation of reports (semi-annually, annually) to donors and finally by providing support in the areas of invoice processing and cost recovery.

Operation Leader (OL): For each project under the Facility (consisting of the EBRD loan and EC grants), an individual OL is assigned. The OL is usually based in the country concerned, and acts under the supervision of the Framework Manager. He/she is responsible for the preparation, signature, implementation and monitoring of the project, including the TC component. The OL, for example, designs the Terms of Reference (ToR) and the indicative budget for the individual TC assignment, conducts the consultant selection for the call-off, supervises the implementation of the assignment and co-ordinates with the Framework Manager on all important issues. Naturally, the OL liaises with the PFI, and provides important inputs to the reporting activities of the Facility. The Framework Manager's team (including the FI TC group) and the Project OLs are referred to in this report as the "Operation team".

TC Com: With representatives from the Official Co-financing Unit (OCU) and the Consultancy Services Unit (CSU), as well as from the Office of the Chief Economist (OCE) and the Office of the General Council (OGC), the TC Com reviews and approves submissions for TC operations, including those financed from the EU/EBRD Facility. In respect of the substantial volumes expected for the Facility's Special Fund, the original Board document stipulates that standard TC packages will be approved rather than individual projects. This concept was further elaborated in a special paper discussed and approved by the TC Com in November 1999.[24] In total, the committee has approved nine packages or framework programmes, as Box 2.3 explains.

Box 2.3 Specifics of framework arrangements

A framework TC is in effect a funding envelope under which "call-offs" are used to finance separate assignments. This is possible as the individual call-offs are similar and repetitive by nature, and are thus likely to require the same profile and expertise of consultants, which makes a full-fledged procurement unnecessary. Below are all TC framework programmes relating to the EU/EBRD SME Facility and approved by the Bank:

08/06/1999	EU-SME Finance Facility Special Fund (€4m)
19/06/2002	EU-SME Finance Facility Special Fund – LENDING Expansion II (€17m)
16/06/2002	EU-SME Finance Facility Special Fund – LEASING Expansion (€3m)
23/07/2003	EU-SME Finance Facility Special Fund – LEASING Expansion (€2.5m)

[24] Technical Cooperation Framework Agreements for Services related to the EU/EBRD SME Finance Facility, dd. 8 June 1999.

17/12/2003 EU-SME Finance Facility Special Fund – LENDING Expansion V (€7m)
18/02/2004 Rural Window (€5m)
18/05/2005 EU-SME Finance Facility Special Fund – Extension 6 LENDING (€8m)
18/05/2005 EU-SME Finance Facility Special Fund – Extension 6 LEASING (m€2m)
20/09/2006 Extension 7 – EU-SME Finance Facility Special Fund – all sub windows (m€10m)

The approval of the framework automatically includes all related individual call-offs and is a time saver for the Operation team and TC related units. The streamlining of approval procedures also means that reporting and monitoring are performed at the aggregate level only. Call-off projects are, for example, exempted from the usual Project Completion Reports (PCR) and thus from a self-evaluation exercise by the OL.

The Official Co-financing Unit (OCU): The OCU is responsible for the management of donor funds and typically assists the OL in the administration of and reporting on an individual assignment. Within this Facility, however, most of these tasks have been completed directly by the FI team. Still, the Unit provided support in administering resources for the Facility's Special Fund. If, for example, there is a surplus of allocated EC funds due to savings against the budget, the excess funds are de-committed (by way of an EC decommitment memo) and recycled for use on new projects within the EU/EBRD Facility.

The Consultancy Services Unit (CSU): The CSU supervises consultant procurement, contract awards and any amendments during implementation. In order to reduce the administrative burden, while reflecting the broad scope of TC assignments and expertise necessary to implement these, three different groups of framework agreements were separately tendered by the Bank for implementing the EU/EBRD Facility TC assignments (see also section 3.1.3). CSU is responsible for ensuring that the Bank's procurement policies and rules are followed in this process, that the principles of value for money are adhered to and that the scope of work and budget for each assignment is consistent.

3. Output patterns in utilising the EU/EBRD facility TC

3.1 Available grant funds for implementing the Facility

The EC committed the largest share of its Phare resources within the Facility to the EBRD, reaching some €160 million in total up until the end of 2008. The other IFIs have seen EC grant commitments in the amount of €98 million (KfW/CEB) and €51 million (EIB) respectively.[25] It should be noted that TC has been primarily used by the EBRD, to a much lesser extent by the CEB/KfW and not at all by the EIB. The same is true with regard to the Performance Fee (PF) that was used by the EBRD and CEB/KfW, while EIB applied the so-called "transaction fee" for its PFIs.[26]

Apparently, the composition of the two main grant elements used at the Bank (TC and PF) changed over time. Initially, the EBRD Board paper stated that the TC share

[25] Figures as per the Report to the Steering Committee of the SME Finance Facility, issued by the Secretariat at the Directorate-General ECFIN-L-3, Luxembourg, June 2009. The remaining EU budget as per the contribution agreement 2006 amounts in the case of the EBRD to almost €24 million, from which €9.2 million are committed for approved projects and another €14.8 million likely to be approved for the project pipeline.
[26] The "transaction fee" was granted at sub-loan approval by the EIB lending manager. Though not directly performance-related, the transaction fee was linked to the number of sub-loans, thus fostering smaller loan sizes.

was not to exceed 25 per cent, while the EC later on defined a 50/50 share.[27] The available figures suggest a 35 per cent (TC) to 65 per cent (PF) ratio for the entire programme to date.

Box 3.1 Specifics of the performance fee (PF)
The original purpose of the PF was to compensate the PFIs for the incremental costs of entering the SME business, thus it was to be assigned on a case-by-case basis only.[28] Over the programme's lifetime, the justification for such a "cost compensation" was declining as most PFIs had already been active in the SME business prior to entering the EU/EBRD Facility. The PF was still interpreted as being a necessary subsidy for compensating the trade-off between the financial and social rates of return for this segment. Hence, the PF became a regular ingredient in the incentive package to most PFIs, reducing their cost of borrowing. In addition, the Bank saw the PF as an instrument to ensure quantity and quality of the on-lending (or leasing) portfolio by binding its provision to the achievement of defined criteria.[29]
With TC consultants and the Operation team in charge of checking the PFIs' eligibility, the incentives run over five years and phase out over this period on a reducing scale after the signature of the loan agreement with the EBRD. Still, and as Case Study 4.4 suggests, there was some room for manoeuvre, if the PFI was experiencing difficulty in meeting the conditions to obtain the PF. The use of the PF income by the PFI was not subject to guidance or supervision by either the EBRD or EU, as the PF was normally off-set against the interest payable by the PFI on an interest payment date. Similarly, the PFIs visited during the case study assessments informed the OPER team they had accounted for these resources within the institution's overall budget rather than dedicating them to special purposes (for example, within the SME department).
Prior to the financial crisis, PFIs do not appear to have had difficulty in meeting the defined criteria. This is partly due to the typical "vintage curve" of MSME lending that sees defaults in repayments appearing in the medium term rather than in the short term.[30] Deteriorating loan portfolios have recently put a number of PFIs in danger of losing the agreed PF and it is understood by the OPER team that negotiations between PFIs and the FI team tend to the direction of either swapping PF amounts for TC measures tailored to assist the PFI to address the arrears concerns and/or to temporarily relaxing the qualification criteria.
There is a strong divergence between the assessment of this flexible approach to the incentives allocation by the Operation team on one side and the Evaluators on the other: while the Banking team sees here the evidence for the "importance of the EC funded incentives (PF and TC) to support SME lending where there is a market failure", the OPER team notes the difficulty in aborting incentives (TC or PF) if the recipient included their receipt in its decision to participate in the overall programme, even when the defined "criteria" are not met. It thus underlines the "subsidy" rather than the performance element of this grant instrument.

Details of the Facility TC funds available at the EBRD are illustrated in Table 3.1.

[27] BDS99-032, page 10 and R/ZZ/SME/02.146, page 13 and EU/EBRD SME Finance Annual Operational Report – December 2008, page 2.
[28] The Board paper contradicts itself when explaining the character of the PF. On one hand, page 12 stipulates that *a "P[articipating] B[ank] may from case to case be entitled to a Performance Fee"* and on page 10: *"the performance fee will sometimes be needed as an indispensable incentive […]"*. On the other hand, the same page (10) describes [all] PBs to be entitled to a performance fee, to the extent that they can demonstrate concrete expansion of their SME loan portfolio.
[29] Usually defined by keeping the share of portfolio at risk over 60 days under five per cent (for participating banks) and under eight per cent (for leasing institutions).
[30] As the 2000 Assessment Report pointed out: *"there is also a small risk that PFIs would manipulate information presented regarding the loan portfolio in order to access the PF".* In cases where the consultant teams are present, however, the OPER team considers this risk negligible.

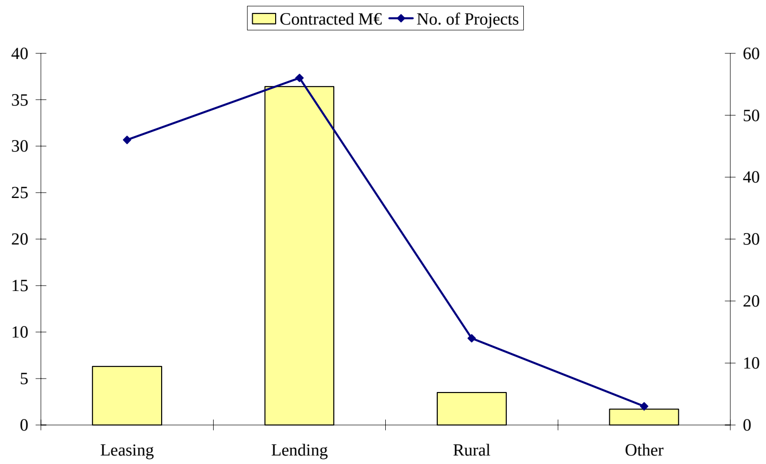
Table 3.1 Grant funds at the Bank for the EU/EBRD Facility[31]

* all figures as of 31 December 2008	***Amount € million***
Pledged total contributions on behalf of EC	197
Funds received by the EBRD for the "EU/EBRD Facility Special Fund"	163.4
EBRD aggregated commitments	157.1
– from those internally approved for nine TC framework programmes	58.5
– from those contracted for individual TC assignments	**47.9**
– from those disbursed for individual TC assignments	43

The portfolio of committed/contracted TC assignments – marked in bold in Table 3.1 – will be examined in detail in the following sections. In total, €47.9 million was contracted in 119 individual TC commitments to support the EU/EBRD Facility. The majority of assignments are complete, while 30 projects are reported as "disbursing" at the end of December 2008.[32]

3.1.1 TC contracted amounts per EU/EBRD Facility window

Chart 3.1.1 EU/EBRD Facility TC – contracted € amounts per "window"



The lending window received the major share of all TC support, accounting for some €36 million or 76 per cent of the total amount. TC assignments in support of the leasing projects amounted to €6.2 million, a 13 per cent share. The share in terms of project numbers is much higher (39 per cent). The "rural" sub-window, introduced in 2004 and including both lending and leasing activities, accounted for seven per cent, and "others" (that is, fund management support and legal advice for the Equity Window) for three per cent of all committed amounts respectively.

