EFSE

EUROPEAN FUND FOR SOUTHEAST EUROPE

IMPACT REPORT 2020

SOLID PARTNERSHIPS IN CHALLENGING TIMES

Marketing communication

A YEAR LIKE NO OTHER

In 2020, the global outbreak of the coronavirus threatened more than physical health. Containment measures posed exceptional challenges to the livelihoods of entrepreneurs across the world. These micro and small enterprises are vital to the economies of Southeast Europe and the EU Eastern Neighbourhood Region.

RELYING ON STRONG ALLIES

But entrepreneurs in these regions are not alone. The European Fund for Southeast Europe, EFSE, is a seasoned expert in the needs of micro and small enterprises and the financial infrastructure they rely on. It is a trusted partner of public and private investors, national regulators, and local financial institutions in channelling resources and solutions to this important economic sector.

RESPONSE, RESILIENCE, AND RECOVERY

This Impact Report 2020 explores how EFSE has enacted targeted measures to combat the effects of the crisis on the entrepreneurship environment in Southeast Europe and the EU Eastern Neighbourhood Region. Through collaboration, innovation, and swift action, EFSE and its partners are empowering entrepreneurs, and the financial institutions that support them, to lay a path towards recovery.

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Key Figures

EFSE aims to foster economic development and prosperity in Southeast Europe[1] and the EU Eastern Neighbourhood Region[2] through the sustainable provision of additional development finance, notably to micro and small enterprises and to private households, via qualified financial institutions.

In pursuing its impact goals, the fund observes principles of sustainability and additionality, combining development and market orientations.

FOR THE YEAR 2020

Active MSEs and households financed via EFSE	**1,047,834**
Outstanding sub-loans	**EUR 961.4 million**
Committed investment portfolio	**EUR 917.2 million**
Share of sub-loans facilitated in rural areas	**31.2%**
Share of sub-loans below EUR 20,000	**82%**
Direct beneficiaries of EFSE Development Facility projects	**3,829**
Partner lending institutions	**67**
Sub-loans provided in local currency	**60.8%**
Share of private capital invested in the fund (based on investor commitments)	**23%**
Jobs supported through EFSE's contribution	**91,000**
Development Facility projects specifically targeted towards COVID-19 response	**22**

CUMULATIVE SINCE EFSE'S INCEPTION IN DECEMBER 2005

Volume of micro and small enterprise and housing loans disbursed	**EUR 8.1 billion**
Number of micro and small enterprise and housing loans disbursed	**1,047,834**
Volume invested in partner lending institutions	**EUR 3.2 billion**
Jobs supported through EFSE's contribution	**>1.8 million**
Volume of EFSE Development Facility projects approved for capacity building, sector support and applied research	**EUR 32 million**
Number of EFSE Development Facility projects approved for capacity building, sector support, and applied research	**523**
Contribution of partner lending institutions to project costs related to capacity building	**42%**

[1] The Southeast Europe region in the context of this report comprises Albania, Bosnia and Herzegovina, Bulgaria, Croatia, North Macedonia, Kosovo[3], Montenegro, Romania, Serbia, and Turkey.
[2] The EU Eastern Neighbourhood Region in the context of this report comprises Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine.
[3] This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ISJ Opinion of the Kosovo Declaration of Independence.

Greetings from the Chairperson

"Welcome to the EFSE Impact Report 2020. The 16 countries which we support through EFSE are the home of millions of very hardworking entrepreneurs. And certainly, they have been strongly affected by the COVID crisis. We have to continue our strong collaboration for a swift recovery of the economy. Be assured that EFSE will remain a reliable and strong partner, also in the years to come."

WATCH THE FULL GREETING BELOW:

EFSE's approach to managing impact and sustainability

EFSE's mission is to foster economic development and prosperity in Southeast Europe and the EU Eastern Neighbourhood Region. It pursues this by channelling responsible financing to micro and small enterprises and households and by strengthening the systems that surround and enable local entrepreneurs and families. In this way, the fund pursues its ultimate impact target of supporting jobs and income generation as well as improving living conditions. EFSE further strives for systemic impact by contributing to strengthening the financial sector serving those target groups, as well as empowering entrepreneurship by building skills along with access to resources and opportunities.

READ MORE

about EFSE's approach to impact & sustainability, including our sustainability-related disclosures in line with the requirements of the SFDR, at: **https://www.efse.lu/impact-sustainability**

EFSE takes a comprehensive approach that combines dedicated debt financing with tailored technical assistance and capacity building. Working through local financial intermediaries has shown to be particularly effective in building outreach, strengthening systems, and creating impact at scale. In addition, EFSE advances strategic issues to strengthen its target regions' financial markets, such as local currency financing.

This approach is supported by an impact management system that combines managing and mitigating potential negative outcomes with enhancing positive impact. These aspects are integrated into the fund's investment cycle: from setting the objectives in core strategy and policy documents and thorough screening of potential investees – including their alignment with fund objectives and capacities to deliver impact – to continuous monitoring and management once capital has been deployed.

In line with its goal to boost the availability of responsible finance for its target groups, EFSE engages in long-term partnerships with its investees. Close collaboration is facilitated through the local offices of Finance in Motion, the advisor to EFSE, in EFSE's regions of operation, and through the fund's networking and platform-building efforts; all of this contributes to knowledge sharing and scaling up good practices among partner institutions.

QUICK FACTS

In pursuing its sustainable investment objective, EFSE qualifies **as an Article 9 impact fund in accordance with the regulation (EU) 2019/2088 on sustainability-related disclosures** in the financial services sector (SFDR).

EFSE works towards the Sustainable Development Goals and aligns with international standards and good practices. These include the Operating Principles for Impact Management, the IFC Performance Standards, the eight core conventions of the International Labour Organization, the International Bill of Human Rights, and key responsible finance initiatives.

Positive impact management

EFSE utilises a number of instruments and approaches to enhance the positive impact of its activities. These include specific eligibility criteria which aim to ensure that resources are actually on-lent for the intended purpose and to the intended recipients; portfolio targets, such as increasing the proportion of local currency lending; and the deployment of technical assistance to build capacity as and where needed.

EFSE engages in long-term partnerships with its investees.

Assessing EFSE's impact is crucial to the fund, as it demonstrates progress towards EFSE's social objective and provides insights and learnings that inform its strategy.

EFSE tracks and reports its progress towards its impact objective based on a set of key indicators: These have been selected based on EFSE's Impact Pathway, reflecting both the direct impact on the investee (for example, by improving the financial institutions' capacity to serve the micro and small enterprise, or MSE, sector) as well as the indirect impacts on or through the investees' clients (for example sustaining and creating job opportunities in the local MSE sector).

The fund combines a range of data sources to track progress against its industry-aligned key performance indicators, including reporting by the investees on their financing activities to MSEs and households, and periodically conducted end-borrower studies. The fund also utilises third-party data for impact estimations as appropriate and in line with industry practice. EFSE's geographical proximity to investees and stakeholders through local offices supports regular on-site visits and continuous dialogue, contributing both qualitative and quantitative impact information.

Managing environmental & social risks

EFSE places a priority on the effective management – i.e., avoiding, minimising, and mitigating – of potential environmental and social (E&S) risks and impacts associated with its investments. To this end, the fund maintains, implements, and continuously improves on its Environmental and Social Management System (ESMS). The fund's E&S management approach is guided by the IFC Performance Standards.

E&S risks are considered throughout the investment process. E&S screening and thorough E&S due diligence processes are a key tool for identifying potentially significant adverse sustainability impacts and for assessing the capacity and commitment of EFSE's investees to address and mitigate against these impacts.

Once capital is deployed, EFSE regularly monitors the E&S performance of its partner lending institutions.

