

Theory of Change

Impact strategy of the European Fund for Southeast Europe (EFSE)

The fund's mission is to foster economic development and prosperity in Southeast Europe and the EU Eastern Neighbourhood Region by supporting the success of micro, small and medium enterprises (MSMEs) and improving living conditions for households.

Impact Focus

In working towards its mission, the fund focuses its activities on specific target regions and groups:

1. Target regions: EFSE's target regions are facing multiple development challenges including substantial rates of unemployment and labor underutilization in addition to limited access to infrastructure and financial services. At the same time, the economies strive for regional integration, including to the EU markets. The

financial sector has a key role to play in addressing these challenges and supporting inclusive and sustainable economic growth.

2. Target groups: The fund targets MSMEs, including those in rural areas, as well as households with limited access to housing. The local financial sector serving MSMEs plays a key role in closing the fund gap, and thus also represents an important target group for EFSE.

Impact Objectives

Through its activities, EFSE aims to trigger transformation and impact at the financial system level as well as in the real economy.

1. Impact at a socio-economic level

By enabling MSMEs to grow, the fund aims to positively contribute to the following impact areas:



Supporting income generation

Foster MSMEs' ability to start, maintain, and grow their business activities



Fostering employment stability & growth

Contribute to sustaining and creating MSME jobs



Improving livelihoods and living conditions

Support low-income households in improving their housing conditions and starting/consolidating a development pathway

2. Impact on financial systems

Core to EFSE's impact strategy is strengthening the ability of local financial institutions to provide much-needed financing to the fund's target groups and generating systemic impact by strengthening the local financial system, which has been shown to act as a driver of and an








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important pre-condition to economic growth. By strengthening financial intermediaries and helping them to enhance their MSME lending, the fund strives to increase access to finance at scale and in a sustainable manner. At the same time, it seeks to further the development of inclusive and responsible financial systems, ultimately benefiting economies at large.

EFSE pursues this by extending debt **financing** to local partners, such as microfinance institutions (MFIs), leasing companies, commercial banks, and other financial intermediaries that share the fund’s interest in serving the target groups. In addition, the fund supports the local financial sector in building its **capacity** to serve the needs of MSMEs and low-income households in urban and rural areas. Sector players include EFSE’s partner financial institutions as well as organizations and institutions that span the broader (entrepreneurship) ecosystem, i.e. central banks or business development and support organizations. Finally, the fund contributes to developing the wider **ecosystem** for economic development, such as the regulatory environment or support services for entrepreneurship, to embed and amplify the fund’s strategic priorities and impact and strategically raise public and private resources for economic development.

Contribution to the SDGs

EFSE’s activities have been mapped toward the Sustainable Development Goals (SDGs) at an SDG target level. Based on these, seven have been selected as core SDGs:

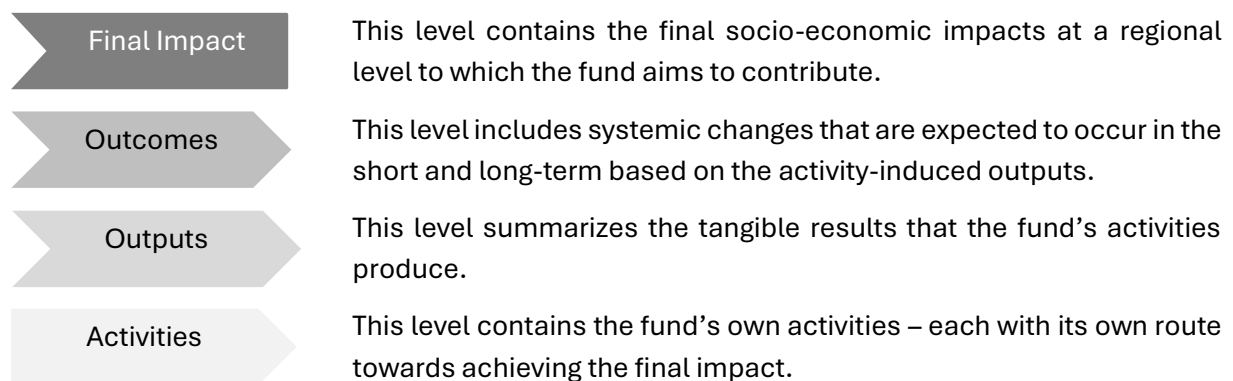
SDG	EFSE’s contribution
	EFSE contributes to meeting the basic financing needs of MSMEs and low-income households.
	EFSE contributes to improving agricultural productivity and the livelihoods of small-scale food producers through secure and equal access to financial services.
	EFSE contributes to improving gender equality and women’s empowerment by facilitating access to financial services and training for female entrepreneurs and women-owned enterprises and supporting female jobs.
	EFSE contributes to economic development and job creation by enabling entrepreneurs to establish and grow businesses through specific assistance such as tailored financial services and mentorship in addition to strong ecosystems that support entrepreneurship.
	EFSE contributes to inclusive industrialization by upgrading small-scale enterprises through improved access to (local currency) finance and innovative solutions.
	EFSE contributes to economic inclusion by sustaining and growing business income among marginalized entrepreneurs, such as women, youth, refugees, and rural populations.
	As a blended finance fund, EFSE brings together public and private investors for sustainable development.

