EXECUTIVE SUMMARY

Evaluation scope. The global objective of the assignment is to assess the activities and the results of EU Initiative for Financial Inclusion[1] (EIFI) achieved during implementation compared to the initial objectives and expected results and - based on lessons learnt - build recommendations for the continuation of the EIFI.

The specific objectives of this independent mid-term evaluation are to provide the relevant services to the European Union and the interested stakeholders with:

- a) An overall independent assessment of the past performance of the targeted actions, paying particular attention to i) its set up and the implementation by European Financial Institutions (EFIs) and ii) its intermediate results measured against its objectives;

- b) Key lessons and recommendations in order to improve current and future European Union strategies and activities in the field of access to finance for MSMEs.

Methodology. The methodology followed the usual OECD DAC criteria, with additional criteria for complementarities with other EU and EU Member States funded programmes in the Southern Neighbourhood Region (in particular the existing MSME business and financial regulatory support programmes funded by EIB, EBRD, KfW, AFD…) and the value added for EU. The main evaluation criteria are then the DAC + 2, that is relevance, efficiency, effectiveness, impact, sustainability, C/C/C, EU added value, and additional analysis of cross-cutting issues.

The collection of data and information was developed using the following tools: **Documentation review**, **Collection of secondary data**: the assumption that large amount of data exist at each operator level was not confirmed since most of the data are not available due to internal procedures of EFIs and PFIs; **Collection of primary data** through direct interviews with the main stakeholders of the project. **Processing / organization of the data / information**: the data / information collected were used to answer the EQs. **Recommendations:** based on the conclusions and lessons learnt.

Mission's activities. The mission was undertaken on a part time basis by two consultants (a third one only for the initial phases) between January and September 2018. It consisted of four main phases: i) The Inception phase resulting in the Inception report, ii) the Desk review resulting in the Desk report, iii) the Field missions in the four MENA countries: Jordan, Egypt, Morocco and Tunisia, and iv) the synthesis phase which produced this final report.

Difficulties and Limits of the exercise. The main difficulty has been the spread of the evaluation covering four specific Regional Facilities, implemented in different countries through four European Financial Institutions, each one with their own procedures and reporting framework.

The second difficulty was related to i) the limited reporting data as far as results and impact were concerned for the Facilities in general and ii) the absence of a common reporting framework, coordinated performance indicators, more significantly linked to the embedded "blending".

The last difficulty concerned the coordination framework / platform, which does not have precise objectives, defined expected results, an effective leadership and consolidated reporting at the Initiative level.

Quality of mission outcomes depended on the collaborative attitude from EFIs. The mission must report that the basic assumptions regarding support / collaboration / availability of data were not always met during the field visits: the collaboration of EFIs in the countries has not always been optimal. Moreover most of Initiative activities started officially recently. Only EBRD SBS and KfW SANAD have a longer history, and in effect are the only ones that can show some real results.

The availability of more detailed information on EFIs local activities has been limited. The Possibility to build a "counterfactual survey" based on the data arising from the standard operations developed by the EFIs over the years in the targeted countries in order to give more credibility to the value added of the Initiative actions could not be developed.

The scarcity of detailed data and information did not allow building a global analysis of results; moreover, as the capacity to consolidate results depends on the collection of similar data / definitions, consolidation was not possible as the EFIs reports rarely contain same type of data. This problem is aggravated by lack of universal definition of Micro, Small and Medium Enterprises in Southern and Eastern Mediterranean Countries.

Some of the instruments are multi-donors and some foresee also the participation of independent external investors: consequently, some of the results could depend on the participation / engagement of other "investors" that the present mission was not allowed to meet.

The Specific Objectives (SO) and Overall Objective (OO) of the Initiative are defined in macro dimensions and consequently there are many other factors affecting the final results. In the region there is a very large number of projects dealing with Financial Inclusion and SMEs support providing a huge amount of financial resources: this crowded environment means that attribution of achievements to EIFI is difficult to address, while the attached visibility could be impaired.

Relevance. In Neighbourhood South region SMEs represent between 80 percent and 90 percent of all formal sector enterprises, and an even higher proportion if informal enterprises are taken into account. SMEs are typically responsible on average for more than 30 percent of all private sector employment, and between 4 percent and 16 percent of total employment.

[1] The former General Secretary of the United Nations, Kofi Annan, in a speech that he gave on December 29, 2003, and the government of the United Kingdom in a budget report for 2004 were the first to use the concept of financial inclusion.

SMEs have a low level of access to finance: in fact, Neighbourhood South has the lowest levels of usage of bank loans of all regions except sub-Saharan Africa, according to the World Bank enterprise and bank surveys. Estimates of the "funding gap" for MSMEs show that the MENA region is the one farthest from the potential optimal frontier: the need is 3 to 4 times the available resources.

