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Evaluation of the Small Business Initiative

Phase 1

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This report was prepared by IEvD independently and is circulated under the authority of the Chief Evaluator, Véronique Salze-Lozac'h. It was prepared under the supervision of Samer Hachem, Director of Sector, Country, and Project Evaluations division, by Alper Dincer (Principal Evaluator), Piril Ozgercin (Associate) and Nikolina Balta (Analyst) of IEvD with support from Aicha Jaidi (Associate, ASB). The Internal Peer Reviewer is Beatriz Perez Timermans (Senior Evaluator). The External Reviewer is Aron Gereben (Evaluation Expert/Team Leader at the Evaluation Division - EIB). Frederique Dahan (Director of the Development and Public Finance programme at ODI) provided expertise and made other valuable contributions to this report.

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Abbreviations

ABI	Annual Business Investment
ARC	Audit and Risk Committee
ASB	Advisory Services for Business
ATQ	Assessment of Transition Qualities
BEEPS	The Business Environment and Enterprise Performance Survey
CoO	Countries of Operation
COVID	the corona virus disease
CRM	Concept Review Memorandum
CSEE	Central and Southeastern Europe
CSRF	Country Strategy Results Framework
DCFTA	Deep and Comprehensive Free Trade Area
DFF	Direct Finance Framework
DIF	Direct Investment Facility
DLF	Direct Lending Facility
EBRD	European Bank for Reconstruction and Development
EEC	Eastern Europe and Caucasus
EIB	European Investment Bank
ENIF	Enterprise Innovation Fund
ESIF	Early-Stage Innovation Facility
ETC	Early Transition Countries
ETI	Expected Transition Impact
EU	European Union
FI BG	Financial Institutions Business Group
FIF	Financial Intermediaries Framework
FRM	Final Review Memorandum
GA	Group advisory
GEFF	Green Economy Financing Facilities
GET	Green Economy Transition
IA	International advisory
ID	identification
IEvD	Independent Evaluation department
KPI	Key Performance Indicator
LC	Local consultancy
LEF	Local Enterprise Facility
MCFF	Medium-Sized Co-Financing Facility
MDA	Market Development Activity
MIS	Management Information System
MSME	Micro, Small and Medium Enterprises
MSPF	Medium-Sized Project Facility
NPL	Non-Performing Loans
ODI	Overseas Development Institute
PB	Partner Bank
PD	Probability of Default
PFI	Partner Financial Institution
RSF	Risk Sharing Framework
SBI	Small Business Initiative
SBIF	Small Business Impact Fund
SBRF	Small Business Resource Framework
SBS	Small Business Support
SCF	Strategic and Capital Framework
SDA	Sector Development Activity
SEE	South-eastern Europe
SEMED	Southern and Eastern Mediterranean
SIDA	Swedish International Development Cooperation Agency
SME	Small and medium-sized enterprises
SME F&D	SME Finance and Development Business Group

SSF	Shareholder Special Fund
TC	Technical Cooperation
TI	Transition Impact
TQ	Transition Quality
VCIP	Venture Capital Investment Programme
WiB	Women in Business
YiB	Youth in Business

Executive Summary

At the Annual Meeting in Istanbul in May 2013, Governors suggested an increase in EBRD’s support to the SME sector. Following the Governors’ request, the Bank undertook a review of its SME-related activities (BDS13-342, “the SBI Review”) and identified that:

- **The Bank lacked an integrated vision** across instruments at country level.
- **There was insufficient information** about the Bank’s SME activities.
- There was significant potential for **scaling-up SME advisory support and linking it with indirect financing** for combined impact.
- **A new donor compact was a requirement of the Initiative.**

The Bank established the Small Business Initiative in 2015 to support small enterprises by consolidating the SME-related products offered by the EBRD. The initiative provides loans and investments through financial institutions and risk-sharing facilities, as well as direct financing to small businesses. In addition to financial support, the Bank offers access to expertise by providing advice to small enterprises, helping them innovate and become more competitive. This combination of financial and advisory support aims to enhance the growth and sustainability of small businesses. Since then, the SME Finance and Development (SME F&D) and Financial Institutions (FI) business groups have been primarily responsible for managing and delivering SME-related products under the Small Business Initiative.

The Small Business Initiative is soon reaching its 10-year mark and needs to respond to changes in EBRD’s strategic directions, particularly the expansion to Sub-Saharan Africa. It is therefore a good time to take stock and learn. To maximise the usefulness of the evaluation and considering the on-going transformation of the Bank's SME-related activities as well as the Board timeline for Small Business Initiative's Annual Review and Priorities, a phased approach has been taken to provide findings in a timely manner while offering a full-fledged evaluation of the Small Business Initiative.

This is the Phase 1 of the Evaluation of the Small Business Initiative. Its objective is to provide evaluative evidence on (i) the efficiency of delivery of planned changes and performance against objectives set in 2015 and (ii) the subsequent evolution of the Bank’s SME-related activities in relation to its coherence with the Bank’s strategy and relevance to its stakeholders. The scope of the evaluation entails the Bank’s interventions of indirect and direct financing and business advisory but not policy dialogue which will be covered in subsequent evaluations. Findings and recommendations from this report aim to inform the upcoming Small Business Initiative's Annual Review and Strategic Priorities to be presented to the Board.

Since the 2015 consolidation, EBRD’s combined financing to the SME sector remained stable fluctuating around EUR 1.1 billion annually from 2015 to 2023. The figures however show an increase in financing via financial intermediaries and a decrease in direct financing.

At the same time, the consolidation in 2015 affected the delivery of the Bank’s SME-related business in several important dimensions.

The consolidation resulted in substantial efficiency gains.

The internal approval processes significantly accelerated following the consolidation of the Bank’s MSME frameworks under one umbrella, Financial Intermediaries Framework, and introduction of Risk

Sharing Framework (RSF). This acceleration of internal decision making did not result in any significant deterioration of the quality of indirect financing and risk-sharing portfolios. Nevertheless, there has not been any meaningful efficiency gains for the Direct Financing Framework SME and the quality of the related portfolio has been deteriorating.

Mainly because the Risk Sharing Framework is more efficient and provides better financial results than the Direct Financing Framework SME, the Bank is pursuing to increase the share of Risk Sharing Framework at the expense of Direct Financing Framework SME. This direction towards re-balancing is well-justified. At the same time, the consensus that emerges in the interviews is that internal EBRD requirements and procedures are too burdensome for financing SME clients via the SME Direct Financing Framework. Increasing internal requirements across the years had a disproportionate adverse impact on this Framework.

Throughout the period following the consolidation, the emphasis of Small Business Initiative on Bank priorities has increased with some areas lagging.

The Green Economy Transition (GET) ratio of indirect financing increased from 10 per cent in 2015 to 20 per cent in 2023. Similarly, the total business investment under the Women in Business and Youth in Business programmes reached over EUR 1 billion which is slightly more than 10 per cent of all business investment done under indirect financing between 2015 and 2023. On the other hand, indirect financing's contribution to digitalisation has been very limited.

In the same period, the average combined GET ratio of risk-sharing facilities and direct SME financing demonstrated a 11-percentage point increase from 30 per cent in 2015 to 41 per cent in 2023. However, in volume terms, this corresponds to a 26 per cent reduction (EUR 78 million in 2015 vs. EUR 57 million in 2023) due to shrinking volume of business investment under direct SME financing. This reduction in volume can also be attributed to the increased number of Risk Sharing Framework activities in smaller countries, with relatively smaller investment volumes.

Advisory services demonstrated utmost flexibility during times of crises.

Advisory services swiftly responded to COVID, the War on Ukraine and the earthquake in Türkiye. Specifically, the Operational Plans of SME F&D have been responsive to crises. This is reflected by changes in operational and core key performance indicators (KPIs). This is even so when a corresponding country strategy predates a crisis, operational plans prove responsive.

During a period of multiple crises, advisory services in the form of market development and sector development activities increased significantly. In 2021, 31 per cent of all such activities were dedicated to crisis response with a total of 9,648 SMEs reached. Between 2021 and 2023, a significant percentage of non-project activities were delivered digitally (2021: 33%; 2022: 32%, 2023: 22%).

With streamlined access and faster approval process compared to the major donor of the SBI, the EU, the Small Business Impact Fund has been instrumental in the SBI's swift crises response. SBIF has also been conducive for product innovation and particularly useful in the context of the crisis response due to its flexible structure, with donor contributions earmarked for specific regions or countries through regional windows.

External evaluations commissioned by the EU acknowledged the role that advisory services played during the times of crises. These evaluations noted that advisory services have significantly enhanced the focus on digitalisation, access to finance, transition to a green economy all while aiding economic recovery from COVID. This evaluation confirms these findings.

The country planning process enables integration of SME products but only partially.

Prioritisation across instruments for each country mainly happens within SME F&D but not the entire SBI. The planning process allows some level of integration of SME work, as well as differentiation against needs. However, it has shortcomings mainly due to the partial integration of the whole Bank's SME-related activities.

There are very good but individual examples of integration of SBI interventions to address country-level SME transition gaps. For instance, The Supply Chain Solutions Framework brings together advisory, financing and potentially the Bank's other green financing frameworks to address climate-related transition gaps that SMEs are facing in Türkiye. Another good example links advisory services and portfolio risk sharing in Armenia to address know-how needs of SMEs in agribusiness. Yet, these examples are not the rule but the exception.

SME sector transition gap assessment is outdated.

The SME sector transition gap assessment is eight years old and has not been updated since its introduction in 2016. It has been the single most important tool that facilitates transition impact scoring of projects under the Small Business Initiative. Equally importantly, it is a key ingredient of country strategy planning for all aspects related to the SME sector.

The SME sector transition gap assessment relies on data that has been discontinued since then because of irregularities – such as World Bank Doing Business. There are significant implications of using an outdated transition gap assessment on how transition impact scoring is done, and transition benchmarks are set.

The management information system for indirect financing inhibits transparency and informed decision-making.

In 2015, the Bank envisaged to establish a new bespoke management information system for its indirect financing to unify data collection from partner banks and automatise the data processing.

However, the current practice is only partially automatised and unified resulting in multiple issues: Data reported back from partner banks are often incomplete. Manual processing of data on multiple occasions lead to mistakes that are challenging to fix as these are hard to trace back. MSMEs under green financing facilities are partially included in reporting. As a result, due to its low reliability, the Bank uses this data in a very limited way, only to confirm the use of proceeds and transition impact monitoring.

At the same time, the evaluation benefitted substantially from data provided by the SME F&D management information system. Building on this system, the quality and richness of reporting to the Board in the annual Small Business Initiative updates has increased across the years. Nevertheless, this system is not exempt of significant issues, and large operational risks mainly related to its outdated technology and postponement of investments on a new system have been highlighted.

The Small Business Initiative is a potential differentiator vis-a-vis other multilateral development banks (MDBs).

The demand-driven nature of the SBI interventions bridges the gap between the supply and demand for consulting services

and addressing specific SME growth needs. Each advisory project is very bespoke, enabling it to be tailored to the different needs and sophistication levels found in different markets. This results in high stakeholder commitment and timely achievement of outputs. The beneficiaries are provided with expertise custom-made to their needs, quickly available and accessible. For this reason, if further strengthened, the SBI has the potential to be one of the drivers of systemic change especially in the context of SSA expansion.

Recommendations

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.

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.

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.

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).

1. Context and introduction to the evaluation

1.1. Rationale for the evaluation

1. **The Small Business Initiative is EBRD's landmark initiative to reach small and medium-sized enterprises (SME) in its countries of operations (CoOs).** Having replaced the Bank's dispersed SME-related products in 2015, the SBI is reaching its 10-year mark soon. It is therefore a good time to take stock.[1] To maximise the usefulness of the evaluation and considering the on-going transformation of the Bank's SME-related activities as well as the Board timeline for Small Business Initiative's Annual Review and Priorities, a phased approach has been taken to provide findings in a timely manner while offering a full-fledged evaluation of the Small Business Initiative (Table 1). Phase 2 will be confirmed and designed after the completion of Phase 1.

Table 1: Scope and timing of Phase 1 and 2

Phase	Description	Scope	Expected date of ARC meeting
1	An evaluation focused on the assessment of the delivery of planned changes and performance against objectives as per the 2015 Small Business Initiative consolidation.	Pillars 1-4, Relevance, Coherence and Efficiency	October 2024
2	An evaluation of effectiveness and impact of the Small Business Initiative focusing on how the SBI drives systemic change from individual interventions.	Pillars 1-5, Outcomes and Impacts	Q2 2025

1.2. Rationale for the SBI: a recognition of the importance of SMEs

2. **At the Annual Meeting in Istanbul in May 2013, Governors suggested an increase in EBRD's support to the SME sector.** Such an emphasis on SMEs – accompanied by the introduction of Strategic Gender Initiative and expansion of Sustainable Resource and Energy Initiatives – was one of the main operational responses devised by the Bank to address stagnating transition performance of its countries of operations during the post global financial crisis era. This emphasis also reflected the recognition of the paramount role SMEs play in transition.

3. **Following the Governors' request, the Bank undertook a review of its SME-related activities and launched the Small Business Initiative (SBI or "Initiative") in December 2013.** It was expected that this Initiative would allow the Bank to enhance its support for SMEs by bringing a more coordinated and country-focused approach. This was much needed as the Bank's SME-related portfolio increased by 300% between 2005 and 2012 – a rise from 8 to 19% of the total portfolio – with a proliferating assembly of products and instruments. Yet, on the other hand, these figures were crude estimates as the Bank did not have the processes and systems to credibly track its SME-related activities.

4. **The review ("the SBI paper", BDS13-342) identified that:**

- **The Bank lacked an integrated vision across instruments at country level.** Planning was conducted primarily along instrument/facility lines and therefore fragmented.

[1] This evaluation is part of the IEvD Work Programme for 2024-2026 that is presented to the Audit and Risk Committee in November 2023.

- **The organisation of the Bank's SME work was split across a multitude of units.** An organisational focal point could pull together the different strands for an effective delivery and unified perspective.
- **There was insufficient information about the Bank's SME activities.**
- **There was significant potential for scaling-up SME advisory support and linking it with indirect financing for combined impact.**
- The Bank's ability to conduct the advisory and policy dialogue activities depended on the generous support of donors. **A new donor compact was a requirement of the Initiative.**

5. **In July 2014, the Bank created the SME Finance and Development (SME F&D) business group to lead the implementation of the Initiative.** The objective of SME F&D was to consolidate the Bank's support to the SME sector under a single umbrella and provide a more streamlined and strategic approach. The Bank expected SME F&D to collaborate with other departments, donors, and external stakeholders to promote conditions that help SMEs flourish.

6. **In March 2015, the Board approved the Small Business Initiative - Restructuring and Consolidating EBRD Operational Facilities for SMEs ("The 2015 consolidation", BDS15-050).** This document outlined the implementation plan required for the consolidation the Bank's SME-related activities. It suggested three main elements:

- Simplification of the universe of the operational tools used by the Bank for its SME business,
- Creation of a unified toolbox of products, and
- Harmonisation of operational standards to improve efficiency in serving the SME clientele.

1.3. The 2015 consolidation and its logic model

7. **The Small Business Initiative aimed to provide comprehensive support to the SME sector, by bringing together finance, advisory and policy dialogue activities.** Prior to this approval, between 2004 and 2014 under the Early Transition Countries and Western Balkans Initiatives, the Bank operated several direct (DIF, DLF, LEF, MSPF), indirect (25 FI MSME facilities) and risk sharing (MCFF) mechanisms to serve the SME sector.[2] Nevertheless, there was no integrated approach in place.[3] The mechanisms in place between 2004 and 2014 were primarily geographically defined. Gradually, these separate mechanisms evolved on their own in diverging ways, with limited cross-fertilisation, and few common operational standards. Yet, in substance, they were all meant to achieve similar transition objectives.

8. **For this reason, the Bank decided to develop the Small Business Initiative as a centre of excellence for all the Bank's SME-related activities.** To achieve this, it introduced several comprehensive changes described in the sub-sections below. It was assumed that these changes would result in desired transformation and increase the overall transition impact delivered by the Initiative:

[2] Direct Investment Facility (DIF), Direct Lending Facility (DLF), Local Enterprise Facility (LEF), Medium Size Project Facility (MSPF), Medium Size Co-financing Facility (MCFF)
[3] This does not preclude previous indirect MSME financing programmes by EBRD. The Bank had previously initiated other indirect MSME financing operations as early as 1993, including the Russia Small Business Fund and various similar MSME financial intermediation programmes. The Small Business Initiative marks a consolidation of such endeavours.

1.3.1. Key change 1: Sustainable delivery of SME business

9. **The Bank assumed that establishment of a new SBI Business Group (SME Finance and Development) as a focal point for the delivery of the Initiative and defining the roles and functions across the Bank including in HQ and in the field and further integration of advisory services into Banking would help establish a model for sustainable delivery of the Bank's SME business.** This was because the SBI paper found that *internal processes [made] too few distinctions between large and small transactions, burdening small deals and client-responsiveness. Additionally, the Bank needed to augment its ability to supplement and leverage the impact of its financing through capacity building and policy dialogue in ways which, crucially, can ensure lasting "systemic" change*.

1.3.2. Key change 2: Leaner processes

10. **The Bank aimed to introduce leaner processes via (i) integration of existing facilities through consolidation and adoption of unified standards and procedures and (ii) streamlining all technical cooperation and non-technical cooperation funding for SBI-related activities and ensuring integrated donor support to all SME-related activities.** This was because internal processes were deemed to be heavy for SME delivery.

11. **In practice, this meant the creation of five distinct pillars that define the interventions to be delivered under the SBI as well as the Small Business Impact Fund – the donor compact mentioned above:**

12. Pillar 1 (Indirect Financing): Pillar 1 brought together 25 different FIF MSME facilities under the Financial Intermediaries Framework (FIF). The framework provides financing to financial institutions via funded instruments.

13. **Pillar 2 (Co-Financing and Risk Sharing):** Pillar 2 incorporated the MCFF under the Risk Sharing Framework (RSF). Under this framework, working in conjunction local financial institutions, EBRD aims to de-risk and mobilise financing towards SMEs.

14. **Pillar 3 (Direct Financing):** Pillar 3 consolidated the DIF, DLF, LEF and the MSPF under the Direct Finance Framework. The framework offered direct and bespoke debt and equity financing to SMEs.

15. **Pillar 4 (Business Advisory):** Advice for Small Business (ASB), formerly known as the Small Business Support (SBS) programme, is the flagship donor-funded programme to support SMEs development. ASB has two main delivery mechanisms: (i) International advisory – an intensive, 18-month business advisory offer designed for larger, more mature SMEs. It focuses on deploying technical expertise into the enterprise, suitably experienced to tackle any strategic and operational issues; (ii) Local consultancy – business advisory projects delivered to SMEs by local consultants who can help achieve a specific goal (e.g., engineering solutions, quality management, resource efficiency and environmental management, etc.).

16. **Pillar 5 (Policy Dialogue):** This pillar encompasses all policy dialogue activities aimed at improving SME business environment and access to finance. This includes policy dialogue and capacity building activities around local currency and capital markets, but also other ad hoc activities conducted by the Legal Transition Team, Policy Strategy Delivery, and resident offices.

17. **Small Business Impact Fund:** This new Multi-Donor Fund was established with the intention of becoming the principal source of finance for all the Bank's technical cooperation and non-technical cooperation activities in support of the SBI.

1.3.3. Key change 3: Improved relevance and planning

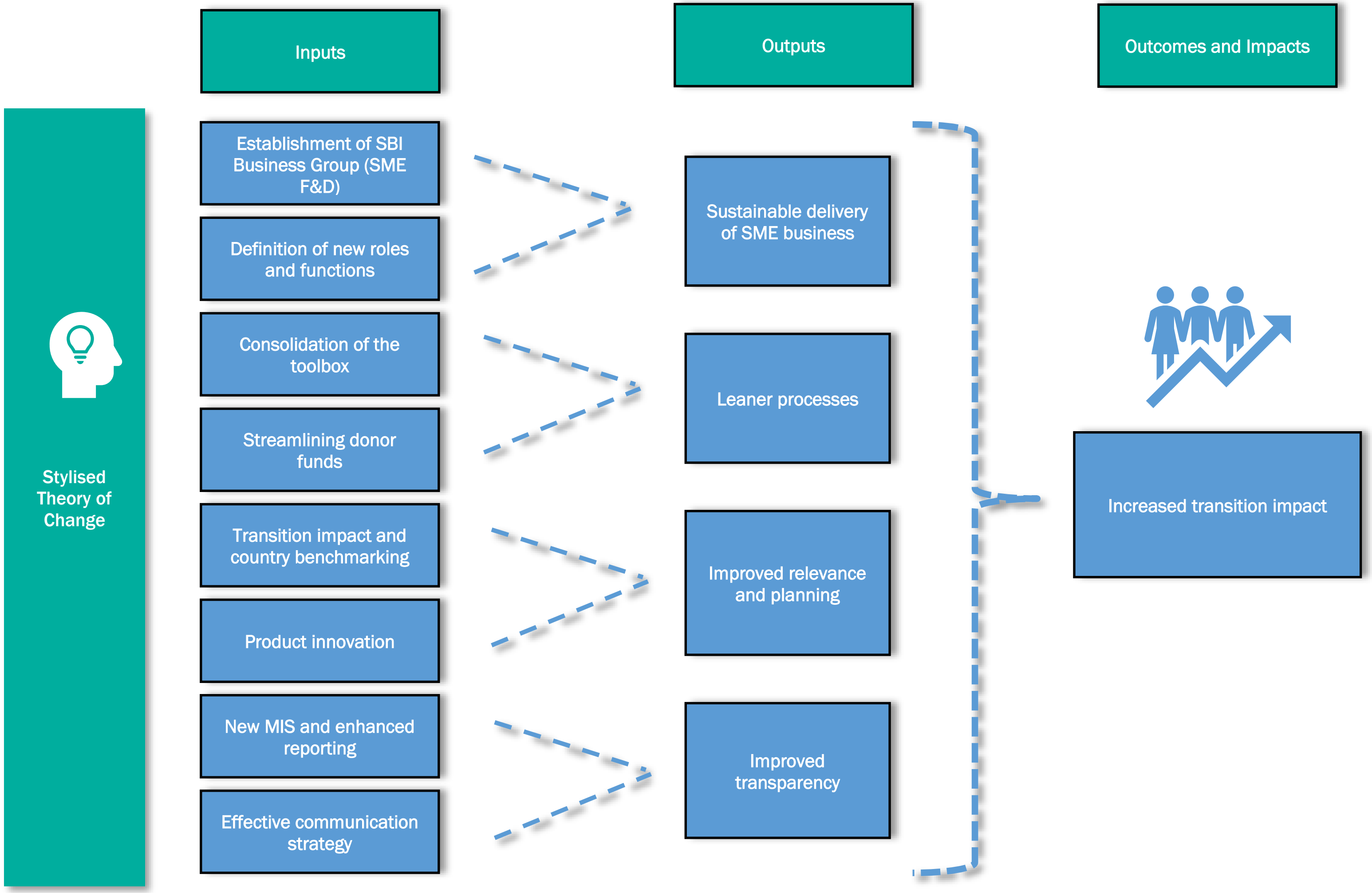
18. **The 2015 consolidation proposed to improve the measurement of transition results as well as delineation of the SBI's role in individual country strategies.** The 2015 consolidation emphasised closeness to clients in the field. That required design of new, innovative products and initiatives responding to the evolving needs of the SMEs on the ground. The focus on transition results at the country level and proximity to clients sought keeping the Initiative relevant to the Bank's mandate, its CoOs, and clients. This was needed because the SBI paper noted that the Bank lacked an integrated vision across instruments at country level. Planning was fragmented along instrument/ facility lines.

1.3.4. Key change 4: Improved transparency

19. **Lastly, the 2015 consolidation decided (i) to develop a new management information system (MIS) and enhance reporting to better track and monitor the number and nature of the SMEs financed by the Bank and (ii) define a clear, effective communication strategy to describe both internally and externally the new Initiative and its added value, focusing on the achieved impact.** This was because the SBI paper found that the proliferation of frameworks had led to a loss in transparency for both Bank's Management and Board regarding the availability of instruments and the achievement of overall objectives.

