

Evaluation Report
2014-7

Evaluation of EDCF projects participated by SMEs

The Export-Import Bank of Korea
(Government Agency for EDCF)

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(Evaluated by Korean Corporation Management Association)

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Executive Summary

1. Introduction

< Background and Purpose of Evaluation >

- EDCF has expanded small and medium-sized projects in order to respond more flexibly to the various development needs of partner countries. These projects are more accessible to small and medium enterprises (SMEs), thereby increasing their participation in EDCF projects.
- To improve the effectiveness of the projects in which SMEs participate, EDCF has set up various SME programs such as capacity building programs and information services in the procurement process.
- Unlike large enterprises, however, SMEs are vulnerable to market fluctuations and have limited abilities to survive in the international procurement market. This may have contributed to the relatively low SME participation in EDCF projects.
- This evaluation aimed to assess EDCF support programs for SMEs in order to draw relevant and applicable suggestions for enhancing SMEs' capacity, thereby promoting active participation of SMEs in EDCF projects to improve the effectiveness of EDCF projects.

< Evaluation Method >

- External Evaluator: Korean Corporation Management Association
- Duration of Evaluation: June 2014 – October 2014

- Literature review and quantitative analysis of the current status of SMEs' participation in EDCF projects were carried out. Furthermore, stakeholders in partner countries were interviewed to rate the level of satisfaction with the projects and draw recommendations to improve the projects. Last but not least, surveys of SME staff that had participated in EDCF projects were conducted to reflect their views on EDCF support programs.

2. Current Status of SMEs' Participation and Achievements in EDCF Projects

< Current status of SMEs' participation in EDCF projects >

- More and more EDCF projects involve SMEs each year. As of September 2014, the number of SMEs participating in EDCF projects totalled 165, which is 73% of that of large enterprises. However, the size of the SME-participating projects was only about one fifth of that of large enterprises (21.6%).
- SMEs actively engaged in Compact Loan projects and Equipment Loan projects. These types of projects were prevalent in health (KRW 259.7 billion), education (KRW 142.5 billion) and public administration (KRW 123.8 billion) sectors. However, SMEs showed low participation in transportation and energy sectors, most projects of which include constructions of large-scale infrastructure.
- SMEs have also participated more actively in projects in Asia and Africa and small-scale projects whose scale is under KRW 10 billion.

< SMEs' achievements in EDCF projects >

- The survey of the employees of SMEs that participated in EDCF projects was carried out to measure the financial and non-financial gains of SMEs by implementing EDCF projects.
- The survey results indicated that participating in EDCF projects helped only a small number of SMEs earn additional project contracts besides EDCF projects. However, many employees of SMEs expressed strong interest in participating in EDCF projects again in the future. This indicated that SMEs considered participation in EDCF projects as a safe and reliable way of entering the international procurement market.
- The results also showed that SMEs gained non-financial benefits such as capacity building of employees and improvement in management and organizational culture by participating in EDCF projects. The respondents identified that their experiences with EDCF projects had a positive impact on their organizational growth.

3. Status of SMEs' Participation by Role in EDCF Projects

- There are three roles that an enterprise can participate in EDCF projects; the expert for project preparation assistance (PPA), consultant or supplier. In principle, all opportunities are open to Korean SMEs. However, SMEs were most frequently hired as consultants (45.4% of total SMEs' participation), followed by experts for PPA (36.3%) and suppliers (21.8%).
- Prior to loan approval, an expert is employed and dispatched by EDCF to carry out a feasibility study (F/S). The financial gains of an F/S expert are smaller than those of a supplier. Nevertheless, SMEs actively participated in EDCF projects as experts, since the expert's risk burden and tasks are

relatively small and better manageable for SMEs, compared to those of a supplier.

