2023 CLA CASE COMPETITION

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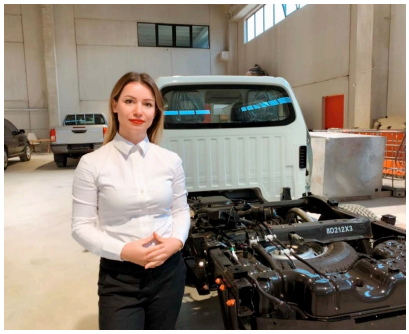

Case Title:

Improving Access to Finance for W- SMEs In Western Balkans

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Summary:

In late 2020, CATALYZE Engines of Growth Western Balkans (EoG) was launched to support Small and Medium Enterprises (SMEs) in the six Western Balkan (WB) economies with access and utilization of appropriate financial products and services to improve their resilience and growth. In a “ bank-centric ” region, with a young, post-socialist private sector, SMEs are often considered non-bankable due to lack of collateral or credit history. Women-Owned and Women Led SMEs (W-SMEs) are even further affected by limited access to information, skills, technology, networks and assets, and traditional norms. W-SMEs represent only around 25% of the entire WB economy, often operating in traditionally “ female sectors ” as relatively invisible micro companies.

In such a context, EoG faced the challenge of identifying W-SMEs and providing suitable support. To address this, EoG used CLA tools in the following steps: collaboratively setting the activity goal and defining strategic financing approaches, designing the learning agenda, establishing a system of communication and stakeholders ’ feedback loops, creating a regional network of partners, leveraging additional funds to support W-SMEs, and embracing multidimensional methodologies including strategic communication and trainings.

This brought a positive transformation for: 1) Continuous learning and adapting: EoG team is now more effective, dynamic, responsive, and impactful, and 2) External collaboration: deep involvement of private sector partners and USAID contributing to adaptive monitoring, evaluation, and learning (MEL) approaches and tools, funds, and activities to better respond to W-SMEs needs. This has had a positive spillover on EoG development results: 40% of EoG-supported SMEs are now W-SMEs and the unlocking of private capital for W-SMEs is growing.

1. **WHAT: What is the general context in which the case takes place? What organizational or development challenge(s) or opportunities prompted you to collaborate, learn, and/or adapt?**

Small and Medium Enterprises (SMEs) in the Western Balkans face significant obstacles that hinder their growth and make them more vulnerable to external shocks such as the COVID-19 pandemic and the Ukraine invasion. One of the key challenges is the limited access to finance. The WB is a “ bankcentric ” region. Commercial banks are inflexible, focusing on businesses with established credit histories and demanding hard collateral. Most SMEs are deemed non-bankable and lack adequate financing options that would facilitate their growth. Moreover, the region's private sector is relatively young, having transitioned from a history of state-controlled socialism. State officials and financial institutions approach private companies, particularly SMEs, with extreme caution. This contributes to a general lack of interest and support for SMEs.

In late 2020, CATALYZE Engines of Growth Western Balkans (EoG) was launched to support SMEs from the six WB economies with access and utilization of appropriate financial products and services to improve their resilience and growth. Women-Owned and Women-Led SMEs (W-SMEs) represent only around 25% of the entire WB SMEs, often operating in traditionally “ female sectors ” as micro companies, that remain relatively invisible. W-SMEs are disproportionally affected by limited access to information, networks and assets, poor social support services, such as childcare, and traditional social and cultural norms. EoG faced the challenge of identifying and supporting W- SMEs. On its quest to explore how blended finance approaches can effectively catalyze finance for both vulnerable and high-growth-potential SMEs, EoG turned to collaborating, learning and adaptation (CLA) activities to understand the context and needs of W-SMEs and to adapt support to meet their needs. By fostering an environment that promotes access to finance, information, training, and market opportunities, the EoG team works to unlock the potential of SMEs and facilitate the growth and success of W-SMEs in the region.

2. **What two CLA Sub-Components are most clearly reflected in your case?**

External Collaboration

Continuous Learning & Improvement

3. **HOW: What steps did you take to apply CLA approaches to address the challenge or opportunity described above?**