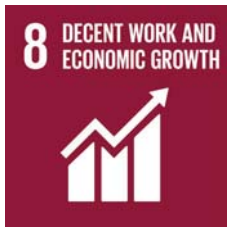
In addition, the fund prohibits the use of EFSE funding for activities with an elevated risk of causing adverse social or environmental impacts, such as those related to coal or oil and gas, activities involving child or forced labour, and those involving the destruction of high conservation value areas, among others.

Contributing to the Sustainable Development Goals (SDGs)

EFSE's activities have been mapped towards the Sustainable Development Goals (SDGs) at an SDG target level, based on which 6 have been selected as core SDGs.

EFSE contributes to eradicating poverty by meeting the basic financing needs of micro and small enterprises and low-income households.

EFSE helps improve agricultural productivity and the livelihoods of small-scale food producers through secure and equal access to financial services.



EFSE contributes to economic development and job creation by enabling entrepreneurs to establish and grow businesses through, for example, tailored financial services, mentorship, and strong ecosystems that support entrepreneurship.

EFSE contributes to inclusive and sustainable industrialisation by upgrading small-scale enterprises through improved access to finance and innovative solutions.

EFSE contributes to the economic inclusion of all by sustaining and growing business income among marginalised entrepreneurs.

As a pioneer in blended finance, EFSE contributes to bringing together public and private investors for sustainable development.

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SOLID PARTNERSHIPS

IN CHALLENGING TIMES

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Delivering versatile solutions for entrepreneurs in crisis

"Flatten the curve."

This motto quickly became the rallying cry of authorities, institutions, and civil society worldwide as the coronavirus pandemic began imperilling lives and medical capacities in early 2020. Sweeping containment measures intended to head off an untenable spike in infections ranged from business closures to full-on national lockdowns and closed borders.

The global health hazard was accompanied by another curve, however. With massive restrictions in movement and trade came the looming danger of lost livelihoods and resources. For locally owned micro and small enterprises (MSEs) in particular, a sudden drop in revenue can have ramifications that are no less than existential. This heralded wider problems for regions such as Southeast Europe and the EU Eastern Neighbourhood, whose populations rely on the MSE segment as a significant contributor to livelihoods, income generation and employment. In 2020, policy makers needed to move quickly to flatten the curve of economic downturn while simultaneously grappling with the threat to public safety.

EFSE, as a specialised vehicle for public and private investors to channel funding for social and economic development, enacted targeted measures to support these efforts. Stabilising the ground under entrepreneurs' feet required interventions that take into account the roles of three main pillars of the business ecosystem: 1) the small businesses themselves, 2) the financial service providers that support them, and 3) the regulatory authorities tasked with guiding their country's economy.

Engines of the economy: the small businesses

The impact of the crisis on MSEs in EFSE's regions was, and continues to be, significant. More than 80% of small businesses in the Western Balkans, for example – an area where MSEs account for 99% of all firms and 73% of employment – reported heavy losses in 2020.[1] Half of enterprises were obliged to discontinue business activity entirely at some point over the course of the year.

These developments are the result of an array of interconnected factors. In many countries of Southeast Europe, the widespread cessation of public life and economic activity led to a significant year-on-year drop in private consumption – by more than nine points in Bosnia and Herzegovina, for example, to fifteen percentage points in Montenegro – resulting directly

[1] OECD (2020), Covid-19 Crisis Response in South East European Economies

EFSE's investment activities in 2020 enabled its partners to unleash EUR 420 million in financing to entrepreneurs and households through 40,000 new loans.

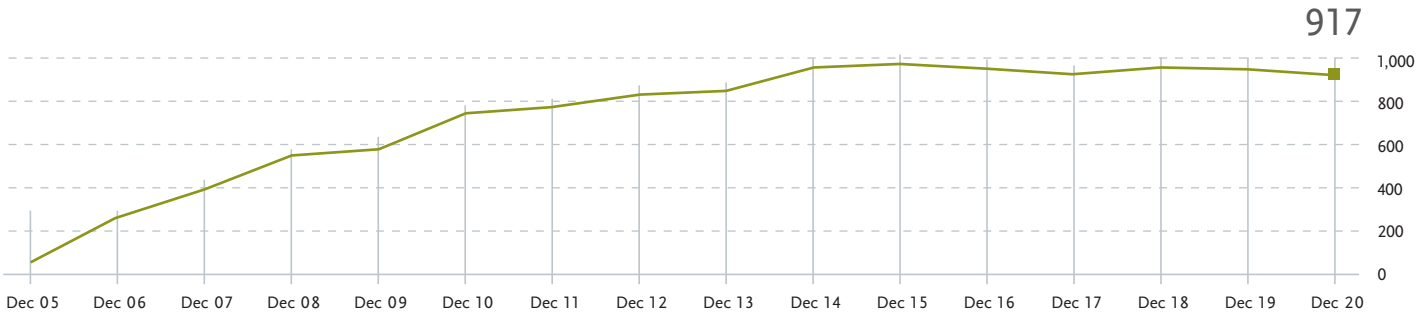
in a sudden loss of revenue for many MSEs. Businesses reliant on foreign trade suffered from regional declines in exports and imports of 20% and 14%, respectively. Labour shortages due to workers' absences, influenced by restrictions on movement or family care obligations, were exacerbated by the inability of more than 40% of businesses to switch to telework. In many cases, this inability was attributable to a lack of adequate digital tools: In Albania, for example, less than half of households had fixed broadband internet connection through which to work from home.

MSEs in the EU Eastern Neighbourhood Region were not faring better than their counterparts in Southeast Europe. In a survey conducted among nearly 800 private sector businesses in Georgia, over two-thirds of local enterprises reported a drop in revenues of more than 50% due to COVID-related difficulties.[2] In Ukraine, more than 10% of MSEs were on the verge of bankruptcy by the end of 2020.[3] Predictably, some sectors suffered more than others: In the latter half of 2020, business activity in the Moldovan travel and tourism industry, for example, was at a mere third of pre-pandemic levels.[4]

Many COVID-related challenges are unlikely to abate completely before the pandemic is under control. However, the provision of targeted financial and non-financial resources is an effective means to support small enterprises' ability to bridge liquidity bottlenecks, adapt to a changing environment, and stay in business. EFSE's impact investments in 2020 were therefore aimed at enabling entrepreneurs to maintain revenues and employment by channelling these resources through its network of MSE-dedicated financial institutions in Southeast Europe and the EU Eastern Neighbourhood.

Contributing to a responsible, stable financial system has always been a core aspect of EFSE's impact strategy.

[2] Business Media Georgia (2020), Follow-up survey of Georgian businesses in the face of the pandemic
[3] Interfax Ukraine (2020), Interview with Davina Gercheva, UNDP Resident Representative in Ukraine
[4] National Bureau of Statistics of the Republic of Moldova (2021)



EFSE'S COMMITTED INVESTMENT PORTFOLIO

Since inception in December 2005

EUR MILLION

New and restructured loans, for example, have provided entrepreneurs with the necessary cash to keep their businesses afloat. EFSE approved a record EUR 279 million to 67 key financial partners in 2020, facilitating 40,000 new loans to MSEs and households in the fund's target regions and helping to maintain nearly 91,000 jobs. More than half of these loans were utilised for investment and mixed purposes, supporting business development – such as by investing into upgraded digital infrastructure or adapting the business model to online sales, for example – at a time when a large share of MSEs borrow to maintain liquidity.