At the same time it is quite shocking that in terms of interventions (that is specific actions to support / promote financial inclusion) MENA region is the one where less projects and less commitments are developed. The problems related political instability could be at the origin of this contradiction.

There is no doubt that one of the main challenges in all MENA countries is to find employment for the population, especially young people and women. To achieve this objective, MSME development is considered as the most appropriate channel. Access to Finance (A2F) is one of the principal challenges faced by MSMEs, confirmed by many surveys. In this respect, the objective of the EIFI to support MSME A2F is suited to the priorities and policies of the region and countries.

Nevertheless it should be acknowledged that the MENA region has been since years one of the priorities of EFIs participating to EIFI, something that appears to be consequence of the "political pressures" European governments together with the EU exerted on the banks: the total amount of invested resources could be estimated at around 5 billion euro in the last years. This very large amount could be a source of important information and surely the basis for lessons learnt: it will be then very important to have more fruitful collaboration from EFIs.

A summarized supply quantitative analysis leads to a preliminary estimate of the potential final impact of the EIFI: against a gap estimated around 200 billion$, EIFI contribution of 625 million euro could cover around 0,35 % of the demand. Becoming then a quite marginal intervention, this view suggests two important considerations in order to optimize the use of the grant resources: a) select targets / modalities to increase multiplier effect and justify the use of subsidies; b) define as major outcome of the EIFI <u>the consolidated experience of innovative financial instruments in a difficult environment</u>. Then, even though the quantitative results – well defined in each EFI Delegation Agreement – should be kept under control to verify the efficiency and the effectiveness of the EFIs management and the multiplier effect of NIF resources, <u>in effect what should deserve the most focused attention is the transformative capacity of the EIFI interventions in the behaviour of local financial institutions and enterprises.</u>

However financial inclusion is not only an issue that should be analyzed on the supply side. In fact, there is a high proportion of SMEs that reveal that they do not have external financing needs (that is, the investment is financed with retained earnings and other sources). The demand side issues (where the non financial factors are as important as the availability of resources) deserve better analysis in order to fashion - in collaboration with the selected PFIs - the most adequate products for the targeted beneficiaries, exploiting fully the "capacities" included in the separate facilities that descend from the "grants" package, as this is the best way to really develop the full value added of EIFI.

Efficiency. The answer to this question suffers from constraints due to: a) the limited reporting by the EFIs (except for the EBRD SBS Facility and for KfW SANAD) on their activities and results, b) some of the facilities have only started being implemented from mid-2017, while only a couple of them (KfW SANAD and EBRD SBS) were already operational being a continuation of previous programmes.

Overall efficiency is not visible in the implementation of the Facilities in the general absence of detailed reporting at country level for all facilities. Some of the facilities are managed from the EFIs head offices with very limited involvement of their local offices and limited coordination with either the EU Delegations or the other EFIs.

Implementation of the Facilities per country has been affected understandably by the local context: the degree of local capacities of PFIs and their willingness to enter into riskier domains, the amount and the use of liquidity in the local market as well as the presence of specific instruments targeting SMEs, the strengths and consolidated experience of MFIs affected the real activities implementation.

Technical Assistance resulted an important component accompanying the refinancing lines to ensure that new and sustainable processes are ingrained in the local financial partners. In effect Technical Assistance – offered either using the grant part from EU or from other donors (the case of KfW) or directly funded by the EFIs – has been essential to increase the appeal of the offers of additional resources coming from EFIs.

The contents of the loan contracts[2] with PFIs is reported to obligate the partner institute to use the proceeds of the investment in line with the EIFI general scopes and purposes: a standard clause in these agreements clearly lists MSMEs as the end-borrowers and places a ceiling on the amount of such loans. Procedures to select local partners follow standard modalities (due diligence with experts from headquarters).

Interest rate for SMEs clients is close to prevailing market rate, except in Egypt where the special conditions offered by Central Bank are used. Interest rate of the loans for local banks follows standard international market rules: LIBOR plus a small percentage according to the perceived risk.

The "sale" to local clients of the new opportunities coming from the Initiative components is mostly made through the local banks' networks in each country. SBS support is advertised through specific seminars / workshops

[2] Mission has had no access to the loan contracts for confidentiality reasons

organized with the collaboration of professional organizations and the local consultants

EBRD SBS clients are in general quite satisfied by quality, procedures and rapidity in payments. Nevertheless even though management costs of the SBS programme are important, they can be considered an investment to create networks while it also covers the costs for systematic monitoring and data collection: this is in effect the source of this component better reporting. Management costs of the other facilities/ components are unknown, the facilities being managed by each EFI general departments.

To assess the leverage achieved is not always easy: the KfW SANAD Equity fund is at the moment the most interesting case, having achieved - thanks to the EU grant support as investor - to promote the entry of other institutional and private investors.