EoG implemented several steps to apply CLA approaches: 1. Set the goal & approach: In 2020, EoG set a goal to mobilize capital to sustain distressed yet viable SMEs in the short term and promote improved SME growth financing in the long term. The chosen approach was to engage market actors and stakeholders in a co-creation process to identify key opportunities and develop activities to minimize constraints to access to finance. This involved building relationships among local market actors, driving systemic change, increasing local capacity, implementing pay-for-performance incentives, and engaging the private sector. The result was the establishment of a "Blended Finance" mechanism that facilitated capital targeting SMEs in a sustainable and inclusive manner. 2. Designed a CLA strategy and learning agenda: Since project inception, CLA and advancing a structured learning agenda has been a critical component of EoG. EoG designed and implemented a robust CLA strategy focusing on continuous collaboration with the ecosystem actors, designing and advancing a structured learning agenda to gather learning and inform necessary adaptation to improve program effectiveness. The close collaboration with the W-SMEs, partner business advisory service providers (BASPs) and other stakeholders enhanced EOG's understanding that women's inclusion in business requires necessary adaptation to the implementation strategy to improve W-SMEs access to finance and business advisory service providers BASPs. 3. Established a system of continuous communication and feedback: EoG employed continuous communication, feedback loops, and learning sessions to gain a deep understanding of the market and SMEs' needs. Tools, such as surveys, anecdotal stories, stakeholders' gatherings, and pause and reflection sessions were utilized to pivot or fine-tune activities. The learnings were then shared in the respective channels with implementing partners, beneficiaries and with USAID to feed into improved programming and implementation of development activities. One key learning identified through the process was the challenges in supporting W-SMEs due to the additional barriers they face. Tools used for continuous communication and feedback helped EoG better understand the needs of W-SMEs in the Western Balkans and informed strategy design. 4. Created a regional network of partners and initiatives: Through the application of CLA principles, EoG created a regional network of BASPs and developed eight initiatives to establish or strengthen alternative financing options suitable for non-bankable SMEs. These initiatives focus on areas such as factoring, microfinance, private equity, and FinTech solutions. 5. Leveraged additional funds to specifically support W-SMEs challenges: In parallel with harnessing insights gained through the CLA processes and the ongoing communication and feedback with USAID especially on the need for additional support for W-SMEs, in 2022, additional funding was secured to specifically support W-SMEs. This has contributed to a shift in approach and the incorporation of multidimensional methodologies that reflect the challenge of identifying and assisting W- SMEs in financing and growth. 6. Embedding education in W-SMEs assistance: EoG's CLA approaches and tools revealed that W-SMEs need technical assistance before applying for financing to ensure they are ready for external financing. Drawing on this learning, EoG incorporated digital and/ or financial literacy training into the project methodology. Examples include support for e-commerce skills, certifications, and standards to help W-SMEs enter new markets. EoG also supported the creation of new digital marketing and sales platforms specifically catered to W-SMEs in the travel and food sector. Financial management training delivered by BASPs and women led BASPs; creating new financial opportunities through introduction of alternative financial instruments and special incentives offered to financial intermediaries to better prepare W-SMEs to manage and grow their businesses.

4. RESULTS: Choose one of the following questions to answer.

We know you may have answers in mind for both questions; However please choose one to highlight as part of this case story

B. ORGANIZATIONAL EFFECTIVENESS

The adoption of CLA approaches positively transformed the effectiveness of the EoG team. Recognizing the importance of comprehensive data analysis and contextualization, the EoG team fully supported the dedicated Monitoring, Evaluation, and Learning (MEL) unit. The MEL team closely collaborates with the technical team, diligently identifying outliers and red flags and fine-tuning activities accordingly. The result is an optimized project implementation process, driven by data-informed decision-making.

Embracing CLA led to a culture of learning, resulting in EoG's internal approach to support a "state of constant alertness," continually assessing needs and remaining attuned to changes in the business ecosystem and stakeholders' behavior. This proactive mindset has allowed for quick adjustments and adaptability.

To solidify their commitment to CLA, the EoG team developed an annual plan specifically tailored to CLA principles, which guided the framework for the team's learning and adaptation initiatives. In addition to the internal EoG team, the BASPs network and private sector partners actively participated in the process, fostering a collaborative environment that encouraged collective learning and improvement. This holistic approach ensures that the project remains dynamic, responsive, and impactful, setting a benchmark for excellence in project execution and sustainability.

Inevitably, CLA ’ s impact on the organizational effectiveness has had a positive spillover on the development results, too. To date, the share of W-SME in the total number of SMEs supported through EoG activities is 40%, meaning that EoG managed to penetrate a larger share of W-SMEs compared to the average level of representation of W-SMES in the WB economies (25 - 30%).

5. **ENABLING CONDITIONS: How have enabling conditions - resources (time/money/staff), organizational culture, or business/work processes - influenced your results? How would you advise others to navigate any challenges you may have faced?**

The project's results have been influenced by several enabling conditions, including adequate resources, stimulating organizational culture, streamlined work processes and supportive collaborations. The flexibility and understanding demonstrated by USAID in approving the new AMELP, with a specific focus on W-SMEs, as well as modifications to EoG's initiatives based on lessons learned, has been invaluable. The close collaboration between the MEL team and the technical teams plays a pivotal role in successful CLA implementation and the achievement of project outcomes.

However, it is important to acknowledge that the implementation period of four years is short considering the complexity of such projects. While EoG prioritizes measurable transactions and tangible results, it also recognizes the fundamental goal of changing mentalities and cultures. To fully achieve this objective and to have more sustainable impact, it is advisable to allow a longer time period, possibly around 5-7 years, particularly for initiatives focused on W- SMEs.

On the other hand, external factors, such as the COVID-19 pandemic and geopolitical events, have significant negative impact on finance projects such as EoG. Therefore, continuous monitoring and adaptation are essential to navigate these challenges effectively and maintain project relevance and resilience. This is the approach the EoG activity has been taking.

Additional advice to others working on similar development projects is to document their work from Day 1! In the case of EoG, diligent documentation of activities, methodologies, and results has been prioritized since inception. Documentation not only preserves institutional knowledge but also enables the development of