3.1.2 TC contracted amounts per country

As illustrated on the following page, Romania is by far the largest beneficiary of TC funds (€11 million), followed by Poland (with approximately €10 million) and Bulgaria (€8 million). The Baltic States have received the smallest "absolute" € commitment amounts (€0.35-1.3 million) along with Croatia (€1.4 million), who entered the EU/EBRD Facility in late 2006. At first glance the country distribution might appear contrary to the EU's desire to see a "balanced" country usage. Nonetheless, counting

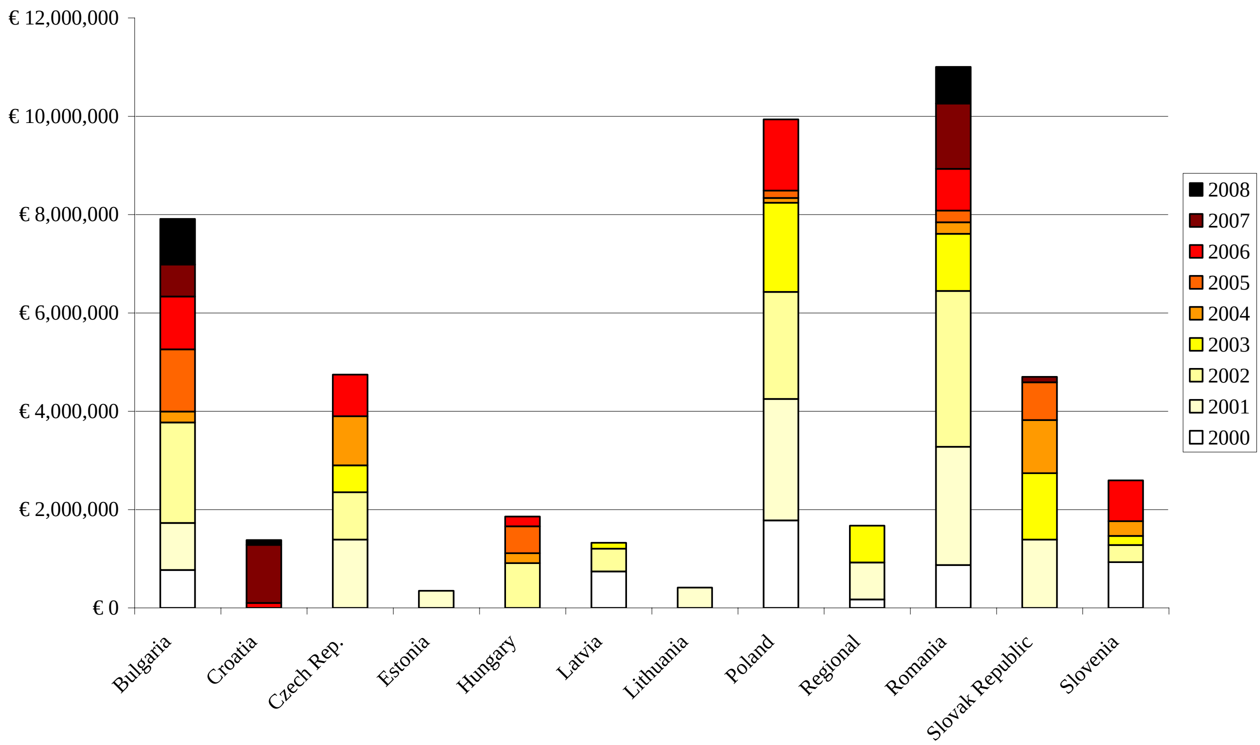
[31] Figures are taken from (1) Report to the Steering Committee of the SME Facility, June 2009, (2) the EU/EBRD SME Finance Facility Annual Operational Report – December 2008, (3) Bank internal databases.

[32] Not necessarily still disbursing though. Works could be all completed but the commitment is only closed when all consultant invoices have been paid, which sometimes leads to substantial delays.

the TC provided as € per inhabitant reveals another picture: Slovenia leads the field with €1.3 per inhabitant, followed by Bulgaria (€1) while countries such as Poland received only €0.26 and Romania €0.5 per head, thus lagging far behind in this comparison.

Chart 3.1.2 marks each Facility "vintage" year (that is, the year of the individual assignment's approval at the EBRD level) with a colour. The lighter colour indicates the older assignments while the darker colours represent the more recent ones. While the advanced transition countries Hungary, Baltic States, Poland and Czech Republic were among the first to graduate from the TC programme, Bulgaria and Romania have continuously been eligible for TC support in the period between 2000 and 2008. This is in line with the Bank's latest MSME Strategy emphasising: *"The need for the Bank to support the MSME sector in Central Europe is expected to decline gradually and to move towards more difficult segments and regions."*[33] It is worth mentioning in this regard that that EBRD voluntarily "graduated" the EU8 countries from the EU/EBRD SME Facility from January 2007, even though the EC would have still allowed projects and the other IFIs were still offering projects (including incentives) to PFIs in EU8.

Chart 3.1.2 EU/EBRD Facility TC – contracted € amount per country



3.1.3 TC contracted amount per consulting firm (Framework Contractors)[34]

The recruitment of consulting firms to implement the individual TC assignments under the EU/EBRD Facility started in 1999 for the lending window only. The Operation team published an invitation for expressions of interest and 22 offers were reviewed by an evaluation committee that established a shortlist and asked for

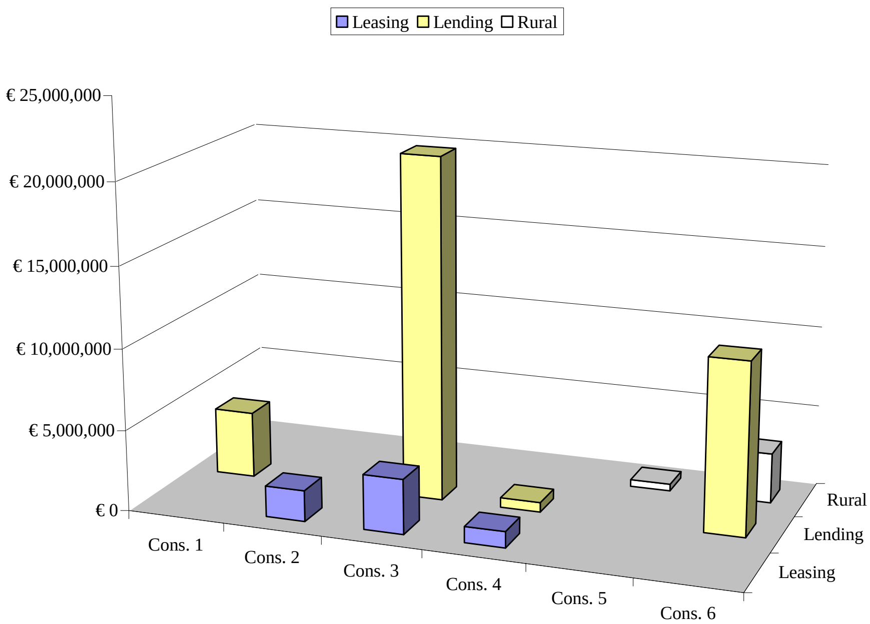
[33] CS/FO/05-8, page 15.

[34] The description of consulting firms/contractors might appear misplaced in the section on 'outputs' as this is – according to project cycle management standards – generally counted as 'inputs'. Nonetheless, the OPER team wanted to point here to the consultant contracts as resulting from the Facility implementation at the Bank.

refined offers in a second stage. As a result, six firms were found suitable to enter into a framework agreement with the Bank. The framework contractors are not paid a retainer but are subsequently invited to bid for the individual call-off commitments under each framework. Three companies were chosen for the rural window in 2004, and 2005 saw a re-tendering of the other two lots respectively. These activities confirmed the number of six agreements for “lending” and five agreements for “leasing”. Consequently, 14 framework agreements have been signed over the lifetime of the Facility.[35]

With four firms being represented in several lots at the same time, the number of actual consulting firms is, however, less than the number of frameworks (that is, reduced to 10). Four of the 10 companies have either not been actively competing for assignments, or, have not been able to win any of the individual call-offs yet. Thus, the range of consultants that actually participated in implementing activities under the EU/EBRD Facility decreases further from 10 to six. Chart 3.1.3 shows the consulting firms per Facility window (marked with different colours) while the individual columns illustrate the total contracted amount under the respective window. As can be seen, one firm (in the third column from the left) is dominating the lending and the leasing segment, and overall accounts for €24.5 million or 50 per cent of the entire Facility TC contract amount. Taking the two leading firms together results in the coverage of 80 per cent of this amount.

Chart 3.1.3 EU/EBRD Facility TC – contracted € amount per consulting company



There are natural reasons why the use of consulting firms cannot and should not be organised in an even way. There is no point in slicing equal pieces from the budget cake for each participating firm for it is competition that most effectively identifies the best service provider. In addition, a company’s previous experience allows for efficiency gains to the benefit of other call-offs. However, the flipside of such an approach is that some consultants draw away from activities while others “flourish” ever more. A breakdown of contracted amounts per year suggests that there were

[35] In addition, there were two law firms appointed to provide legal advice under the Lending and Loan Guarantee Window and the Equity Window respectively; these commitments are shown in Chart 3.1.1 as ‘Others’.

often only three companies actively participating in the call-off tendering activities. Thus, the benefits usually expected from open competition are diminished.