Local banks / MFIs appear satisfied with the technical support received. TA support is mostly provided directly to the local financial institutions or through other more participative modalities (seminars / workshops) with reported good success: but specific assessments on the effectiveness of this support are not available. According to local officers of EFIs the offer of **Technical Assistance** is one of the "bestselling" point of the loans offer.

Effectiveness. **Equity finance**: This component of the Facilities has been used extensively (3 regional equity funds invested by the EIB and EBRD, direct investments by KfW SANAD Equity Fund in a Tunisian microfinance institution and in a leasing company in Egypt). It is however difficult to measure impact in terms of job creation, the investments being fairly recent. It is quite interesting that SANAD choice for an equity investment in Egypt was later replicated by the local fund where EBRD and EIB are investors.

Refinancing facilities: The limited conditionalities included in the refinancing facilities allow for a flexible approach to the selection of MSMEs financing support, however without a clear focus on the undeserved segments of the clientele. Data available are scarce but show substantial results for KfW SANAD, especially for the Equity Fund: KfW is the only EFI that offered data about the end beneficiaries' purpose of the loans, sectors and location. The change in portfolio composition of the banks that received loans from KfW SANAD shows a marked increase in the SMEs portfolio (data from Egypt only). A sample of banks in Jordan that received loans from other EFIs (without the support of EIFI) shows on the contrary little changes in the portfolio.

Local currency funding especially for the microfinance institutions but also for the leasing companies should be an important component of the facilities. Unfortunately, the EFIs are ill equipped to provide such support at competitive interest rate, except for SANAD.

First loss guarantee was usually – except two cases - made available only to the EFIs in the EIB and EBRD case and to the co-investors in the SANAD Sub-funds, again to comfort their risk taking: this makes more difficult to monitor real results on the local markets.

Policy dialogue support notwithstanding the late start is producing the first results in terms of improved business environment (Developing a measuring framework for Financial Inclusion for Bank Al Maghrib, or design of i) a factoring legal and regulatory framework, ii) mobile payment regulatory framework and iii) more general consultation on MSME Access to Finance Issues in Tunisia. A recent development is to support the development of a regulatory framework for crowd funding also in Tunisia) The Policy dialogue has met a real demand from MENA financial institutions, as shown by the many request of support received.

TA to MSMEs through EBRD ASB: the programme is widely acknowledged for high quality and clients are in general quite satisfied. They unanimously confirmed that the advisory services of ASB have contributed to improvements in enterprise performance: thank to the active monitoring developed by the management a large set of KPIs are collected and show in general an enhanced quality. However the real attribution of the reported good results is not fully supported by the evidence as in all cases TA support is marginal compared to the beneficiary dimension and activities (revenues / employees): it seems more a *correlation* than a real *attribution.* Local banks / MFIs appear extremely satisfied with the technical support received. According to local officers of EFIs the offer of **Technical Assistance** is one of the "bestselling" points of the loans offer. The same is evident with the beneficiary SMEs especially within the ASB programme.

Guarantee as a financial instrument has not been deployed so far by the EFIs, despite its potential significant leverage effect as well as its local currency neutral impact.

Impact. An analysis of impact is quite premature considering the short time elapsed since the start of the EIFI; moreover it is not easy in the context of the limited information about the results, besides numerous influencing criteria at the macro and micro economic levels that intervene in the process, not allowing then easy direct attribution.

The objective of increased financial inclusion has different features: with reference to general population, it surely has a positive effect in improving life conditions (better management of day to day life / answer to risks from future events) but when addressed to MSMEs impact on job creation / growth depends on many other factors, especially the quality of firm management, the sector of activity, the type of investments selected and funded by the loan / grant. Impact assessment is limited on one hand by the lack of solid and consolidated data and on the other hand by the absence of references / comparisons with alternative practices, that should be essential to assess the value added.

The region is extremely rich in experiences and practices to support MSMEs so some sort of comparison should be feasible and probably can also be a source for lessons learnt. The available limited data show good potential for medium long term, but the need to collect more satisfactory quantitative information is evident.

Besides the quantitative data supporting the impact analysis, it should be interesting to use another qualitative indicator related to "changes in behaviour". For local PFIs – besides the most standard change in portfolio - it can be based on new institutional arrangements with reference to SMEs (opening of new departments, launching of new products, organization of specific training for personnel, etc).

Another indicator at macro level for the change of behaviour that should impact on Financial Inclusion for SMEs could be the reduction or better the focalisation of financial subsidies - whose presence is still quite massive in all countries and distorts the market – toward more specific cases (example: start up with innovative features) for whom some sort of subsidy could be justified.