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The path to impact: Theory of Change

The Theory of Change (ToC) demonstrates how the fund’s activities are expected to result in fulfilling its mission as described above. The focus here is on the “in-between”, the mapping of processes that EFSE’s activities aim to trigger and how these ultimately lead to the intended impacts. These processes are interlinked and reinforce each other to drive transformation and systemic change in the market.

EFSE’s ToC considers the following levels:

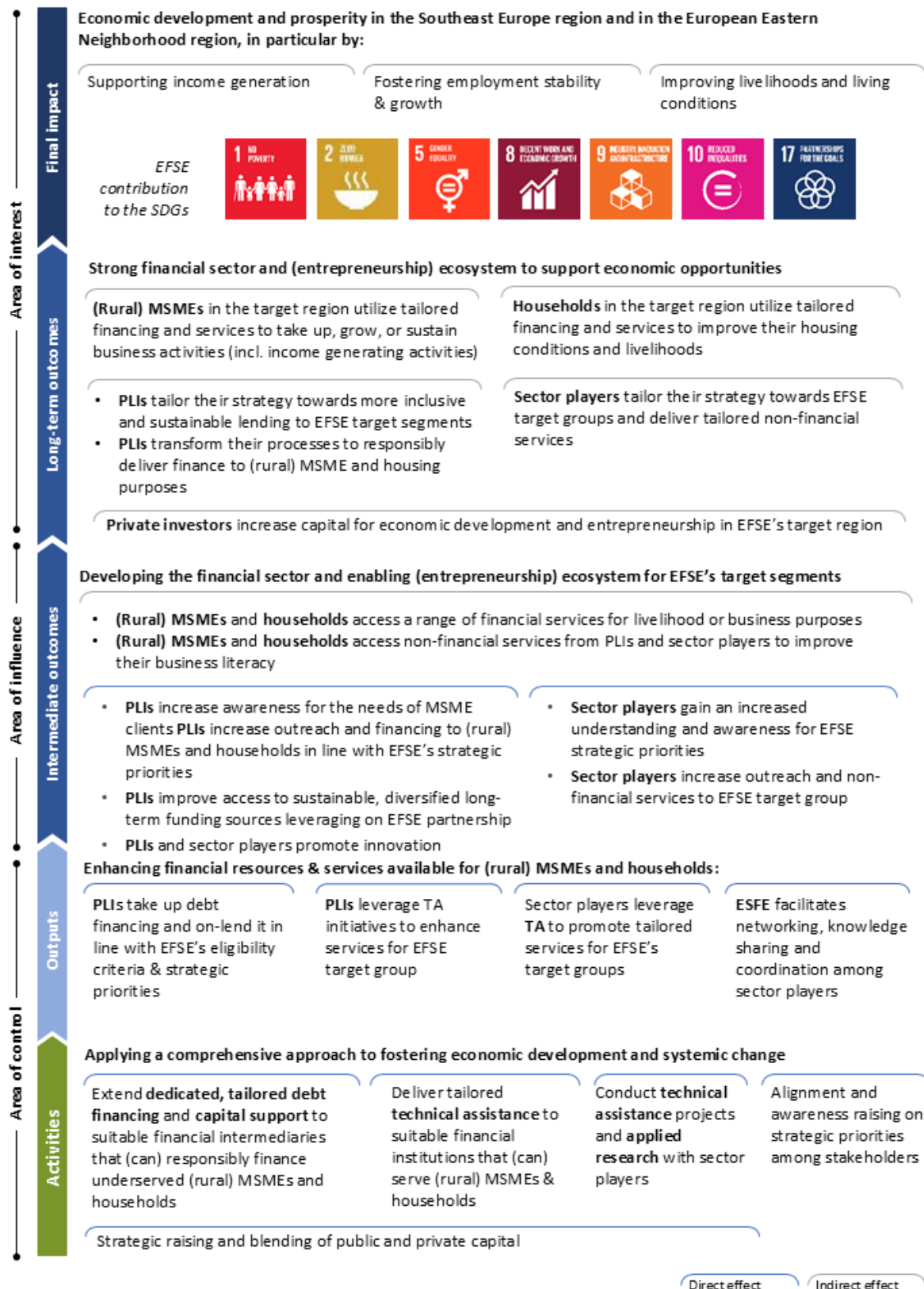


The ToC was constructed based on a causal analysis, drawing on available evidence, and is used to frame the fund’s impact measurement and management efforts. Underlying assumptions are continuously verified through EFSE’s impact assessment.

Elements outlined in the ToC can be, to a large extent, directly under the control of the fund or influenced by both the fund and external factors. This spectrum is indicated in the ToC as an “Area of control”, “Area of influence”, and “Area of interest”.¹ Given the nature of the fund’s work and the complex environments in which the fund’s investees and stakeholders operate, EFSE does not attribute the change happening at an outcome and final impact level solely to its contributions. The ToC therefore defines how the fund *contributes* to causing the observed outcomes and final impacts.

¹ This distinction is often used in defining ToCs to differentiate between attribution and contribution.

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