- In the year of 2013, EDCF spent 75% of Special Supporting Facilities on F/S. Special Supporting Facilities are funds designated to finance all consulting needs throughout the project cycle (i.e. project preparation, project implementation, and ex-post management).
- The consultant's role in an EDCF project includes preparing detailed design, drafting bidding documents and supervising construction. Generally speaking, the consultant's tasks are suitable for small and medium-sized engineering enterprises.
- The proportion of SMEs as consultants was about 45% (88 of 194 cases in total) and the contract amount of the projects in which SMEs were consultants accounted for 39% of total contract volume (KRW 125.0 billion out of KRW 322.3 billion in total).
- Suppliers procure goods and services to deliver the intended output of an EDCF project, which is mostly infrastructure construction. However, EDCF's infrastructure projects tend to be too large or too risky for SMEs. This was apparently reflected in the participation rate of SMEs in infrastructure projects. Few SMEs participated in projects as suppliers.
- The proportion of SMEs as suppliers was 22% (77 of 353 cases in total) and the contract amount of the projects in which SMEs were suppliers accounted for 12% of total contract volumes (KRW 690.8 billion out of KRW 5,637.3 billion).

4. Evaluation Results of Support Programs for SMEs

- EDCF support programs for SMEs provide a variety of assistance to help them perform projects effectively. Eventually, SMEs can use their experiences in EDCF projects as a springboard to enter the international procurement markets.
 - As of September 2014, 12 programs are in place for three purposes: strengthening SMEs' capacity, improving SME support programs by type of role, and improving the business environment in partner countries. One additional program is scheduled to be implemented in the near future.

- Evaluation results of the SME capacity building program
 - Effectiveness of the SME training program and homepage for SMEs was highly rated among SMEs.
 - In order to make the positive effects and usefulness of these programs last, EDCF should continuously update the contents of its programs to keep meeting the changing needs of SMEs.

- Support programs for SMEs by type of role in EDCF projects

[Experts for PPA]

- In order to encourage SMEs to participate in EDCF projects as an expert for PPA, EDCF gives priority to SMEs in bid evaluation, and also reduces their burden of proposal preparations. Both types of assistance were evaluated as highly effective by SMEs.

- However, employees of SMEs indicated that the lack of information on partner countries was a challenge in performing F/S. Such information is

available in the form of Project Concept Papers (PCP) implemented by EDCF. Therefore, PCPs should be more accessible and utilized by SMEs.

[Consultants]

- As many SMEs actively participated in EDCF projects as consultants, additional assistance for encouraging SMEs to participate in the project as consultants did not seem to be necessary.

[Suppliers]

- The high proportion of large scale infrastructure projects in EDCF projects made SMEs' participation as suppliers low compared to the other two roles. EDCF offers a number of programs which encourage SMEs to participate in EDCF projects as suppliers.
 - The survey identified that the expansion of the Compact Loan and the Separate Procurement Package effectively provided more opportunities for SMEs to participate in EDCF projects as suppliers. However, the awareness of such assistance appeared to be low. Therefore, more information on these types of assistance should be provided to the wider audience of SMEs.
- Improvement of the business environment in partner countries
- EDCF announces its candidate projects in advance, allowing companies to have more preparation time. SMEs rated awareness and effectiveness of this advance announcement very high.
 - EDCF offers favorable interest rates to partner countries when partner countries hire a Korean SME as a supplier or consultant. Officials from

the government of Lao PDR identified the favorable interest rates as the second most effective incentive for partner governments to hire Korean SMEs*.

* The first was increasing the Compact Loan projects.

< SME support in bilateral aid agencies: Case of Japan >

- Japan actively implements strategies to increase the export of Japanese SMEs' goods when providing ODA. By providing SMEs' goods and services through Japan's bilateral grant programs to partner countries, Japan provides Japanese SMEs with opportunities to introduce themselves to the international market. Even though this method is not plausible in all EDCF loan projects, there are lessons EDCF can learn from: coordinate EDCF's loan project with other Korean grant aid in a way that allows more room for the participation of SMEs.