Sustainability. To assess sustainability it is critical to view the EIFI interventions in the global frame of the region context and of each country environment: as stressed already, the global dimension of the Initiative in respect of the estimated financial gap and of the SMEs needs remains relatively marginal. In the same time the objectives of the Initiative are large and extremely relevant, going from social outcomes (increased women and other marginal classes of economic actors participation) to productive ones (extend financing to micro, small and medium-sized enterprises including support to innovative start-ups). This should convince the EIFI actors to give special attention to the qualitative changes – that is attitudes and behaviors of the main local actors – besides the correct interest in the quantitative results: in effect these qualitative changes are the ones that can ensure the sustainability of the EIFI efforts.

Even though for the moment the Facilities do not have a complete exit strategy designed to ensure the sustainability of their refinancing activities, it can be expected that the extended time horizon – on average 10 years – will offer the opportunity to better design and structure the modalities allowing to the continuation / enlargement of the offer according to the principle of transformational impact as main guide. In the same time attention to the development of the local financial markets can be incorporated in the Facilities' strategies, which would help in providing long-term resources in local currency for the main financial institutions.

Ownership of the components appears for the time being limited or at least in a preliminary stage, depending on the countries, the facilities and the beneficiaries and no general answer can resume the global picture. At **beneficiary enterprise** level, the EBRD ASB approach demands a cost sharing, an important and distinct feature of this programme activities as it secures the commitment to working with business advisory service providers, pushing the beneficiary enterprise to take ownership of the assignment contributing to long-term impact. In the same time the ASB programme strives to develop a sustainable SME support infrastructure and institutional framework, as this is essential to improve the performance of the SME sector in the long-term.

Absorption and implementation capacity do not seem to be a problem with the local stakeholders. Main issue would rather concern the ability of the EFIs to deliver additional facility instruments such as local currency funding, first loss cover to all local partners and the guarantee instrument, on competitive terms and conditions.

Alternative strategies – as promoting increased availability of term resources for the financial sector, possibly though the development of the bond market, such as SME asset covered bond – are not present within EIFI, but there are quite a large number of other interventions – almost in all countries – supporting the establishment and growth of financial market to increase the "depth" of financial inclusion: this calls for better horizontal collaboration.

Finally the medium long-term consequences of increased financial inclusion should be taken into account. New evidence shows that bank stability risks increase when access to credit is expanded to riskier clients, especially without adequate regulation and supervision. Bank stability weakens as financial buffers (capital and profits in banks) are eroded. The presence of supervision and regulation mitigates this impact: again it will be important to extend some form of coordination with the existing interventions supporting the institutional structure and management of financial markets.

C / C / C. Overall Coherence. The EIFI is consistent with EU objectives under the European Neighbourhood Policy (ENP), which seeks to "*spur entrepreneurship, improve the business environment, help micro, small and medium sized enterprises to grow, create jobs and exports*". The Initiative is also in line with the NIF Strategic Objective. The focus on SMEs is consistent with the Regional Indicative Programme Priority area 2 (Private Sector Development) that is geared at '*fostering economic growth and regional economic integration through publicly supported interventions aiming to support mSMEs creation and growth at the micro, the meso or the macro levels*.'

At the level of the Member States, the SME Core Group of the UfM with the EuroMed SME Working Group has recommended that the Secretariat of the UfM should support '*Catalytic cross-cutting actions on the enabling environment*' and *'support pilot actions focusing on projects addressing <u>the poorly served segments or segments with high potential of creation of employment (growth potential SMEs)</u>'*.

Coherence with EU blending strategy. The Initiative components share in effect most of the typical features: • Technical assistance • Risk capital operations • Complementarities: the Initiative components support the priorities of the ENP Action Plans or related thematic priorities and are complementary to corresponding regional, national and local strategies and measures; • Additionality: EIFI components stimulate private financing without introducing distortions in the financial markets; • Value for money: the investment decision coming from EIFI components are technically and financially sound.

Internal coordination. Despite the fact that the Initiative main innovative characteristic is its intended cooperation process, it appears that the coordination process within and outside the Initiative is not as effective as it was expected. The Initiative appears to be born from the awareness that many similar and/or complementary instruments dealing with increased access to finance for private sector MSMEs for the Mediterranean Region were already available; the hypothesis that an increased coordination and the search for more focused complementarities shall increase the overall impact and the visibility was one of the reasons behind the decision to start EIFI.

Coordination between EFI components at the moment is not evident. The evaluation was not informed of any formal coordination within EFIs at the level of their local offices. The local offices do not appear really aware of EIFI Coordination effort. No coordinated research or technical assistance is formally discussed locally despite obvious common needs.

This lack of coordination is all the more damaging when addressing the policy dialogue component. Furthermore, the coordination suffers from the competitive environment among EFIs. There are few cases where EIB and KfW funded the same MFI (see Vitas Palestine, Micro for Women in Jordan) but without any evidence of exchange of information.