20. **Figure 1 below represents a general logic model of the consolidation process** that outlines the connection between envisaged activities under the 2015 consolidation and expected changes in terms of restructuring and consolidation of EBRD's SME-related activities (Figure 1):

Figure 1: A stylised logic model of the consolidation process



Source: IEvD elaboration from the 2015 approval

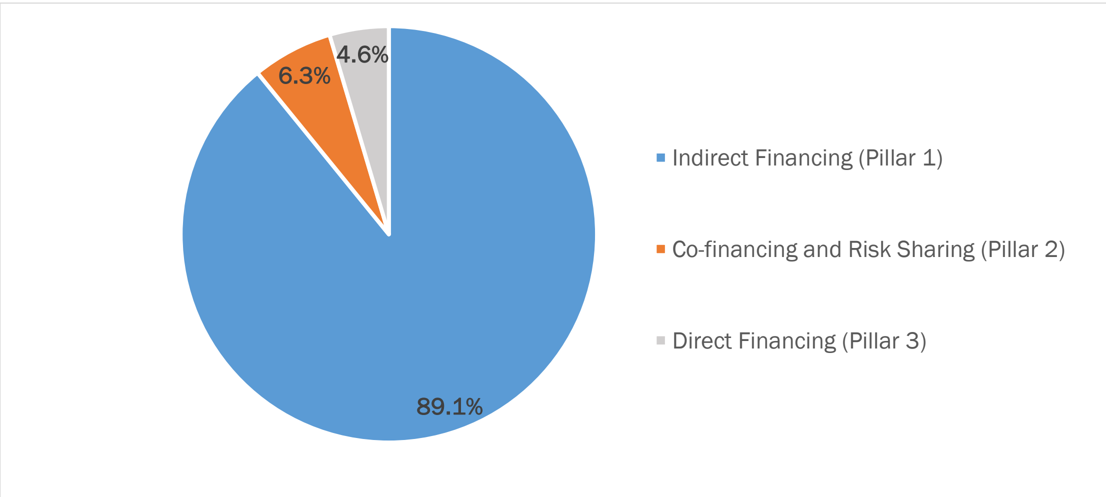
1.4. A brief overview of the portfolio as of 2023

21. **Pillar 1 (Indirect Financing) had an annual business investment (ABI) of EUR 1,146 million (11.9 per cent decrease since 2022).** As illustrated in Figure 1, it counts for the majority or 89.1% of the total SBI ABI in 2023 (Figure 2). The majority of annual business investment (EUR 1,029.9 million) was debt. Approximately EUR 374.0 million was invested in the South-Eastern Europe (SEE), followed by the Southern and Eastern Mediterranean (SEMED) (EUR 279.1 million), Central Asia (EUR 166.9 million), Eastern Europe and Caucasus (EUR 143.0 million), Central Europe and Baltics (EUR 100.0 million), and Türkiye (EUR 82.9 million).

22. **Pillar 2 (Co-financing and Risk Sharing) achieved a sizeable increase in annual business investment, reaching EUR 80.6 million (2022: 67.0 million).** The Risk Sharing Framework also mobilised private capital for EUR 70.1 million. South-Eastern Europe attracted the most of Pillar 2 funding (EUR 32.4 million), followed by Central Asia (EUR 16.1 million), Türkiye (EUR 12.3 million), SEMED (EUR 10.1 million), Eastern Europe and the Caucasus (EUR 7.5 million), Cyprus & Greece (EUR 1.8 million), and Central Europe and Baltics (EUR 0.3 million).

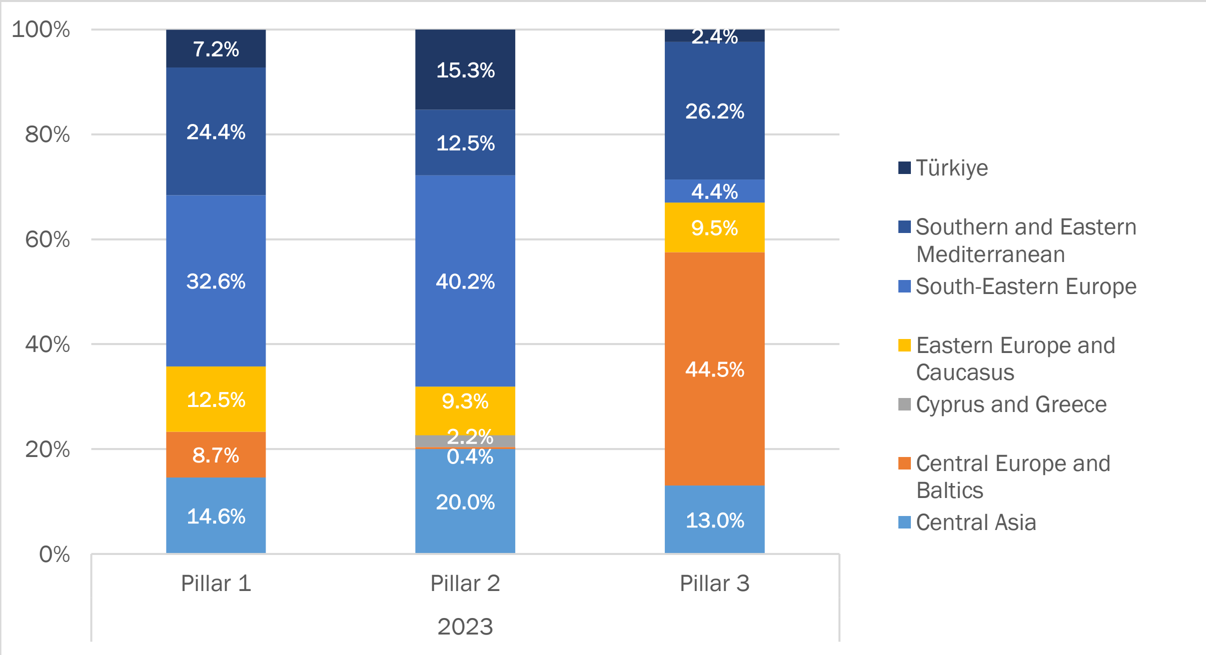
23. **Pillar 3 (Direct Financing) registered a significant decrease in annual business investment to EUR 59.1 million (2022: 109.9 million).** As illustrated in Figure 2, a significant volume of Pillar 3 ABI went to Central Europe and the Baltics (EUR 26.3 million), followed by SEMED (EUR 15.5 million), Central Asia (EUR 7.7 million), Eastern Europe and the Caucasus (EUR 5.6 million), South-Eastern Europe (EUR 2.6 million), and Türkiye (EUR 1.4 million). Cyprus & Greece received no investment (See Figure 3).

Figure 2: Share of total SBI ABI per Pillars 1, 2, and 3 (2023)



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

Figure 3: Geographical Allocation of ABI per SBI Pillars 1, 2, and 3 (2023)



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

24. Investments under the SBI pillars include projects outside the scope of Financial Intermediaries Framework, Risk Sharing Framework, and Direct Financing Framework SME. Pillar 1 in 2023 consisted of 123 operations, with 101 projects under FIF (ABI of EUR 854.8 million), while 11 projects were under green-related frameworks (i.e., GFF, GEFF, and SEFF[4], with a combined ABI of EUR 25.3 million). The remaining 11 projects were categorised as follows: RLF (3 projects, EUR 90 million), G4G (2 projects, EUR 54.5 million), AASF (3 projects, EUR 18.5 million), AATSF (1 project, EUR 1 million) and two standalone operations (EUR 101.9 million).[5] Of 42 Pillar 2 operations conducted in 2023, 37 were RSF operations (ABI of EUR 67.0 million), 4 were VCIP[6] operations (EUR 11.3 million ABI) and one RLF operation (EUR 2.2 million ABI). Under Pillar 3, there were 13 operations, of which 10 were DFF SME (ABI of EUR 49.3 million), one RLF with an ABI of EUR 3.0 million, and two standalone operations with a combined ABI of EUR 6.8 million.

25. Under Pillar 4 (Business Advisory), the Bank delivered a total of 2,060 advisory projects (2022: 2,116) with 1,922 projects connecting SMEs to local consultants for specific business advice (2022: 1,975), 105 projects mobilising international advisors for larger SMEs (2022: 118), and 33 group advisory projects (2022: 23). In 2022, SEMED demonstrated the highest total number of advisory projects (589), followed by Central Asia (581), CSEE (511), and EEC and Türkiye (379) (Table 2).

[4] GFF (Green Financing Facility); GEFF (Green Economy Financing Facility); SEFF (Sustainable Energy Financing Facilities).
[5] RLF (Resilience and Livelihoods Framework); G4G (Guarantee for Growth); AASF (Albania Agribusiness Support Facility); AATSF (Albania Agribusiness and Tourism Support Facility).
[6] VCIP (Venture Capital Investment Programme)

Table 2: Breakdown of Advisory Projects 2023

Year	Category	Central Asia *Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan, Kyrgyz Republic, Mongolia*	CSEE *Romania, Croatia, BiH, Serbia, Bulgaria, Kosovo, Montenegro, Albania, North Macedonia, Greece*	EEC, Türkiye *Türkiye, Cyprus, Armenia, Azerbaijan, Georgia, Ukraine, Moldova, Belarus*	SEMED *Morocco, Tunisia, Egypt, Jordan, West Bank and Gaza, Lebanon*
2023	Total Advisory	581	511	379	589
	Local Consulting	516	494	354	558
	International Advisory	52	10	17	26
	Group Advisory	13	7	8	5

Source: SME F&D 2023 Q4 Scorecard

26. **Under Pillar 5 (Policy Dialogue), in addition to the policy dialogue and capacity building activities in local currency and capital markets, the Bank continues to undertake ad hoc policy engagement activities.** Some examples include supporting the development of a web portal that facilitates information sharing on government initiatives relevant for SMEs in Montenegro and promoting the establishment of a state-of-the-art digital and automation solutions facility to promote the development of an early-stage innovation ecosystem in Serbia.

27. **Finally, EUR 168 million in donor funding was raised in 2023 for SME support, closely mirroring previous years.** The EU has been the main contributor. In 2023, the South-Eastern Europe region attracted the most donor funds with EUR 62.6 million, followed by SEMED (EUR 38.1 million), Eastern Europe and Caucasus (EUR 35.7 million), Türkiye (EUR 21.6 million) and Central Asia (EUR 10.4 million). No donor funds were mobilised for cross-regional projects.

1.5. Evaluation objectives, methods, and limitations

1.5.1. Evaluation objectives

28. **The objectives set out at the 2015 consolidation constitute the primary subject of the Evaluation of Small Business Initiative – Phase 1.** Particularly, Phase 1 evaluates (i) the delivery of planned changes and performance against objectives as per the 2015 consolidation and (ii) the subsequent evolution of the Bank's SME-related activities and the association between implemented changes and variation in performance in time.

29. The scope of Phase 1 includes Pillars 1 to 4 of the Small Business Initiative. Pillar 5 is not within the scope of this evaluation. This is because (i) the objectives of the policy dialogue activities in local currency and capital markets go beyond the SME sector and (ii) as part of IEvD's 2024-2026 Work Programme, a separate evaluation on the Bank's local currency activities is underway that looks at policy dialogue.

30. **The findings and recommendations from the Phase 1 will inform strategic decisions.** The evaluation comes at a critical time, as the Bank is considering changes to further strengthen the SME-related internal organisation and delivery of the Small Business Initiative. Within this context, the evaluation will feed into the preparations for the SME F&D's submission of its Annual Review and Priorities to the Board. This submission will outline envisaged changes and future trajectory of the Initiative.

31. **The relevance of the evaluation will remain high going forward.** EBRD Governors have approved a limited and incremental expansion to the Sub-Saharan Africa region during the 2023 Annual Meeting in Samarkand. Starting from 2025, EBRD will invest in six countries (Benin, Côte

d'Ivoire, Ghana, Kenya, Nigeria, and Senegal) in Sub-Saharan Africa. MSMEs constitute most registered businesses in this region.

32. **This is particularly important given that the Bank perceives the Initiative as a key differentiator vis-a-vis other multilateral development banks, mainly because of its vast outreach and flexibility.** The Initiative is seen as a versatile tool that enables the Bank to be agile in times of change and crises. For instance, during the COVID, the Bank employed the Initiative to support small businesses with advisory services and access to finance. Similarly, the Bank deployed technical assistance and financial support through the Initiative to SMEs impacted by the war on Ukraine and in the earthquake-impacted region in Türkiye.

1.5.2. Evaluation questions

33. This report answers two evaluation questions detailed below:

Evaluation Question 1: To what extent did the consolidation of the Bank's SME-related activities in 2015 increase the efficiency of Bank's SME-related activities delivered under the SBI?

34. This question examines key change 2 (leaner processes) from the 2015 consolidation, including:

- The delivery of outputs as envisaged at the onset;
- The extent to which these outputs have resulted in efficiency gains – as anticipated by the 2015 consolidation document.[7]

Evaluation Question 2: To what extent did the consolidation of the Bank's SME-related activities in 2015 increase the relevance of Small Business Initiative to Bank's mandate, countries of operations, and SMEs?

35. **This question examines key changes 3 (Improved relevance and planning) and 4 (Improved transparency) from the 2015 consolidation,** including:

- The extent to which SBI pillars have been in synchrony with the Bank's strategic priorities;
- The contribution of the 2015 consolidation to internal coherence in the Bank's SME work;
- The extent to which the Bank has become better equipped to deliver its SME-related activities with a focus on systemic change and differentiated at the country level; and
- The management information systems used to collect and store key data related to delivery.

36. **This report is structured along the evaluation questions.** Sections 2, 3, 4 and 5 present four key findings related to the different points listed above. Section 6 summarises the insights from the evaluation and proposes recommendations.

37. **Where possible, to facilitate readability, the report refers the Bank's interventions under the SBI as Indirect Financing, Co-financing and Risk Sharing, Direct Financing and Business Advisory** instead of Pillar 1, Pillar 2, Pillar 3 and Pillar 4 (Figure 4).

[7] Other institutional efforts which were undertaken in parallel, such as the launch of the FI Credit Risk Envelopes, that may have resulted in potential efficiency gains were not within the scope of this evaluation. The Supply Chain Solutions Framework (SCSF) has also been excluded from the evaluation scope as it was recently piloted in 2023.

Figure 4: The reader's guide to SBI pillars

Pillar 1 *Indirect Financing*	**Pillar 2** *Co-financing/ Risk-sharing*	**Pillar 3** *Direct Financing*	**Pillar 4** *Business Advisory*	**Pillar 5** *Policy Dialogue*
Financing for financial intermediaries for on-lending to MSMEs; investments in equity funds with a focus on SMEs	Co-financing of or risk-sharing on SMEs with local partners, whether banks or equity funds (for corporate)	Direct, tailor-made debt and equity financing of SMEs with strong post-investment value creation potential	Various business advisory activities in support of MSMEs	Policy dialogue initiatives aimed at improving SMEs' business environment and access to finance

1.5.3. Methods

38. **The evaluation combines qualitative and quantitative data collection and analysis and relied on the following research tools:** a background document review, an analysis of the portfolio, advisory and donor data, a synthesis of data and findings from relevant validations, internal and external independent evaluations, semi-structured and non-structured interviews, and a detailed investigation of three country diagnostics, strategies, and country strategy delivery reviews.

39. **Document review:** The evaluation team conducted a review of the Bank's internal documentation that included, among other things, approval documents, regular programme-related submissions to Board and Board committees, respective minutes, where relevant project documentation and other related project-level records in the Deal Tracking Module as well as SME-related communication materials produced by the Bank. This was complemented by an extensive review of external documentation covering, among other things, academic and grey literature with a particular focus on EBRD economies and drawing on sources produced by other International Financial Institutions (e.g., relevant evaluations and documentation on their SME facilities), academia, national authorities/agencies, and industry organisations.

40. **Data analysis:** Three sources of data enabled the evaluation team to layout changes in key portfolio metrics, advisory services and volume and composition of donor funds between 2015 and 2023. With respect to the portfolio analysis of Indirect Financing, Co-financing and Risk Sharing and Direct Financing, the evaluation team relied on the Business Performance Navigator. Analysis on Business Advisory mainly used data from the management information system of SME F&D and finally donor-related data has been supplied jointly by SME F&D and FI BG.

41. **Synthesis of other evaluative work:** The evaluation team identified eight external evaluations commissioned by EU or bilateral donors, five evaluations from IEvD and eight project validations that have data and/or evidence that are of use for the purposes of this evaluation. Evaluation team clustered this information by respective evaluation criteria (i.e., efficiency and relevance/internal coherence), period, region and pillar. In the absence of any field work, the analysis based on this synthesis helped to assess the relevance to beneficiaries and national authorities and efficiency of delivery during COVID.

42. **A detailed review of country strategy cycle:** The evaluation team undertook an in-depth assessment of country strategy cycle in Türkiye, Serbia, and Kazakhstan – mainly based on analysis of country diagnostics, country strategies, country strategy delivery reviews and operational plans. This analysis aimed to determine how effectively such planning fosters a focus on driving systemic change that is tailored to each country's specific needs.

43. **Semi-structured and non-structured interviews:** The evaluation team conducted 46 interviews including all relevant EBRD units. 19 of 46 were semi-structured interviews with regional ASB specialists, SME F&D and FI bankers. The remaining 27 included interviews with support units including Donor Funds Partnerships, Impact, Office of Chief Economist, Environmental and Social Sustainability Department, Policy Strategy Delivery and Portfolio.

1.5.4. Limitations

44. **There have been several important limitations to the evaluation.**

45. **First, the evaluation team did not undertake any field study. This is due to the commitment to complete the evaluation prior to Management's annual Small Business Initiative update to Board** – tentatively planned for late September or early October. Therefore, the timeframe did not allow for a field study (i.e., focus group discussions, surveys, and interviews with external stakeholders in CoOs). The evaluation team addressed this shortcoming eminently by gathering information from external and internal evaluations that held numerous focus groups discussions, surveys, and interviews with local and national stakeholders. The robustness of the evidence collected is therefore solid.

46. **Second, limited quality of internal data hampered the evaluation.** Most notably, data related to outputs of Indirect Financing are only partially available. This is because partner financial institutions (PFIs) report this data to the Bank, at times imperfectly. Another important shortcoming is related to disbursement of donor funds. Current systems of the Bank do not enable to link disbursements to commitments with respect to donor sources. The evaluation team addressed this shortcoming – to the extent possible – mainly relying on alternative data sources that could be informative about these aspects. Another key mitigation factor has been the excellent cooperation with Management counterparts with respect to all data-related issues. Throughout the evaluation process, Management counterparts actively helped the evaluation team; provided requested data in a timely manner and offered solutions where data is incomplete or imperfect.

2. Key finding 1: The consolidation resulted in substantial efficiency gains but with caveats

2.1. Most of the consolidation outputs have been achieved.

47. **The 2015 consolidation created the Financial Intermediaries Framework (FIF) that consolidated 25 region or country focussed MSME frameworks as Indirect Financing of the Small Business Initiative.** The total consolidated amount under the Financial Intermediaries Framework was EUR 1,630 million. In terms of volume, the vast majority of the consolidated MSME frameworks were in the Western Balkans (EUR 502 million), Early Transition Countries (ETC) (EUR 423 million) and Türkiye (EUR 303 million).

48. **The consolidation of the MSME frameworks under the Financial Intermediaries Framework meant that individual headroom for each facility and the need for periodic replenishments are eliminated.** Instead, the Board gave green light to consider the approval of a single headroom for the FIF encompassing the entire EBRD region, going forward.

49. **This implied a significant increase in delegated approvals without any change in delegation principles.** 41 per cent and 50 per cent of projects under these MSME frameworks were not delegated to Management in 2013 and 2014, respectively. This was because individual small projects that could have been approved under Delegated Authority were submitted to the Board in the absence of any applicable country MSME framework. In 2022, less than 15 per cent of 119 projects signed under the Financial Intermediaries Framework were Board approved.

50. **The creation of the Financial Intermediaries Framework enabled the design and introduction of a template policy statement for all sub-projects under the Financial Intermediaries Framework.** A policy statement outlines objectives, eligibility criteria, and underwriting and reporting obligations that govern the use of proceed of the financing. This statement is essential as it ensures that both parties, i.e., the lender and borrower, have a clear understanding of the expectations and responsibilities associated with the financing.

51. **The template policy statement was a significant improvement in two aspects:** First, it harmonised the SME definition across all FIF projects by including a unified SME definition and eligibility criteria.[8] Second, it helped the Bank to keep the policy statements consolidated, potentially limiting future proliferation and expansion of requirements set in the policy statements.

52. **Similarly, the Bank streamlined its approach to transition impact rating for the Financial Intermediaries Framework.** To this end, the Bank put in place a rating matrix that presents expected transition impact (ETI) ranges in which the Financial Intermediaries Framework projects would fall based on SME transition gaps and allows for flexibility by assigning a higher expected transition impact to a project if it addresses a significant SME transition gap. Concurrently, the Bank introduced a harmonised list of transition impact benchmarks that is to be used in the Financial Intermediaries Framework projects. Such streamlining helped the Bank to swiftly introduce unified transition objectives and benchmarks into the policy statements and ensure core reporting from financial institutions.

[8] Locally incorporated, independent companies compliant with the EU SME definition (2003/361/EC): that have not more than 249 employees and annual turnover not exceeding EUR 50 million OR balance sheet total of less than EUR 43 million.

53. **However, it is highly likely that reporting under Indirect Financing (Pillar 1) remains incomplete.** Although the initial plan for Indirect Financing was to entirely encompass the Bank's all indirect MSME financing, it only partially entails SME transactions under Green Economy Financing Facilities (GEFFs). In 2022, ABI of GEFFs was EUR 499 million. Similarly, reporting under Pillar 1 does not capture MSME financing under the Trade Facilitation Programme.

54. **Likewise, the 2015 consolidation created the Risk Sharing Framework (RSF) and Direct Finance Framework (DFF) by consolidating four existing facilities of direct investments (Pillar 3).** The total consolidated amount under DFF and RSF were EUR 261 and EUR 96 million respectively. DFF and RSF covered all EBRD countries whereas consolidated frameworks were mainly targeting Western Balkans, Early Transition Countries, SEMED and Türkiye. Like the Financial Intermediaries Framework, DFF and RSF are allocated annual headroom for Delegated Approval based on pipeline, instead of facility-based replenishments.

55. **The introduction of Direct Finance Framework and Risk Sharing Framework and the coherent adoption of a unified SME definition enabled the Bank to identify SME and non-SME deals** under these frameworks and track and monitor the performance of the frameworks in terms of their reach to SMEs. In 2014, prior to the consolidation, the Bank deployed EUR 252 million in 74 projects under its direct financing and risk-sharing instruments. Of these EUR 99 million in 39 projects were for SMEs – as per the definition introduced in 2015. The corresponding combined RSF and DFF SME ABI was EUR 168 million in 2022.

56. **The transition impact rating approaches have been streamlined for RSF and DFF as well.** Particularly, the introduction of SME transition gaps and linking ratings to gaps increased the transparency of the approach and simplified the communication between the operational leaders and economists. Transition impact for RSF and DFF transactions continued to be rated and monitored at the framework level with a focus on portfolio level benchmarks aiming to capture impact in the SME segment.

57. **Inconsistent reporting of some activities goes against the initial intent of the consolidation.** In addition to direct risk sharing, Co-financing and Risk Sharing was supposed to house portfolio risk sharing as well. Currently, reporting of portfolio risk sharing is done under Indirect Financing as it is deployed under FIF. Instead, the Bank's direct venture capital investments are reported under Co-financing and Risk Sharing although these are direct equity investments in SMEs, not risk sharing. Furthermore, ABI figures of 2015 and 2016 of DFF are not directly comparable with later years. This is because in 2016, the Bank created DFF non-SME - a framework for delegated approval of non-SME projects of EUR 10 million or less with separate DFF non-SME eligibility criteria.