In addition, 75% of EFSE-facilitated loans to rural and MSE borrowers were provided in local currency, an important safeguard that shields already-vulnerable cash flows from the risk of exchange rate fluctuations – particularly relevant given the widespread currency depreciation against the euro in 2020, especially in the EU Eastern Neighbourhood Region.[5]

Meeting the challenges of disrupted systems also requires technical support. Digitalisation has proven especially key in allowing businesses and individuals to maintain income-generating operations during times of reduced travel and in-person contact. The ability to conduct business online has been an essential factor in managing costs, preventing labour shortages, and enabling MSEs to reach their markets. Digital tools also open up access to crucial financial services, consultation, networking, and educational and business opportunities.

[5] OECD (2020), COVID-19 crisis response in Eastern Partner countries

In 2020, the EFSE Development Facility conducted 38 programmes and deployed over EUR 1.6 million directly aimed at improving access to finance for MSEs by supporting the use of digital solutions within financial institutions as well as providing entrepreneurs with tools and skills to navigate a volatile environment, many with special emphasis on digitalisation of business activities. Measures ranged from online mentoring, webinars, and helplines, to targeted grants for boosting digital infrastructure. One such programme is detailed on page 26 of this report.

Lifelines: the financial sector

Unlike the financial crisis of 2008/2009, the COVID-related slowdown has been experienced predominantly in the real economy rather than in the financial sector directly. This has two main implications for current crisis response: 1) Financial institutions are in a much better position to absorb shocks than they were in 2008, and 2) unlike the previous crisis, they can now be part of the solution. Financial service providers have an integral role to play in combating the economic fallout of the pandemic in EFSE's regions by increasing the availability of additional cash, especially with targeted support from regulatory authorities and international investors like EFSE.

EFSE investments in 2020 included senior loans, subordinated debt, and local currency loans.

It is worthwhile to unpack the first point. How can local lenders, especially those with a significant MSE portfolio, ride the COVID-19 turbulence and maintain operations?

It helps that many institutions used the lessons from the previous crisis to reinforce their own safeguards against future tremors. An impact survey of the banking sector in Central and Eastern Europe[6] found that banks had significantly improved their asset quality over the past decade. Banks across EFSE's region spent that time lowering their risk tolerance and considerably reducing their ratio of non-performing loans (NPLs); in Georgia, for example, the average NPL ratio went from 16% in 2010 to 6.6% in 2018. Meanwhile, banks were also building up their capital buffers and strengthening their liquidity positions. In fact, just one year before the pandemic hit, the Common Equity Tier 1 ratio – an indicator of an institution's capital against its assets and thus its ability to survive a challenging monetary environment – exceeded the EU average of 14.6% in several EFSE target countries.[7]

[6] Deloitte (2020), COVID-19 CEE banking sector impact survey
[7] ECB (2018), Financial stability assessment for EU candidate countries and potential candidates

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In 2020, EFSE approved investments of EUR 279 million, of which EUR 62 million was provided to microfinance institutions.

Indeed, contributing to the strengthening of a responsible, stable financial system has always been a core aspect of EFSE's impact strategy. The fund's focus on sustainable finance is reflected certainly in its investment activities, where dedicated funding to MSE-serving banks and other financial service providers is supplied for on-lending only in line with EFSE's impact goals, contingent on strict adherence to international standards and subject to rigorous reporting requirements. But crucially, the EFSE Development Facility also supports these institutions in shoring up the robustness of their internal processes, such as by assessing and enhancing risk management or credit rating systems. The combination of targeted financing and technical assistance over the years has helped prepare many banks in EFSE's regions to sustain operations in 2020 despite the gusts of a stormy economy.

Yet preparedness does not mean imperviousness. Banks are still constantly reassessing the risk landscape and expending extra resources to restructure loans and prepare for some inevitable deterioration of assets. It is for that reason that EFSE investments in 2020 were tailored to the specific needs and priorities of its partner banks in the crisis, in terms of drawdown flexibility, repayment dynamics, and currency of choice, as well as type of instruments – such as the EUR 10 million in subordinated debt provided to ACBA Bank in Armenia to further boost capital buffers. Technical assistance in 2020 was specifically crafted to help these partners cope with the extraordinary circumstances.

But what about microfinance institutions (MFIs)? Microenterprises comprise a substantial proportion of local businesses in EFSE's regions, and many of these rely on MFIs rather than banks for their financing needs. EFSE has over the years developed very close strategic relationships with a large number of MFIs due to their exclusive focus on this target group.

MFIs are subject to different regulations than banks and, by their nature, exposed to higher levels of liquidity risk as they do not have direct access to central bank liquidity, money markets, or deposits. Instead, they rely on regular repayments to serve their obligations to lenders and to continue their lending operations. The aforementioned widespread payment moratoria, though a necessary relief measure for cash-strapped micro enterprises, triggered the risk of a potential liquidity crunch for MFIs. As a result, a substantial decrease in MFI lending activities has been observed t in some areas of the globe.[8] This is, of course, not conducive to stimulating recovery by keeping funding available to borrowers.

For these reasons, EFSE provided timely and decisive liquidity support in the form of fresh loans to MFIs just as the pandemic hit the Western Balkans, investing an additional EUR 43 million into nine key micro and small business lenders there in the spring of 2020. The fund continued to channel liquidity to MFIs across its regions throughout 2020, totalling EUR 62 million.

This had the additional effect of sending a positive signal to the market, raising confidence among other lenders in the MFI sector. Furthermore, the fund supported a number of informal lender coordination efforts pushing for a more client-oriented approach in COVID-related temporary debt rescheduling arrangements and efficient reporting. In this way, EFSE confirmed its role as reliable partner and core investor in the MFI sector.

In addition, the EFSE Development Facility enacted a set of emergency consultation programs designed to help financial institutions better deal with the obstacles of the pandemic. Webinars and individual consultations provided targeted expertise on mitigating risks, connecting with resources, and implementing the crisis response regulations set out by national authorities. One such example is detailed on page 26 of this report.

In spring 2020, EFSE provided EUR 43 million in new loans to nine key MFIs in the Western Balkans to help them respond to the crisis. Find out what some of these institutions said on partnering with EFSE in challenging times.

CLICK HERE TO FIND OUT MORE >

[8] CGAP (2020), Four ways microfinance institutions are responding to COVID-19

In 2020, around 60% of the financing enabled by EFSE investments was in local currency.

Lighthouses: the policy makers

Finally, it was the mammoth task of national authorities, notably central banks, to steer efforts to flatten the curve of economic slowdown. For the first time in history, economic activity was purposefully put into an "induced coma" to reign in a health hazard. This put authorities in the unprecedented role of dealing with two simultaneous national crises with opposing solutions. Usually a monetary authority would attempt to counter economic slowdown by activating demand; but in this case, business activity needed to be intentionally halted. What was then the right path to stabilise the economy, prevent bankruptcies, and ward off impending poverty?

The exponential spread of the pandemic did not leave time for long deliberation. Around the world, governments and central banks heeded the call of economists to "act fast and do whatever it takes."

The regulators of Southeast Europe and the EU Eastern Neighbourhood Region moved swiftly: By, for example, providing emergency liquidity to financial institutions, enforcing payment moratoria or restructured loan repayments, introducing business credit programs such as loan guarantees, and enacting fiscal stimulus measures like wage subsidies, public authorities have aimed to keep credit flowing to businesses and households while economic activity is temporarily halted.

Nevertheless, the countries in EFSE's regions have faced particular challenges. A pandemic that leads to closed borders and travel restrictions creates certain difficulties for regions where remittances and tourism contribute to a solid portion of GDP. Meanwhile, currency devaluations can further put a strain on public finances for economies that make considerable use of foreign investment.