The OPER team has interviewed some of the companies initially included in the framework agreements but not later substantially involved in the implementation of call-offs, to enquire about the reasons for this. Either the firm's engagement was limited to an individual segment (for example, leasing) or the consulting work was suspended due to strategic decisions. Some companies described the multi-annual character of the agreements difficult, that is, in terms of forecasting the availability of experts with particular regard to the "frozen" financial conditions and suggested smaller time frames overall.

The team stated that its re-tendering exercise for the lending and the leasing framework agreements was done with a view to stimulate competition. Also noteworthy is the participation of firms in the first stage (30 firms in total) and the second stage (15 firms in total). Eventually, and not surprisingly however, the firms that had previously dominated the call-off activities successfully entered the new framework agreements as well. This was therefore not very helpful in stimulating a more lively competition. One might consider more drastic measures such as banning a given consulting firm from participating in a certain segment or a certain country from the competition instead. Naturally, the expected efficiency gains and losses of such an action would have to be taken into consideration (see Lesson Learned 5.5).

Another interesting parameter is how quickly the consultancy assignments could be mobilised to provide their services on the ground. During the implementation of the first programme, there was often a delay between the date a loan was signed and the first disbursement (typically four to six months), which made a faster send out of experts necessary.[36] Reviewing the loan signature date and the consultant start date in 83 call-offs reveals that the Bank was able to improve its performance and reduced the time gap to an average of 3.9 months overall.

3.2 TC recipients within the EU/EBRD Facility

With regard to the identification of participating banks (and later of leasing institutions) the EC appears to have fully delegated this to the IFIs. For the EBRD, the original Facility Board document stipulates that *"[the PFIs] will be selected on the basis of their ability and commitment to expand their lending activities by way of making SMEs a significant part of their lending portfolio"*.[37] The target group was to be private commercial banks that met the EBRD standard requirements, such as satisfactory financial performance and corporate governance, audited statements and so on. Appendix 1 presents the entire list of TC (and PF) recipients, including 86 individual local banks and leasing institutions, while a small number of institutions have received no TC but only PF.[38] Table 3.2 lists the 15 main recipients of TC.

EU/EBRD Facility engagements were essentially entered with strong commercial PFIs that were, in the case of participating banks, often known by the EBRD through earlier joint operations. Competitive settings were ensured by working with at least two banks in a given country and EU/EBRD Facility window. No restrictions were made with regard to foreign ownership and international shareholders of the PFIs. This undoubtedly reflects the fact that the accession countries had permitted foreign strategic investors into their financial markets since the mid-90s, an offer that soon

[36] Bank's Donor Report 2000, page 80.
[37] BDS99-32, page 9.
[38] From the 86 PFIs involved in the EU/EBRD SME Facility, four have used TC only (and no PF), while nine went for PF and opted out of the offered TC support (see Appendix 1).

led to almost all domestic banks in Czech Republic, Hungary and Poland being under the control of large western banks.

Table 3.2 Main recipients (TC contracted amount) within the EU/EBRD Facility

1	BZWBK (PL)	€2,178,480
2	Banca Commerciala Romana (ROM)	€1,871,675
3	Ceska Sporitelna (CR)	€1,677,283
4	Vseobecna Uverova Banka (SR)	€1,675,969
5	Banca Transilvania (ROM)	€1,591,030
6	Raiffeisen (ROM)	€1,484,782
7	PKO (PL)	€1,482,217
8	Pekao (PL)	€1,470,850
9	Alpha Bank (ROM)	€1,401,816
10	CEC (ROM)	€1,399,910
11	United Bulgarian Bank (BG)	€1,283,910
12	Bank Slaski (PL)	€1,283,562
13	Bank Gospodarki Zywnosciowej (PL)	€1,200,000
14	Komercni Bank (CR)	€1,000,000
15	Raiffeisen (BG)	€994,988

Although the need for TC has been assessed as part of the due diligence for each project, there were no specific eligibility criteria defined for an institution to become a TC recipient other than the general requirements described above. There were no conditions formulated for the PFI's "graduation" from TC support either, as this happened automatically at the end of the consultancy assignment. In the context of the required OpsCom approval document (or Credit, in the case of projects proposed for existing clients) there are, however, very valuable analyses undertaken on the PFI's business volume, position in the market, strategic perspectives and the TI envisaged by the project. Albeit of high relevance for the TC component, this information was not part of the TC project memo submitted by the Bank to the EC, as the EC did not require it.

For future programmes, a specific set of eligibility criteria to be followed by all participating institutions could be introduced.[39] The collection of related information should not pose a technical problem, as is shown above. Moreover, and as will be further discussed in section 4.4.3 on Bank handling, a proper baseline scenario of a PFI before entry into the TC assignment is desirable in order to measure achievements later on. While the OPER team acknowledges the difficulties that arise when different participating institutions try to agree on a common set of criteria, the view is that it would have been necessary to at least discuss the possibility of excluding PFIs from the Facility if they were subject to an international merger or acquisition. This aspect is also discussed in Section 4.4.2 on transition impact and Section 4.4.4 on additionality.

In this context, one remark in the EU/EBRD Facility Board paper section on transition impact is noteworthy: *"The [transition] impact is going to be larger, if the [EU/EBRD Facility] succeeds in involving a variety of banks, not just commercial banks, but also savings banks and cooperative banks, which tend to be better placed for addressing MSME's needs."*[40] Nonetheless, with the exception of a few (albeit large) cases,

[39] For example, the 2003 Monitoring and Interim Evaluation Report (R/ZZ/SME/02146) suggested that the EC reformulate the selection criteria for new PFIS *"in order to clearly identify those elements that would ensure long-term sustainability and demonstrate Additionality"* (page IV).
[40] BDS-99-32, page 21.

primarily in Poland, the participation of the above financial institutions was limited. A reason for this could be a lack of interest from such institutions, due to the generally good financial endowment of savings banks for example, suggesting that the packages offered under this EU/EBRD Facility were not attractive enough to accept the strings[41] and costs attached[42] (please see Section 4.4.2 and Appendix 4-2).

4. Performance evaluation of the EU/EBRD Facility TC and its impacts

4.1 EBRD Mid-term Review

In June 2003, the EBRD's Evaluation Department published its Mid-term Review on the EU/EBRD Facility (at that time comprising only the "loan-guarantee window"), including investments and related TC programmes. The EU/EBRD Facility rationale and its focus on systematically improving lending skills in the operating countries for demonstrating the viability of MSME-related banking business was found to be well chosen. The Operation team was described as having rolled out the programme in a vigorous yet disciplined way after a slow start and against initial market resistance that it has largely overcome. It was also stated that the team had started to adjust its handling in accordance with the experience gained at the early stages of the Facility.

Nonetheless, the OPER team stated that they were not able to systematically verify the quality of the skills transfer and institution building aspects most associated with the provision of TC work. It was acknowledged that the anticipated demonstration effect *"skilled lending leads to sound MSME banking business"* would take more time to show. It was also stated that the programme did not measure the extent to which the PFI had de-facto acquired the lending experience and skills to ensure that it has occurred to a sufficient degree. Essentially, the rate of arrears of the PFI's outstanding portfolios was the only available performance indicator at hand. This offered only an incomplete view as loss experienced would be tied to economic developments and the portfolios had matured through a full cycle to reveal their true loss potential. Due to the nature of this evaluation as a mid-term review, the OPER team's approach was to: *"assume that successful skill transfer will contribute to sustainability."*[43]

Overall, programme implementation has been rated *Successful* with *Good* achievement of objectives. It was found that the TC assignments had made good progress on training loan officers and getting them to make MSME loans in the accession countries in a way that fits the culture of each PFI. Transition impact was rated as *Good*, comprising *Satisfactory* verified transition impact with *Good* remaining potential. Environmental performance was rated *Good* and the extent of environmental change was *Some*. The Mid-term Review attributed a *Good* rating to Bank handling. These ratings are not to be directly compared with the ones in this report because the subjects of evaluation are different and so is the focus of the ratings. The evaluation study was cited in the Board document on the fourth extension of the EU/EBRD Facility, stating that its constructive lessons learned would be taken into consideration when further developing the programme.[44]

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[41] For example, comprising the EBRD's environmental exclusion list for small and micro loans that was to be applied to all sub-loans made from the EU/EBRD Facility.
[42] Another reason given was the post-approval development of the financial sector in the target countries that resulted in savings/cooperative banks being often taken over by commercial banks.
[43] PE02-220, page 7.
[44] BDS99-32 (addendum 5) dd 14 March 2003, page 21.

4.2 EC-funded external evaluation of the overall EU SME Facility (2007)

As part of the *ex post* evaluation of the Phare Multi Beneficiary Programme (MBP) in the 1999-2001 period, an assessment of the extent to which the EU SME Facility has met its objectives was carried out in 2007.[45] Essentially, the EBRD concept of coupling the loan with TC and PF was praised as a core capacity-building instrument carrying the highest potential to deliver immediate effects. It was, therefore, with a degree of regret that the report noted: *"the later inclusion of other IFIs without the capacity or mandate to deliver technical assistance marked an important change in the 'modus operandi' of the Facility."*[46]

With regard to the overall programme design, the underlying "intervention logic" was found to be weak. The evaluation team highlighted in particular, that even though the programme focused on change at PFIs, there was no consistent agreement between the sponsor IFIs and Commission Services on how this could be measured. Similarly, the reporting scheme that was followed by involved IFIs was described as helpful in providing all relevant information at implementation level, but at the same time to be lacking information on progress towards meeting the overall objectives. More specifically, the report described the multiple monitoring responsibilities exercised by different EC units as cumbersome and questioned their wisdom in view of the fiduciary role of all involved IFIs.