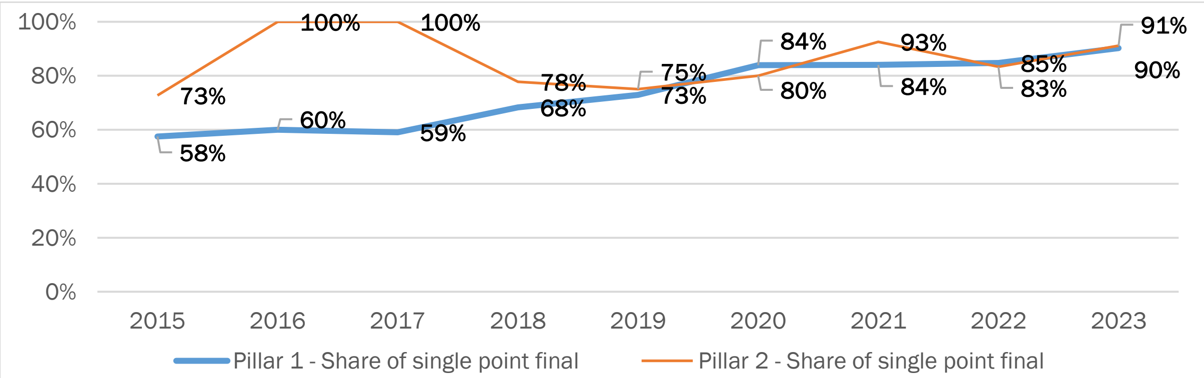
58. **Finally, the Small Business Impact Fund has been established as a new multi-donor fund with the aim to become the main channel through which donors provide support for the Bank's SME related activities.** Concurrently, the SBIF is used as a consultative forum that brings together all donors contributing to the SBI to foster a strategic dialogue and coordinate activities carried out under the Initiative. In this context, the Bank regularly presents to the donor community its strategic priorities for supporting SMEs in its CoOs.

2.2. Efficiency gains vary across pillars

2.2.1. The consolidation brought substantial efficiency gains for the Financial Intermediaries Framework and Risk Sharing Framework, but with recent deterioration

59. **The acceleration of internal approval process followed the consolidation under Indirect Financing and Co-financing and Risk Sharing.** Namely, the internal approval process has been streamlined, enabling projects to skip the concept review stage and proceed directly to final review. Specifically, for Indirect Financing projects, the proportion bypassing the Concept Review Memorandum stage (i.e., the single point final projects), has consistently increased from 2015 to 2023. For Co-financing and Risk Sharing, there are more noticeable year-over-year fluctuations, partly due to the smaller overall number of projects. Despite this variability, most projects under Co-financing and Risk Sharing proceed directly to the Final Review Memorandum stage, as illustrated in Figure 5. Similarly, from 2015 to 2023, there is a reduction in number of days required from Final Review Memorandum to first disbursement by 29 and 12 days, respectively for Indirect Financing and Co-financing and Risk Sharing.

Figure 5: Figure 3: Share of single point final projects under Pillars 1 and 2 (2015-2023)

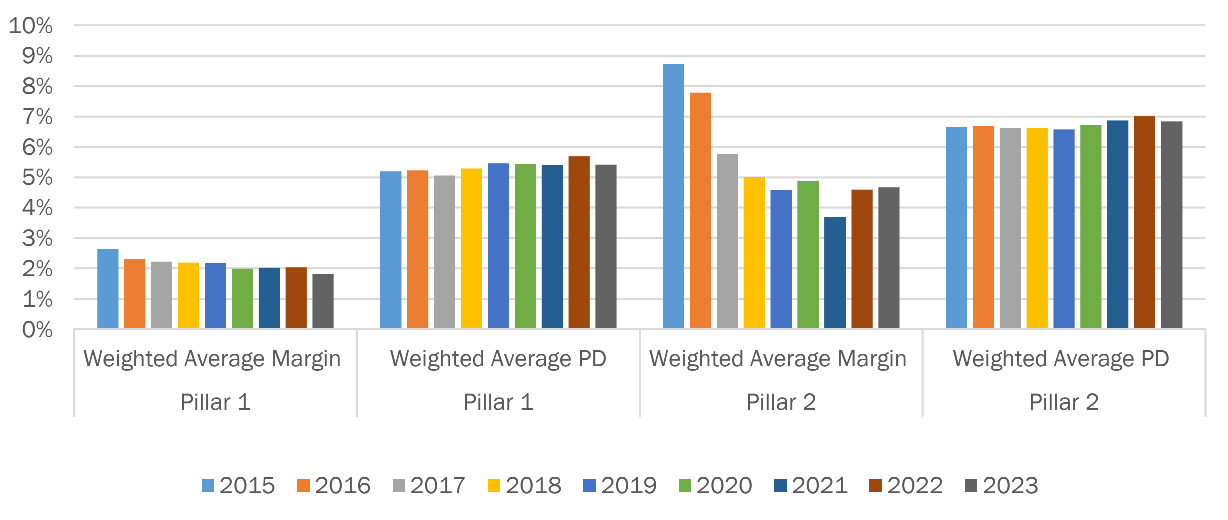


Source: IEvD Calculation based on the EBRD DW Banking Operational Data (Accessed via Tableau).

60. **The acceleration of internal decision making did not result in any significant deterioration of the quality of Indirect Financing portfolio.** Specifically, the weighted average margin has shown a minor decline over time, dropping to 1.83 in 2023 from 2.65 in 2015. The weighted average probability of default (PD) has exhibited minor fluctuations, averaging around 5.35. Similarly, undrawn commitments within the Indirect Financing portfolio have steadily decreased, from EUR 1.13 billion in 2015 to EUR 0.45 billion in 2023.

61. **To lesser degree, the same conclusion applies to the Co-financing and Risk Sharing portfolio as well.** Specifically, the weighted average margin has averaged 5.5 between 2015 and 2023 but has declined from 8.7 in 2015 to 4.7 in 2023. The weighted average probability of default (PD) has remained relatively stable, fluctuating around 6.7. The volume of undrawn commitments within the Co-financing and Risk Sharing portfolio has remained relatively stable over time, averaging EUR 0.02 billion. Yet, partial deterioration of the Co-financing and Risk Sharing portfolio relates to a number of impairments in the Ukrainian Risk Sharing Framework portfolio as well two write-ups under the Venture Capital Investment Programme (VCIP) portfolio. As mentioned above, the 2015 consolidation did not envisage VCIP to be part of Co-financing and Risk Sharing (Figure 6).

Figure 6: Portfolio Indicators for Indirect Financing and Co-financing and Risk Sharing



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

62. **However, since from 2021, efficiency gains in terms time-to-approval appear to stop for both Indirect Financing and Co-financing and Risk Sharing, if not reverse.** Data collected during the interviews with the SME F&D and FI bankers offer potential explanations:

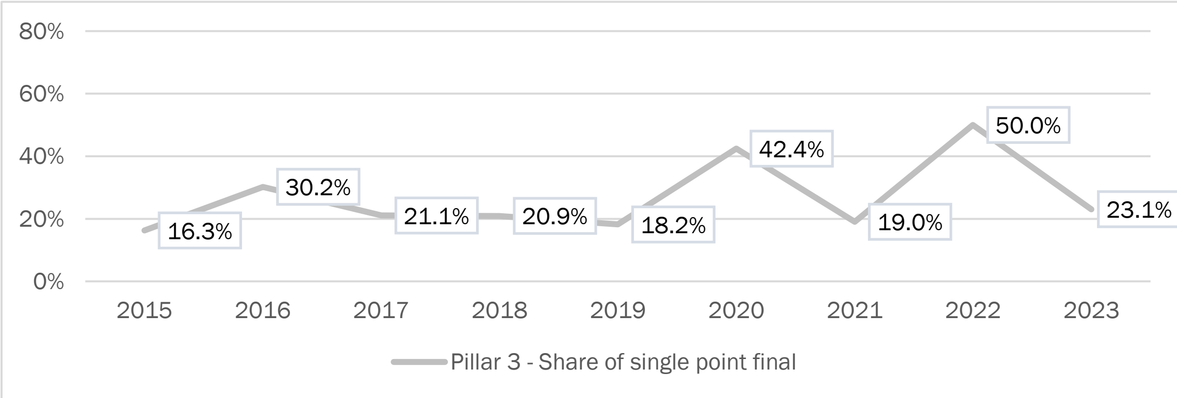
63. **With respect to Indirect Financing, the evaluation team understands that the policy statements started to proliferate over the years in line with the increase in donor requirements.** From the outset, it was anticipated that minor adjustments would be sufficient to accommodate differing donor requirements and product types. However, for some donors, such as the EU, the requirements have significantly increased in line with evolving EU policies and regulations, leading to gradual proliferation and complexity of policy statements. EU donor funds requirements have become more cumbersome both for the Bank and its PFIs, who for instance need to screen all sub-borrowers against the EU sanction list.

64. **With respect to Co-financing and Risk Sharing, a bespoke transition assessment has been re-introduced, mitigating some of the initial efficiency gains.** The transition impact for projects under the Risk Sharing Framework was measured at the framework level until 2021, and in some cases, also at the partner bank's level. From 2022, the transition impact assessment of the RSF has become more granular, with expected transition impact scores provided at the sub-operation level. This change happened because as it will be explained in the following sections, SME F&D was aiming to increase the volume and number of projects under Risk Sharing Framework and decrease under Direct Financing Framework. At that time, Impact required a more granular transition impact assessment to accompany such a shift from DFF to RSF. According to the new approach, while transition impact stems from the 'Competitive' and 'Resilient' qualities at both the Framework and partner bank levels, transition impact at a sub-operation level can also target the 'Green' and 'Inclusive' qualities.

2.2.2. The Direct Financing Framework was affected by negative trends in efficiency and portfolio quality

65. **Unlike in the case of Indirect Financing and Co-Financing and Risk Sharing, the consolidation of Direct Financing did not lead to any meaningful changes in terms of efficiency.** The proportion of Direct Financing projects that bypassed the concept review memorandum stage and proceeded directly to the final review memorandum stage has been lower, averaging at 26.8% between 2015 and 2023. Median time from CRM to FRM stands at 140 days in 2023 vis-à-vis 147 days in 2015 (Figure 7).

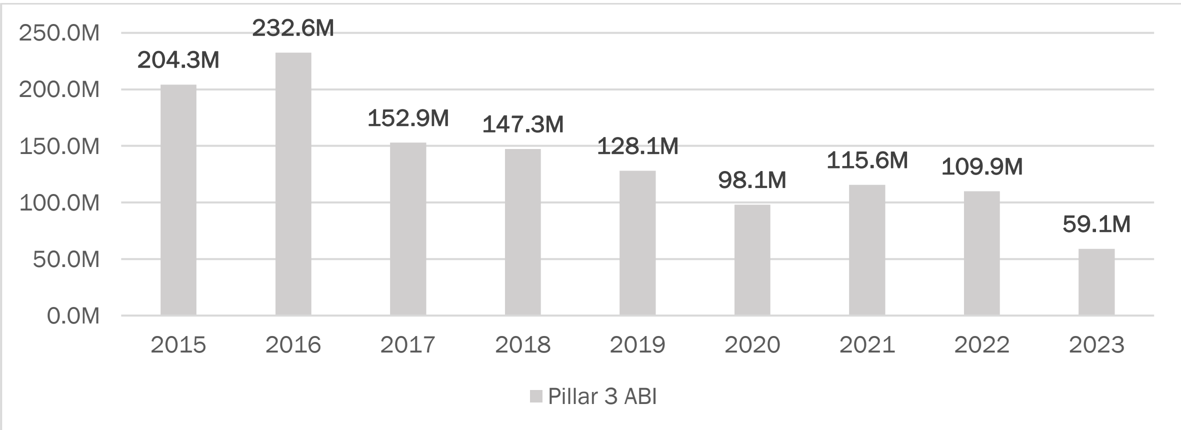
Figure 7: Share of single point final projects under Direct Financing (2015-2023)



Source: IEvD Calculation based on the EBRD DW Banking Operational Data (Accessed via Tableau).

66. **At the same time the quality of Direct Financing portfolio has been deteriorating.** Specifically, the share of non-performing loans in the Direct Financing portfolio increased from 10.2% in 2015 to 30% in 2022, before falling to 22.3% in 2023. The weighted average margin of the Direct Financing portfolio has averaged 4.6 but has shown a decline over time, dropping to 3.8 in 2023 from 5.4 in 2015. Equally importantly, the annual business investment has dropped from EUR 204.2 million in 2015 to EUR 59.1 million in 2023 (Figure 8).

Figure 8: Direct Financing ABI (2015-2023)



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

67. **Mainly because RSF is more efficient and provides better financial results than DFF SME, Management is pursuing to increase the share of RSF at the expense of DFF SME.** Consequently, the Board approved headroom for DFF SME has decreased from EUR 250 million in 2016 to EUR 100 million in 2023. The number of projects under the DFF SME has reduced over recent years (from 35 in 2018 to 13 in 2022). Whilst the number of projects under the RSF with SMEs has increased from 14 to 28 over the same period leaving the total number of projects with SMEs across the two frameworks in steady.

68. **This direction towards re-balancing is well-justified.** In addition to efficiency in terms of time-to-approval, the total cost of running DFF SME (including direct, indirect and Treasury) stood at EUR 51 million as of FY 2022 as produced by Finance. The same figure for RSF was EUR 21

million. Since RSF takes circa 50 per cent less time to originate and monitor, it is estimated by Management that RSF is 38 per cent less costly than DFF SME per project.[9]

69. **A previous IEvD evaluation[10] provides additional granularity explaining potential drivers of this difference in efficiency.** The lower costs of risk-sharing facility result from the majority of the origination, execution and monitoring costs being borne by the partner banks. This results in significantly lower costs of managing a loan. Additionally, IEvD's earlier study had estimated that the direct cost of RSF stood at EUR 34000 (EUR inflation adjusted, 2022 prices) per project in 2010. This figure stands at EUR 33000 for FY2022 as produced by the Finance. This indicates that per project direct cost remained stable between 2010 and 2022.

70. **The consensus that emerges in the interviews with the SME F&D bankers is that internal EBRD requirements and procedures are too burdensome for potential deals under DFF SMEs.** The streamlining of transition impact scoring that happened in 2015 did not have any meaningful impact on addressing this problem. Indeed, time-to-approval for projects under DFF non-SME is on par with projects under DFF SME[11], although transition impact assessment for DFF non-SME is not streamlined.

71. **While internal requirements have evolved over the years, DFF SME has not adapted accordingly, leading to significant challenges..** On this matter, the interviewees refer to Paris Alignment, Gender and Compliance – amongst others. They believe that potential clients under DFF SME have more potential than under RSF to contribute to impact on climate change, gender equality and digitalisation. However, the Bank's internal procedures are not fit for purpose to facilitate this. Half of the interviewees also claim that DFF SME clients have been left behind during and after COVID and that RSF and DFF SME have been put into competition. Consequently, they believe that the Bank does not have an appropriate SME lending culture and perceive this as the main culprit of the deteriorating performance of the DFF SME.

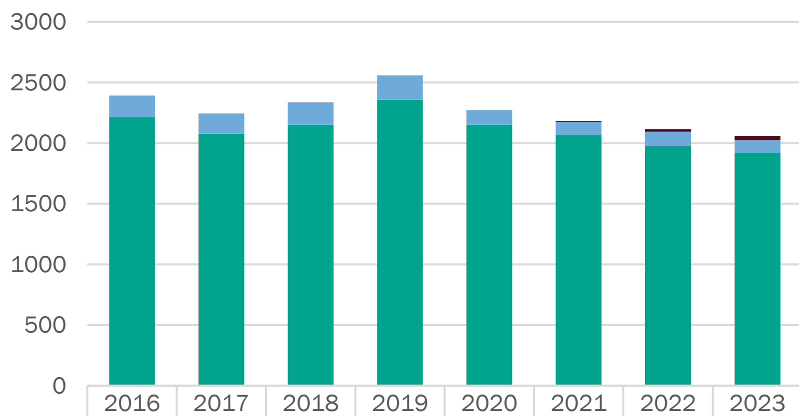
72. **The Bank has been able to establish dedicated streamlined procedures in the past.** For instance, the Bank's internal processes were initially not ready to run an internal venture capital fund that operates in alignment with market practices resulting in no deployment of funds by the Venture Capital Investment Programme (equity investments in start-ups) in its first two years between 2012 and 2014. This issue got resolved through the development of appropriate (and leaner) legal and risk assessment procedures. As of today, the Bank can complete a typical direct venture capital investment within six weeks. Such a fundamental streamlining of internal procedures ensuring alignment with market practice did not happen for DFF SME.

2.2.3. Delivery of Business Advisory remained strong, despite few negative signals

73. **Overall operational efficiency metrics of Business Advisory indicate sound delivery.** In terms of the number of projects delivered, the number of local consultancy projects and international advisory projects have increased from 2016 to 2019, registering a fall from 2020 onwards possibly because of COVID (as corroborated by interviews). However, the impact of COVID on international advisory projects appears to be much more pronounced and lasting. At the same time, in 2021, SME F&D initiated the group advisory projects enabling the Bank to reach micro-enterprises. The implications of these changes on relevance will be elaborated in the following sections (Figure 8).

[9] RSF also enables the Bank to execute transactions with local mid-caps. This is an additional benefit of the framework beyond the financing of SMEs.
[10] Special Study - Direct Lending Facility (DLF) and Medium Sized Co-Financing Facility (MCFF) (Regional) (CS/AU/10-20)
[11] For projects that are signed in 2022, time-to-approval is 5.8 months for DFF SME and 6.1 months for DFF non-SME.

Figure 9: Number of ASB Projects 2016 - 2023



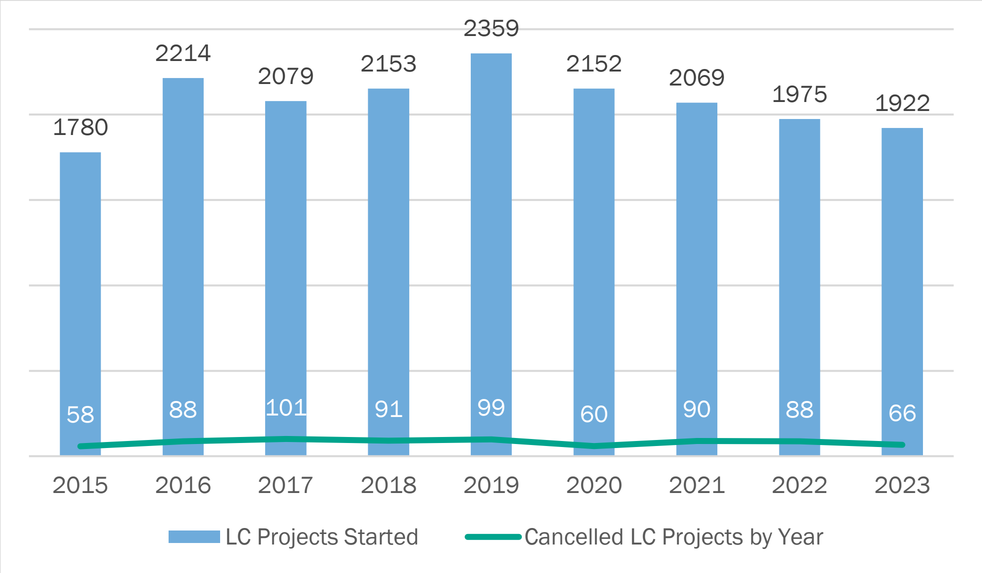
	2016	2017	2018	2019	2020	2021	2022	2023
Group Advisory	0	0	0	0	0	8	23	33
IA Projects Started	177	166	185	198	121	107	118	105
LC Projects Started	2214	2079	2153	2359	2152	2069	1975	1922

Source: SME F&D 2016 – 2023 Q4 Scorecards

74. **This report looks at cancellation rates and client contributions as these are indicative of the efficiency of Business Advisory.** This is because high cancellation rates may suggest inefficiencies with the services provided, while high client contributions indicate a strong perceived value and as well as more efficient use of donor sources.

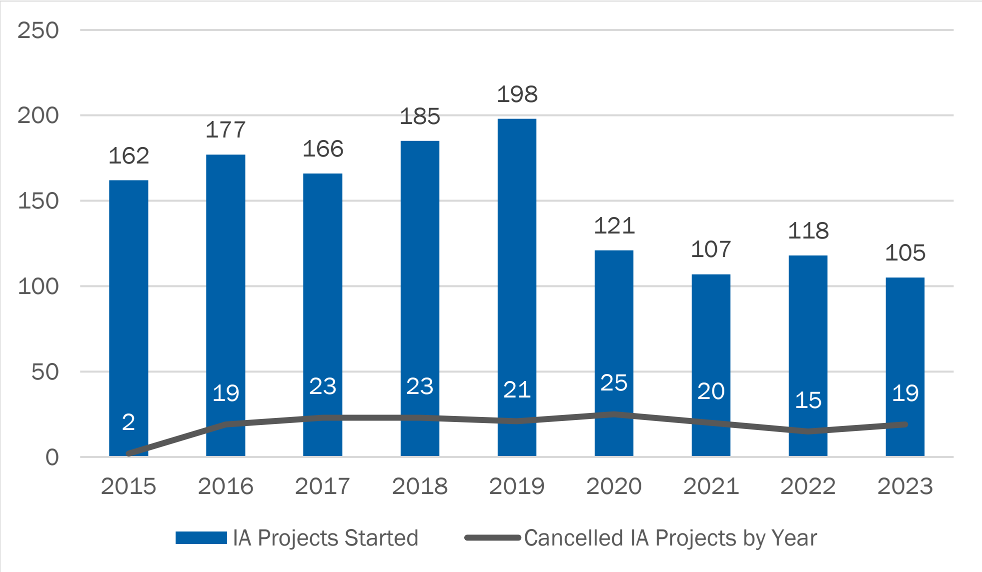
75. **The number of cancelled local consultancy and international advisory projects demonstrates a relatively stable trend between 2015 and 2023.** The number of cancelled local consultancy projects points towards a decreasing trend from 2019 onwards after the effects of the pandemic subside, with periods of reduction in 2020 and 2023 (Figure 10). In parallel, the number of cancelled international advisory projects increases overall from 2015 to 2020, also registering a fall after this period. However, this coincides with a timeframe when there is a sharp and lasting decline in the number of international advisory projects started (Figure 11). This trend, combined with the introduction of group advisory projects (Figure 8), appears to be one of the drivers behind the substantial reductions in international advisory projects.

Figure 10: Local Consultancy Cancellations



Source: SME F&D 2016 – 2023 Q4 Scorecards (for the total number of projects started) & SME F&D LC and IA Excel Sheets Provided (for 2015 data and cancellation numbers)

Figure 11: International Advisory Cancellations



Source: SME F&D 2016 – 2023 Q4 Scorecards (for the total number of projects started) & SME F&D LC and IA Excel Sheets Provided (for 2015 data and cancellation numbers)

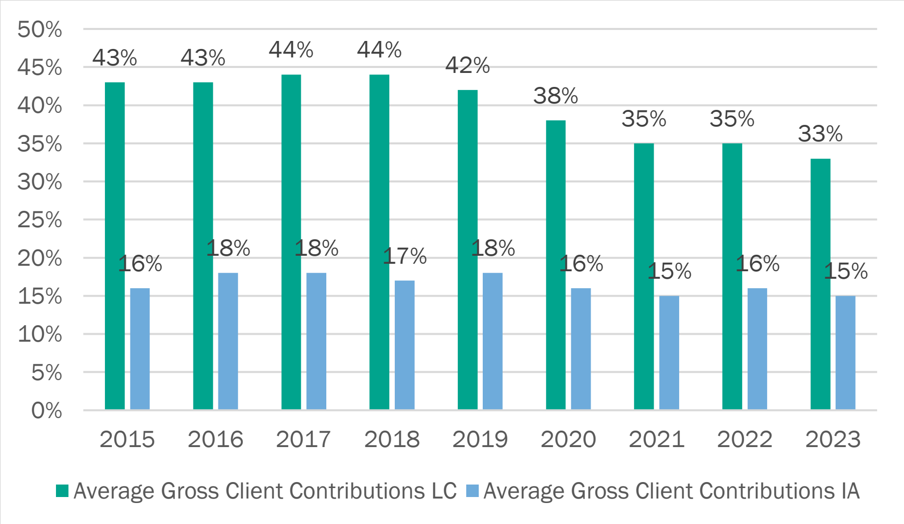
76. **Similarly, in 2020, the client contribution rates for local consultancy projects demonstrate a decrease that is maintained going forward.** There are two main reasons for this drop. First, during COVID, there were reductions or top-ups for client contribution rates for some countries.[12] Second, the number of beneficiaries under Women in Business are increasing and these beneficiaries are eligible for an additional ten percentage point reduction in client contribution

[12] This depends on a case-by-case basis for countries i.e. they may have remained the same for Türkiye but changed for Serbia (based on a comparison of the 2020 and 2021 OPs for each country, for example). Other additional top-ups are introduced for crisis contexts etc. (i.e. SMEs in earthquake-affected regions receive a 90% grant after the earthquake).

rates.[13] On the other hand, the average gross client contribution rates remain stable for international advisory.