EFSE contributes to alleviating this burden on public spending by channelling international public and private funding to financial institutions in Southeast Europe and the EU Eastern Neighbourhood Region, helping to shore up potential credit gaps in the local financial infrastructure. Indeed, the OECD explicitly states that "private investment will be key in contributing to the development finance equation, at a time where capital and public investment will be heavily stretched."[9]

A vehicle for collaborative solutions

EFSE in fact pioneered the public-private partnership fund structure in 2005, leveraging public capital as a risk cushion to mobilize private investments for impact. This blended finance model has established EFSE as an effective vehicle for governments and international entities, for example, to channel funding where it is needed for sustainable development, while at the same time providing private investors with a diversified, trusted instrument to engage in frontier markets.

EFSE's layered fund structure also enables it to employ versatile approaches to address key topics in responsible finance. Local currency finance is one example. Support from the European Union and the German Federal Ministry for Economic Cooperation and Development has boosted the EFSE's ability to provide funding to its partners in local currency, thus removing the exchange rate risk that can often accompany foreign investment from the shoulders of local financial institutions. Since the pandemic began, the European Union has additionally committed EUR 40 million to EFSE to support the fund's crisis response endeavours in Southeast Europe and the EU Eastern Neighbourhood Region; a portion of this total is earmarked for local currency financing in particular.

EFSE works together with financial institutions alongside local regulators to identify immediate and long-term needs and potential solutions. One example is the EFSE Development Facility's collaboration with the National Bank of Romania for the advancement of digital solutions in the Romanian financial sector. Financial technology, or "fintech", not only benefits borrowers by expanding access to financial services – for example, through online banking during a pandemic shutdown – fintech can also streamline processes within a financial institution, helping achieve leaner operations, expand outreach, and react to unexpected circumstances in an agile manner.

Looking to the future

EFSE's fifteen years of expertise in bringing international resources to bear on navigating challenging environments has made the fund uniquely equipped to accompany its partners through difficult times.

[9] OECD (2020), OECD investment policy responses to COVID-19

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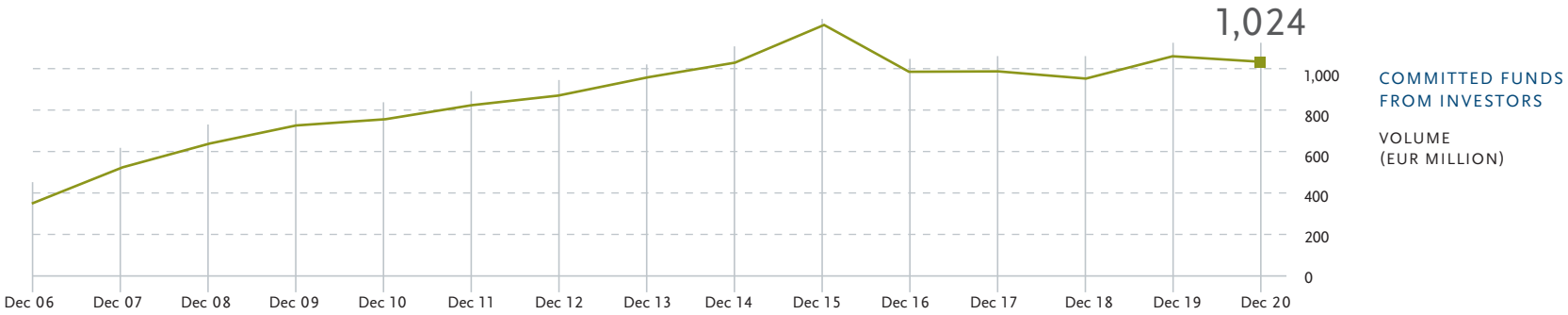

Now, moving into the second half of 2021, the agenda of EFSE and its partners will focus on recovery. Recovery in this case will not mean a return to the pre-pandemic status quo. The events of 2020 have upended assumptions and structures – making transparent the deep interdependencies of cross-border trade, underscoring the need for accelerated digitalisation, and calling into question the necessity of in-person work, just to name a few – thus opening opportunities for impact investments to shape a new, even better future. Just as the crisis of 2008/2009 energised a transformation of the banking system through robust, responsible practices and standards, the crisis of 2020/2021 presents a chance for international players and individual entrepreneurs alike to "future-proof" the business environment to withstand shocks. Such measures include, for example, investing in digital infrastructures, educating entrepreneurs to take maximum advantage of online tools, or strengthening exchange between national regulators to advance finance practices that protect and empower MSEs, such as local currency lending.

Impact investing is about finding and implementing solutions for long-term, sustainable development. As an experienced navigator through choppy waters, EFSE will continue to fulfil its unique role as a catalyst for impact by innovating together with investors, partners, regulators, and entrepreneurs to build an enabling environment for resilience, stability, and growth.

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Planting seeds for tomorrow's success

TARGETED FINANCING MAKES A DIFFERENCE FOR A FARMER IN TURKEY

"To produce good crops and earn the appreciation of the people in my community fills me with pride."

Naci Dayan's family farm is a blooming place. In addition to cultivating cotton, he grows tomatoes, grapes, and apricots alongside greens such as spinach and peas in Menemen, in the Turkish province of Ízmir.

Yet behind the luscious produce is a story of hard work. "In the beginning, life on the farm was tough," Dayan explains. "My family have always been farmers, growing food for ourselves and selling produce at the local markets. Traditionally we have done a lot by hand. When I took over the farm myself in 2003, I decided we needed to invest in some modern tools and machines."

For this, Dayan sought out a financial service provider that understands agricultural businesses. That is why he approached DenizBank. DenizBank is the country's leading private financial institution specializing in business financing tailored to the needs of farmers.

QUICK FACTS

21%

of EFSE's portfolio is dedicated to financing agricultural and rural enterprises

"It was through a loan that we were able to first invest in a seed drill, increasing productivity while lowering costs, time, and energy."

NACI DAYAN
FARMER

Providing loans in local currency protects the farm from potentially hazardous exchange rate fluctuations.

With its strong presence in rural areas, nation-wide branch network, and significant agribusiness expertise, the bank is also a valuable EFSE partner in the fund's mission to expand financial inclusion to rural enterprises like the Dayan farm. "It was through a loan that we were able to first invest in a seed drill," reflects Dayan. "That was an absolute game-changer, increasing productivity while lowering costs, time, and energy." So far, Dayan has utilized three loans to enhance the efficiency of his business, especially by investing in equipment. "We are constantly improving our processes; from 2019 to 2020, we already observed a 10 percent increase in productivity compared to the year before."

What is more, the loans were provided in Turkish lira rather than foreign currency – protecting the farm's finances from potentially hazardous exchange rate fluctuations. This extra layer of security is reassuring against the economic turbulence of the COVID-19 outbreak. In addition to financing, DenizBank has also provided crisis advisory services, including on the use of new tools such as digital solutions, to help rural businesses adapt to fluctuating circumstances. "We have been well supported by DenizBank during the crisis," says Dayan. "We have been able to continue operations throughout, even as the main part of the lockdown occurred just at that critical time of year when we were planting and fertilizing. Food security has been very important in this uncertain environment and I am glad to play a role in nourishing the community."

Dayan's business provides more than just good nutrition, however. His farm has grown from a solo family operation to currently an employer of 20, supporting livelihoods in a region where agriculture makes up an important proportion of employment and income generation for families.

"No matter what obstacle is thrown my way, I know I can count on the support of DenizBank," says the entrepreneur. "They have a profound understanding of the agricultural business and what farmers need to succeed."

QUICK FACTS

EFSE's financing had unleashed cumulative **EUR 2.7 billion** in loans to agricultural producers by the end of 2020

"As we're all going through this challenging time, we at DenizBank take it as our duty to create affordable and long-term financial solutions for agricultural producers to help them manage their costs. With EFSE's invaluable support, we will continue to stand by agricultural and rural micro and small enterprises by providing working capital and investment loans."