Based on the interviews conducted with PFIs, the evaluation report presents mixed results. At the institutional level, positive impacts were noted with regard to the trained workforce and growing importance of SME-related lending within the PFIs' portfolios. In this respect, the practice applied by the EBRD – higher performance fees for lower average loan sizes – was particularly praised. On the other hand, the intermediate and wider impacts of the EU SME Facility are described as being limited. It was reported that only in half of the reviewed cases would impacts from TC interventions have been taken up into wider bank strategies towards SMEs.[47]

This report did not assign ratings for the overall performance but concluded, among others, that the benefits of the programme would have been greater with a more differentiated approach. It was said that the centralised design at the programme level – despite its adaptation to individual PFIs – failed to tailor the EU SME Facility to prevailing market conditions in different countries or regions. The grant support was found to have been highly relevant only for the first years of the Facility operation and its relevance has been seen to decline over time. Some of its implicit recommendations of consequence for the EBRD Operation team are illustrated in Chart 4.4.3.

4.3 Spotlights from four case studies[48]

4.3.1 Positive findings

The OPER team noted the Operation team's very good handling of the EU/EBRD Facility's technical and administrative aspects. For example, the management of the TC assignment files, which appear to be complete and are easily accessible, thus

[45] The full report is publicly available at: http://ec.europa.eu/enlargement/pdf/financial_assistance/phare/evaluation/ex_post_eval_smeff_report_oct_07.pdf
[46] See above, page 3 (para 9).
[47] This comment seems to have been confirmed by the EBRD Semi-Annual Report on Facility implementation to the EC, June 2006, summarising the PFIs' answers to questionnaires provided by the Bank after the TC assignment concluded (see also Box 4.4.3-1).
[48] The sample of case studies has not been taken on a "random" basis but with a view to PFIs that have not yet been included in an evaluation, and in close cooperation with the Operation team.

being well above TC standards at the EBRD. The same goes for the programme's overall statistics and documentation, that is, consistent list of projects, approval documents, procurement files and framework contracts. In addition, the reporting duties to the EC seem to be comprehensively served and in compliance with agreed contents and deadlines.

The "EBRD approach" (that is, the combination of loan, TC, and PF) is universally praised by its recipients. Most of the PFIs stated that they were not aware of the other IFIs in the EU SME Facility but made it clear that they would favour the same approach again. This included cases where teething problems occurred at the beginning of the assignment, causing the consulting team to adapt the contents in order to reach the satisfaction of the PFI management. Among the top priorities of the PFIs were "training of staff" and "demonstration/introduction of international good practice". The relations between PFI, Consultant and Bank were described as fruitful and effective for a successful project implementation.

TC results typically go beyond technical or physical outputs, and the EU/EBRD Facility is no exception. The overwhelmingly positive judgement of PFIs on the training programmes for example, praised not only the transfer of professional skills, but also the demonstration of new ways of interaction between management and workforce. A lot of local PFIs lack a modern human resources development approach and still pursue a formal and very hierarchical way of exchanging information and taking decisions. Therefore, the different methods used by consultants, be it conferences, awareness seminars, marketing events, on-the-job coaching or formal classroom training, contributed to a new "culture" at client level, which is not easily measured.

4.3.2 Critical issues

One of the reasons why the grant-funded assistance was welcomed is that the PFIs often faced difficulties in kick-starting their on-lending of the EBRD loan. This was mainly due to the restrictions that were rightly imposed by the Bank in order to maximise transition impact and required the client to enter unchartered waters. The "new client concept"[49] for instance was set to increase access to finance for SMEs under-served before and appears to have created a challenge for PFIs. The same seems to be true for the micro-segment, be it the size of the PFI's clients (less than 10 employees) or the maximum loan size (not exceeding €30,000). Two of the cases examined have not met the pre-defined shares in their on-lending portfolios and three PFIs expressed themselves not to be keen on pursuing the micro-segment in future. While the Bank did well to push clients through these conditions, it is not certain whether the demonstration effect was achieved as expected.

Project design as illustrated by the individual ToR showed methodological weaknesses and fell short of good project management standards, an observation that is typically seen in EBRD TC work and by no means limited to the team in charge of the Facility. Objectives, for example, are not quantified in a desirable way but loosely described. Formulations such as *"to expand financing to MSME"* or "*to make MSME lending a significant part of its lending portfolio"* are not conducive to objective measurements. Moreover, objectives are partly confused with activities, milestones or assumptions. Similarly, what is described in some ToR as "indicators of achievement" are in reality the eligibility criteria that are set for the PFI in order to qualify for the incentive payments, but do not measure the overall success of the

[49] Or better "quasi new" client concept as the "new client definition" is not necessarily congruent with a "first-time client", that is, a borrower with no relationship to the bank in question before the EU/EBRD Facility. Instead, the understanding of a new client comprised various interpretations.

assignment. The sheer size of the EU/EBRD Facility TC and the different levels involved, would have necessitated the application of a professional project management tool, such as the logical framework approach (see Lesson Learned 5.2) and would have benefited from external professional support for setting and measuring the programme's success.

Prevailing negative impacts were observed in the two case studies, where the PFI had been subject to an international merger/a foreign acquisition. The consequences of the integration processes not only delayed the start of TC activities, but also limited overall success. They definitely hampered the communication with and the commitment of the PFI management, and increased uncertainty. Practical negative consequences occurred most severely with the PFIs' information systems. The new (foreign) parent group was typically imposing its EDP systems on the new subsidiary, with a direct impact on the credit approval and management procedures and thus the Consultant's work. For example, the development of management information systems relevant to the SME portfolio, namely a scorecard, is closely tied to the given data processing systems. Consultants that developed products in accordance with a given EDP system saw their outputs diminishing if the software changed. Even though some positive skill transfers to local staff can be assumed in these cases, such effects appear rather costly in comparison.

4.4 Overall assessment

Overall, the EU/EBRD Facility TC work is rated ***Partly Successful***. The overall fulfilment of the TC work is rated *Satisfactory* as explained below. Transition impact is considered *Satisfactory*. Although the TC work was highly relevant to the objectives of the Facility and well implemented by the Bank, overall achievements on an aggregate level are mixed and its impact in the medium and long term is uncertain. Compliance with the Bank's MSME Policy is *Confirmed* (Section 2.1). Bank handling is rated *Satisfactory*, showing a good handling of administrative and operational matters but weaknesses in the areas of project design, self-evaluation and impact assessment. Additionality is *Verified in Part* since the TC recipients were often wholly or partially owned by foreign financial institutions. Environmental change and impact are *Not Rated*, as these aspects were not included in the Facility's TC component.

4.4.1 Fulfilment of objectives

As per the original EBRD Board document, the EU/EBRD Facility aims to remedy existing market imperfections in the areas of both equity and debt capital to SMEs, essentially by:

- providing incentives to financial intermediaries to embark upon new financing instruments and activities, which for commercial reasons they cannot and would not undertake on their own
- enabling these intermediaries to acquire experience, skills and resources and to create a revenue stream that allows them to continue in due course.

The specific role of the TC instrument was to facilitate loan disbursement at PFI level on one hand and to provide institution building measures such as advice and training on the other. More specifically, the following objectives are defined:[50]

Primary objective	The PFI has successfully entered, or significantly expanded its SME-related lending or leasing activities on a sustainable

[50] The objective (re)formulated by the OPER team is in line with the EC's interpretation of the EU/EBRD Facility's primary objective as laid down in R/ZZ/SME/02.146, page 9.

	basis.
Secondary objective	The PFI has introduced new business tools and procedures, retains qualified personnel and has, through the disbursement of the EBRD loan, collected encouraging first-hand experience in new customer segments.

The ***secondary objective*** appears to be an easier case for examination. There is overwhelming evidence from both the Consultant's and Bank's files that the TC assignments have supported the disbursements of the loans provided and that substantial activities took place in respect of institution building. Whether related outputs have been fully incorporated in the PFI corporate culture is quite another matter and can hardly be concluded on an aggregate level for all of the 86 participating institutions. There is a generic problem in measuring institution building outputs as these tend to have a short shelf-life. If, for example, the Consultant develops a scorecard for the Counterpart management, this will soon have to be adjusted and refined in accordance with the overall development of economic conditions, the Bank's portfolio and so on.

In one of the case studies, a new scorecard eventually triggered an overhaul of the entire credit application system of the PFI, thus exceeding its anticipated impact by far. As desirable as this is, there was no tangible result seen at the time of the evaluation visit (see Case Study 4.1). In another case, a significant number of newly trained staff had left the Bank during the course of the assignment and were not replaced. This leads to the question of how to judge the success of TC assignments in general and in a changing world in particular? This challenge should have been addressed from the start through the EU/EBRD Facility design by determining and providing the means for assessing how well training and consulting have transferred SME credit skills, policies and procedures to the PFIs. In view of the lively transition that occurred in the sector over the last 10 years the task is especially challenging. Many PFIs, either at the time of the programme or thereafter, have merged with other commercial banks, resulting in more or less substantial management changes, reorganisation of activities, and turnover of staff. In many cases, this makes it difficult to monitor direct results of TC assignments.

With regard to the ***primary objective***, the latest available Annual Report from the EBRD to the EU (12/2008) states *"the majority of projects are on-track to meet the key objectives of the EU/EBRD Facility […] making MSME financing a sustainable business for PFIs and facilitating SMEs' access to finance."*[51] Given the absence of quantifiable indicators and the lack of impact-related assessments (as described in greater detail in Section 4.4.3 'Bank handling'), the OPER team does not find the overall success of the programme so evident. The case studies revealed a lack of basic data and statistics at the client level, for example the annual overall lending volumes to SME customers over the last three to five years. This would have been necessary to judge on any expansion of the SME-related activities (outside of the Facility) provided by the PFI in the first place. In addition, each of the client institutions are following their own definition of SME, preventing an overall understanding of the target group (see Lesson Learned 5.1).

Since 2003, projects were implemented in environments with very active competition between SME financiers, showing signs of partial overheating in terms of credit provisions and foreign borrowing activities (for example, shown by Case Study 4.2). Currently, the global economic crisis exerts a substantial impact on the countries

[51] EU/EBRD SME Facility Annual Operational Report – December 2008.

participating in the EU/EBRD Facility, with negative effects on the programme. It remains to be seen whether the PFIs' SME commitment proves strong enough to weather these storms, even without external incentives. In summary, and with particular focus on the secondary level, the OPER team rates the fulfilment of objectives as ***Satisfactory***.