77. **However, since 2021, there has not been any further reduction in client contribution rates both in local consultancy and international advisory projects.** Stabilisation of client contributions share is an important indicator for the sustainability of these services. This is because cost share is essential for ASB to secure beneficiaries' commitment to working with business advisory service providers, taking ownership of the assignment, and delivering long-term project impact (Figure 12).

Figure 12: Local Consultancy and International Advisory Client Contributions



Source: SME F&D LC and IA Excel Sheets Provided
*The numbers are rounded

78. **A critical element that ensures efficient delivery under Business Advisory is the Operational Manual and Operational Plans.** There have been five Operational Manuals published to this date (2012, 2014, 2018, 2021, and 2023). In addition to outlining entire procedures for delivery under Business Advisory, the Operational Manuals delineate standard cost-sharing guidelines whereas Operational Plans customise these per year based on a country context. Operational Plans are published on an annual basis for each country of operations. Annually, changes are registered and monitored in the core and operational KPIs, the client cost-sharing matrix and its top-ups, Market Development Activities (MDAs) and Sector Development Activities (SDAs), policy dialogue and stakeholder activities, and donor timelines.

2.2.4. Limited integration of advisory services and indirect financing

79. **While the delivery under Business Advisory has been achieved with efficiency, integration of Business Advisory and Indirect Financing remained very modest and limited mostly to Women in Business and Youth in Business.** For instance, number of advisory beneficiaries signing a loan agreement with a partner bank offering Women in Business programme has been 39, 88, 47 and 17 in 2016, 2017, 2018 and 2019, respectively. In the same years, number of sub-loans disbursed under the Women in Business programmes are 15115, 18744, 8534 and 13628. Given that the advisory numbers are coming from ASB's self-evaluations and reported by the

[13] There are other reasons why the decrease would be sustained. Again, as the client cost-sharing matrix is customised by country, this depends on the country context. However, depending on the country, other top-ups are added for SCF priorities such as youth and green-tracked. Grants may be given for supply chain advisory projects. Tailor-made advisory services for SCF beneficiaries may receive additional top-ups etc. In addition, crisis contexts such as the earthquake in Türkiye may elicit additional contributions. In sum, top-ups are varied, and the client cost sharing matrix is context responsive.

beneficiaries one-year after the completion of services, it is highly likely that these numbers are under-reported. Yet, the Türkiye Women in Business Programme Final Report prepared by the Frankfurt School of Management report only slightly higher figures by matching exact names and tax IDs in sub-loan portfolio and EBRD's advisory records (102 out of 15871 sub-borrowers).

80. **Impact Evaluation of EBRD's Women in Business in Western Balkans and Eastern Partnership countries 2014–2021 commissioned by SIDA offer the following explanation about the low level of integration between advisory services and indirect financing:** [*Advisory services] did not engage with newly established SMEs that have been active for 2-3 years, with a smaller turnover and number of employees, those in rural areas or those run by more vulnerable and under-served women entrepreneurs, as recommended by the Mid-term review of the programme. Due to this, the programme missed supporting women who potentially needed more support given their limited organisational resources, limited access to opportunities and volatile external socio-economic and related donor environment.* Similar observations are repeated in IEvD's EBRD Women in Business Programme in Türkiye – EvD Review. Consequently, SIDA's reports notes that *the transformative potential and sustainability of WiB's results are muted to some extent by a narrow pool of beneficiaries.*

81. **Appropriately, SME F&D stopped tracking *number of advisory beneficiaries signing a loan agreement with a partner bank* in its scorecard and instead put more emphasis on supporting partner banks with the delivery of non-financial services (NFS).** In their essence, these are trainings, e-learning, diagnostics, and advisory services, which can support financial institutions to address barriers to growth and performance of their SME clients in addition to financing. To date, there have been several successful examples in Türkiye, Egypt, and West Bank of such partnerships between partner banks and SME F&D. Accordingly, key performance indicators related to provision of non-financial services jointly with the partner banks are introduced into the SME F&D operational plans in 2023.[14] Another advantage of non-financial services is that it avoids the perception that advisory support may grant access to financing from a partner financial institutions because support to SMEs are provided by the PFIs. Hence, the perception of tied or cross-selling of advisory services as part of the Bank's indirect financing operations and associated potential reputational risk is prevented.

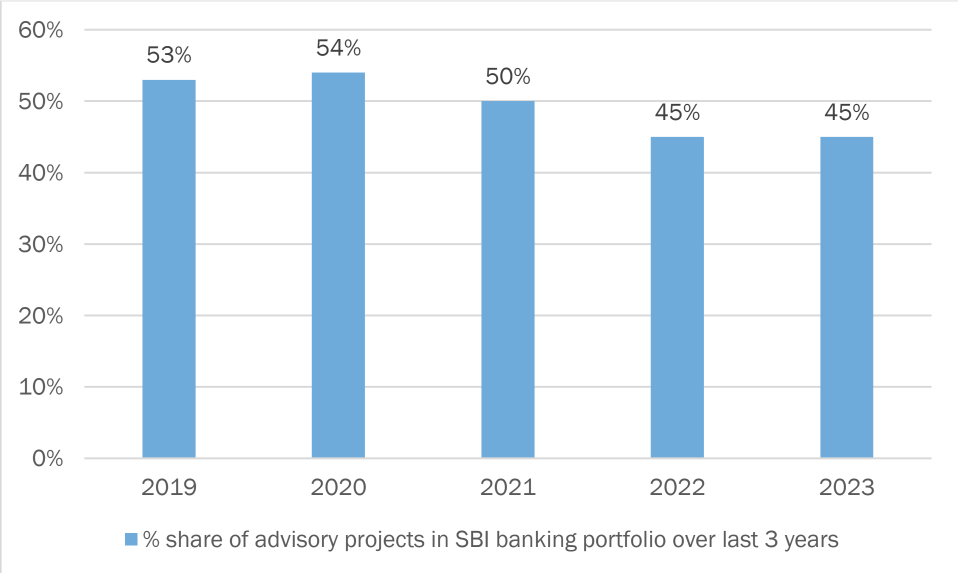
82. **Nevertheless, it is not clear how the Bank aims to achieve systemic impact through the integration of the tools that is available, i.e., advisory, financing and policy.** As an example, The Country Evaluation – The EBRD in Uzbekistan (2017-22) notes that *the ASB Programme, for example, is unlikely to achieve systemic change through direct support to SMEs, where it currently has about 100 projects per year, in a country with over 400,000 registered SMEs….In the case of the ASB Programme, for example, which is very active in Uzbekistan, the number of SMEs that received ASB support is less than 0.1 per cent, which makes contribution to wider systemic change less plausible*. Accordingly, the Country Evaluation – The EBRD in Uzbekistan (2017-22) – recommended Management to "*Identify and promote systemic change mechanisms as part of both direct financing to the private sector and the ASB programme. These may include focusing on aggregators, targeting strategic sub-sectors with the greatest potential for fostering systemic change and promoting market-building activities*". Similarly, in 2016, highlighting the need to articulate how advisory services will contribute to systemic change, IEvD's evaluation of EBRD Small Business Support Programme (2011-2015) stated that *the transition rationale for developing local consultancy markets should be made explicit.* Management partially agreed with this recommendation and emphasised that *the benefits to the ultimate SME beneficiaries and the impact achieved with the combination of finance and advisory services* will be prioritised.

[14] To illustrate, the Policy statement of the Youth-in-Business in Morrocco (YiB) integrated product Framework defines ASB component as follows: 'The Advice for Small Businesses component will work in parallel with the Loan component. The aim of the ASB component is established to facilitate increased access to know-how and non-financial development services for Youth MSMEs, as well as access to markets through networking opportunities… Eligible potential and existing sub-borrowers will benefit from a range of technical assistance services offered under the ASB component in the form of offline and digital training, mentoring and local consultancy services, with the aim to strengthen entrepreneurial skills and mind-set.'

However, as highlighted above, the combination of finance an at the sub-borrower level has been very modestly successful.

83. **Finally, as opposed to Indirect Financing, integration of Business Advisory with RSF and DFF SME has been successful.** Consequently, across the years, close to half of the clients under RSF and DFF SME benefitted from the Bank's advisory services. Such an offer further strengthened the Bank's offering of RSF and DFF SME (Figure 13).

Figure 13: Share of Advisory Projects in the SBI Banking Portfolio over the Last Three Years (2019 – 2023)



Source: SME F&D 2019 – 2023 Scorecards Q4

2.2.5. Donor funding for SME work remains fragmented

84. **The 2015 consolidation proposed a new approach to structure the demand for donor resources and allocate funds more strategically to maximise the combined impact of SBI pillars.** This approach, initially, included two main elements:

- the Small Business Resource Framework (SBRF) and
- the Small Business Multi-Donor Fund (SBIF)

85. **The SBRF was supposed to govern the mobilisation and efficient use of resources, functioning as a consultative platform to streamline and increase the leverage of resources.** Its objectives included providing a unified platform, enhancing coordination, streamlining resources, establishing monitoring and evaluation mechanisms, enhancing transparency, visibility, and setting standards and best practices in SME development.

86. **The SBIF was envisaged to be the principal source of finance for the Bank's activities in support of the SBI.** The SBIF was supposed to take its broad strategic orientation from the SBRF but have its own governance and decision-making authority for the allocation of resources to projects.

87. **Nevertheless, SBRF has never materialised as a separate entity.** Instead, SBIF assumed both functions: The SBIF provides a mechanism for donors to shape the EBRD's directions regarding finance, advisory and policy support for SMEs; performs both a platform and a fund function that could benefit donors. It delivers matchmaking services between the demand for resources for

EBRD managed SME programmes and the interests and priorities of donors that are looking to support SMEs in a particular geography or theme.

88. **Between 2015 and 2023 the SBIF has organically grown to a EUR 130.2 million Fund.** The external evaluation conducted by Steward Redqueen in 2022 states that *in consultations with stakeholders on all sides of the SBIF (management team, donors, programme leads, companies) there is general satisfaction on how the SBIF was designed, and what it has achieved in practice.*

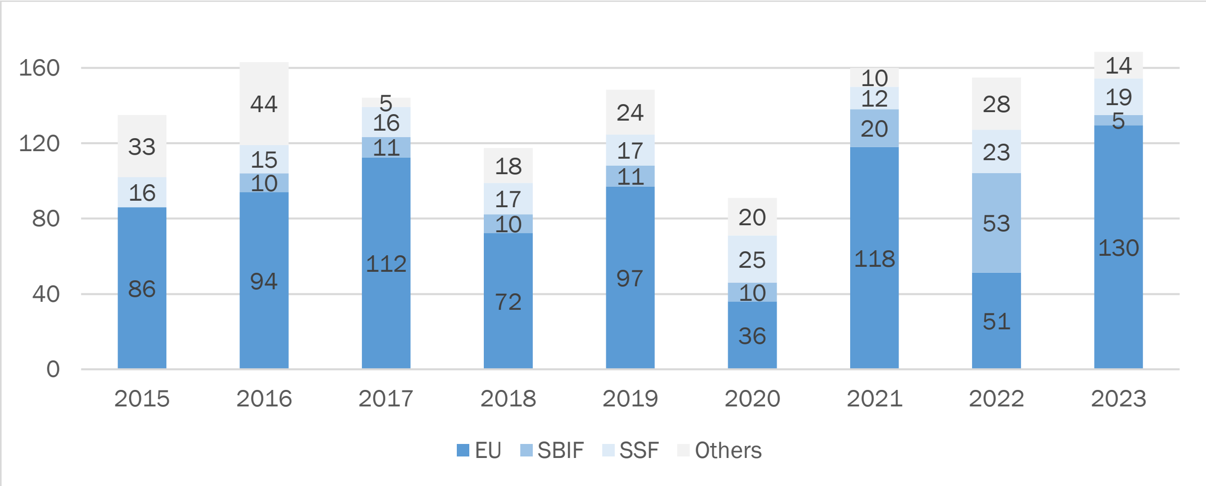
89. **However, the SBIF represents a minor share of all SME-dedicated donor funds (i.e., EUR 1,282.4 million) raised between 2015 and 2023**, amounting to an average of EUR 142 million per year. The EU consistently emerges as the biggest donor per year, as well as cumulatively, providing EUR 796.7 million, or 62.1% of the SME-dedicated funding. The Shareholder Special Fund (SSF) was the second largest donor with a total of EUR 159.4 million (i.e., 12.14% of funding raised), while the other donors contributed EUR 196 million.

90. **This has adverse implications on efficiency.** This is because the speed of fund deployment varies depending on the funding source. The quickest tool for deploying funds is the SBIF. Under this mechanism, a programme fiche is prepared and circulated to donors for a 10-day non-objection approval period. If no comments are received within this period, the fund can be earmarked immediately and deployed. In contrast, the EU has a longer process, typically taking around 12 months from the start of discussion of a proposal to the contract signing. The SSF falls somewhere in between; it requires 10 working days for Board non-objection, but this usually takes longer because of the necessary internal interactions. On average, fund deployment through Shareholder Special Fund can occur within 4 to 6 weeks.

91. **Due to EU being a major SBI donor with an average of EUR 89 million per year, the overall funds volatility reflects the EU funding volatility.** The EU funding ranged from a low of EUR 36 million in 2020 to a high of EUR 130 million in 2023. Notably, the SSF contribution to SBI exhibits noticeable year-on-year increases in 2020 and 2022, potentially indicating the SSF's role in helping stabilise the annual donor funding volumes. Additionally, SBIF provided the record funding of EUR 53 million for SBI in 2022, compared to its average annual funding of 16 million EUR in this period.

92. **Concurrently, despite SBIF being highly appreciated in the Bank, its donor base had limited diversification since its inception.** On average, 5.5 bilateral donors contributed annually, with most making repeat contributions, indicating a stable donor base. Contributors include Ireland (EUR 4 m; 1 time), Italy (EUR 10.6 m; 4 times), Japan (EUR 6.8 m; 6 times), South Korea (EUR 11.9 m; 7 times), Luxembourg (EUR 7.0 m; 5 times), Norway (EUR 8.5 m; 2 times), Sweden (EUR 3.0 m; 3 times), Switzerland (EUR 41.5 m; 5 times), Taipei China (EUR 2.3 m; 4 times), and the USA (EUR 35.1 m; 7 times) (Figure 14).

Figure 14: SBI funding by donor by year (2015-2023)



Source: IEvD Based on the SME F&D Data. SBIF Funding by Donor (2015-2023).

3. Key finding 2: The consolidation has set good foundations for responding to clients' needs and Bank priorities

3.1. Emphasis on Bank priorities has increased across pillars with some areas lagging

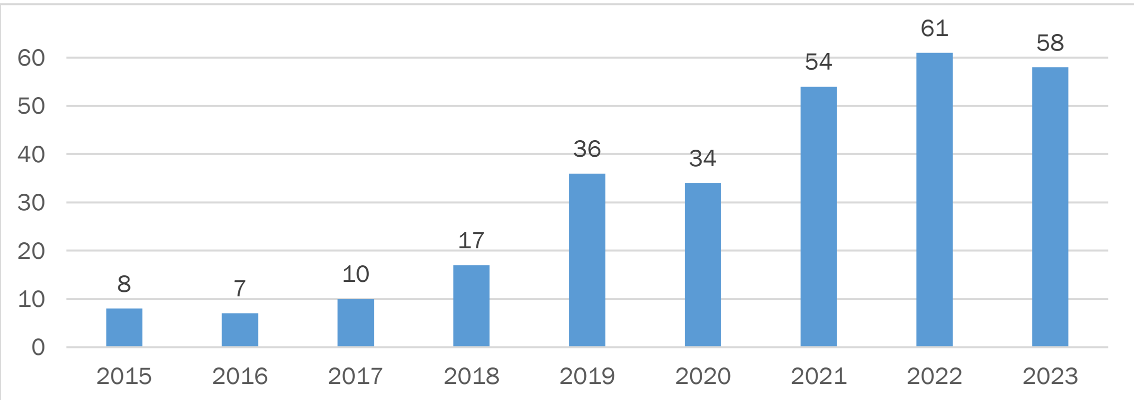
93. **In the following sections the evaluation reviews the coherence of SBI pillars with the Strategic and Capital Framework priorities, namely sustainability and green economy, inclusion and equality of opportunities and digitalisation.** While doing so, it gives an overview of the evolution of SBI pillars in terms provision of access to finance and know-how that promotes the progression of Strategic and Capital Framework priorities.

3.1.1. The consolidation under the Financial Intermediaries Framework facilitated coherence with Bank priorities overall -with digitalisation still lagging

94. **Interviews consistently pointed to the fact that having the Financial Intermediaries Framework as a base framework to start with, enabled to build green-targeted initiatives such as SME Competitiveness, SME Go Green and SME Go Digital.** At the same time, the interviewees also mentioned that this does not necessarily mean the Bank is investing more in green solely because of the Financial Intermediaries Framework (FIF). But rather, FIF helps to tag and keep track of green projects under FIF.

95. **From a green perspective, the Green Economy Transition (GET) ratio of Indirect Financing ABI shows a positive trend since the consolidation in 2015.** The GET ratio of Indirect Financing ABI stands at 20 per cent in 2023. The same figure in 2015 was 10 per cent. Similarly, the number of projects with GET finance under Indirect Financing increased from 8 in 2015 to 58 in 2023. Likewise, the number of projects with Green Transition Quality gradually increased from 1 in 2018 to 20 in 2023 (Figure 15).

Figure 15: Number of Indirect Financing projects with GET finance



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

96. **Introduction of EU/EBRD Deep and Comprehensive Free Trade Area (DCFTA) in EU Eastern Partnership countries in 2016 and SME Competitiveness Support Programme in the Western Balkans in 2017 substantially contributed to the increase of projects with GET finance and**

green transition ambitions[15]**.** These programmes are established, with donor support, to encourage SMEs to overcome the barriers to upgrade production facilities by investing into equipment and processes which boost effectiveness and meet the green sustainability challenge of the region, while deepening their economic integration with the EU. The Programme is supported by grants from local EU Instrument for Pre accession Assistance, the Western Balkans Investment Framework and the SSF. Following the implementation of these programmes, the Bank launched another initiative for SMEs (SME Go Green) in 2023 to scale up investments in high performance standards, green technologies, and services.

97. **Concurrently, integrated products that offer both finance and advisory services, helped Indirect Financing to increase its emphasis on gender and economic inclusion and remain coherent with the Bank's strategy.** Specifically, the Bank gradually expanded its Women in Business programme and invested in Western Balkans, Eastern Partnership countries, Central Asia, Morocco, Türkiye, Kazakhstan, Egypt, West Bank and Tajikistan between 2015 and 2023. Similarly, in 2019, the Bank launched its first Youth in Business operations in Egypt and later expanded it into Central Asia and Western Balkans. The total business investment under these programmes exceeded EUR 1 billion which is slightly more than 10 per cent of all business investment under FIF between 2015 and 2023.

98. **Following a pilot in Albania in 2016 and another project in Bosnia in 2018, the extensive use of portfolio risk facilities in Ukraine during the war proved to be eminently coherent with the Bank's strategy.** During the interview with Financial Institutions Business Group as well SME F&D bankers, on several occasions, portfolio risk sharing facilities have been indicated as the most efficient instrument to expand access to finance to SMEs.

99. **The 2015 consolidation stated that *the portfolio risk sharing product will be developed and potentially presented to the Board for approval in 2015*.** This was because there appeared *to be demand for such products, especially in cases where they are associated with capital relief for PFIs to allow them to expand their business towards SMEs*. Yet again, it took the Bank eight years to deploy the product at scale only when it was most urgently needed in a situation of war.

100. **The Bank signed 24 unfunded portfolio risk sharing facilities in Ukraine following the initiation of War on Ukraine under the Financial Intermediaries Framework in 2023 and 2024.** These are followed by another signing of portfolio risk signing facility in Armenia in 2024. These facilities aim to promote SME financing and derisk partner banks' expansion in the sector by covering the credit risk and providing capital relief with donor support. The objective is to enable partner banks to effectively manage and mitigate risk, allowing them to extend more credit to SMEs without compromising their regulatory capital positions. Another advantage of portfolio risk sharing is that it is an unfunded instrument. Therefore, it avoids high cost of local currency for the borrowing bank, allowing it to take it from its conventional domestic sources. Effectively, in these facilities EBRD takes the part of SME risk and relies on the partner bank's available and less expensive local currency liquidity to finance local SMEs. This is important because interviewees agreed that the Bank's access to local currency is the single biggest constraints for expanding financing to SMEs.

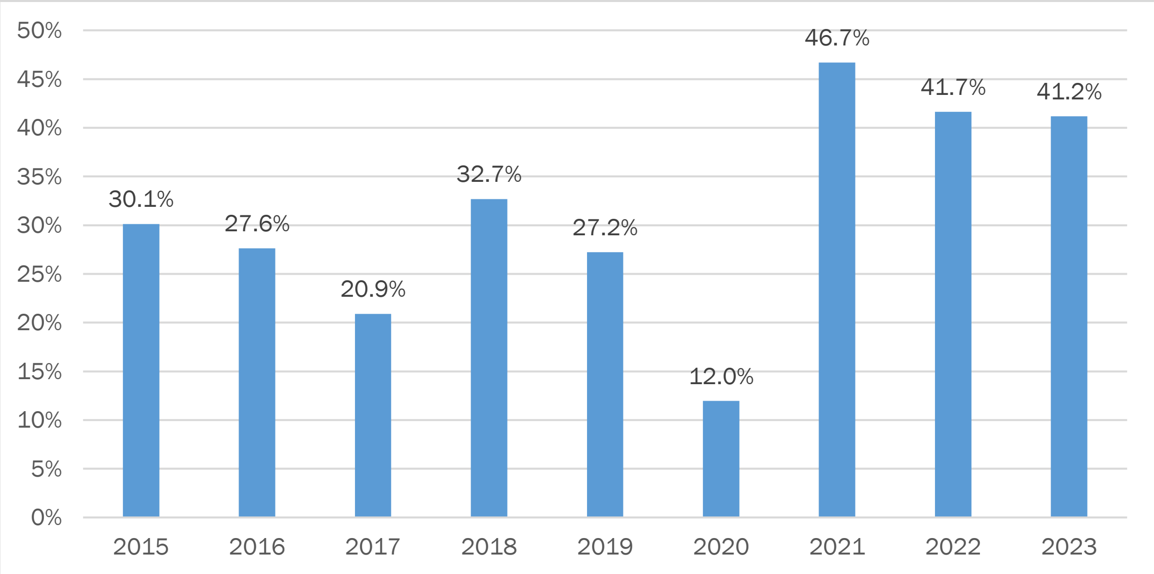
101. **On the other hand, Indirect Financing's contribution to digitalisation have been very limited.** The Bank launched a new programme (Go Digital) in the Western Balkans in 2022. This programme supports digitalisation, automation, and modernisation and of SMEs. To date, there have been only six transactions with total volume of EUR 40 million.

[15] Between 2016 and 2023, the Bank invested in 75 projects under these programmes, and this constitutes 27 per cent of all projects with GET finance under FIF during this period.

3.1.2. Emphasis in green finance was marked for Risk Sharing Framework and Direct Financing Framework

102. **With respect to Co-financing and Risk Sharing and Direct Financing, their coherence with the Bank's strategy was higher than Indirect Financing in terms of Green Economy Transition finance.** Throughout the 2015 and 2023 period, the average combined Green Economy Transition ratio of Co-financing and Risk Sharing and Direct Financing has been 31 per cent and it demonstrates a 11-percentage point increase from 30 per cent in 2015 to 41 per cent in 2023 (Figure 16). However, in volume terms, this corresponds to a 26 per cent reduction (EUR 78 million in 2015 vs. EUR 57 million in 2023) due to shrinking volume of business investment under Direct Financing.[16]

Figure 16: Combined GET ratio of Co-financing and Risk Sharing and Direct Financing



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

103. **Projects under Co-financing and Risk Sharing and Direct Financing had elements of digitalisation as well as gender and economic inclusion.** The Bank achieved this mainly via offering advisory services that had relevant components on digitalisation and gender and economic inclusion.