BORA BOCUGOZ

EXECUTIVE VICE PRESIDENT OF TREASURY, FINANCIAL INSTITUTIONS, AND PRIVATE BANKING, DENIZBANK

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Getting out of a jam

ACCELERATING DIGITAL FINANCIAL LITERACY FOR WOMEN

For Merisa Kušljugić, retirement did not mean slowing down. The former accountant instead welcomed her new free time to turn her hobby into a business: making jam.

Her local community has come to enjoy the delicious homemade compotes and preserves, and for the past few years, Kušljugić has successfully sold her wares at fairs and markets as well as from her home. She manages the income through her account at MI-BOSPO, a microfinance institution especially dedicated to women's inclusion in financial services and a long-standing EFSE partner in Bosnia and Herzegovina.

When the pandemic reached her hometown of Tuzla in 2020, Kušljugić felt unsure about going in person to take care of her finances. Waiting in the queue with others did not seem like the safest idea. Yet how else could she accomplish these errands?

That was when she saw an announcement on MI-BOSPO's Facebook page. The institution was partnering with the EFSE Development Facility to offer a training course for online banking. Specifically, the "Our Classroom" course was geared towards women clients who wanted to expand their digital financial literacy but felt they did not have the experience or knowledge to know where to start. "I was intrigued," says Kušljugić. "I already use the internet and keep in touch with friends and family through social media. But I had always gone in person to do my banking."

Kušljugić was not alone in this regard. An advance survey conducted by the Our Classroom project revealed that while 91% of the 400 respondents owned a device such as a tablet, smartphone, or computer, 87% did not use the internet for banking needs. The main reason reported was a lack of skills.

"We wanted to help women overcome usage barriers in online services and enable them to navigate these tools with proficiency and confidence," says Mejra Juzbašić Bajgorić, Regional Director at Finance in Motion, which manages the EFSE Development Facility. "The pandemic has really made it clear how important digital skills are in successfully dealing with changing circumstances."

Socially distanced workshops have so far been held in three towns in Bosnia and Herzegovina, including Tuzla,

"Learning how to pay bills via mobile phone without going out and waiting in queues – it is both faster and safer."

MERISA KUŠLJUGIC
CONDIMENT BUSINESS OWNER

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and continuing into 2021. Participants have benefited from practical demonstrations on devices such as tablets and mobile phones. Online banking services are helping these new users save transaction costs, as internet banking costs below EUR 0.3 per transaction as opposed to upwards of EUR 1.50 to accomplish these in person or through the post; travel costs are greatly reduced, especially for rural clients; no time is spent waiting in queues; and, importantly, exposure to the coronavirus has been minimised thanks to the users' ability to transact financial activities from the safety of their own homes.

The programme is being continued in 2021. "We have always been committed to supporting the benefits to women of financial services, and financial and digital literacy are a key part of this aim," says Safet Husic, CEO of MI-BOSPO. "These clients can now take care of their finances in less time and with more convenience. Financial education and literacy are also useful in equipping them to explore various options, such as new loan products, in an informed manner. We are pleased to see that there has already been quite positive feedback from our clients on this project."

That includes Kušljugić. "It's been is a very useful programme," she says. "Learning how to pay bills via mobile phone without going out and waiting in queues – it means a lot to me. It is both faster and safer. Maybe I will even start selling my jams online!"

"At the BMZ, we believe that a comprehensive approach is most effective for strengthening the resilience of economies and reaching people directly, especially in this time of the global COVID-19 pandemic challenge. Responsible financing provides fuel for the economic engine and creates jobs, while financial education and training empowers financial institutions as well as micro and small enterprises to strategically apply these resources for best results. That is why we invest German development funding in both the European Fund for Southeast Europe and its complementary Development Facility – in order to combine financial capital and technical assistance for long-lasting impact. Thanks to this, EFSE was able to support 91,000 jobs in 2020 and provide crucial training and consulting services to 4,000 people to help them cope with the challenging environment of the COVID-19 pandemic."

DR. GERD MÜLLER

GERMAN FEDERAL MINISTER FOR ECONOMIC COOPERATION AND DEVELOPMENT (BMZ)

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INVESTORS BOARD & COMMITTEES LETTER FROM THE FUND MANAGER AND ADVISOR

Keeping things moving

AN ENTREPRENEUR STEERS HIS LOGISTICS COMPANY THROUGH THE CRISIS

In less than a decade, Mira Trans has grown from a young man's ambition into a solid cargo transportation company with a sterling reputation. "My first job fresh out of university was with a logistics company," reminisces Ashot Mirakyan, who is now in his early thirties. "That's where I developed a passion for the field."

In 2011 Ashot decided to go it alone: "I may have been a bit naïve at the time, but I felt that all you needed was a laptop, a phone, and determination."

Barely a year later, he found himself at a crossroad. He could just continue providing services as a middleman to customers who didn't have an in-house logistics department; or he could actually go into cargo transportation himself, too. Ashot chose option two. He had some savings, but it wasn't enough. So, business plan in hand, he approached EFSE partner ACBA Bank for his first loan. ACBA Bank is one of Armenia's leading providers of financial services to micro and small enterprises, and Mirakyan hoped he would be in good hands.

He was right. "ACBA Bank understood the complexities of growing a business and has been able to offer me financing tailored to my needs along every step of the way," recalls Mirakyan. "Logistics is a challenging field. That makes it exciting of course, but you need to consider things like changes in fuel costs, consumer price index, manufacturing sector development, all of those external considerations in addition to simply buying equipment. Various loan products have helped me over the years to navigate these factors successfully." Today, ten years and several further loans later, Mira Trans has grown from two employees to 30, serving exporters and importers, some of which are large blue-chip companies, from the main office in Yerevan.

"Flexible financing from ACBA Bank has really supported us. New loan payment mechanisms have enabled us to keep cash flows stable while we invest in training and new equipment."

ASHOT MIRAKYAN
OWNER, LOGISTICS AND CARGO TRANSPORTATION COMPANY

QUICK FACTS

EFSE's investments in 2020 facilitated new loans to

40,000

entrepreneurs in Southeast Europe and the EU Eastern Neighbourhood Region.

"2020 was a difficult year for everyone, including for the micro and small enterprises of the six countries in the EU Eastern Partnership. In response to the crisis, the EU has provided targeted support to 80,000 entrepreneurs through its partners, and EFSE in particular.

EFSE was key in shaping and implementing the EU's response to the crisis, especially to deliver financial support and specialised training to the smallest and most vulnerable enterprises. It is also not a surprise that EFSE was the EU's first partner to implement a joint response to this health and economic crisis. In 2020, EFSE teams have demonstrated that efficient and impactful programmes can be implemented in record time."

HOA-BINH ADJEMIAN

HEAD OF SECTOR ECONOMIC DEVELOPMENT EASTERN PARTNERSHIP
DG NEAR UNIT C1
EUROPEAN COMMISSION

The road has not always been smooth: political instability, changing government regulations, and inflation are just a few of the challenges Mirakyan has faced over the years., But learning from these obstacles to grow even stronger seems to be in Ashot Mirakyan's DNA.

"Working with the right people and partners is key, of course, but having the right financial partner by your side simply makes you more resilient," he says. "In this branch, markets are dynamic: supply chains have become longer and more complex, and yet customers expect even faster and smoother delivery. Investing in new and innovative technology, such as automation software, has enabled us to adapt and keep exceeding our customers' expectations."

Mirakyan continues: "This experience has certainly helped us deal with the COVID-19 situation. Business has not been easy for many of our customers, and that of course has had complex ramifications across the whole value chain. But we are exercising our ability to be innovative and look for new solutions. Flexible financing from ACBA Bank has really supported us here. New loan payment mechanisms and financial products have enabled us to keep cash flows stable while we invest in new training and equipment.