The presence of EFIs in the same equity investment funds, or in the same company or on loans to the same banks, raises the issue of communication / exchange of information: something that the mission was not able to assess.

No coordination exists for the time being at the communication and visibility level, which is organised separately by each EFI: the presence of a specific TA support will probably help in the future. There could be interesting complementarities worth specific messages, even though until now it is impossible to define / collect results.

EU value added. Potential added value. The definition of the potential value added for EU services in funding the "grant blending" share of EIFI should be developed around four main areas: contribution to high-level strategic policy objectives (that is to promote inclusive, sustainable development with integration of women and young people, respect for environmental constraints and support of the rule of law), additionality, subsidiarity, transformational impact.

Contribution to high-level strategic policy objectives. As reported at length in the former paragraphs, the activities have been rather limited so far in terms of amount and number of instruments delivered, most of the Facilities having started in 2017: consequently it is not easy to trace the rebounding effects for the EU as donor and to its image in the region. Despite the above limits regarding implementation of the Facilities at this early stage, EIFI should be able to support inclusive and sustainable development in the future, when it adjusts its focus towards specific clientele segments such as women in business, youth and/ or start-ups, rural development, innovation… In that sense, EIFI should contribute to promoting the role of the EU as one of the significant actors in this area and contribute to the achievement of high-level strategic policy objectives.

For the moment a real value added in term of **additionality** as consequence of "blending grant" is not easy to find / assess. The main scope of the presence of "grant blending" opportunity is exactly to overcome the different appreciation of risks and then use the overall financial resources to target the classes of economic actors more in need of specific financial support. It is evident that there is the need to have accurate and credible information on final beneficiaries, their "investment" decisions and the consequences: this set of data at the moment is not available.

Subsidiarity: Following the deconcentration process EIFI interventions follow functions closer to the ground level, in application of the principle of subsidiarity. The analysis of the financial dimension of subsidiarity should assess whether EIFI substitutes other sources of funding which can be available to beneficiary countries under equivalent terms: it should then show that without EIFI contribution interventions would have been more expensive for the final beneficiaries or would not have materialised at all.

Considering the presence of a very large amount of financial resources coming from the same EFIs and other IFIs for similar scopes (MSMEs support / private sector support) the analysis must go deeper into the conditions for the financial support to local FIs on one hand and on the other hand evaluate the conditions / amounts / selection / investment decision of the final beneficiaries: something again that demands specific targeted surveys.

Transformational impact. While this is the effect mostly related to the TA actions, articulated in the policy dialogue, the support to improved management of PFIs and the direct assistance to SMEs, it should be viewed as the most relevant generalized outcome of the EIFI: considering the reduced quantitative impact face to the needs / gap in finance for SMEs (see EQ1 data), the change in attitudes / behaviour of the main local actors (that is: PFIs on one side and enterprises on the other) that is the indicator of a transformational impact should be regarded as the most relevant outcome. In this respect there is already some evidence with reference to ASB beneficiaries and to SANAD MF operators. The TA support has been widely mentioned and appreciated by PFIs, so it is conceivable that the impact will continue and increase, under the condition that EFIs will keep on with these actions; perhaps an increase of specific resources targeted to this type of actions could be envisaged. In effect "policy dialogue" deserves more attention, as it should develop actions directly related with Institutions and Authorities and could have a very attractive cost/effectiveness.

Visibility / Communication could have a solid impact on the value added attributable to EU. The fact that the Initiative does not have yet a common visibility and communication framework does not help in giving visibility to the EU support, the more so that due to the EFIs limited reporting, minimal information made available about the results and impact of the Initiative. However the collection of success stories started and could be a good source for the contents of the future "common communication / visibility plan", already in implementation thanks to an external support.

Conclusions. EIFI is justified on the basis that the agenda and policy of financial inclusion should cover all public and private initiatives, both from the point of view of demand and supply, to provide services to MSMEs especially to the ones traditionally excluded, using products and services that suit their needs.

Expanding the levels of financial access and banking contributes to promote equality, reduce poverty and help close the gender and income gaps. Under this logic, financial inclusion must be conceived as a policy of productive insertion. In this sense, it is about using the financial system as an instrument to expand the possibilities of savings and consumption of all economic actors, while improving the use of business talent and investment opportunities.

The support shall not only target standard SMEs in general but also give proper attention to the specific high growth potential enterprises which deserve a specific support notably through venture capital and value chain support: only a small proportion of high performing SMEs have the potential to grow into internationally competitive companies, generating significant economic benefits through raised productivity, employment, and economic stability: the challenge is to find and support these ones to increase multiplier effects and impact on population.