3.1.3. The coherence of Business Advisory with Bank priorities became more explicit after the introduction of the Strategic and Capital Framework

104. **Business Advisory increased or maintained the shares of green, inclusion, digital in local consultancy, and international advisory projects.** From 2021 onwards, EBRD's strategic priorities are featured in the operational plans and reported on by the SME F&D scorecards. Between 2021 to 2023, the SME F&D scorecards demonstrate that the global share of projects focusing on at least one strategic priority has increased from 81% to 90%. This is also reflected by an increase in projects corresponding to individual strategic priorities, as demonstrated below (Table 3).

[16] This reduction in volume can also be attributed to the increased number of RSF activities in smaller countries, with relatively smaller investment volumes.

Table 3: Projects focusing on strategic priorities

Strategic Priority	2021	2022	2023
Global share of projects with focusing on at least one strategic priority area (excluding double counting)	81%	88%	90%
Green by content (LC energy efficiency and environmental management, IA with environmental objective)	3%	5%	5%
Green tracked (LC projects with green-tracked KPI)	6%	22%	31%
Digital (LC and IA projects with digital cross-cutting)	35%	42%	43%
Inclusive (Projects with Gender and/or Youth cross-cutting issue)	N/A	43%	42%
Gender (LC and IA projects with a gender cross-cutting issue)	31%	35%	33%
Youth (LC and IA projects with a youth cross-cutting issue)	9%	12%	13%
Rural (LC and IA projects with rural cross-cutting and outside main city)	47%	47%	49%

Source: SME F&D 2021 – 2023 Scorecards Q4

105. **The 2021 edition of the Operational Manual of Business Advisory marks a significant shift from previous versions by introducing the 'EBRD strategic priorities' sub-chapter.** This section emphasises that SBI's activities need to be aligned with the Strategic and Capital Framework's 2021-2025 strategic priorities, which are to be tracked at the advisory project level through cross-cutting themes, including green, inclusion, and digitalisation. Furthermore, the manual specified that in addition to the standard incentives, which may apply for projects, such as the WiB, energy-related or rural area projects, incentives would also be available for youth-related projects. Notably, while the 2012 manual mentioned up to 5% top-ups, subsequent versions consistently refer to 10% top-ups for projects addressing cross-cutting issues.

106. **Operational plans also incorporated changes reflecting the Strategic and Capital Framework priorities.** In line with the incorporation of EBRD's strategic priorities in the Operational Manuals starting from 2021, Operational Plans begin to demonstrate core KPIs corresponding to priorities such as green, gender, youth, rural, and digitalisation. While Operational Plans remain responsive to the changing country context as already described above, they are also determined by EBRD's strategic directions and the Operational Manuals.

107. **As importantly, Business Advisory responded to COVID, the War on Ukraine and the earthquake in Türkiye with utmost flexibility.** Specifically, the Operational Plans of SME F&D have been responsive to crises such as COVID, the refugee crisis, the 2023 Earthquake, and the War on Ukraine (Table 4). This is reflected by changes in operational and core key performance indicators, adjustments in the client cost-sharing matrix, and market development (MDAs) and sector development activities (SDAs). This is even so when a corresponding country strategy predates a crisis, operational plans prove responsive. This will be expanded upon in its dedicated section below.

Table 4: Ukraine and Türkiye SME F&D Crisis Response

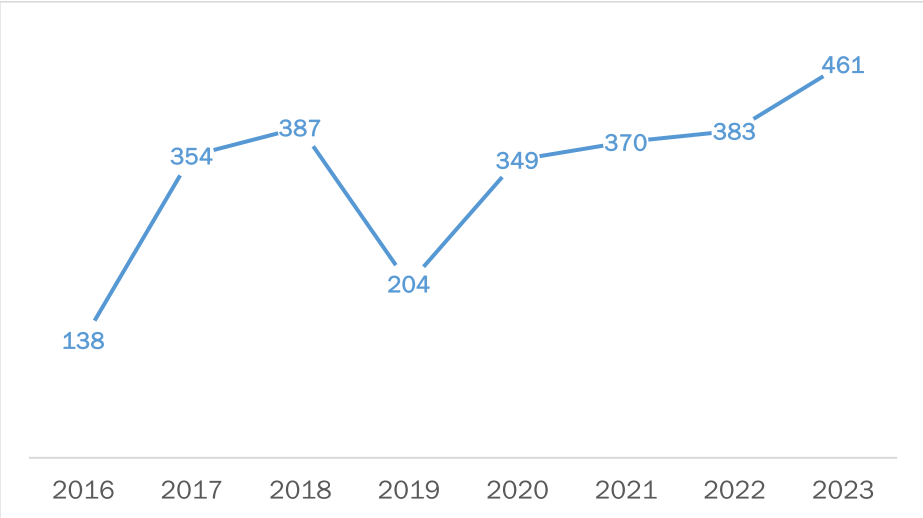
Year	Ukraine	Türkiye (Earthquake Response)
2022	79 unique SMEs reached 111 crisis response activities, including 2 relocation grants 4% of project activities and 7% of non-project activities 1,010,518 EUR in grants	N/A
2023	127 unique SMEs reached 213 crisis response activities, including 31 relocation grants 7% of project activities and 13% of non-project activities	28 crisis response activities 307,550 EUR in grants

	2,052,317 EUR in grants	

Source: SME F&D 2022 and 2023 Scorecards Q4

108. **The scorecards articulate a lot of the crisis response activities as non-project activities.** Throughout 2020 to 2023, a period of multiple crises, the number of MDAs and SDAs as well as other non-project activities increased significantly. In 2021, 31% of all non-project activities are in fact dedicated to crisis response with a total of 9,648 SMEs reached.[17] Between 2021 to 2023, a significant percentage of non-project activities are delivered digitally (2021: 33%; 2022: 32%, 2023: 22%). This was possibly to meet the challenge of the pandemic (Figure 17).

Figure 17: Number of non-project activities started (excluding visibility events)



Source: SME F&D 2016 – 2023 Scorecards Q4

109. **Another instrumental component of the SBI's swift crises response has been the Small Business Impact Fund.** SBIF has also been conducive for product innovation and particularly useful in the context of the crisis response due to its flexible structure, with donor contributions earmarked for specific regions or countries through regional windows. The external evaluations commissioned by the donors of SBIF as well as EU noted the SBI's contribution to digitalisation, climate change and gender equality and recognise its flexibility during COVID (Box 1).

Box 1: The SBI's coherence in external evaluations

An external evaluation noted that the Small Business Impact Fund have demonstrated efficient and rapid responses, particularly in supporting SMEs during crisis situations. These were notably evident in the programs implemented in the Western Balkans, Armenia, Belarus, and Ukraine during and after the COVID. The SBIF's swift deployment of resources has been crucial in providing timely support to these regions, showcasing the fund's capacity to address urgent needs effectively.

Similarly, another external evaluation acknowledged that the interventions under the SBI has significantly enhanced the focus on digitalisation, access to finance, transition to a green economy, all while aiding economic recovery from the COVID pandemic.

Sources: Assessment of EBRD's operations under the Small Business Impact Fund; Results Oriented Monitoring Report - The DIGITAL RE4M Programme to foster COVID-19 recovery of SMEs

[17] 2021 Crisis Response Activities: Visibility and Communications (4), Training for SMEs (52), Training for Consultants (14), TA/Capacity Building (3), Sector Development Activity (20), Research/Study (1), Others (9), Online Platform (1), Conference (13), Business Development and Matching and SDA (1). Total of 118

3.2. Good additionality of financing and strong relevance of advisory services

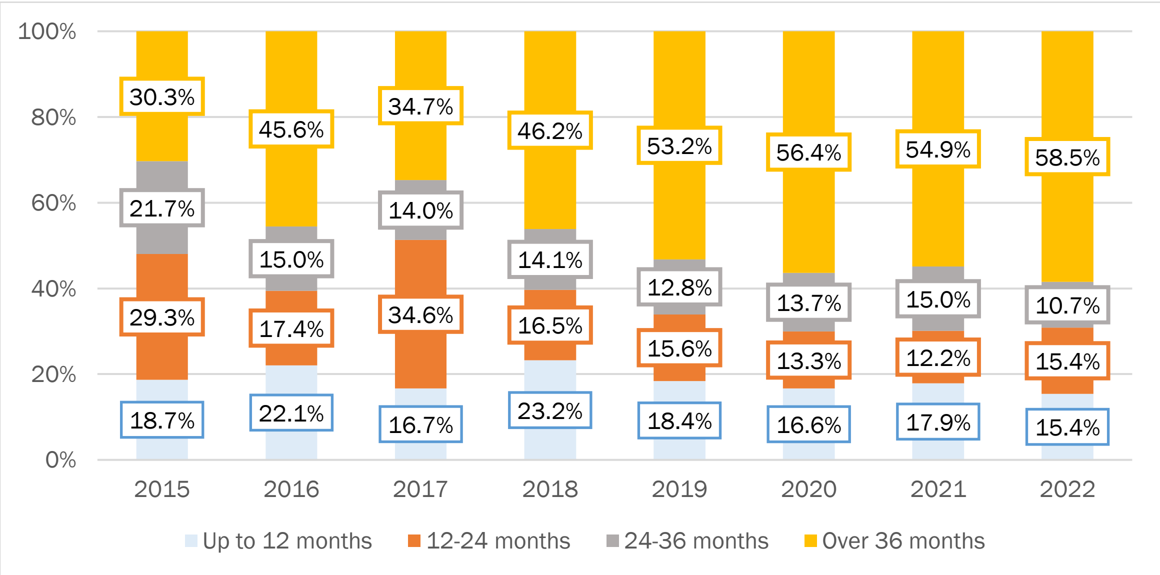
110. **In the following section the evaluation reviews the relevance of SBI pillars to its beneficiaries.** Amongst others, these include companies receiving advisory services, partner banks, clients of the Bank and sub-borrowers. With respect to financing instruments this review encompasses financial and non-financial additionality, including, financial terms as well as other attributes the Bank brought to the project.

3.2.1. Financing and risk sharing are additional, but under certain conditions

111. **Additionality of Indirect Financing primarily stems from offer of tenor which is above the market average that is not easily available in the market and blended finance.** Other elements of additionality include advisory support and provision of EBRD expertise on higher inclusion and gender standards – both of which have been elaborated on earlier sections.

112. **In terms of tenor, Indirect Financing predominantly maintained its additionality.** The Bank's funds had been on-lent to sub-borrowers with tenors that was typically higher than 36 months. The share of funds on-lent to sub-borrowers with at least 36-month maturity increased from 30 per cent in 2015 to 59 per cent in 2023. Nevertheless, additionality in terms of tenor is not uniform across all EBRD regions. For instance, tenors of 36-month maturity remain to be scarce in Caucasus and Central Asia whereas it has become much more available in Türkiye (Figure 18).

Figure 18: Share of sub-loans by maturity (Indirect Financing, 2015-2023)

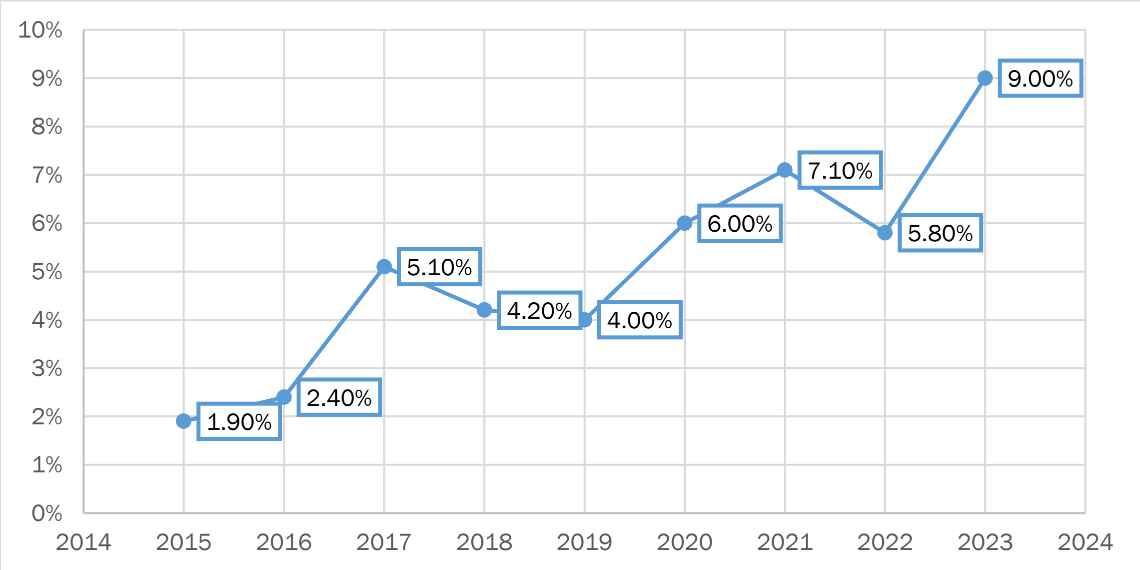


Source: IEvD Based on the FI Data. SBI data (2015-2023).

113. **Similarly, Indirect Financing remained additional by increasing its blended finance offer from 2015 to 2023.** This was necessitated by the introduction of SME Competitiveness and portfolio risk-sharing products as well as expansion of Women in Business and Youth in Business, and other subsidised products. Particularly, without the FLRC (first loss risk cover), most of these investment projects may not have materialised at all. The use of blended finance is required to make these projects viable in terms of its risk-reward profile. During this period, total transactional donor funds committed to Indirect Financing increase from EUR 20 million to EUR 104 million. However, the number of projects benefitting from such donor funds did not

demonstrate a similar ascend. Hence, grant intensity steadily increased from 2 per cent in 2015 to 9 per cent in 2023 (Figure 19).

Figure 19: Grant intensity (Indirect Financing, 2015-2023)



Source: IEvD Based on the FI Data. SBI data (2015-2023).

114. **Other aspects of relevance of Indirect Financing have been mainly standard as documented by three IEvD validations, one IEvD operations evaluation and EBRD Women in Business Programme in Turkey.** Projects under Indirect Financing have maintained relevance mostly through helping partner financial institutions (PFIs) to access an underserved segment of MSMEs and improve their understanding of market context, i.e. barriers to access the finance for women or youth led MSMEs. In a number of cases, establishing such partnerships with partner financial institutions encouraged other private banks to embark on similar programmes with the Bank.

115. **With respect to Co-financing and Risk Sharing, additionality materialised mainly in the form of support for capacity building at the partner banks and innovation, where possible.** The RSF brings value to partner banks through technical assistance primarily for enhanced risk management capabilities. This enables partner banks to serve clients comprehensively while also mitigating exposure risks in the event of default. From the interviews, the evaluation team understands that such support for risk management has resulted in concrete improvements at the partner bank level. Yet, the availability of partner banks with acceptable risk management capabilities in CoOs remain low and this is frequently mentioned as one of the main bottlenecks to do more business under the Risk Sharing Framework. In addition to capacity building, RSF also helped partner banks and SMEs via introduction of new products. For instance, IEvD's evaluation of Evaluation of the Agribusiness Strategy 2019–23 notes that the RSF *proved to be an excellent tool and enabled many high TI projects with SMEs to which the Bank would not have been able to lend directly, particularly in Central Asia. RSF demonstrated the viability of inventory-backed financing under the RSF with a SME and in an ETC. Its relevance, as well as its financial performance were rated Excellent. Importantly, the benefits of the Bank's support under this project spilled over to many small-scale farmers*.

116. **Likewise, Direct Financing maintained its additionality, particularly in Early Transition Countries.** For instance, IEvD's evaluation of The EBRD in Uzbekistan (2017-22) stated that *the EBRD demonstrated solid additionality in its [direct SME financing] activities across sectors. Its direct finance provided to the private sector filled a clear market gap. This was strengthened by*

non-financial additionality in high standards and perceived reputational benefits to clients. Additionally, the sustained relevance of EBRD's direct SME lending is reflected in the strong trust SMEs place in EBRD, which often exceeds their trust in local commercial banks in Central Asia.

117. **Other aspects of relevance of Co-financing and Risk Sharing and Direct Financing have been sector and region-specific.** The Evaluation of the Agribusiness Strategy 2019–23 and Evaluation of the EBRD's approach to Early Transition Countries (2017–2022) show that both Risk Sharing Framework and Direct Financing Framework responded to market needs and consequently, enabled the Bank to increase financing to primary agriculture in ETCs, while expanding business with SMEs. For instance, client interviews in Azerbaijan and Georgia confirmed that local SMEs appreciate the positive market signal about the company that a loan from EBRD sends to the market. Additionally, partner financial institutions confirmed the high value that DFF and RSF clients assign to the Bank in terms of supporting their environmental practices (such as energy efficiency) that SME clients would otherwise not consider undertaking.

118. **Finally, another likely source of continued relevance are innovative products such as the Supply Chain Solutions Framework (SCSF).** Supply chain finance involves reverse factoring: an anchor buyer agrees with its suppliers (in this case, in EBRD COOs) that they will be paid by an intermediary (a Partner Bank) so they receive payments more quickly, at a small discount. EBRD risk-shares through funded and unfunded participations in the transactions of partner banks. Progress in implementing the projects approved to-date under the SCSF[18] indeed indicates that the product has market fit. Suppliers in one of the programmes are for example discounting their invoices to receive liquidity early, and the standard payment term moved from 60 days to 5 days under the programme (or flexibility to choose the payment period in some cases). In addition, initial evidence also indicates that there is an effort to actively leverage the SCSF to influence the greening of supply chains of the anchors for the two projects. In total, 44 suppliers have benefitted from the SCSF, 33 of which were SMEs.

3.2.2. Outstanding relevance of advisory services to its beneficiaries and national authorities

119. **External evaluations reviewed (Table 5) emphasise the demand-driven nature of the SBI interventions**, bridging the gap between the supply and demand for consulting services, and addressing specific SME growth needs. This results in high stakeholder commitment due to the intervention's alignment with SME sector needs and timely achievement of outputs. Within this context, product design supported by donor funds is highlighted as a fundamental factor (first loss guarantee, loan repayment periods, grace periods making long-term financing more accessible for SMEs). For some interventions demand for loans exceeds initial expectations necessitating additional funding.

"We have easier and more efficient management of work processes through the digitalisation process. The project assisted us to use our human resources better and more efficiently. We have increased our competitiveness by increasing our sales volume and profitability."

Microentrepreneur supported with the implementation of a time tracking software in the Western Balkans

Source: Assessment of EBRD's operations under the Small Business Impact Fund

[18] Zabka Supply Chains (Poland) signed on September 2022, and Citi - Metso Outotec (Türkiye) signed on March 2023.

Table 5: Evaluations reviewed

Title of Evaluation	Period	Countries	Subject
External Evaluations by EU and Bilaterals			
Evaluation of Phase I and II of the project EBRD Small Business Support programmes– in the Eastern Partnership countries	2013-2020	Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine	ASB
Assessment of EBRD's operations under the Small Business Impact Fund	2015-2021	EEC, CA, WB, Türkiye, SEMED, non-ODA	FIF, RSF, DFF, ASB
Results Oriented Monitoring Report - The SME Finance Facility for Central Asia Phase 2	2017-	Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan	RSF, DFF, ASB
Results Oriented Monitoring Report - The DIGITAL RE4M Programme to foster COVID-19 recovery of SMEs	2020-	Georgia	ASB
Impact Evaluation of EBRD's Women in Business Western Balkans and Eastern Partnership countries 2014–2021	2014-2021	Armenia, Georgia, Serbia, Kosovo	FIF, ASB
Ex- Post Evaluation of IPA I Component IV – Human Resources Development Operational Programme	2014-2017	Türkiye	FIF, ASB
IEvD Evaluations			
EBRD Women in Business Programme in Türkiye - EvD Review	2014-2017	Türkiye	FIF, ASB
Evaluation of the EBRD's approach to Early Transition Countries (2017–2022)	2017-2022	Georgia, Azerbaijan	ASB
The EBRD in Uzbekistan (2017-22)	2017-2022	Uzbekistan	ASB
Evaluation of the Agribusiness Strategy 2019–23 and early results of its implementation	2019-2023	Egypt, Kyrgyzstan, Lithuania, Poland, Tunisia, Türkiye, Ukraine	RSF
Direct Lending Facility and Medium Sized Co-Financing Facility	2004-2010	Early Transition Countries	DFF, RSF
IEvD validations of EBRD self-evaluations			
Eight project validations (post-2015)	2015-	Greece, Egypt, Kazakhstan, Uzbekistan, Croatia, Mongolia	FIF, DFF SME

120. **External evaluations note that the specifics of the local context – needs, activities of stakeholders - are considered in the planning and implementation for each programme** and unpacked this client-oriented approach of the Initiative into two core elements: First, each advisory project is very bespoke, enabling it to be tailored to the different needs and sophistication levels found in different markets. The beneficiaries are provided with expertise custom-made to its needs, quickly available and accessible. Second, the fee level (client contribution) is aligned with local market conditions.

"Through the project, we understood that we need more standardisation and digitalisation for all process and not only for main production processes for our company."

Small-sized enterprise supported to enhance its organisational structure and developing process descriptions in Eastern Europe

Source: Assessment of EBRD's operations under the Small Business Impact Fund

121. **Concurrently, the external evaluations of the SBI interventions underscore relevance to national priorities.** These priorities include, inter alia, focus on promoting private sector development through sustainable MSMEs, enhancing entrepreneurial capacity, diversifying the economy, strengthening SME support institutions and women's labour market participation and entrepreneurial activities. Table 6 below presents specific examples from country-level evaluations:

Table 6: Relevance to national authorities in external evaluations (selected countries)

Country	Evaluative assessment
Armenia	The rationale and implementation objectives [of advisory services] correspond fully with the key priorities of the Government's latest development strategy, namely the "Promotion and development of entrepreneurial capacity", "Increase in the internal and external competitiveness of SMEs" and "Strengthening of the SME Development Support Institutions".
Azerbaijan	[The advisory services] is considered of particular significance for the development of the SME sector in Azerbaijan. Relevance is fully satisfactory, notably because the percentage of micro and small companies assisted is quite high and higher than in the other Eastern Partnership countries and the percentage of EU assistance extended to larger enterprises is not excessive. Programme objectives are aligned with government priorities to diversify the economy, reduce the share of the oil sector, and strengthen the SME sector.
Belarus	[The advisory services] is considered instrumental to the development of the SME sector in Belarus and as such, it is fully relevant. However, its relevance can be further enhanced by avoiding the practice of involving not only SMEs but also large companies as end beneficiaries. Programme objectives are aligned with government priorities to strengthen the SME sector. In addition, the role played by the Programme in supporting SMEs and consultants is particularly important in the Belarusian SME context, which is still influenced by the State and state-owned enterprises.
Georgia	The intervention is fully aligned with the SME development strategy of Georgia 2016 – 2020 and its strategic directions, which include the facilitation of innovation, research, and development of SMEs (including digitalisation) and the improvement of access to finance, which are key focus areas of the intervention. The new 2021 – 2025 SME development strategy of Georgia, was updated with support from the EU and other international donors and approved officially in early July 2021.
Türkiye	[The advisory services and financing] showed compatibility with the Beneficiary's and Contracting Authority's remit and scope of activities (to increase the participation of women on the labour market, including by facilitating the access to entrepreneurship, development of entrepreneurial skills and access to finance) and with other interventions implemented by ISKUR in partnership with other donors.

122. However, the evaluations also note some shortcomings, particularly in relation to limited reach to micro-enterprises and vulnerable groups due to financing requirements. External evaluations noted that not all groups of the SME population have access to the benefits provided by advisory services and indirect financing. This makes accessibility and affordability a challenge. At times, programme conditions such as client contribution deter some vulnerable target groups from accessing the benefits. Furthermore, some beneficiary SMEs face financial difficulties and delay payment of their own financing.