"I think these efforts will even strengthen our position later," he remarks. "When the global situation improves and shipping gets back to the levels we had before, we will come out even stronger and more agile than before."

QUICK FACTS

EFSE has facilitated over

218,000

loans to entrepreneurs and households in the EU Eastern Neighbourhood Region. Nearly two-thirds of these have been supplied in local currency.

Continuity in times of uncertainty

INTERVIEW WITH FED INVEST,
THE COMMUNITY-OWNED LEADER IN ALBANIAN AGRIFINANCE

FED Invest is Albania's leading provider of financing to rural and agricultural entrepreneurs – a crucial segment of the economy that is integral for employment, income generation, food security, and business growth. As a member-owned savings and loan association, FED Invest has a profound understanding of the needs of agricultural producers, a close proximity to its clients, outreach to otherwise underserved communities, and a wide and loyal customer base.

FED Invest has also been at the centre of a large-scale, ongoing collaboration led by the EFSE Development Facility along with the Dutch government and Rabo International Advisory Services. Together, the partners are working to accelerate the financial inclusion of Albania's farmers by expanding the institution's outreach and capacities.

Zana Konini, Chair of FED Invest's Managing Council, and Perlat Sulaj, Chief Executive Officer, reflect on how the crisis impacted FED Invest and its client base, and how partnership and dedication to the institution's mission have enabled FED Invest and their 75,000 members to navigate through unprecedented times.

Let us begin with the entrepreneurs. What were some of the urgent issues that arose for your clients as a result of the COVID-19 outbreak?

KONINI: The pandemic gave rise to a range of challenges for our members to cope with. Everything from the health and safety of individuals and their families to uncertainty with regard to business continuation due to the full lockdown imposed by the government for an extended period of time. This decrease in economic activity, and the associated restrictions on travel, of course led to drastic declines in revenues especially for those in the tourism and services sectors. That meant, in more than a few cases, an inability to make debt and rent payments because of liquidity shortfalls. Even for other sectors, there were the challenges of systems in disarray: difficulty bringing products to market due to disrupted transportation services; holding back on business investments due to uncertainty; and disruption of communication with suppliers and other agents. Micro and small business owners were dealing with a lot.

How did FED Invest help its clients tackle these difficulties?

SULAJ: First of all, the health of our staff and clients took top priority! We imposed stringent measures across our branch network for preventing the spread of the virus. Even though it was a complex task, we arranged to keep our offices and services open and available for our members and clients through a rotating system that allowed people to work from the office and from home. We maintained continuous and transparent communication with our clients at all times. We were

ZANA KONINI
CHAIR OF THE
FED INVEST MANAGING COUNCIL

"We took measures to manage liquidity, draw up contingency plans, perform stress tests, hone our risk management, and maintain online communications with our members."

ZANA KONINI

right there in the middle of the struggles and challenges they faced, and we knew that the strength of our clients and the strength of FED Invest are intertwined. We are not only an institution serving the community – we are part of the community. Therefore, for all clients facing the inability to repay their loans, we restructured these with terms that were as accommodating as possible, including a three-to-six-month grace period and loan instalments that matched the uncertainties for their liquidities and missed income.

At the same time, we increased efforts to prepare for the launch of online platforms for both financial and non-financial services to enable continued support even in periods of restricted movement and contact.

How has FED Invest itself adapted to keep operations running?

KONINI: It has been important for our management to provide leadership and communicate frequently with management and staff to adapt to the challenging situation and set priorities. Our top priority throughout this strenuous period has been always to ensure the safety of our employees and our clients, which is why we implemented timely and appropriate safety measures and provide undisrupted services to our members across all locations.

The establishment of a special Pandemic Management Committee informed the creation and regulation of new procedures such as crisis-related loan restructuring. We took measures to manage liquidity, draw up contingency plans, perform stress tests, hone our risk management, and maintain online communications with our members while unable to perform field visits. Indeed, our enhanced IT infrastructure prepared us to switch swiftly to an online environment for communicating with our partners and adopting smart working via VPN. All our management and team meetings as well as employee trainings were held online.

What role did EFSE play in supporting you and your clients with these efforts?

KONINI: We are very grateful to have in EFSE a reliable and trustworthy partner, not only in good times, but also in "weathering the storms," so to speak. EFSE has been always there for us, ever since we started FED Invest's consolidation and transformation process as well as during the past year, assisting us every step of the way. Thanks to its willingness to provide long-term senior financing last year, our institution's financial stability has been further boosted.

As part of providing relief to its partner institutions during the outbreak, EFSE's technical assistance team has also enabled an in-depth analysis of credit risk management for FED Invest and the impact of the crisis on our loan portfolio, providing valuable recommendations to address any areas of concern.

Can you comment on your plans for 2021?

SULAJ: Absolutely. We will continue to grow our activity and further expand organically. In addition, we will capitalise on the huge transformation that FED Invest has undergone over the last four years in all aspects and are ready to launch new financial services such as utility payments and "FED Online," through which members can even send payments to each other. In addition, we will enhance the FED Invest branding through digital channels, launch customer retention management campaigns, and standardise services across the branches. During it all, we will continue to strengthen our strategic partnerships with partners like EFSE: It is by combining our expertise and resources through such collaborations that we can create a stable, healthy financial environment for our entrepreneurs.

PERLAT SULAJ
CHIEF EXECUTIVE OFFICER
FED INVEST

"It is by combining our expertise and resources through such collaborations that we can create a stable, healthy financial environment for our entrepreneurs."

PERLAT SULAJ

Navigating choppy waters

HELPING MICROFINANCE TACKLE THE CRISIS

When the pandemic began spreading across Europe in the spring of 2020, lockdown measures to contain the outbreak had a particularly severe impact on the income of micro and small enterprises (MSEs). Smaller, locally owned businesses do not tend to have large stocks of capital set aside for extended cessation of operations. The restrictions on movement and slowdown in commercial activity, especially in the first half of 2020, translated into a severe liquidity crunch for a substantial proportion of MSEs. Many entrepreneurs found themselves unable to make the regular payments on their business loans.

To help the MSEs in need, governments around the world mandated financial institutions to offer payment moratoria. EFSE's partner BT Microfinantare in Romania, like many other microfinance providers, was standing ready to comply. BT Microfinantare is committed to the success and well-being of its MSE clients. The institution was swift in approaching its borrowers to inquire about their needs in overcoming the crisis, including proactively offering payment rescheduling.

The challenge, of course, was that nothing similar had ever happened before on such an enormous scale. The staff at BT Microfinantare needed not only to quickly pivot their own operations – working from home, trying to communicate with clients who were doing the same – they also needed to reassess the implications of the new regulations on their own portfolio.

It was for situations like this that the EFSE Development Facility (EFSE DF) released its COVID-19 crisis response package for partner lending institutions in Southeast Europe and the EU Eastern Neighbourhood Region. The programme offers advisory services on topics including risk and liquidity management, stakeholder communication, human resource management, and other areas where partners were adjusting their operations to deal with the pandemic. BT Microfinantare turned to the EFSE DF for support.

BUCHAREST
ROMANIA

"The rapidly changing circumstances and the urgent needs of our clients meant that we had to act fast. With the help of EFSE, we were able to set up a brand-new system in a matter of weeks."

CRISTINA SINDILE
CEO, BT MICROFINANTARE

Together, EFSE DF and BT Microfinantare engaged an expert consultant to perform a thorough analysis of the institution's portfolio and implement a new loan classification system considering the volatile environment as well as all related requirements and guidelines. "We had a very tight timeline, too," recalls BT Microfinantare CEO Cristina Sindile. "The rapidly changing circumstances and the urgent needs of our clients meant that we had to act fast. Fortunately, with the help of EFSE DF, we were able to set up a brand-new system in just a matter of weeks." The results were put into place right away. By the end of December 2020, around 30% of BT Microfinantare's loan portfolio was successfully granted crisis-related payment moratoria.