C1. Financial Inclusion as acknowledged priority. Financial Inclusion is now an acknowledged priority for all visited countries. EIFI is fully compatible with these developments and can easily fit into local contexts. Moreover financial inclusion is directly related to two main areas of SDGs: "*fighting inequalities*" - SDG 5: improve gender equality; SDG 10: reduce overall inequalities, and *"promote economic growth"* - SDG 8: decent work and economic growth; SDG 9: industry innovation and infrastructure).

C2. EIFI as transformative actor. Being a relative marginal intervention, EIFI, in order to optimize the use of the grant resources should focus on: a) select targets / modalities to increase multiplier effect and justify the use of grants / subsidies; b) define as major outcome of the EIFI the consolidated experience of innovative financial instruments in a difficult environment: in effect what should deserve the most focused attention is the transformative capacity of the Initiative in the behaviour of local financial institutions and enterprises. The need then exist to find a "specific" space where EIFI can develop its full value added.

C3. EIFI instruments to fit the demand context. The EFIs must assess the MSMEs needs more thoroughly, especially from the demand side and adjust the facilities to specific needs, depending on each context. Full advantage of the flexibility and blended nature of the facilities shall be incorporated in the support provided.

C4. The offer of additional finance in hard currency needs rethinking. The question remains if additional resources in foreign currency are the most decisive tools to achieve the expected results in terms of MSMEs access to finance.

C5. EIFI as source of medium term finance. It is well known that medium and long-term investments have higher multiplier, which usually translates into more significant employment opportunities for quality and sustainability. This is an opportunity (partially exploited) will be worth developing with more specific objectives (innovative MSMEs of the technological frontier, MSMEs with high growth potential)

C6. Embedded flexibility and coordination. EIFI is flexible as far as its various financial and blending instruments are concerned which facilitate its adaptation to the different countries specific environments.

C7. Efficiency assessment will need more detailed data. Efficiency is difficult to assess in the general absence of detailed reporting globally and at country level for the facilities except for the EBRD SBS Facility and SANAD Debt Sub-fund.

C8. Procedures and contracts adapted to local environments but including EIFI main scope. Procedures to select local partners follow standard modalities. Contracts contain specific conditions related to main objectives.

C9. The approach to final beneficiaries managed by PFIs but controlled by EFIs. The "sale" of the opportunity offered to targeted final beneficiaries is mostly made through the local banks' based on very limited conditionalities included in the refinancing facilities. In some cases EFIs are being only involved on an ex-post basis through the reporting, while in other cases there is a control before disbursements.

C10. General satisfaction by financial intermediaries and final beneficiaries. Local banks / MFIs appear satisfied with the technical support received. TA support is mostly provided directly to the local financial institutions or through other more participative modalities (seminars / workshops) with reported good success.

C11. Use of first loss limited to EFIs. Until now all the operations in advanced state of implementation (signed and started or signed and awaiting to start) – except two cases with EBRD - are qualified by the "first loss" in favour of EFIs. Clarification of the degree of grant support to local currency risks/ costs under the facilities needs to be addressed.

C12. Delayed Policy dialogue start did not reduce importance and potential impact. Policy dialogue started with some delay but has been able to reach some success quickly, in the sense that TA was delivered. Unfortunately, no specific assessment of the resulting development from each of the TA delivered has been organised. It is worth noting that the main contents of this "policy dialogue" focus on technical issues, the ones where the competence and expertise of EFIs can offer a value added: the concentration of component efforts of a specific innovative content that appears to be the priorities of all countries should allow more efficient use of resources.

C13. The presence of the guarantee instrument will help increasing multiplier effects. It is well known in the region that guarantee fund instruments are potentially the interventions with higher possible multiplier in terms of loans to final beneficiaries.

C14. Short time and scarcity of info make assessment difficult. Considering the short time elapsed and the scarcity of information, effectiveness of the components' activities is not easy to assess.

C15. Variety of reporting formats does not help assessment and consolidation. Results and impact at the various stakeholders and end beneficiaries level is reported through various formats, not allowing for easy consolidation of results.

C16. EBRD ASB successful thanks to the quality of services provided and to the selection of the best clients. Reports and data show solid success for the expected outputs from technical support. The programme is widely acknowledged for high quality and potential real impact (because of selection of consultants / well defined contracts / KPIs controlled).

C17. Equity investments show potential success. Investments in equity appear to be successful with the participation of all EU banks in a number of regional equity funds as well as in some MFIs.

C18. TA operation potential high achievements. TA offered to PFIs has been highly appreciated and remains one of the main "sale" points of the packages: the increased operational quality of management could open larger opportunities to MSMEs.

C19. Too early to evidence real impact with lacking data. Impact assessment is limited on one hand by the lack of solid and consolidated data and on the other hand by the absence of references / comparisons with alternative practices, that should be essential to assess the value added.

