Evaluation of the Small Business Initiative Phase 1 (final)

Management comments (final)

20 September 2024

Executive Summary

Management thanks IEvD for the evaluation of the Small Business Initiative ("SBI"), focusing on assessing the efficiency of the SBI, its coherence to the Bank's strategy and relevance to stakeholder requirements. The study is thorough and analytical, reflecting a number of interviews conducted with implementing and other relevant teams internally, analysis of data sets for the various pillars of the SBI, as well as a review of evaluation reports from externally commissioned studies particularly on Advice for Small Businesses ("ASB").

Management welcomes the study's findings highlighting the substantial efficiency gains achieved through the consolidation of SME financing facilities under the SBI, its continued relevance to the Bank's strategic priorities while remaining a distinct offering of the Bank vis-à-vis other multi-lateral development banks ("MDBs"). Management believes that some of the positive findings demonstrate the on-going improvements achieved in the design and implementation of SME programs since the creation of the SBI.

In the Phase 2 evaluation of the SBI, it will be crucial to receive IEvD's views on: a) taking stock of the current products under ASB and identifying efficient delivery channels; and b) identifying specific recommendations on achieving larger scale impact under the SBI 2.0, based on the lessons learnt since 2015.

Our comments on the report's recommendations are as follows:

- **"Recommendation 1: To enhance its systemic impact, the Bank should review the country strategic planning process to strengthen the integration and coherence of the response to SME needs across the organisation.** The Bank should be able to articulate how it intends to achieve systematic change through the integration of the entire set of tools that is available within the SBI. The Bank should be able to operationalise such articulation in a differentiated way at the country-level."

Agree. A higher degree of customisation of the Bank's SME programs to fit the specific levels of development and needs of the SME sectors in each country/region would be beneficial. Such customisation would have to be balanced against the need to maintain the operational modalities of the various SME-related instruments and programmes as standard as possible, as this facilitates efficiency and allows for a higher level of activity. Notwithstanding this, the evaluation of the systemic impact that the EBRD can achieve in each country needs to be realistic and proportional to its scale of activity in the country, given the existing resource constraints. Country-level customisation of SME development work and further alignment with country strategies will be rooted in the core of SBI 2.0, currently in the making, for enhancing systemic impact via the various financing, advisory and policy dialogue instruments.

- **"Recommendation 2: To maximise relevance to country context, the Bank should regularly update the SME sector transition gap assessment and associated transition impact scoring method.** The Bank should be able to regularly revise its transition gap assessments. These updates should inform decision-making about the Bank's SME business and ensure that the gap assessment remains fit for purpose. This may also provide an opportunity to review the relevance of using a single SME definition considering the upcoming expansion to Sub-Saharan Africa."

Agree. Management agrees with the broad recommendation of updating the SME gap assessment methodology, both in terms of measuring the evolution of the SME sectors in COOs (including new COOs), but also in relation to capturing new trends that are key to SME development (e.g., digitalisation), which are not reflected in the existing index. A broader revision of the Bank's transition gap assessments is ongoing in the context of the TOMS 2.0 update.

Further clarifications

On points 141 – 142: The SME Index from 2020 is an adjusted version of the SME ATC 2016 index, which includes 30 out of the 37 indicators part of the SME ATC. The reason for this adjustment to the underlying indicators in 2020, was to eliminate overlaps between the SME Index 2020 and the Competitive ATQ (of which the former is a part). It should therefore be noted, that the difference in country rankings between the two indices is not solely due to data updates but likely also driven by the methodological differences, considering that the 2020 index does not include measures in relation to the environment for doing business and the quality of credit information systems. Taking the example provided, Bulgaria consistently performs worse than Hungary and Slovenia in the omitted indicators. Therefore, a direct comparison between these rankings is not like-for-like.

While removing overlaps from the Competitive ATQ index underlying indicators is important for the methodological consistency of the Competitive ATQ index, this is not optimal for the SME gap assessment that is used individually for TI scoring purposes, as it leaves out important indicators on the overall business environment.

On point 143: In relation to the inclusion of World Bank Doing Business Indicators, it must be noted that the issues identified in the World Bank review: Microsoft Word - DB - Board Report and Investigation Findings (Sept. 15)(189695011.20) (002).docx (worldbank.org) highlight only one irregularity in relation to EBRD COOs and only for 2018 data, therefore the data included in the SME ATC gaps in 2016 (on which the TI rating methodology is based) is not affected by these irregularities. In line with other revisions to the ATQ indices, Doing Business indicators will not be included in any future updates.

- **"Recommendation 3: If the Bank continues to consider the Direct Financing Framework SME as an important pillar of the SBI, it should streamline internal processes to improve efficiency.** The evaluation cannot recommend a specific direction for this Framework, as the initial evidence collected points to both merits and issues. Should the Bank decide to continue the Framework, it needs to put forward solutions to efficiency issues. Regardless of this decision, a review of the deteriorating portfolio metrics is necessary to inform the next steps.**"**

Partly agree. Given the existing internal processes applicable to the Direct Financing Framework SME, it is not efficient to process a significant number of projects under it. Management believes that it will not be productive to initiate separate process improvements for Direct Financing Framework SME given its diminishing relevance, due to its limited scalability. To the extent the Direct Financing Framework SME will continue to exist, it would be used selectively and only in cases where using the Risk Sharing Framework is not feasible. This would be done subject to adherence to sound banking principles and considering the portfolio performance in the respective region.

The Risk Sharing Framework has been identified as the most efficient channel for delivering financing to SMEs (both in terms of project approval and portfolio management) and significant efforts are dedicated to further streamlining the processes of the Risk Sharing Framework. Additionally, both the Supply Chain Solutions framework ("SCS") and integrated products like Women in Business ("WiB") and Youth in Business ("YiB") are inherently more efficient and able to generate significant increases in the amount of financing channelled to SMEs and with better risk profile than the projects under the Direct Financing Framework SME.

- **"Recommendation 4: To improve transparency, reporting and decision-making, the Bank should upgrade the existing management information system for SME business and, in particular, for indirect financing.** The evaluation recognises the implications in relation to prioritisation of investments, and the specific complexities related to indirect financing. However, considering SBI as potential differentiator, also in the context of the expansion to Sub-Saharan Africa, it needs a management information system that enables the Bank to effectively monitor and measure the impact of its activities. Data gathered by the management information system should feed into country strategy planning and inform decision making about the Bank's SME business. It should also facilitate reporting to the various stakeholders (e.g., Board and donors).**"**

Agree. Management agrees that the current MIS for capturing and analysing sub-loan information for intermediated finance is less than satisfactory. Management will explore the technical and budgetary, including staffing resources, implications of upgrading the MIS for capturing sub-loan and sub-borrowers' data. This activity will form part of the Bank's overall transformation workstream and will, of necessity, be prioritised accordingly.