Box 4.4.1 Cost-effectiveness and cost-efficiency of the TC work

Facing uncertainties in assessing the fulfilment of objectives logically leads to uncertainties about the cost-effectiveness or cost-efficiency of the TC programme. Bearing in mind that the EU provided almost €48 million in TC funds to support only this programme with the EBRD, the question would be whether similar results could have been achieved with lesser funds? On one side, the Bank administered the grant contributions very well and made efforts to achieve savings, for example by requesting a contribution from the PFI[52] for a consecutive TC assignment and by negotiating the budgets with the winning consultants prior to the contract. On the other hand, the very nature of the TC (and the PF) as an instrument to make the EBRD loan more desirable for the PFI prevented it from being a rigorous lever. In Case Study 4.4 for example, the OPER team saw an appropriate situation to abort the TC assignment in line with a clause of the ToR and to make use of remaining funds for other purposes. Generally, the consultant assignment budgets of the different case studies show large disparities in terms of cost-efficiency (see Appendix 4), depending mainly on the composition of international versus local expertise in the proposed team. A weakness in this regard is the limited number of competing consultancy firms coupled with the usual donor practice of displaying the available budget in the call for offers. Both practices prevent a real (financial) competition, and thus there are no savings seen between "indicative" and final budgets.[53] The Operation team emphasises that it is the quality of the Consultant's proposal and work that is the principal focus in selecting the successful tender. The OPER team would nevertheless encourage raising the importance of financial considerations. For example, TC project inputs could be specified (for example, working days) in greater detail and the bidders could submit their technical and financial proposals without knowing the maximum available contract amount from the start.

4.4.2 Transition impact (TI)

The SMEs' limited access to credit, and related lending skills in local banks, was identified as a transition challenge in OCE's Transition Impact Review (TIR1) in 2000.[54] In addition, the 2004 Board document on "Transition Impact and Subsidies in the EBRD's MSME Financing Operations"[55] states that financial institutions and markets in the Bank's operating countries would (still) be underdeveloped. Market failures at the time are described as a lack of a culture of credit and the difference between the financial rates of return versus the social rates of return in MSME lending activities. Thus, the input of subsidies was considered warranted to overcome market imperfections. Acknowledging that the problem of a high fixed cost per loan could not be eliminated, the training of loan officers was seen as (one) way to mitigate them, by increasing the efficiency of the lending process.

In general, the TI of the EU/EBRD Facility TC derives from two angles: first, the PFI is gaining experience in using the EBRD funds appropriately to finance SMEs (that is, learning by doing) which contributes to a rising culture of credit through a successful demonstration effect on the viability of SME lending and leasing activities.

52 In the amount of 25 per cent of the contract amount, as awarded for a second TC assignment under the same EU/EBRD Facility window.

53 Indicative budgets were presented to the DG EcFin by the EBRD within the project submission for approval and included a breakdown of the total TC project amount in the categories: fees, travel expenses, training expenses, scholarships/stipends, marketing and administrative expenses. The final budget for the assignment was the one contracted between the EBRD and the consulting firm and could, differ in categories, while respecting the threshold set overall.

54 OCE TIR 2000, CS/FO/01-2 (Annex), page 83.

55 See CS/FO/04-18.

Second, targeted institution building measures – advisory activities and transfer of skills – support the MSME lending business to become more efficient and profitable. As far as the Facility's TC framework programmes at the Bank are concerned, OCE has provided its comments to the Project Profile submitted to the Bank's TC Com, as shown in Box 4.4.2.

Box 4.4.2: Transition impact (TI) assigned to the TC part of the EU/EBRD Facility at different stages

While the approval of the original EU/EBRD Facility Special Fund paper in 1999 did not include any comments on the expected TI, the framework programme expansions in 2002 saw a *Good* rating assigned for the TI potential and a *Medium* one for related risks.[56]

One year later – on the occasion of the next expansion of the Special Fund – OCE maintained the *Good* rating of the TI potential but downgraded the risk to *High* and became more explicit overall: *"The TI potential is mainly related to institution building […] The main TI risks relate to the insufficient incentives to reach the target market, including the lending to new clients in the region […]".*[57]

In 2003, some critical remarks are made on the fact that participating banks belonged mostly to foreign parents and the minutes of the TC Com approval of the Framework V Expansion noted that the team should be working with OCE to review the transition indicators for participating banks.

When the rural sub-window was approved in 2004, TI potential was rated *Excellent* for tackling the notorious problem of rural access to finance. At the same time, the warning was that in view of the large foreseen amounts of TC and PF, eligibility criteria would have to be defined, especially for those PFIs that had already benefited from the EU/EBRD Facility in the past.

2005 saw the Expansion 6 of the framework with a downgrading of the (remaining) TI potential to *Satisfactory* by maintaining the *Medium* risk. The risk related to sustainability of the MSME business with the selected institutions and the potential distorting impact of the subsidy (implicit: the PF and TC).

The last extension (No.7) of the SMEFF (including all windows) was approved in 2006 and confirmed both ratings that had been applied before. OCE commented *"Incremental TI of this latest extension may be derived from further developing existing relationships with SMEs […]* and noted that *"MSME focused risk management systems and credit scoring methodologies will often already be in place and will only need some fine-tuning in order to support the sustainability of the MSME business."*

As described in Section 3.2 an *ex ante* transition impact assessment was not performed for the TC assignment individually but in the context of the entire project's (investment, PF and TC) approval document, usually submitted to the Bank's OpsCom. This includes the presentation of a table with *"possible monitoring benchmarks"*,[58] which was also provided as an Annex/Attachment to the TC Project Profile of the EU/EBRD Facility Framework Extensions 6 and 7. The monitoring of benchmarks over the projects' lifetime has been done – as usual – in the frame of the Bank's Transition Impact Monitoring System (TIMS), focusing primarily on the investment but including objectives defined for accompanying TC work. The OPER team tried to apply the defined indicators to measure the success of the TC work in the given case studies. As shown in Appendix 4, the success of this exercise is

[56] More specifically: the transition impact potential of the projects lies in the demonstration effects from using leasing (!) as an effective financing tool for SMEs. Transition risks are commercial and relate to the interest rate subsidy. Compare to the TC project profile for EU – SMEFF Special Fund – Expansion II.
[57] TC project profile for EU/EBRD SMEFF Special Fund – Leasing Expansion.
[58] See, for example, the Summary Sheet on Case Study 4-4 UniBanka a.s. dd. 27/06/05 (DTM Id. 34722/ 36262).

limited. Even though the individual projects showed good, sometimes even significant, potential for TI at the institutional level, it was not possible to conclude on solid findings on the basis of the given benchmarks.

Even where information is readily available, interpreting the facts is not always straightforward. For example, the 2008 EBRD Annual Report to the EC indicates that a total of 7,189 staff members across all areas of PFIs' business received training targeted to meet their specific needs under the EU/EBRD Facility. While this is an impressive number, there is no further information on what proportion of these trainees are still retained in their job at the given PFI. What proportion has changed to other banking institutions and is able to apply the skills at the new workplace? What did this training mean for the further career development of the staff and/or for the management at the participating bank or leasing institution? The Operation team tried to collect such information by means of a questionnaire (see Box 4.4.3), which was sent to the PFI following the TC assignment and the quality of responses is mixed. In summary, there is no system in place to aggregate and analyse the information on a higher level (see Lesson Learned 5.5).

With respect to wider SME-sector developments in the countries participating in the EU/EBRD SME Facility, Appendix 6 gives the ratings assigned in OCE's Transition Impact Retrospective (TIR) and Assessment of Remaining Challenges for Transition (ATC) over time. The 2009 TIR paper describes the negative effects of the global crisis on the segment,[59] something that has already been highlighted in the reporting from the Bank to the EC. The aftermath of the credit crunch has seen a reduction in the volume of SME financing across the region. This arises from a combination, on the one hand, of the financial sector being more cautious about lending to SMEs and, on the other hand, of SMEs being reluctant to borrow, particularly for investment projects, in an environment of highly volatile interest and foreign exchange rates and uncertain prospects for sustained economic growth.

In summary and in line with the OCE ratings applied to the last approvals of the Facility's TC framework programmes in 2005 and 2006, the OPER team concludes overall on a *Satisfactory* TI rating, with an attached *Medium* risk.

4.4.3 Bank handling

As described in Section 4.3.1, the OPER team noted that the administrative side of the EU/EBRD Facility has been handled very well, including records management of related TC assignments that are above the usual standard at the Bank.[60] Working procedures with the EC have – after some teething problems in early 1999/2000 – significantly improved and the communication between the partners involved appears to be excellent at both the horizontal and vertical levels.

The application of the framework concept for the selection and administration of consultants was well justified. However, and as described in Section 3.1.3, some extra effort would have been desirable in order to prevent such a small number of companies from accumulating major parts of the programme, for example, by excluding one company that is already performing strongly in one of the Facility's windows from participating in another one (see Lesson Learned 5.1).[61] Another more general recommendation for improvement would include the increased execution of

[59] CS/FO/09-21, 16 October 2009, page 14.

[60] See the various comments on this point in the EvD's Annual Project Completion Report Assessment (PCRA) exercises, for example, PE06-364S, PE07-393S, and PE08-409S.

[61] Notably, one of the framework contractors was present in all three agreements concluded for lending, leasing and the rural sub-window even though it did not implement any assignments in the leasing segment.

formal or informal ways to exchange experience and best practices among the OLs and between Bank and framework contractors involved in the programme. Two good examples of such actions were witnessed in 2006 and 2007.[62]

Section 4.3.2 has described the deficiencies in terms of project design; the definition of objectives and the lack of an applicable LogFrame (compare this to page 16 and to Lesson Learned 5.2). This is coupled in an unfortunate way with the fact that the Bank handled the individual Facility TC assignments as call-offs under a framework umbrella and not as stand-alone projects. As explained earlier in Box 2.3, this suspended the respective OL from the usual TC project progress and completion reporting supervised by OCU. Instead the team forwarded the Consultant's final reports to the EC and provided extensive reporting on the overall implementation of the programme, for example, the loan disbursements, the use of EC grant resources and the consultant activities undertaken.[63] A more particular assessment of the single TC assignment, including client commitment, consultant performance, the fulfilment of objectives, impacts achieved and lessons learned, is missing. As much as a simpler handling of the TC approval process would be desirable, it appears less justified to suspend the OL's self-evaluation exercise for these assignments, especially with regard to their substantial financial amounts[64] (see Lesson Learned 5.3).