C20. KfW SANAD surveyed past operations with preliminary good impact results. Only KfW SANAD produced a specific survey with the objective to assess the impact of the action. The survey was made in 2014/15 on loans from MFI operators in Lebanon and Jordan.

C21. Sustainability as transformative impact. Given the ga**p**s and the SMEs needs, EIFI could risk to remain relatively marginal face to the objectives large and extremely relevant. This should convince the EIFI actors to give special attention to the qualitative changes summarized as "transformational impact" as guide to ensure EIFI efforts sustainability . Even though for the moment the Facilities do not have a complete exit strategy, it can be expected that the extended time horizon will offer the opportunity to better design and structure the modalities for it.

C21bis. Preliminary successful experiences with EBRD ASB and KfW SANAD. The cost sharing ASB approach secures the commitment and the ownership of the assignment in order to build and consolidate a new attitude towards consultancies and innovations. With reference to KfW SANAD DSF, it should be mentioned that it is an ever-green Sub-Fund that constantly seeks new funding and will do so as well when one investor is exiting: this builds an implicit sustainability.

C22. Coordination between EFI components at the moment is not evident. Coordination between EFI components at the moment is not evident. No specific and formal coordination between EFIs involved is organised. The local offices do not appear really aware of the Initiative Coordination effort. No coordinated research or technical assistance is formally discussed locally despite obvious common needs. Furthermore, the potential coordination suffers from the competitive environment among EFIs because the dimension of local markets obliges reduced selection of PFIs.

C23. Communication not able to build a common message. No coordination exists at the communication and visibility level, which is organised at each Facility level, with no specific strategy per country. The new specific TA scoped for this will help in the future.

C24. Potential existing patterns to be better explored. The presence of EFIs in the same equity investment funds – already resent in few cases - shows that some communication / coordination pattern exists already.

C25.Potential added value is clearly embedded but needs to be refined. The definition of the potential value added for EU services in funding the "grant blending" share of EIFI should be developed around four main areas: contribution to high-level strategic policy objectives (that is to promote inclusive, sustainable development with integration of women and young people, respect for environmental constraints and support of the rule of law), additionality, subsidiarity, transformational impact. Despite the mentioned limits regarding implementation of the Facilities at this early stage, the Initiative should be able to support inclusive and sustainable development in the future, when it adjusts its focus towards specific clientele segments, promoting the role of the EU as one of the significant actors in this area and contribute to the achievement of high-level strategic policy objectives.

C26. Additionality value added to be further developed. For the moment a real value added in term of **additionality** as consequence of "blending grant" is not easy to find / assess. It is evident that there is the need to have accurate and credible information on final beneficiaries, their "investment" decisions and the consequences: this set of data at the moment is not available.

C27. Subsidiarity analysis should be based on larger amount of data and results. The analysis of the financial dimension of subsidiarity should assess whether EIFI substitutes other sources of funding which can be available to beneficiary countries under equivalent terms.

Lessons Learnt. LL1. Differences in local environments

demand adapted approaches ….. Starting from the definition of MSMEs and moving up to legal / regulatory environments and at dimensions of the markets, the differences in local environments demand adapted tools, even for the same type of final beneficiaries.

LL2…..and increased south-south cooperation to exchange best practices. Similarities of components should produce sharing of experiences: south-south exchanges could be more productive and effective even though until now they have not been sufficiently promoted.

LL3. The offer of additional resources upgraded with specific additional services. The liquidity in the national financial markets (except in Tunisia) suggests that to have a larger impact the EIFI should aim more towards specific financial and non-financial services, where even some small actions can produce positive changes and toward a specialized guarantee scheme that can have a high multiplier.

LL4. The risk to loose experiences. There is a risk that the accumulated expertise might be lost unless preparatory measures are organised in this respect.

LL5. Thinking for more innovative products. It is well known that developing countries "jump" stages of financial development. Financial informatics technologies (FinTech) and digital inclusion are the most attractive area for further development.

LL6. Existing coordination mechanisms as models? EIFI is not the only intervention to try and coordinate EFIs operations: other coordination structures exist or are planned in the future.

LL7. Large variety of intervention with similar / close scope calls for better coordination. Financial Inclusion is acknowledged priority in most of the countries of the region. The existence of specific "tables" and "committees" demands a more incisive participation of all interested stakeholders to avoid duplications and increase aid effectiveness.

LL8. Learn form other ongoing experiences. The experience of EBRD with Green Economy Financial Facility (GEFF), of AFD with "SUNREF" and KfW with "Green for Growth Fund" built solid experiences joining resources with technical assistance and direct monitoring.