The next step was to hone risk management to account for the ongoing situation. EFSE DF and BT Microfinantare set to work in July 2020 adjusting the

institution's risk rating model to better capture the impact of the pandemic on clients' businesses from both an individual and systemic perspective. Cristina Sindile remarks: "For us, it is absolutely crucial to understand our clients' situations and the challenges they are facing. Not only to help us as an institution to navigate through choppy waters but to also apply this expertise to help guide our clients through a tricky financial situation."

Sindile continues: "These hardworking business owners are the backbone of Romania's economy. And at BT Microfinantare, we aim at building a solid financial infrastructure for existing and aspiring entrepreneurs to lean on."

"Micro and small enterprises continue to be a critical part of Europe and Central Asia's economies, producing a substantial portion of the economic output and creating employment opportunities across the region. Nevertheless, they are also usually constrained from accessing finance. Since 2005, EFSE has been IFC's partner in improving access to finance in the region by creating a bridge between large financial institutions like IFC and micro and small enterprises in need of capital: The majority of EFSE's transactions are small loans, often to institutions with which IFC cannot work directly. Our collaboration and mission are even more important today, while the COVID-19 pandemic puts severe pressure on small businesses in the region."

VITTORIO DI BELLO

REGIONAL INDUSTRY HEAD FOR EUROPE & CENTRAL ASIA,
INTERNATIONAL FINANCE CORPORATION

Wide-ranging support for Georgian businesses

ENTREPRENEURS OVERWHELMINGLY DRIVE THE ECONOMY IN GEORGIA

More than 99% of all firms in Georgia are micro, small, or medium enterprises (MSMEs), accounting for two-thirds of total private employment and more than half of total business sector turnover.[1] The health of these locally owned businesses and startups are crucial for income generation, job creation, and overall economic stability.

[1] OECD: Recommendations for Georgia's SME Development Strategy

That is why TBC Bank, the largest bank in Georgia and leading lender to small local businesses, has long been a strategic EFSE partner in channelling funding to the country's hardworking entrepreneurs. What is more, in addition to financing, TBC offers extensive, free-of-charge non-financial services to support, educate, and even showcase small businesses in an effort to create an environment where entrepreneurship can thrive. Supported by the EFSE Development Facility, TBC Bank's comprehensive business support programme takes a three-pronged approach:

QUICK FACTS

>99%

of all firms in Georgia are micro, small, or medium enterprises

MR. LASHA KANCHAVELI
SEED VEGAN PROJECT CO-FOUNDER

"The public relations support from the Startuperi programme by TBC Bank and EFSE Entrepreneurship Academy really helped boost our initial brand communication. Reliably reaching a large audience is always a big challenge for small startup companies."

MR. LASHA KANCHAVELI

A series of Regional Business Forums were held in major centres throughout the country to bring together financial sector players, public authorities and regulators, and MSMEs themselves to exchange on current trends, challenges, and opportunities in the Georgian business arena. Four in-person events in 2019 and one digital event in 2020 were attended by more than 1,700 participants from around the country to discuss topics ranging from state support initiatives and tax news to best practices in marketing strategy and company culture.

The Startuperi web platform offers both financial and non-financial services to fledgling businesses in the form of loan products tailored to the needs of startups, events and educational activities for launching a business, individual consulting, and networking. Startuperi also provides entrepreneurs with valuable visibility and marketing through social media, blogs, and TV appearances. By the end of 2020, Startuperi had attracted participation from 2,000 startup owners and staff, and enabled loans to 395 newly bankable businesses. Terms for these loans were specifically

"The ramifications of the pandemic have weighed especially hard on the micro and small enterprises that form the backbone of the economy in Southeast Europe and the Eastern Neighbourhood Region. Through its swift crisis response in 2020, EFSE has kept open lifelines of liquidity to help local entrepreneurs sustain their operations, thus maintaining the income generation and jobs that are crucial for long-term recovery. As EFSE's initiator, KfW is more committed than ever to channeling important development finance to these regions through proven impact vehicles like EFSE."

DR. GÜNTHER BRÄUNIG

CHIEF EXECUTIVE OFFICER, KFW BANKENGRUPPE

designed to accommodate startups, with eligibility based on the viability of a company's business model rather than on the availability of collateral. Long grace periods of up to two years particularly took into account the challenges of the current pandemic, enabling entrepreneurs to focus on developing their businesses rather than immediately paying back the financing.

The annual TBC Business Awards spotlight entrepreneurship excellence in a nationwide competition that results in high visibility and prizes to support business development. In 2020, five winners were selected from an initial 400 applicants in categories including corporate social responsibility, startup of the year, innovation of the year, and a new category for 2020, "adapting to the new reality". The latter award went to Jujuna, a startup which had just begun marketing its "on-tap" sparkling wine as an approachable, local product when the pandemic hit. Jujuna quickly switched its in-person service model to mainly online marketing and delivery, as well as redesigning the product in a portable packaging to take advantage of additional sales channels, such as supermarkets.

"Georgia is known around the world for our hospitality," says EFSE senior investment officer Ivane Lekvtadze, who was on the awards jury. "This startup showed an ability to react in a quick and agile manner to the new circumstances by bringing Georgian hospitality to consumers right at home." Now, the winners in all categories will benefit from business support in the form of helping them develop their online presence and marketing strategies, for example.

Lekvtadze continues: "Partnering with our long-time collaborator TBC Bank for this entire set of programmes has proven highly valuable for EFSE's objective of fostering a conducive entrepreneurship environment here in Georgia. By offering a combination of financial resources and technical support, we want to ensure that entrepreneurs have access to a wide range of tailor-made solutions that lay a path to their success."

Moreover, such collaboration forms an integral part of EFSE's work to enhance entrepreneurship beyond individual country borders. Impactful strategies to boost MSME development can be exported to other markets in Southeast Europe and the EU Eastern Neighbourhood Region through such international initiatives as NEXT-FinTech, the EFSE-hosted conference to strengthen the financial technology sector with a focus on innovative startups. There, TBC Bank shared their engagement with MSMEs with other key players, such as venture capital providers and central bank representatives as well as other financial institutions, to shed light on the practical aspects of fostering a conducive environment for entrepreneurship development.

"Building entrepreneurship ecosystems in partnership with strong institutions like TBC Bank, which are influencers and shapers of such ecosystems, is a strategic way for EFSE to generate even more impact," says Dr. Markus Aschendorf, Chairperson of the EFSE Development Facility. "By joining forces to drive the same cause, we can spread experience and expertise across EFSE's regions and multiply our work to support the success of small businesses – and thus the stability of economies as a whole."