Box 4.4.3-1: Evaluation questionnaires for PFIs

The Operation team made a laudable effort to cover this information gap by sending an evaluation questionnaire to the PFI after the TC project was completed. Questions asked included whether the TC has had an impact on the PFI's overall SME strategy, what the SME market share was before and after the TC intervention, whether the PF would have been appropriate to share the extra costs of extended lending to MSME customers, and others. According to FI, questionnaires were sent to 63 PFIs and were returned in 55 cases. They were usually completed by the contact person at the PFI and returned to FI via the OL.

The OPER team has analysed a small number of returned questionnaires including those available for the case studies. As one would expect, the quality and extent of answers varies considerably, nevertheless there are some general features that one could conclude. For example, none of the PFIs are able to give exact numbers on their market share or the productivity of MSME-related lending. When asked for the existing constraints for MSME lending (or its profitability) a frequent answer was: *"the intensiveness of competition on the market"*.

In 2006, the team did make an important further step and tried to aggregate the results of the questionnaires in order to identify wider achievements as well as common issues among the full range of PFIs. Unfortunately, this initiative – which showed mixed achievements – appears only to be a one-time event. The Operation team are reported to have been looking for ways to improve the quality of the questionnaires since then. Further initiatives are highly encouraged, as this is considered a very good opportunity to receive a more detailed picture of the programme's achievements as well as to make conclusions on lessons learned.

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[62] These include a two-day workshop organised for OLs involved in the Facility in January 07 and a one-day workshop for companies included in framework agreements in April 2006; both were held at the EBRD's HQ. Such events had been recommended in 2000 (see the Annual Assessment Report of the EU (R/ZZ/SME/00088).

[63] The reporting duties defined by the EC appear onerous, not only in the eyes of those responsible for their completion. They included: monthly financial statements, quarterly pipelines reports, semi-annual and annual progress reports (with different contents) and a final report (see R/ZZ/SME/02.146, page 21).

[64] With an average size of €578,000, the call-offs are more than twice the size of the average Bank TC project of €270,000 (figures taken from the FI Review of Grant Funding 2003-2008 and the joint PCR Assessment and Review exercise carried out by OCU, 2008 (PE08- 409S), page 1).

As described in sections 4.4.1 and 4.4.2 there is a principal weakness identified in the programme's management: the monitoring of its achievements. Already the 2000 evaluation recommended: *"adopt[ing] an approach where a baseline of SME lending is identified with a participating bank before entry into the EU/EBRD Facility."*[65] However, there is no visible systematic approach apart from the patchy information that is included (as and when available) in project ToRs, even though the Bank's OpsCom documents appear to be fit for such a purpose. And even after the accomplishment of a TC assignment, there is no detailed picture of the overall SME-related lending activities of the PFI,[66] its position in the market, the profitability of its SME lending business or its performance in comparison with other peers. The OPER team acknowledges the difficulties in measuring such items as, for example, PFIs divide their reporting duties in other ways. Yet, one would assume the programme's 10-year duration to be sufficient time to cope with such difficulties and to find suitable proxies instead. Various evaluation reports (commissioned by both the EU and the EBRD)[67] have very clearly conveyed the need for a better measurement of results – a message that was by no means limited to the EBRD part, as Chart 4.4.3 illustrates.

Chart 4.4.3 Calls for better impact monitoring as stated in earlier evaluations

Year	Evaluation report – subject	Message
2007	*Ex-post* evaluation of Phare: MBP – SMEFF (MWH Consortium) – SME Facility	[EC's] Management of the [overall] Facility has focused on disbursement of credit lines and monitoring of implementation. The design of the Facility was not underpinned by a robust intervention logic and lacked agreed and appropriate indicators for anticipated impacts at participating financial institution level.
2003	Monitoring and Interim Evaluation of the European Union Phare Programme (R/ZZ/SME/02.146) – SME Facility	There is no monitoring of the programme through indicators.
2003	Monitoring and Interim Evaluation of the European Union Phare Programme (R/ZZ/SME/02.146) – SME Facility	The monitoring (from the IFIs) focuses more on the financial follow up of the credit lines from the IFIs to the PB than on the creation of a real, sustainable new capacity to address the needs of the SME market.
2003	EBRD Interim Evaluation (PE02-220) – EU/EBRD SME Facility	The Bank could take steps to assess, through independent on-site reviews, the quality of the portfolios and lending policies and processes at each participating bank to measure the degree of institution building.
2003	EBRD Interim Evaluation (PE02-220) – EU/EBRD SME Facility	The Bank should clearly quantify the criteria against which the performance of the programme is to be benchmarked.
2003	EBRD Interim Evaluation (PE02-220) – EU/EBRD SME Facility	The programme enabled transfer of MSME lending skills to the participating banks […] But [it] did not monitor the skill transfer nor assess its impact on the quality of the participating bank's

[65] Annual Assessment Report, R/ZZ/SME/0088, 21 December 2000, Omas Consortium, page III.
[66] For example, considerable efforts were required to obtain such data for the report's case studies and it is to be interpreted with caution. As a positive sign, more recent ToRs require that the consultants provide information covering the wider SME operations of the PFI, however those are limited to the Inception Report and the Final Report for the TC assignment. The OPER team would recommend making this information mandatory for each consultant report (see Case Study 4.3).
[67] The grey-shaded areas highlight the former EvD (PED) mid-term review; other evaluation reports have to be treated with caution, as they do not directly refer to the EBRD-TC part of the Facility.

		MSME credit process and portfolio.
2000	Annual Assessment Report (R/ZZ/SME/00088) – EU/EBRD SME Facility	The Commission and the Bank should review indicators of achievement to improve their usefulness in assessing impact of the Facility
2000	Annual Assessment Report (R/ZZ/SME/00088) – EU/EBRD SME Facility	Consideration should be given to adopting an approach where a baseline of SME lending is identified with a participating bank before entry into the Facility. The rate of growth in SME lending would then be compared with the overall level of SME lending using data provided by the Central Bank or SME sector studies.

With regard to the last recommendation of the Chart (*"to adopt a baseline of SME lending before entry into the Facility which could then be compared"*) it is interesting to illustrate the Bank approach in greater detail, which is shown in Box 4.4.3-2.

Box 4.4.3-2 Definition of Micro, Small and Medium Enterprises (SMEs)

The EU/EBRD Facility Board Paper[68] determined the application of the EU definition (originally as per the EC recommendation of 3 April 1996 and more recently as per EC recommendation of 6 May 2003) as the general yardstick for its operations, as follows:

micro enterprise < 10 employees/no turnover limit defined
small enterprise 11-50 employees/max. turnover of €7 million per annum and total assets of €5 million
medium enterprise < up to 250 employees, max. turnover of €40 million and total assets of €27 million

In the individual operations with PFIs, however, a slightly different approach was used by the EBRD team, which defined its sub-projects (that is, the loan disbursements) by amounts, as per below:

Micro sub-loans – up to €30,000 – would principally target firms with less than 10 employees

Small sub-loans – above €30,000 and up to €125,000 – would principally target firms with up to 100 employees. In labour-intensive production branches with more than 100 employees per company, the prior consent of the EBRD had to be obtained, while the number of employees was not to exceed 250 in any case.

Thus, the borderline between the EU term small (<50) and medium (<250) appears somehow blurred. It is also interesting to note that even though the information on average employees of the PFI's borrowers was available at the Bank, it appears not to have been enquired from other parties. The Bank's bi-annual reporting to the EC, at least, is limited to the number and amount of sub-loans (micro and small) only.

According to the Operation team, this approach was taken in order to target the programme's resources at the sub-segments of the SME sector where financing gaps were seen as most severe. It was stated that outside of the EU/EBRD Facility, the PFI would follow their own definition of MSMEs and even the Central Banks would not to be fully congruent in their statistics.[69] Nonetheless, in the view of the OPER team, there is no reason why the Bank approach could not have been followed in full congruency with the EU definition, that is, by defining different loan sizes for the three categories (micro, small and medium) and asking the PFI for an accurate reporting on the company size of the EU/EBRD Facility borrowers. EvD had already earlier called for the adoption of a firm and universal application of an SME

[68] BDS99-032, page 8.
[69] The Operation team therefore questions the wisdom of anchoring the EU definition of SMEs in financial sector operations in general. Indeed, the EBRD concluded in its MSME strategy from 2006 not to universally adopt the EU definition for the reason that in many of its countries of operation, these thresholds would *de facto* include all domestic enterprises, see BDS06-012 (Final), dd. 15 March 2006.

definition for the Bank's operations in order to allow for strict comparisons and a better measurement of results[70] (see Lesson Learned 5.4).

It should be stressed here that Bank handling is not limited to the responsible Operation team, but involves all relevant units for the implementation of the EU/EBRD Facility, namely OCE and to a lesser degree OCU and CSU. Given the scope of the programme, a framework level monitoring by TIMS aggregating the individual TC assignments, or the individual Facility projects together would for instance have been most beneficial. In fact these findings fully confirm the importance of recent discussions about a more integrated approach by the EBRD[71] (see Lesson Learned 5.2).

Overall, the OPER team assigns a ***Satisfactory*** rating to the Bank's performance, reflecting the good technical and administrative handling of the Facility TC framework programmes and the related Special Fund, inter-agency communication and coordination, as well as the weaknesses in individual project design, monitoring of impact and achievements, and self-evaluation.