LL9. Measuring the impact of the support provided by the Facilities at the end beneficiary level is a daunting task if made systematically. It is therefore recommended to conduct sample survey at regular interval to assess end beneficiary satisfaction, progress and requirements. The only credible and satisfying modalities to assess / measure the real impact of the EU FI Initiative components and consequently its real "value added" and "where it makes a difference" are two:: A) A specific survey of final beneficiaries using a careful methodology to extract the sample so that the data from different countries can be consolidated; B) An analysis of the use of resources by local banks, comparing the results of the SMEs beneficiaries that received some support from EIFI with the results of similar SMEs that received a standard service from the same bank

LL10. The need for specific indicators to assess SMEs financial inclusion. To define and implement strategies for SMEs financial inclusion, there is broad consensus that reliable, rigorous, objective and timely data on financial access and usage can play a major role in developing evidence-based policies that improve SMEs access to financial services and promote inclusive economic growth.

Recommendations. The following recommendations are mostly addressed to the medium-long term as EIFI is supposed to last many more years; and quick wins as far as financial inclusion is concerned are not in the agenda. Nevertheless few options – FX risk, focused equity investments, guarantee scheme coordinated with credit lines - could offer the opportunity for positive results in short time.

R1. Re-qualification of some parts of the EIFI strategy. In an environment where there is sufficient liquidity, a large amount of resources offered by different international donors, a number of projects dealing with financial inclusion and SME support, if the EIFI Initiative wants to leave a sign and a possible impact, there is the need to re-qualify the strategy toward "niche" interventions as: ***Target non-banking tools*** (leasing, factoring, venture capital), ***Insulate final borrowers from FX risk***, Support the development of **innovative financing tools** – especially equity/VC - targeted for original start-ups / incubators / accelerators as well as FinTech, more efforts to **develop coordination and complementarities,** development of the sub-funds, attraction of private investors, attention for the capital market; support policies and regulatory initiatives that encourage alternative financial structures.

R2.Guarantee scheme to increase multiplier effects. Develop as soon as possible the use of guarantee instruments as they appear to be most interesting with a larger multiplier effect.

R3. (see C2, C3, C6, C12, C18, C25, C26, LL1, LL4) Strengthen capacity building within each component. Capacity building appears more important than increase in availability of financial resources: more actions on training / technical assistance especially for banks management on risks assessments, business plan analysis

R4. Formalized coordination to improve effectiveness: the formalisation of the Initiative coordination framework, with specific objectives, foreseen activities, expected results and related indicators, defined in concertation with the EFIs, as per proposed coordination structure developed in R.4.1.

R5. Align technical assistance to the needs of final beneficiaries. Development of a demand driven capacity building plan based on market demand to support local financial institutions, to assess real financing needs of different SME segments and clusters in order to design suitable products and services, organised under the coordination mechanism.

R6. Guidelines for Forex. Guidelines as to the percentages of first loss and forex cover provided by the grant component should be made clearer to the EFIs.

R7. Hypothesis for standardised reporting format. While accepting each EFI specific governance, management and procedures, it is nevertheless recommended that a common reporting framework be organised to facilitate aggregation of results at country level as well as at overall level, allowing for identification of best performance leading to lessons learnt in respective contexts. Develop more collection of data on contents of loans (segmentation not only for location / gender but for scope / duration / outputs) and on real impact on final beneficiaries, especially job creation including costs (cost for job created benchmarked against other approaches); Study the inclusion of indicators for the *transformational impact*: a) at “macro-level”: the reduction or better the focalisation of financial subsidies - whose presence is still quite massive in all countries and distort the market – toward more specific cases (i.e. start up with innovative features) for whom some sort of subsidy could be justified; b) at local bank level: besides the standard quantitative results in terms of portfolio toward SMEs, the increase of personnel dedicated to SMEs, the opening of departments for women and the launch of specific instruments offered at special conditions), the increase of monitoring and evaluation of the use of bank tools; c) at beneficiary level: increased use of different financial / non financial services, increased offer to customers of innovative financial payments.

R8. Demonstrate value added. In order to justify the value added of the Initiative and the implicit use of subsidies, enhance socioeconomic impact assessment process and objectives, according to the nature of the benchmarks and expected outcomes, with a feasible frequency; design impact assessments around each of the components of the Facilities to provide a more comprehensive and coordinated picture of the “SME financial environment changes”;

R9. Increase transformational impact. To increase impact when delivering training and capacity building, local training institutions should as much as possible is associated with the process so as to increase impact of the training delivered not only to the direct participants, but indirectly to the local co-training institution, ensuring potential replication of the training developed.

R10. Extract best practices. To exploit the proposed common communication plan being presently developed by external TA is recommended to select contents to be effective.

R11: Exit strategy. Even though EIFI time horizon is quite long, considering that the quantitative amount of additional resources is less relevant than the transformational impact consequent to “behaviour” changes in PIFs management, it is recommended that the attention to human resources.