123. These findings of the external evaluations speak to the partial validity of the SME definition in practice: Independent of the country context the Bank adheres to the following SME definition: *Locally incorporated, independent companies compliant with the EU SME definition (2003/361/EC): that have not more than 249 employees and annual turnover not exceeding EUR 50 million OR balance sheet total of less than EUR 43 million.* At the same time, SMEs do not share a universal definition, and the term "SME" can refer to firms with vastly different sizes depending on the context, country, and institution. SMEs vary significantly, not just in their definitions but also on other dimensions such as age, sector, ambition, owner characteristics, and formality. The diversity in SME characteristics influences their contextual impact. This likely requires more tailored approaches -a finding that particularly resonates in the context of the expansion of EBRD's operations in Sub-Saharan African.

124. **Both national authorities as well as multilateral development banks adhere to different definitions of SMEs.** Nevertheless, there are four main criteria which can be used to determine whether a firm is small, medium, or large: the number of employees employed, the total value of assets held, the annual revenue, and the MSME loan size proxies. Please see Annex 2 for examples.

4. Key finding 3: Integrated response to SME needs can be improved further

125. **In the following section, the evaluation assesses the extent country strategy planning supports the coherence of the SBI with the Bank's priorities as well as its relevance to the Bank's stakeholders.** This is primarily done via analysing how country strategy planning has evolved since the consolidation of the Bank's SME-related activities and its implications on delivery.

4.1. The integration of SME work in country strategy planning is work in progress

126. **One of the objectives of the 2015 consolidation was to improve the orchestration of the Bank's SME-related activities to address transition gaps in a differentiated and country-oriented way.** The approval document stated that *project-level transition objectives and achievements should be set within country level SBI objectives to provide more context and reflect the aim to measure systemic impact rather than project-by-project outcomes. These country-level objectives will be set as part of the SBI country assessments which should identify priorities across instruments for each country where SBI would play a critical role.*

127. **To this end, the 2015 consolidation proposed to develop country-level diagnostics and medium-term roadmaps as the core planning tools of the SBI and envisaged country-based action plans to be prepared within the context of the Country Strategy cycle.** Additionally, it suggested to include a summary of SBI activities and its results framework in the Country Strategy and leaving the more detailed action plans to be a management tool to guide implementation. Annex I demonstrates in more detail to what extent the Country Strategies and Operational Plans meet the aspirations for country-level planning held at the outset of consolidation.

128. **The Bank put in place this change within the structure introduced by the Country Strategy Results Framework (CSRF).**[19] Prior to the introduction of the CSRF, SME objectives were included in the wider strategic analysis, with strategies between 2012-2015 featuring a brief SBS annex broadly defining the SME context and featuring the courses of action of the SBS programme in a CoO. Yet there were not any harmonised SME objectives or indicators to be tracked set at the country level. With the introduction of the CSRF, while the SME sector no longer has its dedicated annex, SBI-related objectives and indicators are integrated into broader priorities. The indicators are tracked by the Country Strategy Delivery Reviews annually via a range of standardised indicators (such as the number of ASB clients with improved standards as targeted, the number of ASB clients reporting increased productivity or employment, number/volume of MSME sub-loans disbursed etc.)[20] and are reported to the Board.

[19] The EBRD's country strategies are strategic documents outlining the Bank's priorities and courses of action towards its transition qualities in member countries. These strategies, usually spanning five years, are based on Country Diagnostics initiated in 2017. The Country Strategy methodology has gone through a few changes over the years. 2013 oversaw the introduction of a Country Strategy Results Framework (CSRF) with priorities mapped against corresponding objectives, activities, and indicators. These are monitored through Country Strategy Delivery Reviews (CSDRs) available from 2018.

[20] Please see the annex for more details about the type of indicators included as well as the data collection process.

4.1.1. Annual Operational Plans are aligned to country strategies but do not provide a Bank-wide view on SME work

129. **The directions set at the Country Strategy level have been influential on country-level implementation and resource planning.** SME F&D's country-level annual Operational Plans connect Country Strategies to country-level operations and detail their implementation. These plans incorporate KPIs that align with strategic priorities and undergo review to ensure consistency before approval. Operational Plans feature Country Context and Strategic Fit as their first section. This section has brief references to the relevant EBRD Country Strategy as well as the respective government's SME sector priorities in broad terms. As seen in Annex II, alignment is also observed for the most part in the choice of special initiatives (and corresponding KPIs), non-project activities, and variations in the cost-sharing matrix. Beyond Country Strategies, EBRD's strategic priorities are also featured as the main strategic KPIs in Operational Plans (Table 7). Approved KPIs are compiled into a scorecard that is reviewed quarterly for performance monitoring.

Table 7: EBRD Strategic Priority KPIs in Operational Plans

2021	2022, 2023 and 2024
Green: % of Green-tracked projects **Digital: % of projects with Digital cross-cutting issue** **Gender: % of projects with Gender cross-cutting issue**	Global share of projects with focus at least in one strategic priority area (excluding double counting) Green: % of Green-by-content and Green-tracked projects Digital: % of projects with Digital cross-cutting issue Inclusive (including Gender and Youth): % of projects with Gender and/or Youth cross-cutting issue Rural: % of projects outside of main cities

130. **Although Operational Plans have a high level of alignment with Country Strategies, they predominantly present an all-inclusive planning tool for activities that are only within the remit of SME F&D but not other departments.** While the Operational Plans report on banking, advisory, banking and advisory linkages, non-project activities, policy dialogue and stakeholder engagement, they refer and make connection to other SME-related activities prioritised by the Country Strategies. These include a wide range of products that directly influence the SME sector but are not synchronised as part of SME F&D's country level operational plans. For instance, this entails indirect financing to SMEs via Green Economy Financing Facilities (GEFF), Venture Capital Investment Programme, Early-Stage Investment Facility and Value Chain Competitiveness Programme. This is an incomplete list.

131. **This partial integration of the Bank's SME-related activities in Operational Plans has implications on how integration of Business Advisory and Indirect Financing is planned and implemented.** There is an opportunity to integrate the Bank's all SME-related activities (Business Advisory, Indirect Financing, Co-Financing and Risk Sharing, Direct Financing and Policy) at the sector/country-level and articulate these at the Country Strategies – that is differentiated to address country-specific SME challenges. For instance, during the interviews SME F&D bankers referred to sector-specific advisory work (related to green economy) that helps them link the beneficiaries to a partner bank that offers GEFF in Türkiye. Another example of such impactful integration is a recently signed deal that combines a portfolio risk sharing facility and the provision of sector-specific (agribusiness) advisory services in Armenia.

132. **When asked about the extent of their involvement with the Country Strategy planning process during interviews, SME F&D interviewees working on advisory at the regional offices**

noted a high level of involvement. Interviewees noted that they have regular meetings during the planning process of Country Diagnostics and Strategies. They shared that their inputs to the draft documents are welcome and requested, and they help organise and participate in meetings with clients and stakeholders as needed. In return, they noted that Country Strategy priorities are included in the Operational Plans. Overall, they commented that the process is cooperative.

4.1.2. The planning process factors in differentiated needs at country level

133. The evaluation team reviewed the country diagnostics, country strategies and operational plans in detail for Kazakhstan, Serbia, Tunisia, and Türkiye (See Annex 2). **This analysis of country diagnostics, country strategies and operational plans demonstrates some key features** of the current country strategy cycle planning in relation to the Bank's interventions in the SME sector.

134. **First, across the CoOs, diagnostics, strategies, and plans show meaningful variation in terms identified challenges (diagnostics), proposed operational responses (strategies) and respective actions (plans).** Hence, the Bank intentionally differentiates its engagement at the country level with respect to its engagement in the SME sector.

135. **Second, while country level SME-related objectives mostly trickle down to SME F&D's country-level annual Operational Plans, these are dynamic documents** that are influenced by the changing country context such as the onset of crises. While some Country Strategies may predate crises, Operational Plans remain responsive. Crisis response elements are included as non-project activities (the 2021 and 2022 OPs for Kazakhstan, Serbia, Tunisia, and Türkiye feature MDAs and SDAs dedicated to COVID response), changes in the cost-sharing matrix and its top-ups, operational KPIs such as the earthquake response KPIs featured in the 2024 OP for Türkiye, special initiatives such as Kazakhtan's ReSET Initiative for SMEs, and planned partnerships or policy dialogue efforts. The 2023 OP for Tunisia also features food security activities under a programme funded by the United States via SBIF in response to the challenges triggered by the War on Ukraine.

136. **However, the country strategy planning for the SME sector is still a work in progress.** While the planning process allows for some integration of SME work and differentiation against needs, it has shortcomings due to the partial integration of the Bank's SME-related activities. Country strategies describe the choice of instruments but lack the required governance to orchestrate SME-related instruments to address respective transition challenges at the country level. The Bank's SME-related interventions consist largely of discrete instruments, resulting in a gap where an impact pathway from activities to systemic change remains difficult to establish.

137. For example, Serbia Country Strategies 2018-2023 and 2023-2028 refer to *leveraging ASB tools and FI products to improve SME internal capacity and introducing effective instruments to help SMEs and corporates grow (e.g., value chain, export finance, green economy), including credit lines and non-financial tools through ASB*. Similarly, the Kazakhstan Country Strategy 2022-2027 mentions *financing and advising companies including SMEs on decarbonisation, resource and energy efficiency, and climate*. However, in practice, implementation occurs within the incentives set by SME F&D for Business Advisory and by FI BG for Indirect Financing. This results in no commitment or encouragement to fully cover the mix in implementation and to synchronise delivery for joint impact. Consequently, there is no reporting on the achieved combined effects.

4.2. The SME sector transition gap assessment is outdated

138. **The 2015 consolidation put the SME Assessment of Transition Challenges (SME ATCs) faced by SMEs in the Bank's CoOs at the heart of transition impact scoring as well as country strategy planning.** It stated that the approach to assessing the transition impact under the SBI will be based on SME ATCs; it will include a country-specific diagnosis of the SME sector with a special focus on those areas addressed through the five pillars of the SBI and enable better targeting of the SBI interventions in each country through Country Strategies.

139. **Accordingly, the Bank developed the SME ATCs and published it in the Small Business Initiative - Annual Review For 2015 and Operational Modalities For 2016 (BDS15-050 (Addendum 26)).** The SME ATC sub-divided all CoOs into three groups (small, medium, large), based on an aggregate of transition challenge score. This score is calculated considering where each CoO stands in terms of bank and non-bank financing, legal framework for bank lending, business skills and standards, and general business environment. The Bank used these groups as the basis of transition impact scoring as well as establishing benchmarks for the projects under the SBI (Box 2).

Box 2: The SME Assessment of Transition Challenges (ATCs) role in determining transition impact under the SBI
Financial Intermediaries Framework: The FIF transition impact benchmark targets are pre-determined depending on the size of the SME ATC in the country of project's origin. For instance, an increase in the overall SME loan portfolio by a certain multiple of the EBRD's loan is a standard benchmark under FIF. This benchmark needs to be set at a multiple of 1.5 in a country where SME ATC is small where to 1.2 in where SME ATC is large. All projects with standard features set at an ETI rating of 60. The transition impact potential envisaged to stem from market expansion, transfer of skills to PFIs to improve MSME lending capacity, setting standards in terms of risk and portfolio management, corporate governance improvements as well as greater competition and enhanced lending abilities.
Risk Sharing Fremework: Like the FIF, transition impact benchmark targets are pre-determined depending on the size of the SME ATC in the country of project's origin. The transition impact potential envisaged to stem from setting standards for corporate governance and business conduct, both at the partner bank and sub-borrower level, skills transfer to partner banks in terms of risk assessment and loan structuring.
Direct Finance Framework SME: SME ATC determines the expected transition impact score. Projects in countries with large SME transition gaps are allocated an ETI score of 80, while those in countries with medium SME transition gap are assigned an ETI 60. with small SME transition gaps are rated on a case-by-case basis, considering only projects with highly noteworthy transition impact features such as GET and R&D. The transition impact potential of the DFF SME is assumed to be strongly linked to the financing and support of SMEs.

140. **Since 2016, the SME ATC has not been updated, despite its continued use for the transition impact scoring of SBI pillars.** This has been due to the complexity of potential updates, as well as due to the Bank-wide revision of the transition concept, introduction of Transition Qualities (TQs) and Assessment of Transition Qualities (ATQs) later in 2016. In 2020, as part of Competitive TQ, the Bank developed a separate SME index; nevertheless, this index does not influence the transition impact scoring of the FIF, RSF and DFF SME.

141. **A comparison of country groupings by the SME ATC in 2016 and SME index into small, medium, and large categories reveals notable differences.** For instance, Latvia and Bulgaria are categorised as medium transition gap countries by SME ATC in 2016. However, according to SME index, these countries perform higher (better) than Hungary and Slovenia in 2020, both of which are categorised as small transition gap country in 2016. While the evaluation team recognises the potential limitations of these comparisons[21], they do underscore the dynamic nature of transition gap assessments and highlight the importance of periodically updating indices to reflect current economic conditions accurately.

142. **This has implications on transition scores and benchmarks.** The evaluation team calculates that approximately 8 per cent of DFF SME projects would have received a different expected transition impact rating if the SME index of 2020 has been used instead of SME ATC of 2016 for the determination of transition gap categorisation. Similarly, 16 per cent of FIF would have set different transition benchmark targets. For example, under the 'General SME lending expansion' benchmark, if Latvia were categorised as a small transition gap country, the overall SME loan portfolio would need to increase by at least 1.5 times the amount of the EBRD's loan. This contrasts with a medium transition gap country, where the minimum multiple would be 1.4 times (Box 3).

143. **Updating the Bank's approach to assess transition gaps for the SME sector would be very timely given MSMEs constitute most registered businesses in the Sub-Saharan Africa region.** Already, given such circumstances, the continued reliance on the SME ATC index for FIF, RSF, and DFF SME projects raises concerns about the possibly outdated data. Additionally, within SME ATC, the Bank continues use of World Bank Doing Business data as a source for some indicators. Considering that the World Bank discontinued its 'Doing Business' reports in 2021 due to data irregularities, this further stresses the need to update the SME ATC, even it was not substantially affected by the irregularities.[22]

[21] 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.
[22] 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.

5. Key finding 4: Good overall SME data management is hindered by missing pieces

5.1. Transparency has evolved positively since the consolidation

144. **The expectation at the 2015 consolidation was the launch of an appropriate management information system (MIS) able to collect and elaborate information on the Bank's SME business.** The new MIS was supposed to encompass all five pillars with the purpose of information processing, business planning purposes and impact assessment. The envisaged key features of the MIS were as follows:

- **The SBI portfolio performance parameters can be monitored** in the same manner as all the other Banking sub-portfolios;
- **On a country basis, the MIS platform collects standardised SME diagnostics** and eventually country results indicators, as well as standardised information for all pillars;
- **TC usage will be tracked in more automated manner through a new TC MIS.**

145. **SME F&D has developed a sophisticated system of monitoring, evaluation and learning at project level.** That is primarily facilitated by the creation of a MIS encompassing advisory services and enables matching with SME F&D financing under Co-financing and Risk Sharing and Direct Financing. This MIS has multiple purposes including data collection, process management and knowledge management.

146. **With respect to data relating to individual projects/clients, standardised set of information is collected and entered the MIS at the screening/beginning of project, during implementation and at completion.** In addition, each project is self-evaluated one year after completion against standard criteria. Self-evaluation information is stored within the MIS as well. The processes and methodology for the implementation of the self-evaluations are described in detail Operations Manuals.

147. **Overall, this evaluation greatly benefitted from the data provided by the SME F&D's management information system.** Similarly, building on this system, the quality and richness of reporting to Board in annual SBI updates has increased across the years. As of 2022, in addition to a detailed review of the Bank's SME-related portfolio, the annual updates can provide detailed information on outputs and outcomes of the SBI, including changes in turnover, jobs, productivity and exports of the beneficiaries of advisory services.

148. **Nevertheless, despite remaining functional, the SME F&D's management information system is not exempt from substantial and documented** shortcomings. In summary, SME F&D's MIS is outdated and contributes to many operational risks. In addition and according to Management, the postponement of investment in a new system has negatively impacted the business and exacerbated these risks.

5.2. The management information system for Indirect Financing inhibits transparency and informed decision-making.

149. **The consolidation envisaged a new bespoke MIS for Indirect Financing to be developed to unify data collection from partner banks and automatise the data processing.** To this end, FI has developed a unified reporting format for its partner financial institutions the Bank extends finance

to, which is designed to capture the data on their lending portfolios extended to SMEs and the key SME definition data about their sub-borrowers.

150. **The current practice for Indirect Financing is partially automatised and unified:** FI sends the above-mentioned Excel template (also included into the financing agreement) to the partner banks to be completed and returned via email. Then, completed forms are sent back to the Bank and operational leaders enter completed forms manually into an internal software to store the data. In the last step, FI manually cleans the data, checks for incorrect entries, and processes it for reporting. Additionally, there is a separate software used to store GEFF related data. From the interviews, the evaluation team infers that, where available, SME related GEFF data is manually consolidated under Indirect Financing.

151. **There are a few fundamental shortcomings in the current state of data management for Indirect Financing.** First, data reported back from partner banks are often incomplete. Second, manual processing of data on multiple occasions lead to mistakes that are challenging to fix as these are hard to trace back. As a result, due its low reliability, FI does not use this data for decision-making purposes. Similarly, this data is mostly not used for donor reporting either. The practice of other IFIs shows that effectively managing data in relation to SME work is possible (Box 2), implying this is within the Bank's control.

Box 3: The impact of the EIB's intermediated lending to businesses in the Western Balkans

The European Investment Bank (EIB) measures the impact of its MSME indirect lending via collecting sub-loan level data from its partner banks. This enables rich analysis both on the ultimate impact on the sub-borrowers as well as how this impact is associated with loan characteristics such as grant intensity, tenor, local currency as well as sector composition. EIB recently published such a study based on data from its partner banks in Western Balkans – many of which are also partner banks of the Bank. This report[23] highlights that:

1. EIB beneficiaries report higher employment growth (15%) than that reported by the control group composed of similar firms that did not receive EIB intermediated lending.
2. The impact on employment is stronger for firms that had no previous access to finance. This suggests that firms with no previous access to finance are those benefiting more from the favourable market conditions offered by the EIB.
3. There is a positive impact of EIB lending on firm investment, as measured by fixed assets. Firms benefiting from EIB loans report an increase in total assets of 20% relative to firms not benefiting from an EIB loan and a stronger increase in fixed assets of 35%.

[23] https://www.eib.org/attachments/lucalli/20230344_impact_of_the_eibs_intermediated_lending_to_businesses_in_the_western_balkans_en.pdf

6. Insights and Recommendations

6.1. Key findings and insights

The Small Business Initiative is a potential differentiator vis-a-vis other MDBs, mainly because of its client-orientation and flexibility.

153. **The demand-driven nature of the SBI interventions bridges the gap between the supply and demand for consulting services and addressing specific SME growth needs.** This results in high stakeholder commitment due to the intervention's alignment with SME sector needs and timely achievement of outputs. Within this context, product design supported by donor funds is highlighted as a fundamental factor (first loss guarantee, loan repayment periods, grace periods making long-term financing more accessible for SMEs). For some interventions demand for loans exceeds initial expectations necessitating additional funding.

154. **The role of advisory services played during the times of crises are particularly appreciated by the external parties including donors.** During crises period, advisory services have significantly enhanced the focus on digitalisation, access to finance, transition to a green economy all while aiding economic recovery from the Covid-19 pandemic.

155. With streamlined access and faster approval process compared to the major SBI donor, the EU, the SBIF has been instrumental in the SBI's swift crises response. SBIF has also been conducive for product innovation and particularly useful in the context of the crisis response due to its flexible structure, with donor contributions earmarked for specific regions or countries through regional windows.

The consolidation of the Bank's MSME financing facilities resulted in substantial efficiency gains, but there is unfinished work.

156. **The 2015 consolidation created the Financial Intermediaries Framework (FIF), which consolidated 25 region- or country-focused MSME frameworks.** It also established the Risk Sharing Framework (RSF) and the Direct Finance Framework (DFF) by consolidating four existing facilities of direct investments. Such consolidation led to:

- a significant increase in delegated approvals without any change in delegation principles;
- simplification of internal processes;
- the introduction of harmonised the SME definition across all projects; and
- streamlining of transition impact assessment.

157. **These changes accelerated internal approval processes for FIF and RSF.** Specifically, for Indirect Financing projects, the proportion bypassing the CRM stage (i.e., the single point final projects), has consistently increased from 58 per cent in 2015 to 91 per cent in 2023. At the same time, it did not result in any significant deterioration of the quality of portfolio for FIF and, to a lesser degree, RSF.

158. **However, there has not been any meaningful efficiency gains for direct SME financing and the quality of DFF SME portfolio has been deteriorating.** The consensus that emerges in the interviews with the SME F&D bankers is that internal EBRD requirements and procedures are too

burdensome for direct SME clients via DFF SME and while internal requirements have evolved over the years, DFF SME has not adapted accordingly, leading to significant challenges..

159. **Some areas for further consolidation remain**. Inconsistent reporting of some activities is also going against the initial intent of the consolidation, for example the reporting of portfolio risk sharing done under Indirect Financing. While the Small Business Impact Fund has been established as a new multi-donor fund with the aim to become the main channel through which donors provide support for the Bank's SME related activities, donor funding remains fragmented. The evaluation team however recognises this is mostly not under the Bank's control. Finally, the management information system dedicated to SME work remains to be improved.

160. **In addition, two important caveats apply with respect to the sustainability of the efficiency gains.** First, while harmonisation of the SME definition across all projects has been instrumental in increasing the Bank's ability to keep track of its SME-related engagements, going forward, this needs to be re-assessed given the Bank's plan of expansion into Sub-Saharan Africa. For instance, AfDB classifies a company as an SME if it has 50 or less employees. Relatedly, employing the current transition gap assessment and associated scoring is unlikely to be fit for purpose if the Bank envisages to invest in SMEs in Benin, Côte d'Ivoire, Ghana, Kenya, Nigeria, and Senegal. Second, increasing donor requirements put pressure on internal processes that had been streamlined in 2015. Given ascending dependency on donor sources, there is a risk that some of the initial gains in efficiency might be reversed.

161. **The insights above might have relevance particularly for the Bank's region or country focussed energy efficiency frameworks which resembles MSME frameworks from pre-2015 era.** At present, there are at least 24 region or country focussed MSME frameworks that might potentially benefit from efficiency gains if consolidated.

The consolidation helped the SBI to increase its coherence with the Bank's Strategic and Capital Framework priorities.

162. **Between 2015 and 2023, emphasis on green, inclusion and digitalisation has increased.** The GET ratio of indirect financing increased from 10 per cent in 2015 to 20 per cent in 2023. Similarly, the total business investment under the Women in Business and Youth in Business programmes reached over EUR 1 billion which is slightly more than 10 per cent of all business investment done under indirect financing between 2015 and 2023. Specifically, the Bank gradually expanded its Women in Business programme and invested in Western Balkans, Eastern Partnership countries, Central Asia, Morocco, Türkiye, Kazakhstan, Egypt, West Bank and Tajikistan between 2015 and 2023. Similarly, in 2019, the Bank launched its first Youth in Business operations in Egypt and later expanded it into Central Asia, Western Balkans and Morocco. In the same period, the average combined GET ratio of risk-sharing facilities and direct financing demonstrated a 11-percentage point increase from 30 per cent in 2015 to 41 per cent in 2023.

163. **The interviewees unanimously mentioned that having FIF as a base framework to start with enabled them to build green-targeted initiatives such as SME Competitiveness, SME Go Green and SME Go Digital.** At the same time, the interviewees also mentioned that this does not necessarily mean the Bank is investing more in green solely because of FIF. But rather, FIF helps that to tag and keep track of green projects under FIF.

Systemic impact is in the horizon but requires better integration across the Bank.

164. **The number of beneficiaries of advisory services signing a loan agreement with a partner bank offering a FIF facility is very low.** The ratio of such beneficiaries to number of sub-loans ranges between 0.2 to 0.6 per cent across the products that the evaluation team analysed for this report. This is partly due to the narrow pool of beneficiaries of advisory services. External evaluations show that advisory services did not engage with newly established SMEs that have been active for 2-3 years, with a smaller turnover and number of employees, those in rural areas or those run by more vulnerable and under-served women entrepreneurs.