4.4.4 Additionality

Additionality is a narrow concept that typically considers whether the borrower could have obtained equivalent external financing on reasonable terms from the market. In the case of the EU/EBRD Facility TC component, there is no comparable option in mind for sourcing grant funds for such purposes, thus the additionality appears verified by the very nature of the measure. However, a question remains as to whether any of the participating banks and leasing institutions could have obtained similar technical support from other parties. In the view of the 2007 *ex post* evaluation of the overall EU Facility for example, the provision of TC does not appear justified if the PFI was partly or wholly owned by a private (foreign) bank or leasing institution as it might have obtained such technical support from its parent. Indeed one could question the need for public grants for big international players in the banking sector, such as Raiffeisen, Unicredito, Deutsche Bank and others. The Operation team explained that the role of TC and PF was to convince financial market agents to seriously engage in MSME lending, something that would be equally necessary for western European financial institutions as well.[72]

Indeed there was no provision found in the contribution agreements between the EU and the EBRD as to whether grant funds should be provided to public or to private recipients. The 2000 Assessment Report however, stated that from the Phare perspective, "*the Additionality of grant funding to partially or wholly owned foreign banks is limited".*[73] Similarly, the 2003 Interim Evaluation Report judges the programme's additionality[74] as *"partly questionable"* in light of the changes in the market conditions since 2000. It therefore recommends elaborating a needs' analysis study on the general coverage of the market by the banks and on regional market differences in order to identify the main needs for SME financing as well as suitable PFIs. The team has strongly refuted this hypothesis *"as consolidation and easy market options such as retail and large corporate business were the first priorities of*

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[70] See: Special Study: Delivery Mechanisms For MSME Financing (Regional); PE04-280S, January 2005.
[71] SGS09-338 (Addendum 1), 13 November 2009.
[72] SME promotion activities in all EU Member Countries are supported by public institutions. An overview on available EU funding is provided by: http://ec.europa.eu/enterprise/sme/funding_en.htm
[73] Annual Assessment Report, R/ZZ/SME/00088, 21 December 2000, Omas Consortium, page 11.
[74] The EU's concept of additionality appears similar to the one applied by the EBRD: *"Phare support should not displace other financiers, especially from the private sector or from the international financing institutions"* (R/ZZ/SME/02146) page1.

these new foreign entrants". It was also stated that "*the SMEFF brought forward SME lending on the agenda for these subsidiaries and ensured that local context was properly reflected in new products, processes, structures for SME lending in the beneficiary PFIs".*

More generally, the issue of TC support for the private versus the public sector is reflected in the Bank's Technical Cooperation Policy Review from 1995. With particular regard to projects involving western joint-venture partners, the policy states that: *"the TC funding of the Bank will be reimbursable, and an agreement will be concluded to this effect with the client[..]"*.[75] Similarly, the Special Fund Expansion V under the EU/EBRD Facility that was approved by the Bank's TC Com in December 2003 has received the following comments from OCE: *"[..] in its current form the SMEF does not provide significant Additionality, but there is scope for improvement"*.[76] Somewhat ironically, it appears as if the global "credit crunch" would provide opportunities for such improvements. Overall, the OPER team concludes that the additionality of the EU/EBRD Facility TC work is ***Verified in Part***.

5. Key issues and lessons learned

5.1 Discuss ways to increase competition among consultancies in large TC programmes

The framework contract concept is a helpful instrument that facilitates recruitment of consultants in such a bulky programme as the EU/EBRD Facility. Nevertheless, the dominance of only a few consultant firms could deter other companies from participating and thus deprive them of financial efficiency.[77] In principle, there are two alternatives to stimulate competition. The first is to actively encourage suitable firms to participate and the second is to ban those consultant firms that continue to dominate individual segments or the programme altogether for years. The first option is reported to have been pursued by the team that, for example, organised a workshop for participating firms and re-tendered the lending and leasing segments half-way through the programme. However, these measures do not appear to have effectively triggered competition. The second option is not foreseen within the Bank's procurement policies and rules, and certainly bears its own problems.[78]

Lesson learned:
Active measures should be undertaken to increase competition from consulting companies in TC assignments, especially if large programmes stretch over several years. In selected cases of evidenced "market failures" brought about by overly dominant consulting firms, the option to suspend those firms from further participation in the framework or individual segments could be discussed by the Banking team together with CSU (subject to the Bank's procurement policies and rules).

5.2 Application of adequate methodology and project management tools in TC

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[75] BDS95-18 (Final), page 8.
[76] Compare to the TC Project Profile for the EU-EBRD SMEFF Special Fund – Expansion V.
[77] For simplicity reasons, it is assumed here that competition is automatically advantageous to financial efficiency as it provides a wider range for selecting the best offer for a given budget. The Evaluation team is nonetheless aware that reality could prove to be different from this theory.
[78] For example, the Procurement department rightly remarks that such an approach would limit competition in general and might be perceived to punish high-performing companies in particular. The remit of its application would thus need to be well defined and its application limited to exceptional cases only.

Even though a logical framework (LogFrame) had been incorporated in the design of the EU SME Facility,[79] it had in practice been used by neither the EC nor the implementing IFIs. As a consequence, the EBRD's reporting focus was on output-led monitoring, for example, the disbursement of loans and the completion of consultants' activities. Project management tools such as the LogFrame would instead have helped the EC and the Bank to more effectively measure and report on the fulfilment of the Facility's objectives and wider impacts. Given the scope and substantial funding involved in the programme, it would have been justified to engage the support of external experts for the elaboration and adaptation of such tools.[80]

Lesson learned:
The Bank should consider working towards the adoption of the logical framework approach in TC operations with particular regard to the implementation of multi-annual programmes involving substantial grant funds. The LogFrame should be based on solid baseline data and include carefully chosen indicators as well as defined means of verification. This would allow for a regular monitoring of the programme's achievements at different levels (for example, client institution and sector) and at different points in time.

5.3 Review the Bank's reporting duties required from "framework programmes"[81]

The Bank's approach in administering large framework programmes (so called "umbrellas") is well justified for the time savings achieved in the approval and consultant selection procedures. It appears far less adequate to suspend the individual call-off automatically from the usual Project Completion Report exercise. The individual call-offs in this EU/EBRD Facility included significant funds and potential for institution building impacts. Therefore, it would have been beneficial to expose these projects to a self-evaluation by the OL after completion. Additionally, or alternatively, such elements could have been included in the reports delivered to the EC.

Lesson learned: [82]
Do not suspend the Project Completion Report (PCR) from call-offs of substantial size (for example, exceeding €200,000) and/or with significant individual transition impact potential. If, as in this case, other reporting templates are agreed with the donors, the Operation team should ensure that the typical self-assessment topics, such as client commitment, consultant performance, transition impact and lessons learned, are added and/or attached.

5.4 Adopt a standard definition on MSME in EBRD operations

Although the Operation team has "on paper" applied the EC criteria of MSMEs, it followed in practice an adjusted approach based on loan sizes and limited to two enterprise categories (<10 and up to 100 employees) for the disbursements of the EBRD loan. In addition, a number of PFIs were not in possession of a reliable MIS (which consequently often had to be tackled by the consultants first). Finally, each

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[79] The LogFrame Matrix as laid down in Annex 3 to Document No. R/ZZ/SME/02.146 was criticised by the MWH evaluation team as being weak.
[80] The management fee taken by the Bank for administering the EU/EBRD Facility grants is low (1.25 per cent in comparison with other agreements (which see two per cent or more). In future programmes, one consideration would be whether the management fee could be higher for the sake of a better monitoring and impact assessment.
[81] A similar lesson had been learned in the evaluation of the Early Transition Country Fund (ETCF) in 2007. The report recommended that call-offs should require separate progress and completion reporting if exceeding certain thresholds.
[82] Mid-term Review of the Early Transition Country Fund (PE07-371S), Executive Summary.

country and even each individual institution appears to pursue its own definition of SME as the target group of this programme (for example, based on annual turnover of the company and/or its lending volume at the given bank, see Appendix 4). This prevents the measurability and comparability of the Facility's achievements as well as of other Bank's activities in the SME sector across countries and programmes.[83]

Lesson learned:
The EBRD should enforce the EU standard definitions of what constitutes micro-, small- and medium-sized enterprises in all its related sector activities in order to achieve consistency in performance monitoring, data collection and impact analysis.

5.5 Make large TC programmes subject to the Bank's TI monitoring system

The TI of the Facility's TC programme was included in the Project Profile to TC Com, however it was not rigorously monitored later. Instead, and as typical for stand-alone TC projects, individual assignments were monitored in the framework of the Bank's TIMS (that is, in the context of the underlying investment). Given the scope of this programme, a framework-level monitoring by TIMS aggregating all projects would have been very beneficial in determining the EU/EBRD Facility's achievements overall. This would have also been in compliance with the Facility's role as expressed in the Bank's strategy on MSME and in OCE's Transition Impact Retrospective (TIR) exercises.

Lesson learned:
Discuss the possibilities of expanding the Bank's current monitoring procedure for substantial TC programmes. One option would be to review the TI potential separately for call-off contracts at the level of TC Com, in the same way as is done for regular TC stand-alone projects. Another option is to systematically aggregate the TIMS results of individual call-offs in order to allow for sector-wide conclusions (that is, the impact of the entire framework programme). The discussion of options shall have associated resource requirements in mind, in order to come to an acceptable cost-benefit ratio.[84]

[83] This lesson was already learned in the MSME Finance delivery mechanism study from 2004 (PE04-280S).
[84] When designing such procedures, the Bank would generally benefit from a more integrated approach to combining TC with its investment operations and policy dialogue measures to achieve a greater lever and intensity of its measures for successful sector reform. This is indeed considered by the OCU in its recent Board Paper on EBRD Technical Assistance and Co-Financing in the context of CRR4 (SGS09-303), page 10.