5. Recommendations

< Giving Preference to SMEs >

- Increase preference given to SMEs
 - Even with sufficient capacity, SMEs tend to be rated lower than large enterprises during bid evaluation due to their short experiences with international procurement markets. EDCF currently gives additional scores to SMEs when selecting an expert for PPA in order to encourage SMEs' participation in F/S. This should be extended to the process of selecting experts at implementation and maintenance phases.
- Identify candidate projects for SMEs

- In order to help SMEs implement projects more successfully, EDCF should identify SMEs' needs along with careful assessment of each SMEs' capacity using channels such as the SMEs training program and Homepage for SMEs.
- EDCF should also review partner countries' needs for the projects in which SMEs can participate during the policy dialogue to find more suitable matches between SMEs and EDCF projects.

□ Coordinate with Korean grant aid projects

- It may be better for SMEs to gain experience and build capacity by participating in small-scale projects or grant projects first. With the successful completion of a project, partner countries may also wish to scale up the project by using concessional loans from EDCF, which, in turn, can lead to bigger opportunities for SMEs.

< Elevating the awareness of SME support programs >

□ Identify and share best practices of Compact Loan projects

- Peer learning is an excellent and inspiring tool. Identifying and sharing the cases of SMEs which successfully built capacity in international markets through Compact Loan projects can provide useful lessons to other SMEs.
- Additionally, the cases need to be introduced to partner countries to make them actively use the Compact Loan program.

□ Promote the Sector Development Loan

- The Sector Development Loan has been introduced lately and is expected to have a positive impact on SMEs. However, awareness among SMEs of this new program was still low.
 - When a new program is added into the EDCF portfolio, active promotion and outreach for the program should be accompanied in order to make SMEs realize the opportunities for participating in EDCF projects and take advantage of the new program.
 - It is recommended that EDCF actively promote the new program in order to encourage partner countries to identify candidate projects suitable for the loan program during the policy dialogues.
- Build more SME-friendly EDCF homepage
- It is recommended that EDCF's webpage for SMEs be improved, allowing them to access comprehensive information such as EDCF's support programs for SMEs, project list and contents.

[Building SME Capacity]

- Diversify contents of EDCF's SME training program
- EDCF has carried out training on the procurement process of Multilateral Development Banks (MDBs) and other topics based on the request from SMEs. EDCF should expand the coverage of the program to reach out to more SMEs by diversifying the contents of the program, tailoring them to SME needs.

- In addition, SME accessibility to information on EDCF support programs should increase by releasing practical contents such as lecture materials on EDCF homepage.
- Provide information of EDCF Project Concept Papers (PCPs) to SMEs
 - SMEs reported challenges in communicating with the governments of partner countries due to differences in culture, languages and legal systems. Moreover, lack of information on the markets in partner countries was identified as a challenge. This information, however, is often available in the form of PCPs, produced by EDCF.
 - EDCF may consider increasing the number of PCPs and provide more detailed information. More importantly, availability of PCPs should be more known to SMEs to increase the possibilities of access and utilization of PCPs. It may also be helpful if the cases in which SMEs utilized PCPs successfully are identified and shared by SMEs via various channels.

[Establishing cooperation networks within partner countries]

- Increase EDCF field offices
 - Currently EDCF has a limited number of offices in partner countries, which appeared to limit EDCF's ability to provide necessary support to SMEs. SMEs often lack the ability to collect information on laws and regulations in partner countries. This information may be more effectively delivered if EDCF field office is present. Therefore, it is recommended that EDCF increase the number of field offices in partner countries.
- Improve inter-agency networks

- As stated above, SMEs require in-country support. However, it may be difficult or unreasonable for EDCF to open offices in every country where SMEs participate in the project. Alternatively, by strengthening the inter-agency networks with Korean agencies such as the Korea International Cooperation Agency (KOICA) or Korea Trade-Investment Promotion Agency (KOTRA), SMEs may have better access to the information they need in the country where EDCF does not have field offices.