165. **Instead of integration at the sub-borrower level, recently, SME F&D started to put more emphasis on supporting partner banks with the delivery of non-financial services (NFS).** These are trainings, e-learning, diagnostics, and advisory services, which can support financial institutions to address barriers to growth and performance of their SME clients in addition to financing. To date, there have been several successful examples in Türkiye, Egypt, and West Bank of such partnerships between partner banks and SME F&D.

166. Nevertheless, it remains unclear how the Bank aims to achieve systemic impact through the integration of the tools that are available, i.e., advisory, financing and policy. The country planning process allows some level of integration of SME work, as well as differentiation against needs. However, this integration remains partial across the whole Bank's SME-related activities. Prioritisation across instruments for each country mainly happen within SME F&D but not the entire SBI. In addition, the SME Assessment of Transition Challenges is outdated with potential implications on expected transition impact. Finally, missing pieces in the MIS hinder the provision of reliable and consolidated data for making decisions towards maximising impact.

6.2. Recommendations

167. **The recommendations below focus on possible short-term priorities to be considered as the SBI is defining new directions**, based on what this first phase of the evaluation sees as "unfinished business" from the 2015 consolidation. If confirmed, the next phase of the evaluation will provide a more holistic picture of the performance and results of the SBI and may include these recommendations in a broader perspective.

Findings	Recommendations
Prioritisation across instruments for each country mainly happens within SME F&D but not the entire Bank. Measurement remains operational for performance tracking and siloed between different teams. Consequently, this does not reflect the systemic impact that the Bank aimed to trigger via the orchestration of its SME-related interventions. Although Operational Plans have a high level of alignment with Country Strategies, they predominantly present an all-inclusive planning tool for activities that are only within the remit of SME F&D but not the entire Bank.	**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.
The SME sector transition gap assessment is eight years old and has not been updated since its introduction in 2016. It has been the single most important tool that facilitates transition impact scoring of projects under the SBI. Updating the Bank's approach to assess transition gaps for the SME sector would be also very timely given MSMEs constitute most registered businesses in the Sub-Saharan Africa region. Additionally, it is very likely that the usefulness of the current SME eligibility criteria (i.e., 250 employees) will be fundamentally tested in in SMEs in Benin, Côte d'Ivoire, Ghana, Kenya, Nigeria,	**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 update its transition gap assessments. These updates should inform decision-making about the Bank's SME business and ensure that the gap assessment remain fit

and Senegal. AfDB classifies a company as an SME if it has 50 or less employees. Equally importantly, it is key ingredient of country strategy planning for all aspects related to SME sector. The SME sector transition gap assessment relies on data that has been discontinued since then because of irregularities – such as World Bank Doing Business. The analysis in this report indicates that there are significant implications of using an outdated transition gap assessment on how TI scoring is done, and transition benchmarks are set.	for purpose. This may also provide an opportunity to review the relevance of using a single SME definition considering the upcoming expansion to SSA.
The consolidation of direct SME lending facilities under DFF SME did not lead to any meaningful changes in terms of efficiency. Since 2015, the quality of DFF SME portfolio has been deteriorating. The internal EBRD requirements and procedures are too burdensome for potential deals under DFF SMEs. Moreover, there is a strong perception that increasing internal requirements across the years had a disproportionate adverse impact on DFF SME. At the same time, the merits and additionality of direct financing are recognised in various contexts. For various initiatives, the Bank has been able to establish dedicated streamlined procedures in the past. Such a fundamental streamlining of internal procedures did not happen for DFF SME.	**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.
In 2015, the Bank envisaged to establish a new bespoke MIS for its indirect financing to unify data collection from partner banks and automatise the data processing. Nevertheless, the current practice is partially automatised and unified resulting in multiple issues: Data reported back from partner banks are often incomplete. Manual processing of data on multiple occasions lead to mistakes that are challenging to fix as these are hard to trace back. MSMEs under green financing facilities are partially included in reporting.	**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).

Annexes

Annex 1. Elements of Country-level Action Plans in the SBI Paper

The SBI Paper envisions a country-level integrated planning tool across pillars that fulfils various functions (listed below) such as providing an SME sector diagnostic, assessing transition challenges and financing constraints faced by SMEs, and mapping relative impact across instruments. Below is a stocktaking exercise to analyse to what extent these functionalities have been achieved through the updated Country Strategy Methodology and Operational Plans at *the country level*.

Envisioned Functions in 2013	Country Strategy Methodology	Operational Plans
SME Sector Diagnostic	Depending on the year and the country, it is a part of the wider sectoral or macroeconomic analysis. The same principle applies for Country Diagnostic documents. While the focus is not exclusively on SMEs, SMEs are a part of the analysis to varying extents.	Operational Plans commence with a section called Country Context and Strategic Fit that provides a brief sector diagnostic in a few lines.
Review of existing EBRD activities in support of the sector and impact achieved to date	The Country Strategies take stock of the implementation of previous strategy periods, including brief descriptions of SME activities undertaken during that period. Similarly, the Country Strategy Delivery Reviews also take stock of such activities at a broad level. These are usually at the output and outcome level rather than impact level.	Operational Plans may touch upon this very briefly in the Country Context and Strategic Fit section, but there is no systematic stocktaking of previous SME activities. Each OP reports on its own year and it is possible to track the performance via the scorecard. The Annual Review may perform this stock-taking function at the level of SBI.
An assessment of the remaining transition challenges and financing constraints faced by SMEs	The definition of country priorities is linked to identified constraints. This is not exclusively focused on SMEs but could include SME challenges. For example, "limited access to finance for regional and women-led SMEs" is defined as a challenge. This is then linked to "can it be changed" – "limited availability of long-term funding provided via commercial banks, esp. for local firms and regional SMEs to grow" and tracked to "what can the Bank do" i.e. "effective instruments to support underserved segments (ASB, WiB), incl. through increased lending." This example is from the Turkey Country Strategy 2019-2024. The Country Diagnostic documents also implement a macro-level analysis of such challenges, including those relevant for SMEs. Examples of these are below in the Country Case studies.	No dedicated section for constraints. If mentioned, it would be a part of the Country Context and Strategic Fit. No section distinguishing between different segments of the SME population, but this type of segmentation is possible to observe on a country-level in the MDAs/SDAs or special initiatives chosen (for refugees, for earthquake response, youth SMEs, women-led SMEs etc). For example, if Youth Inclusion is denoted as a challenge in a Country Diagnostics (such as Serbia's below), Youth in Business would be a chosen initiative in a corresponding OP. Operational Plans are informed by the Country Diagnostics and Country Strategies.
An assessment of the activities of other IFIs and the government in support of the sector	Not SME-specific but maps International Partners' Complementarity in Business Areas. It also includes a Donor Co-Financing Assessment and a non-SME-specific dive into Government Priorities and Stakeholder Engagement.	Some OPs include a section called Policy Dialogue and Stakeholder Engagement, which may outline potential areas of cooperation. The Country Context and Strategic Fit section very briefly touches upon government priorities. During interviews, SME F&D colleagues reported having meetings with government counterparts and other donors to determine country-level priorities.
Mapping relative impacts across instruments	The Country Strategies do not necessarily have an exclusive SME focus. While defining country strategy priorities, a causal chain may be built	There is no systematic mapping of relative impact across instruments at the country-level. There are standalone

	between different types of activities (low levels of financial literacy combined with issues related to access to finance > trainings > loans), but this is not systematic. Impact is not mapped across different instruments for SMEs.	indicators such as the share of joint advisory projects started under joint initiative with EBRD banking teams and, the number of WiB/YiB clients signing loan agreements with partner banks (depending on year), a banking and advisory linkages KPI for direct deals, but no systematic stocktaking of synergies between pillars or instruments.
Proposed operational approach across instruments, highlighting potential investment opportunities and specific policy/business advisory activities	Same as above.	Same as above. Operational Plans denote planned advisory KPIs, some banking KPIs, banking and advisory KPIs (direct and indirect), as well as special initiatives. Policy dialogue activities are also included as an element in the operational plans. Yet, these are more like standalone indicators. Other instruments such as intermediated financing such as GEFF are not included.
Donor resourcing requirements	There is a non-SME-specific Donor Co-Financing Assessment. It maps grant funding needs and potential sources of grant funds.	Features a cost-sharing matrix and lists potential funding sources and donor timelines.
A results framework for measuring and reporting on impact achieved, tracking indicators and outcomes	Features a results framework encompassing indicators for all priorities (including SME-relevant ones). The SME-level indicators are outcome indicators. Country strategies include impact indicators at the macro-level per strategic priority (not activity) i.e. the strategic priority of "Enhancing Private Sector Competitiveness, Productivity and Access to Finance" which may include SME-level sub-activities would feature an impact-level indicator such as "Economic Complexity Index, Harvard Centre for International Development; Youth not in employment, education and training, ILOSTAT".	Lists strategic and operational KPI targets. These targets are then reported on by the SME F&D Scorecard on a quarterly basis for performance management. They are not impact-level indicators.

Annex 2. Country Analysis

Kazakhstan

Key SME-related challenges in the latest Country Diagnostic (2017)

The 2017 Diagnostic notes several challenges regarding MSMEs and SMEs. The Diagnostic delineates that labour productivity of MSMEs in Kazakhstan is roughly half that of large companies. State procurement law regulations prove to be too constraining on SMEs with a short timeframe for bid payments, and the requirements for high liquidity due to the cost of tendering. An underdeveloped banking sector and non-existent capital market at the time are noted to put pressure on SMEs in terms of access to financing. Moreover, the Diagnostic finds that SMEs are underdeveloped with insufficient export capacity. There are other key challenges noted that could affect SMEs in terms of the greening of the largely carbon-intensive economy.

Main operational responses proposed in the latest Country Strategy (2022 – 2027)

The Country Strategy of 2022 – 2027 plans the below activities/outputs that are relevant for SMEs:

- Supporting the digitalisation of private sector companies as well as enhancing digital service providers, and digital infrastructure, through direct financing and advisory,
- Supporting the creation of a VC ecosystem, including developing regulations and supporting incubators and accelerators, coupled with investing in equity/VC funds and start-ups,
- Scaling up the Trade Facilitation Programme, including digital trade finance,
- Financing and advising companies including SMEs on decarbonisation, resource and energy efficient and climate resilience solutions, and helping ensure general Paris alignment of their investments,
- Scaling up GEFF financing and leveraging the GEFF infrastructure beyond partner institutions - An indicator to this end is the number/volume of GEFF subloans extended by partner banks,
- Supporting women-led businesses, through access to finance, via dedicated credit lines as well as advisory services,
- Providing financing for businesses in the regions of Kazakhstan, both directly and indirectly through financial intermediaries,
- Promoting corporate social responsibility activities in the regions to improve the local business environment,
- Offering advisory services to SMEs in the regions, with a special emphasis on western Kazakhstan, leveraging a broad RO network with private sector donors' participation.

How the Operational Plans Correspond to these priorities and challenges.

Examining the 2023 OP, alongside the 2023 strategic, banking, advisory, and banking and advisory linkages (including Blue Ribbon) KPIs, Kazakhstan features targets for the special initiatives of Women-in-Business, Star Venture, and the Supply Chains Programme.

- Digital Outreach – Digital outreach activities include activities such as awareness raising and digital development workshops, e-learning for women in microbusiness, remote trainings, the MicroMentor programme, and advisory activities delivered digitally,

- Cost-Sharing – Top-ups or grants are offered for gender, accounting and financial reporting, and energy and resource efficiency (same rate as Serbia and Turkiye). Please note that contribution rates are also country-sensitive.
- MDAs and SDAs – Green economy activities such as ESG trainings, trainings in the textile and garment sector, SDA in horticulture etc; WiB workshops, mentoring and trainings among other inclusion activities; SV accelerators' capacity building for digital transformation, SDA in the healthcare sector etc.
- Policy Dialogue and Partnerships – Partnerships with EDF Damu; National Chamber of Entrepreneurs Atameken; Regional business associations (light industry, dairy farms, machinery, furniture, KIT, family business), Kazakhstan Association of Business Women;

Yet, although there are MDAs and SDAs for green economy transition and energy efficiency grants (same as Serbia and Türkiye), the Country Strategy priorities about green financing and scaling up GEFF are not fully captured.

The regional elements of the 2022 – 2027 Country Strategy are captured by other OPs such as the OP of 2022 with special initiatives such as TCO Local Development, and MDAs and SDAs that focus on different regions. Previous OPs also feature Shell LiveWIRE, which supports young entrepreneurs in West Kazakhstan.

How the Operational Plans respond to crises

2023 does not correspond to a period of intense crisis for Kazakhstan. Looking at the COVID period OPs, the 2021 and 2022 OPs feature crisis response MDAs and SDAs for COVID and the ReSET Initiative for SMEs.

Serbia

Key SME-related challenges in the latest Country Diagnostic (2023)

The latest Serbia Country Diagnostic highlights that SMEs experience access to finance challenges. It is noted that tighter monetary conditions may slow credit growth in the short term and that capital markets are relatively underdeveloped. For SMEs, the diagnostic emphasises the need to focus on more complex and higher value-added exports as well as problems with integration and access to developed export markets. It is noted that small firms suffer more problems related to governance standards and institutional inequality. Citing the OECD SME Policy Index, the document also highlights the need to improve environmental performance and access green financing. In general, the diagnostic notes that Serbia lags behind the EU-11 countries on all transition qualities, with "resilient" and "green" showing the biggest challenges. Moreover, problems related to youth inclusion are highlighted.

Main operational responses proposed in the latest Country Strategy (2023 - 2028)

Among numerous other indirectly relevant activities and outputs, the below is planned:

- Deploying green direct and intermediated financing and continuing to support green economy transition in the corporate sector, including through ASB,
- Stepping up energy efficiency investments in buildings across the country, both through direct and intermediated finance, and facilitating capacity building and development of supportive regulations,
- Strengthening intermediated financing of SMEs through dedicated credit lines to PFIs, including in local currency, with a focus on competitiveness, green transition and economic inclusion, as well as through risk sharing and trade finance,
- Continue to deliver the ASB programme, with a focus on green transition, digitalisation,

inclusion, succession planning, internationalisation and supply chain integration,

- Accelerate the digitalisation of the Serbian economy, with a focus on SMEs and on developing the start up ecosystem (including through the Star Venture programme),
- Step up implementation of the Youth in Business and Women in Business programmes, both in terms of intermediated financing and advisory,
- Alongside corporate clients and other partners, support enhanced vocational training and other skills initiatives to help address gaps and mismatches, including to develop green and digital skills and create a better qualified and inclusive workforce,

How the Operational Plans Correspond to these priorities and challenges

Taking the 2023 OP as an example, alongside the core strategic, banking, advisory, and banking and advisory linkages (including Blue Ribbon) KPIs, Serbia sets its own targets for Women in Business, Youth in Business, Supply Chain Programme, Succession Planning, and the Star Venture Programme.

- Digital Outreach Activities – These activities include online diagnostics and assessments, e-learning platforms, and trainings for SMEs.
- The Cost Sharing Matrix – Top-ups or grants are offered for gender, youth, energy efficiency (same rate as Türkiye and Kazakhstan), accounting and financial reporting
- MDAs and SDAs – MDAs and SDAs are on green economy, equality of opportunity and inclusion, and digital transformation as per other OPs. There are WiB and YiB-specific MDAs such as training programmes and seminars. In terms of green economy, there are four activities in total.
- Policy Dialogue and Partnerships – Activities with the Ministry of Economy and Regional Development Agency and other stakeholders. Other activities to increase access to green financing and promote inclusion are noted.

Notably, while the 2023 – 2028 Country Strategy calls for intermediated financing to increase energy efficiency (this is also an outlined activity in the previous strategy 2018- 2023 – providing intermediated financing through GEFF and other credit lines targeting SMEs to complement existing GET programs for multi-purpose buildings), this is not captured in the SME F&D Operational Plan.

How the Operational Plans respond to crises

The period of 2023 to 2028 does not correspond to an episode of significant crisis for Serbia. However, the 2021 OP as an example features COVID response MDAs and SDAs. In addition, it is possible to observe a reduction in the client contribution matrix vis-à-vis 2020 during this year (however, there is no explicit COVID-related rationale given).

Tunisia

Key SME-related challenges in the latest Country Diagnostic (2018)

Tunisia's private sector is marked by the notable absence of mid-sized enterprises. Small firms, making up 90 percent of all businesses, struggle to expand and create employment opportunities. The primary obstacles preventing SMEs from becoming more competitive and productive include a fragile financial system undermining access to finance, especially for segments such as women and youth; low levels of productivity and integration into global value chains; gender and regional disparities; a mismatch between labour skills and market needs; a constrained business climate; restricted access to renewable energy, and resource inefficiencies.

Main operational responses proposed in the latest Country Strategy (2018 – 2023)

The 2018 – 2023 Tunisia Country Strategy is the first and only Country Strategy of EBRD for Tunisia. Among a range of other indirect responses, the Country Strategy plans the below:

- Offering direct and indirect financing and advisory services to SMEs, particularly in agribusiness, light manufacturing, technology, and tourism,
- Enhancing operating standards for SMEs within a value chain (VCCP),
- Assisting regional integration and internationalization through direct financing and a dedicated ASB program for exporters, while also advocating for the gradual easing of capital controls to facilitate international expansion,
- Implementing SEMED Youth Employment and Women in Business Programmes,
- Utilising ASB and selective financing instruments (ESIF,VCIP) for technology start-ups, and providing capacity building to business accelerators,
- Providing business advisory services to SMEs in regions beyond Greater Tunis with a focus on exporters, services, agribusiness, and craftsmanship,
- Providing dedicated credit lines and risk-sharing frameworks with partner banks, targetting underserved segments such as women and promoting energy efficiency,
- Assisting domestic SMEs in the renewable energy value chain through advisory services and co-financing grants,
- Scaling up the Trade finance programme.

How the Operational Plans correspond to these priorities and challenges

In addition to the core strategic, banking, advisory, and banking and advisory linkages KPIs (including Blue Ribbon), the operational plans from 2019 to 2023 primarily address the SME-related challenges through:

- Digital Outreach Activities – Planned digital outreach activities in 2023 include awareness raising and business development webinars; digital maturity assessments; e-learning and other mentoring programmes such as Micromentors, and the digital delivery of some advisory projects,
- The Cost Sharing Matrix – Starting from 2021, EU PACE (more on this below) has its own client cost-sharing matrix. In the generic cost sharing matrix, top-ups and grants are provided for gender, energy efficiency, and accounting and financial reporting. In 2023, an additional 10% top-up is added for green-tracked projects. The PACE cost-sharing matrix also gets updated in 2023 with the addition of Group Advisory projects.
- MDAs and SDAs – Grow Your Consulting Business training series; Export Promotion training series; trainings under WiB and Star Venture; support to professional associations and clusters; communications and visibility activities, and non-standard activities under PACS (more on this below). Starting from 2023, US-funded Food Security Tunisia Roadmap and associated activities are also featured.
- Policy Dialogue and Partnerships – Follow-up on the tourism sector recovery plan in 2021, and signing an MoU with CEPEX (the Export Promotion Center of Tunisia) within the context of the PACE programme. In 2023, establishing the ENDA Micromentorship Platform, and assisting in the establishment of the TABC Export Promotion Platform.

In addition, it is worth emphasizing the importance of the PACS and PACE programmes for Tunisia in respective OPs. In OPs from 2019 to 2022, the EU-financed PACS programme is featured. PACS supports SMEs in key subsectors such as ICT, transport and logistics, professional services, tourism and handicrafts through the delivery of international and local advisory, and MDAs and SDAs. Despite its relevance, this program was not mentioned in the country strategy, even though it began in 2015 and targeted critical sectors outlined in the country diagnostics, such as the logistics and transport sector. Similarly, the EU-financed export programme, PACE, is featured in OPs from 2020 to 2023. PACE boosts the export capacities of SMEs through local and international advisory, MDAs and SDAs, and policy and partnerships.

However, SME activities not implemented by SME F&D and planned under the country strategy were not included in the OPs from 2019 to OP 2023. For instance, initiatives like VCCP or assistance to domestic SMEs in the renewable energy value chain through advisory services and co-financing grants were not covered.

How the Operational Plans respond to crises

The operational plans remain responsive to unforeseen challenges such as the COVID-19 crisis and lately, the impact of Ukraine war on the economy of Tunisia (food security).

- The 2021 OP – Specific trainings were planned to support SMEs, including effective HR practices during crises and leadership for women entrepreneurs. These activities were delivered digitally to ensure business continuity and responsiveness.
- The 2023 OP - To address the food security challenges induced by the War on Ukraine, a program funded by the United States under the SBIF fund began in 2023. The initial activity, as outlined in the OP 2023, involved developing a food security roadmap for Tunisia.

Türkiye

Key SME-related challenges in the latest Country Diagnostic (2019)

The Türkiye Country Diagnostic of 2019 notes that the country achieves an above-average EBRD SME Index score. However, SMEs still lag behind in productivity. High rates of informality are prevalent in the SME sector. SMEs do not usually suffer from financing constraints, but they rely heavily on family members in management. SMEs showcase weak governance standards. While these constraints are given with specific references to SMEs, other key challenges are more general but could still impact SMEs. The underdeveloped nature of the local capital and financial markets, inefficiencies in the labour market in terms of a skills mismatch, women’s participation in the labour market and youth unemployment, as well as impediments to innovation plague the economy.

Main operational responses proposed in the latest Country Strategy (2019 – 2024)

Among numerous other indirectly relevant activities and outputs, the below is planned:

- Providing direct and/or indirect financing and advisory to corporates (including SMEs), with a focus on backward/forward linkages, export competitiveness, technology upgrades and skills transfers, and promoting best-practice corporate governance and business standards (i.e. ISO certifications, climate governance standards),
- Supporting corporates in adopting innovative practices and technologies through direct financing or advisory for “Industry 4.0” investments, supporting market champions and “Blue Ribbon” high-potential SMEs, incl. under the RSF,
- Supporting women-led businesses through access to finance, via dedicated credit lines to PFIs and NBFIs (e.g. factoring and leasing) as well as advisory services,
- Providing direct and indirect financing as well as business advisory for regional businesses, including in refugee host regions, with strong demonstration effects,

- KPIs also include trainings to inclusion target groups etc.

How the Operational Plans correspond to these priorities and challenges

Several OPs would correspond to this strategy period. Looking at the 2023 OP as an example, aside from the standard set of KPIs, Blue Ribbon, and special initiatives such as WiB, the Supply Chain programme and Star Venture (each country would have their own targets and initiatives), these challenges are addressed through:

- Digital Outreach Activities - In 2023, these encompass awareness-raising activities such as with the Gaziantep Green Transformation Centre, trainings on greening and digital transformation, trainings with women-led enterprises, and development programmes,
- The Cost Sharing Matrix – In 2023, the matrix showcases top-ups or grants for gender, green-tracked, energy efficiency, accounting and financial reporting, and the earthquake. Contribution rates are also country and context-sensitive.
- MDAs and SDAs - Trainings and other activities are offered to support a green economy, promote equality of opportunity and inclusion, and digital transformation,
- Policy Dialogue and Partnerships on SME greening, the supply chain initiative, refugee livelihoods and corporate governance.

How the Operational Plans respond to crises

The Country Strategy document predates COVID-19 and the 2023 Earthquake, but the OPs remain responsive. Several Operational Plans correspond to this period. Taking the 2024, 2023, and 2022 Operational Plans as examples:

- The 2024 OP - Features earthquake response KPIs
- The 2023 OP - Additional funding sources for refugee response and the earthquake, 90% grant contribution to earthquake-affected regions.
- The 2022 OP - Additional funding sources for COVID-19. MDAs and SDAs include crisis response activities for both COVID-19 and the refugee crisis. Dedicated technical assistance for KOSGEB to digitalise its COVID-19 assistance programme for SMEs.