List of Technical Cooperation (TC) and Performance Fee (PF) recipients under the Facility

Participating Financial Intermediary (PFI)	TC	PF	Total
Allianzbank Bulgaria (BG)	499,520	500,000	999,520
Alpha Bank (ROM)	1,401,816	940,253	2,342,069
Alpha Leasing (ROM)	100,000	442,000	542,000
Banca Transilvania (ROM)	1,591,030	1,633,527	3,224,557
Banca Transilvania Leasing (ROM)	147,679	889,000	1,036,679
Bancpost (ROM)	994,190	815,738	1,809,928
Bank Gospodarki Zywnosciowej (PL)	1,200,000	1,200,000	2,400,000
Bank Leumi (ROM)	499,865	984,000	1,483,865
Bank Slaski (PL)	1,283,562	1,424,044	2,707,606
Banka Koper (SLO)	821,399	658,417	1,479,816
Bankowy Fundusz Leasingowy (PL)	150,000	1,500,000	1,650,000
BCR (ROM)	1,871,675	2,314,634	4,186,309
BCR Leasing (ROM)		1,664,000	1,664,000
Budapest Leasing (H)	200,000	3,890,000	4,090,000
Bulgarian American Credit Bank (BG)	220,608	-	220,608
BZWBK (PL)	2,178,480	3,791,266	5,969,746
BZWBK Leasing (PL)		3,640,000	3,640,000
CAC (SR)	199,897	659,633	859,530
CAC Leasing (SLO)	199,230	500,000	699,230
CAC Leasing (SR)	297,286	1,700,000	1,997,286
CEC (ROM)	1,399,910	1,686,000	3,085,910
Ceska Sporitelna (CR)	1,677,283	1,381,505	3,058,788
CIB Leasing (HG)		1,580,000	1,580,000
Deutsche Leasing (BG)	79,980	-	79,980
Deutsche Leasing (CR)	198,460	1,000,000	1,198,460
Deutsche Leasing (HG)	196,050	1,000,000	1,196,050
Deutsche Leasing (PL)	247,920	865,000	1,112,920
DSK (BG)	700,000	1,100,000	1,800,000
EFG (BG)		2,000,000	2,000,000
EFL (PL)		2,580,184	2,580,184
Erste Leasing (HR)	179,840	970,000	1,149,840
FM Costs (Reg)	1,500,000	-	1,500,000
Fortis (PL)	584,020	1,075,670	1,659,690
Franfinance (PL)	99,960	1,310,000	1,409,960
Hansa Capital Leasing (Reg)		3,800,000	3,800,000
Hebros (BG)	958,315	538,308	1,496,623
Hrvatska Postanska Banka (HR)	599,291	815,000	1,414,291
HVB (HG)	350,000	900,000	1,250,000
Impuls Leasing (CR)	250,000	498,000	748,000
Komercni Bank (CR)	1,000,000	1,962,000	2,962,000
Ludova Banka (SR)	499,822	971,000	1,470,822
Merkantil Leasing (HG)	199,970	690,000	889,970
MKB Euroleasing (HG)		1,210,000	1,210,000

Participating Financial Intermediary (PFI)	**TC**	**PF**	**Total** (TC+PF)
Morava Leasing (CR)	250,000	499,000	749,000
NK Banka Maribor (SLO)	454,131	312,985	767,116
OTP (SR)	988,250	874,000	1,862,250
OTP Bank (ROM)	750,000	774,000	1,524,000
Pekao (PL)	1,470,850	555,665	2,026,515
Piraeus Bank (BG)	599,250	1,448,000	2,047,250
Piraeus Leasing (BG)	149,970	999,822	1,149,792
PKO (PL)	1,482,217	1,695,500	3,177,717
Raiffeisen (ROM)	1,484,782	1,138,601	2,623,383
Raiffeisen Bank (PL)	907,592	1,254,097	2,161,689
Raiffeisen Leasing (BG)	173,779	1,780,000	1,953,779
Raiffeisen Leasing (CR)	154,009	437,535	591,544
Raiffeisen Leasing (HR)	99,350	1,800,000	1,899,350
Raiffeisen Leasing (PL)	333,866	1,656,916	1,990,782
Raiffeisen Leasing (ROM)	297,778	353,293	651,071
Raiffeisen Leasing (SLO)	185,801	513,728	699,529
Raiffeisenbank (BG)	994,989	1,899,018	2,894,007
Raiffeisenbank (CR)	964,899	764,916	1,729,815
Raiffeisenbank (HR)	499,930	965,000	1,464,930
Rietumu Bank (LAT)	462,063	286,052	748,115
Sampo Bank (EST)	347,840	766,431	1,114,271
SG (Franfinance) (CR)	249,990	3,500,000	3,749,990
SG Expressbank (BG)	898,660	1,239,250	2,137,910
SGEF (HG)		1,083,000	1,083,000
Siauliu Bank (LIT)	410,706	586,980	997,686
SKB Leasing (SLO)	450,000	1,745,000	2,195,000
Sogelease (ROM)	87,899	664,658	752,557
Tatra Leasing (SK)	266,545	666,333	932,878
Unibanka (LAT)	741,713	1,980,975	2,722,688
UniBanka (SR)	769,000	1,031,833	1,800,833
Unicredit Leasing (BG)	300,000	1,000,000	1,300,000
Unilizing (LAT)	120,023	1,591,709	1,711,732
Union Bank (BG)	953,470	627,890	1,581,360
Union Leasing (BG)	100,000	220,000	320,000
United Bulgarian Bank (BG)	1,283,910	2,177,769	3,461,679
Volksbank (HG)	908,468	1,102,024	2,010,492
Volksbank (ROM)	220,705	579,876	800,581
Volksbank Leasing (ROM)	159,940	868,500	1,028,440
Volksbank Leasing (SR)		1,650,000	1,650,000
Volksbank Ljudska (SLO)	482,500	500,000	982,500
Vseobecna Uverova Banka (SR)	1,675,969	2,402,423	4,078,392
LEGAL COSTS	172,000	-	172,000
Grand Total	**47,879,902**	**103,071,959**	**150,951,861**

Performance-related indicators

5.1 Attachment 2 to the latest TCR[1] for the umbrella programme

(approved in September 2006)

TI objectives	Benchmarks	*Comments (EvD)*
Institution building	1. Number of credit officers trained and/or engaged in the programme 2. Introduction of improved lending/ leasing methods 3. Strengthening of SME loan/leases marketing and monitoring system 4. Compliance with programme objectives (policy statement eligibility criteria) 5. Number of branches operating in the programme	*1. Information available in principle but would be more expressive if including information on ongoing presence of trainees (in the institution/ sector)* *2. Good indicator in principle but not sufficiently quantified/ aggregated across the Facility* *3. Ditto* *4. Strictly speaking no indicator but a pre-condition for the disbursement of sub-loans* *5. Good indicator in principle but would be more powerful if not limited to Facility implementation but general SME lending (before and after the TC project)*
Financial intermediation	1. Cumulative disbursements to SMEs 2. Geographical diversity of lending/ leasing to SMEs 3. Average maturity of the portfolio 4. Lending/leasing to new SME customers 5. Total number of loans/leases extended 6. Average size of loan/leases	*1. Figures not systematically available beyond the Facility disbursements/no unified SME definition applied* *2. Ditto* *3. Ditto* *4. 'New client definitions' applied by the Bank obscures the reach of truly NEW customers* *5. Figures not available beyond Facility disbursements* *6. Ditto*
Operating efficiency	1. Streamlining financing documentation 2. Loan/lease processing time 3. Arrears ratio 4. Ratio of total subsidy (TC/PF) to number and volume of loans/leases 5. Profitability of the PFI 6. Overhead ratio	*1. Difficult to quantify* *2. Good indicator, however only in a few cases identified* *3. Good indicator, available for the Facility disbursement and sometimes beyond* *4. Well known in all cases but conveys limited message* *5. Good indicator but not known* *6. Ditto*
Sustainability	1. Diversity of funding sources 2. (Comment on the) expectation of maintaining lending/leasing to SMEs once TC/PF programmes are over 3. Profitability of the PFI 4. Market share: SME and total	*1. Good indicator but not known* *2. Danger of subjective interpretation, not systematically forecast for PFIs* *3. Good indicator but not known* *4. Good indicator, but in most cases not available (or not comparable due to mergers and acquisitions)*

[1] Technical Cooperation Request System. This table also appears in the section on transition impact in the projects' Summary Sheets submitted for approval through OpsCom.

5.2 Available "performance-related" data for selected case studies

Criteria	**1. ABB (Bulgaria)**	**2. HPB (Croatia)**	**3. OTP (Romania)**	**4. UniC (Slovak Rep)**
Loan amount	€5 million [1]	€10 million	€10 million	€5 million
Disbursement/on-lending at client level (at TC end)	100%	80%	70%	56%
Disbursement/on-lending at client level (at evaluation)	100%	100%	93%	100%
Months since start of the Loan Agreement (LA) and its full disbursement/on-lending at client level	24	33	39	30
TC amount (€) as per contract	500,000.00	600,000.00	750,000.00	270,000.00
Total TC costs (€) per working day in-country	560	1,581	650	363
PF amount (€) as per contract	500,000.00	815,000.00	774,000.00	463,333.00
Months between LA and start of the consultant work	5.7	2.7	15	2.3
Overall rating of TC assignment(s)	*Partly Successful*	*Successful*	*Successful*	*Partly Successful*
Indicators – institution building				
Existence of MSME dedicated department/division	No	Yes	Yes	Yes
No. of total Loan Officers (LO) in Bank	130	41	100	248
No. of SME-related LO	N/A	26	90	96
% of SME-dedicated LO	N/A	63.4%	90.0%	38.7%
No. of trained (and retained) LO	120	30	80	50
Amount of TC per LO	6,667	27,167	9,675	9,267
No. of branches involved in programme	33	9	55	82
Indicator – commitment to SME lending business				
Total overall (M)SME related lending of PFI in EUR				
2006	31,903,080.00	164,000,000.00	33,518,406.00	N/N
2007	52,917,452.00	255,986,053.00	79,619,112.00	N/N
2008	40,849,395.00	272,216,000.00	90,349,526.00	N/N
2009 (6M)	-	266,000,000.00	84,515,348.00	85,040,771.00
Comments	Nominal increase of SME portf. in 07, but nominal decrease in 08. No % info	Nom. increase but % share in overall portf. Reported constant	The huge jump between 06 to 07 appears due to the acquisition by OTP	No coherent data on SME lending available prior to 09

Criteria	**1. ABB (Bulgaria)**	**2. HPB (Croatia)**	**3. OTP (Romania)**	**4. UniC (Slovak Rep)**
Other				
MSME intermediation in country (MSME's/'000 pop) [2]	31	19.5	28	82
Market share of Bank in MSME lending (country)	N/N	5%<	2%<	N/N
[1] ABB has received a second credit line in the amount of €5 million coupled with additional TC (€135,000) and PF (€300,000) in January 2009. Due to its early stage, the second assignment was noted but not fully included in the evaluation. [2] Figures from different sources; EU average = 40				
	Definition of 'SME' business applied			
	ABB: SME's = companies with annual turnover of up to BGN 5000,000 (€250,000)	**HPB:** same definition applied as the EU	**OTP:** micro = annual turnover <€250,000; small = annual turnover between €250,000-€2 million	**UniC:** Clients/companies with annual turnover of up to SKK 40 million (€1.3 million)