Annex 3. Country Strategy Results Framework and Operational Plan Indicators

At the SME and MSME-level, depending on the country, the Country Strategy Results Framework includes indicators such as but not limited to:

- Number of MSME subloans disbursed
- Volume of MSME subloans disbursed
- Number/Volume of Women in Business subloans disbursed
- Number of women-led businesses accessing advisory services
- Number of people enhancing skills as a result of training
- Number of ASB clients reporting increased productivity
- Number of ASB clients reporting increased turnover
- Number of ASB clients reporting increased export sales
- Total number of loans disbursed by PFIs for SMEs and/or female-led businesses
- Number of ASB clients reporting improved standards as targeted

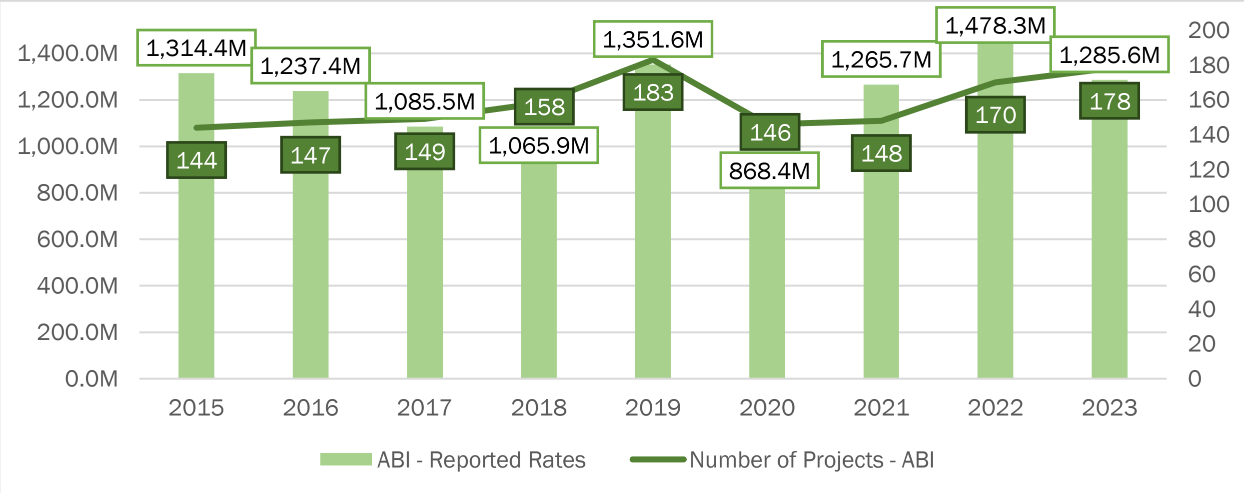
Where such indicators are for advisory projects, the Operations Manual of 2021 notes that the data is collected via project evaluations. The data for advisory indicators are collected within one year of project completion through a country team visiting the beneficiary enterprise and collecting feedback about the advisory KPIs during evaluation meetings. Where the KPIs are on non-project activities, these are collected six months after completion through an online survey and evaluation questions. These processes are outlined in detail in the Operations Manuals. Yet, a question may be raised about the accuracy of the data since it relies on self-reporting by the beneficiary enterprises. These are outcome-level indicators. Impact-level indicators are not set at the activity level. They are set for the broader strategic priorities.

Operational Plans also include a set of target indicators each year. These are then reported by SME F&D Scorecards on a quarterly basis for performance-tracking. OPs are prepared jointly by advisory and banking teams. The scorecards include strategic priority KPIs (i.e. % of projects with a strategic priority focus such as green, digital, inclusive), advisory KPIs, banking and advisory linkages KPIs for both direct and indirect deals, KPIs for non-project activities, and crisis-response KPIs. Indicators are mostly at the aggregate project level. They are for programme and portfolio monitoring purposes.

Annex 4. Overview of the SBI Portfolio (2015-2023)

Between January 2015 and December 2023, the Bank committed a total of EUR 10,952.9 million via 1,099 operations as part of the Small Business Initiative (SBI) across Pillars 1, 2, and 3. As illustrated in Figure 19, the SBI ABI volume exhibited some volatility in this period, ranging from a minimum of EUR 868.4 million recorded in 2020 to a maximum of 1,478.3 million in 2022. The overwhelming majority of projects were sub-operations (1,042) that make up frameworks, while the remaining 57 were standalone operations.

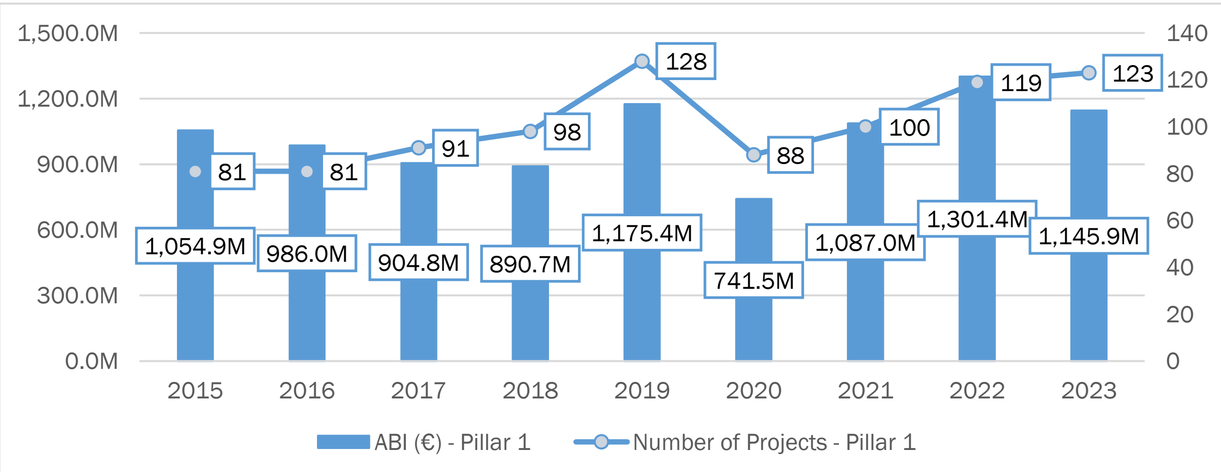
Figure 20: SBI Annual Bank Investment (ABI) and Number of Projects per Year, 2015-2023



Source: IEvD based on the DW Banking Operational Data. Accessed via Tableau.

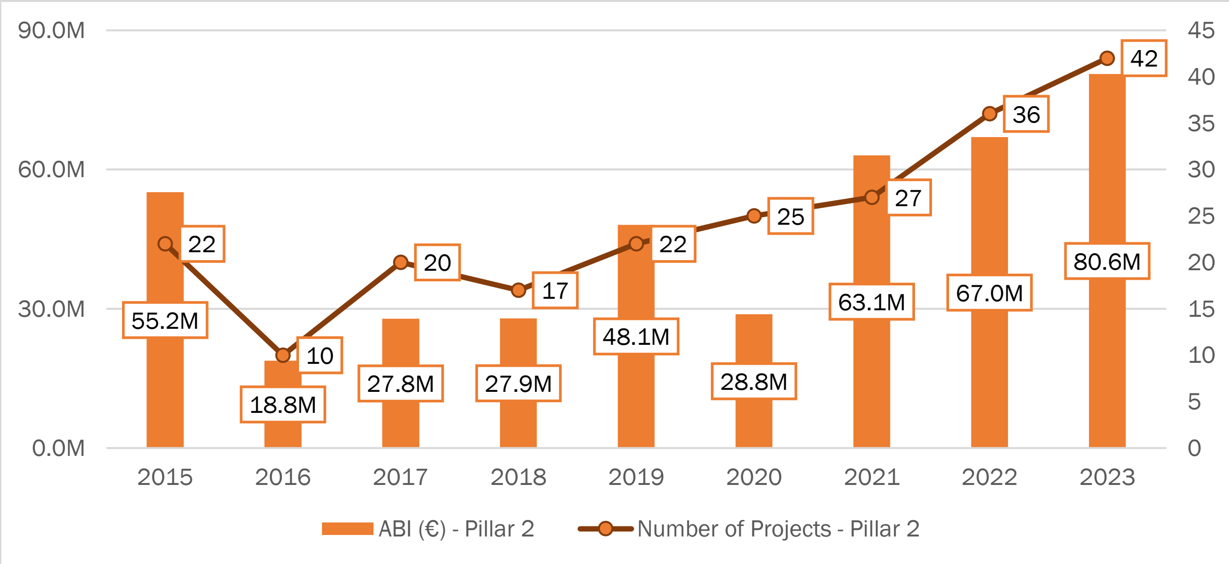
The ABI and the number of projects in this period differ significantly depending on the Pillar. Cumulatively over the 2015-2023 period, the Indirect Financing with EUR 9,287.7 million represents 84.8% of the total SBI ABI, which amounted to EUR 10,952.9 million. As illustrated in Figures 20, 21, and 22, the Indirect Financing ABI consistently represents the major share of the annual SBI ABI volume.

Figure 21: Indirect Financing ABI and Number of Projects per Year, 2015-2023



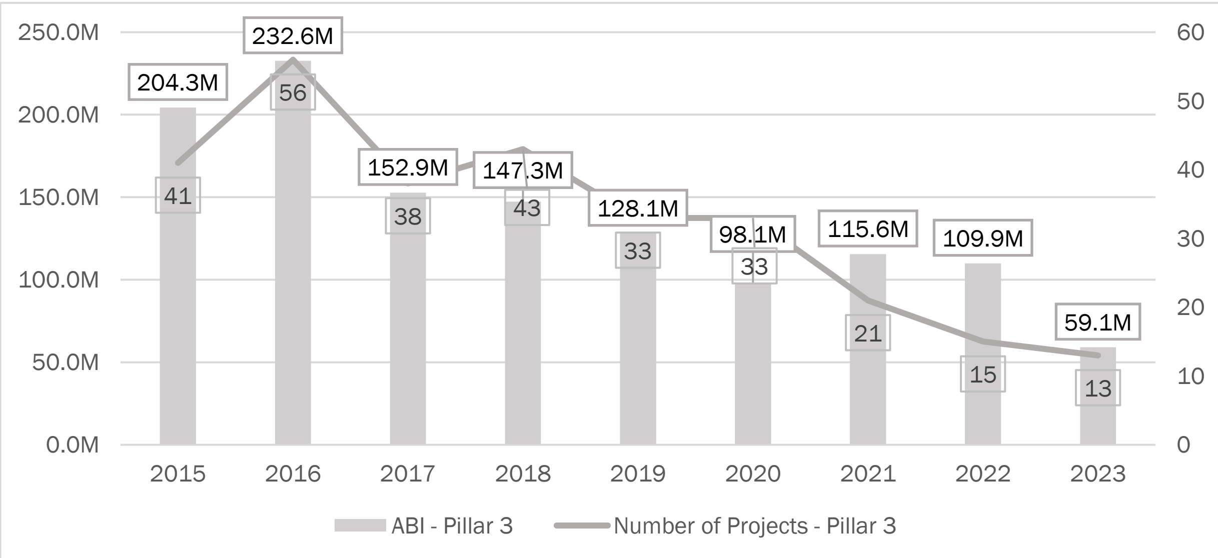
Source: IEvD Based on the DW Banking Operational Data. Accessed via Tableau.

Figure 22: Co-financing and Risk Sharing ABI and Number of Projects per Year, 2015-2023



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

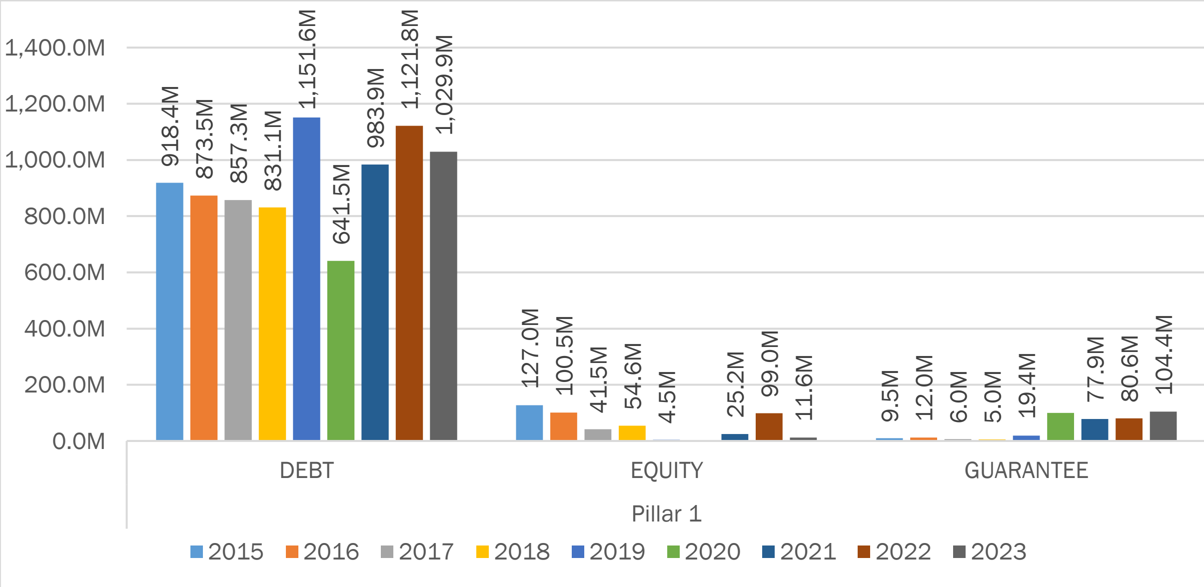
Figure 23: Direct Financing ABI and Number of Projects per Year, 2015-2023



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

As shown in Figure 20, the Indirect Financing ABI exhibited slight volatility between 2015 and 2023, averaging around EUR 1,032 million. In contrast, the Co-financing and Risk Sharing experienced more significant fluctuations, initially dropping from EUR 55.2 million in 2015 before almost continuously rising from EUR 18.8 million in 2016 to EUR 80.6 million in 2023. Meanwhile, as depicted in Figure 7, the ABI of the Direct Financing has declined by nearly three-quarters since 2015, falling from EUR 204.3 million in 2015 to EUR 59.1 million in 2023.

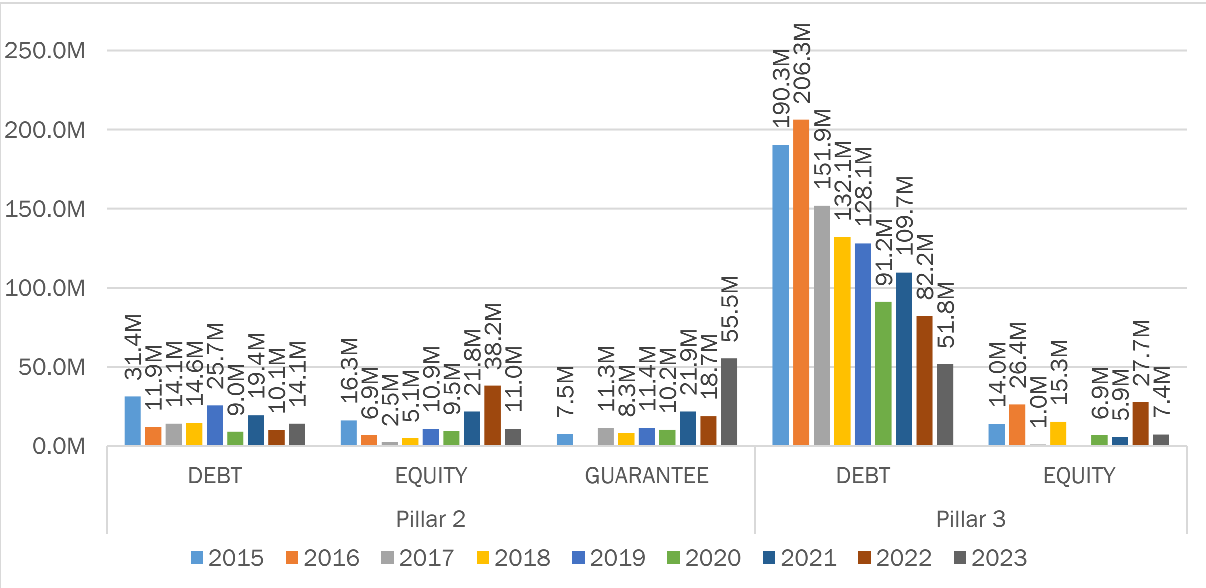
Figure 24: Indirect Financing ABI by Sub-Instrument Type by Year, 2015-2023



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau

As illustrated in Figure 23, debt instruments constituted nearly 90% of the Indirect Financing ABI on average between 2015 and 2023. Equity-based investments within Indirect Financing have been rather inconsistent, fluctuating between EUR 127.0 million in 2015 to EUR 11.6 million in 2023. The guarantees, on the other hand, have shown a nearly consistent growth within the Indirect Financing, rising from EUR 9.5 million in 2015 to EUR 104.4 million in 2023. For Co-financing and Risk Sharing, the volumes of debt, equity, and guarantee instruments in the total ABI over this period have been volatile but relatively balanced, with debt representing 36%, equity 29, and guarantees 35%. In the case of Direct Financing, as illustrated in Figure 24, debt instruments consistently constituted the largest share of Direct Financing investments. However, its volumes have been rapidly declining over time.

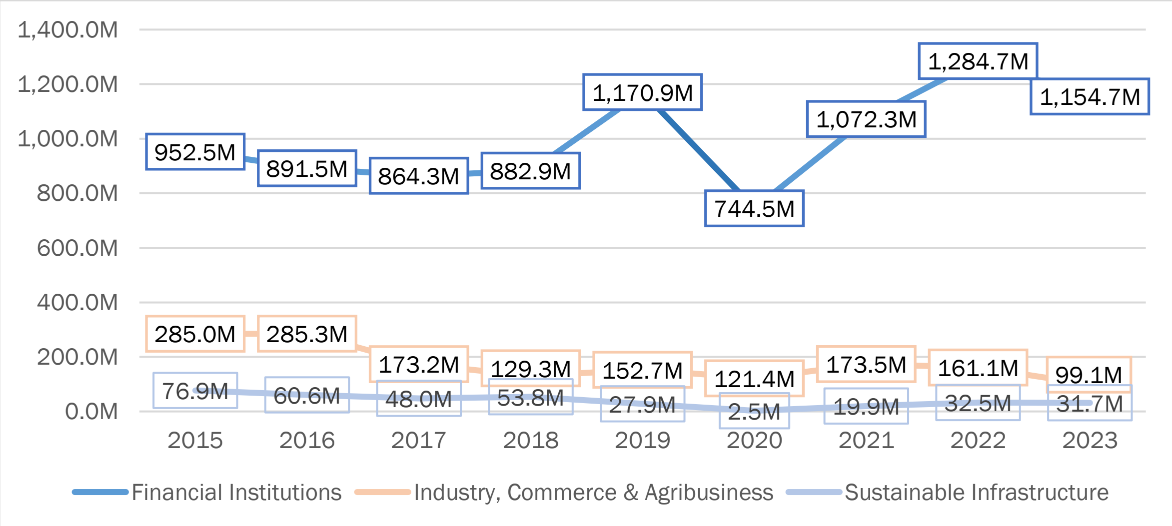
Figure 25: Pillars 2 and 3 ABI by Sub-Instrument Type by Year, 2015-2023



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

The Financial Institutions (FI) sector made the largest contribution to SBI ABI in the 2015-2023 period (EUR 9,018.4 million or 82.3% of the total reported ABI). The Industry, Commerce & Agribusiness (ICA) sector followed with EUR 1,580.7 million or 14.4%, as well as the Sustainable Infrastructure (SI) sector with EUR 353.9 million or 3.2% of the total SBI ABI committed during this period. Figure 25 illustrates that, despite a sharp decline in 2020, the FI sector's share of the overall SBI volume has been increasing over time. This trend is driven by the general increase in FI SBI volume coupled with a decrease in SBI ABI in other sectors, mirroring a shift in the composition of SBI by pillars. Notably, the ICA and SI SBI projects are only substantially present under Pillars 2 and 3.

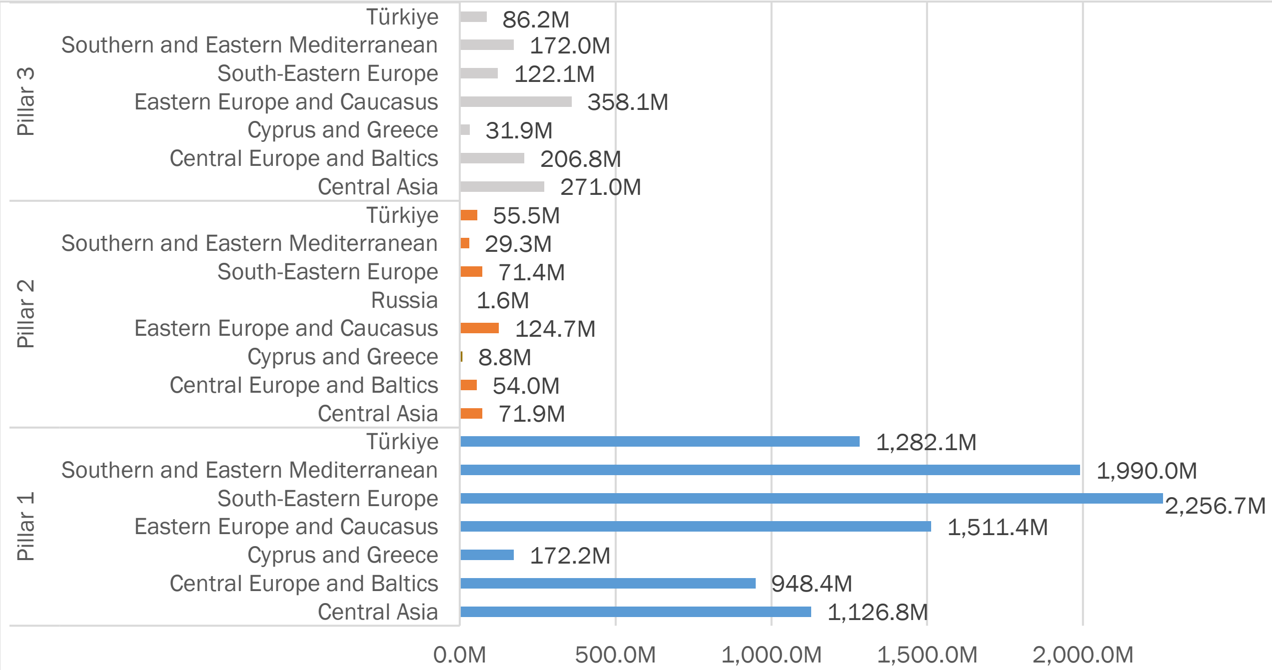
Figure 26: SBI ABI Volume by Sector Team Group by Year, 2015-2023



Source: IEvD Based on DW Banking Operational Data. Accessed via Tableau.

Between 2015 and 2023, South-Eastern Europe (SEE) received the highest amount of Indirect Financing funding (EUR 2,256.7 million), followed by SEMED (EUR 1,990 million), Eastern Europe and Caucasus (EUR 1,511 million), Türkiye (EUR 1,282.1 million), Central Asia (EUR 1,126.8 million), Central Europe and Baltics (EUR 948.4 million), and Cyprus and Greece (EUR 172.2 million). A significant portion of Co-financing and Risk Sharing ABI went to Eastern Europe and Caucasus (EUR 124.7 million), followed by Central Asia (EUR 71.9 million), SEE (EUR 71.4 million), Türkiye (EUR 55.5 million), Central Europe and Baltics (EUR 54 million), SEMED (EUR 29.3 million), Cyprus and Greece (EUR 8.8 million), and Russia (EUR 1.6 million). Similarly, Eastern Europe and Caucasus attracted the most of Direct Financing ABI (EUR 358.1 million), followed by Central Asia (EUR 271 million), Central Europe and Baltics (EUR 206.8 million), SEMED (EUR 17 million), SEE (EUR 122.1 million), Türkiye (EUR 86.2 million), and Cyprus and Greece (EUR 31.9 million). (*See Figure 26*) The countries with the highest SBI ABI over this period include Türkiye (EUR 1,423.8 million), Egypt (EUR 1,235.9 million), Serbia (EUR 1,080 million), Kazakhstan (EUR 641.5 million), and Georgia (EUR 596.4 million).

Figure 27: SBI ABI by Pillar by Country Group, 2015-2023



Source: IEvD based on DW Banking Operational Data. Accessed via Tableau.

Annex 5. What size constitutes a small firm?

Figure 28: Small refers to different sizes depending on the country and institution.