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OPERATIONAL RESULTS

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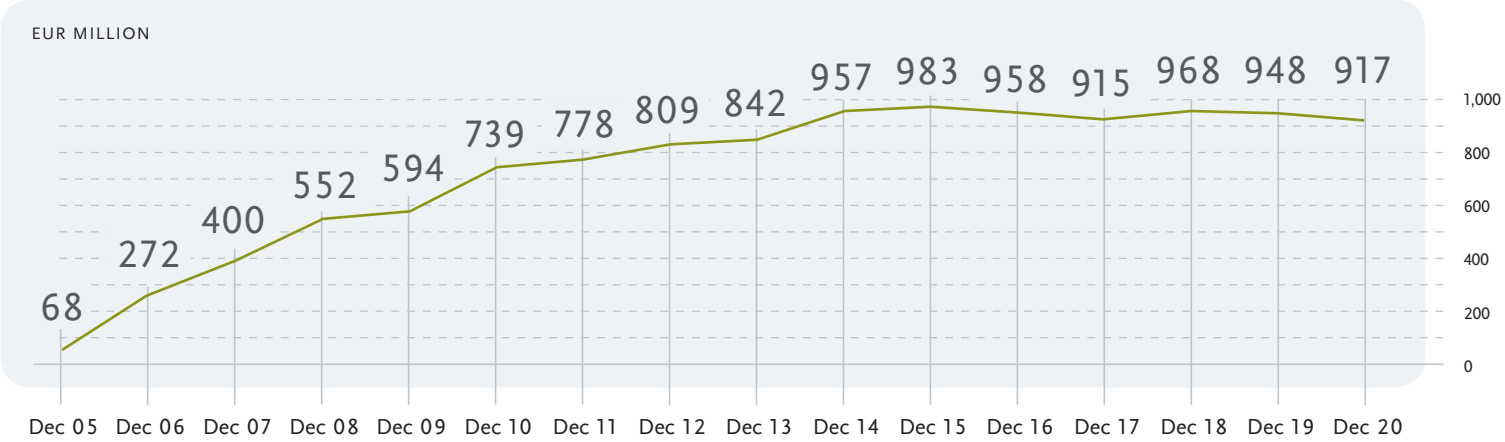
INVESTMENTS

COMMITTED INVESTMENT PORTFOLIO

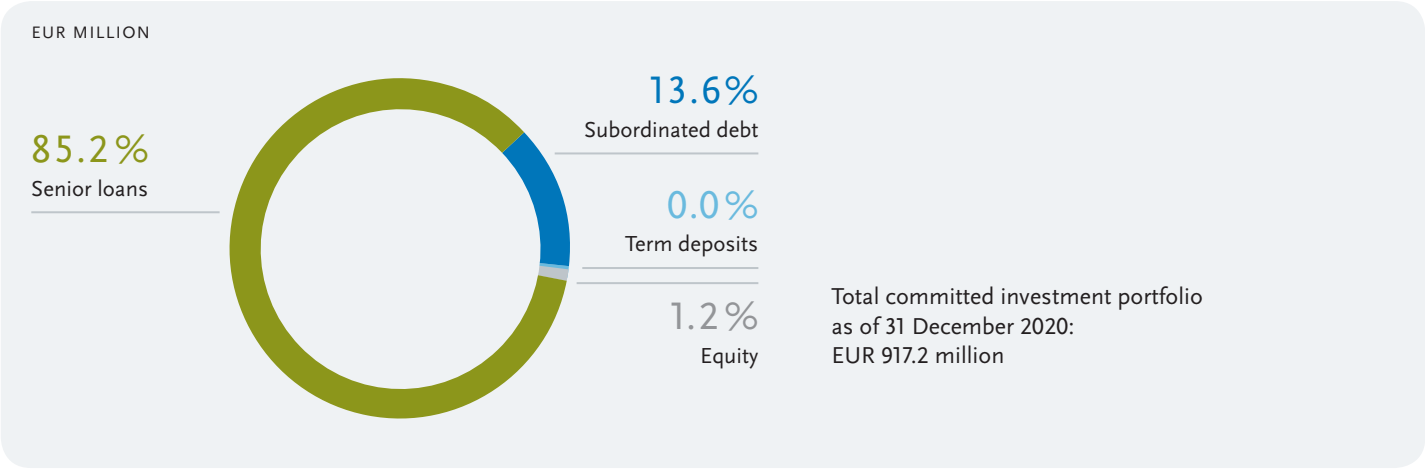
Since inception in December 2005



Total committed investment portfolio as of 31 December 2020: EUR 917.2 million

COMMITTED INVESTMENT PORTFOLIO BY FINANCIAL INSTRUMENT

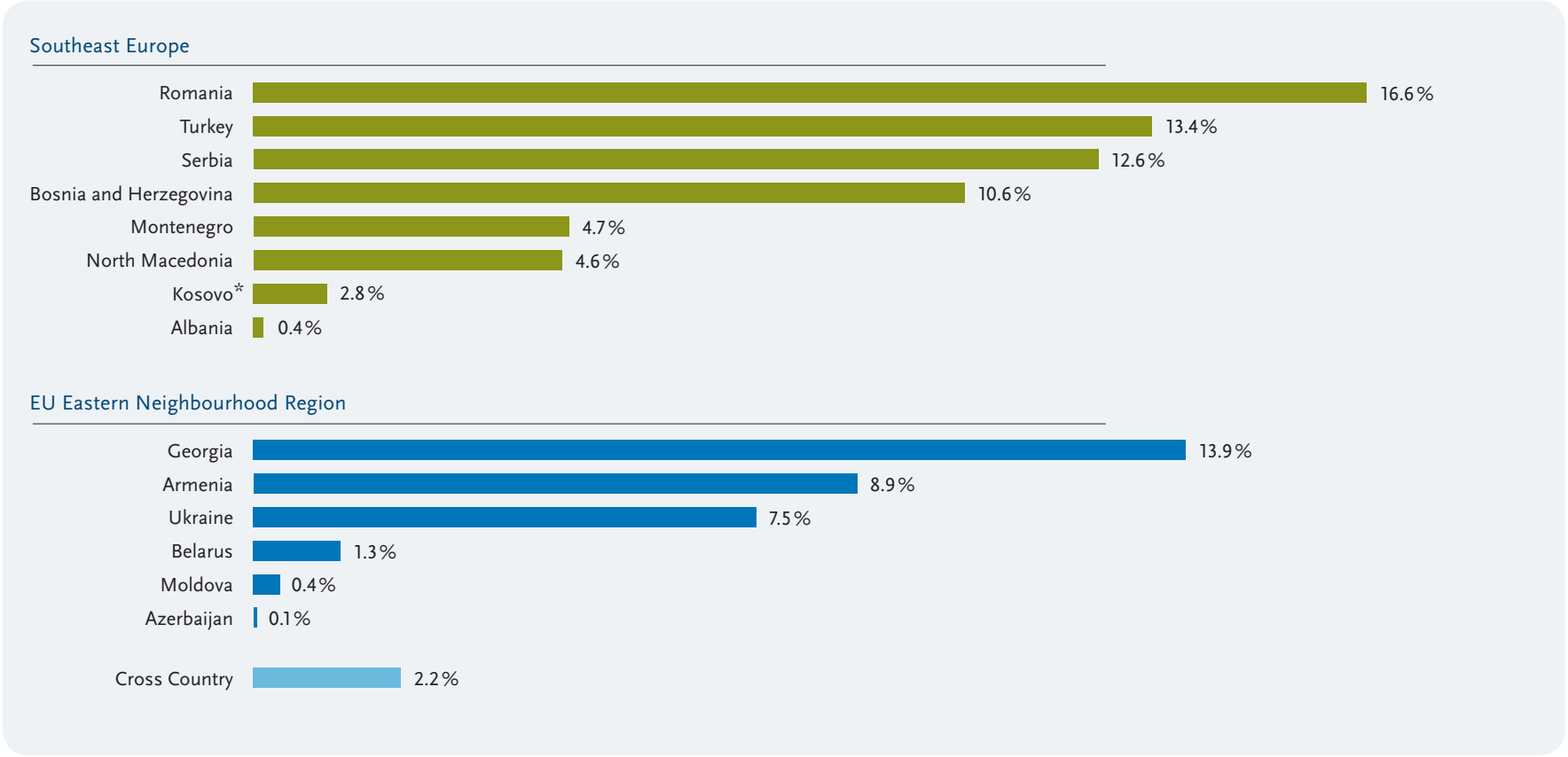
Based on total committed investment portfolio



COMMITTED INVESTMENT PORTFOLIO BY COUNTRY

Based on total committed investment portfolio

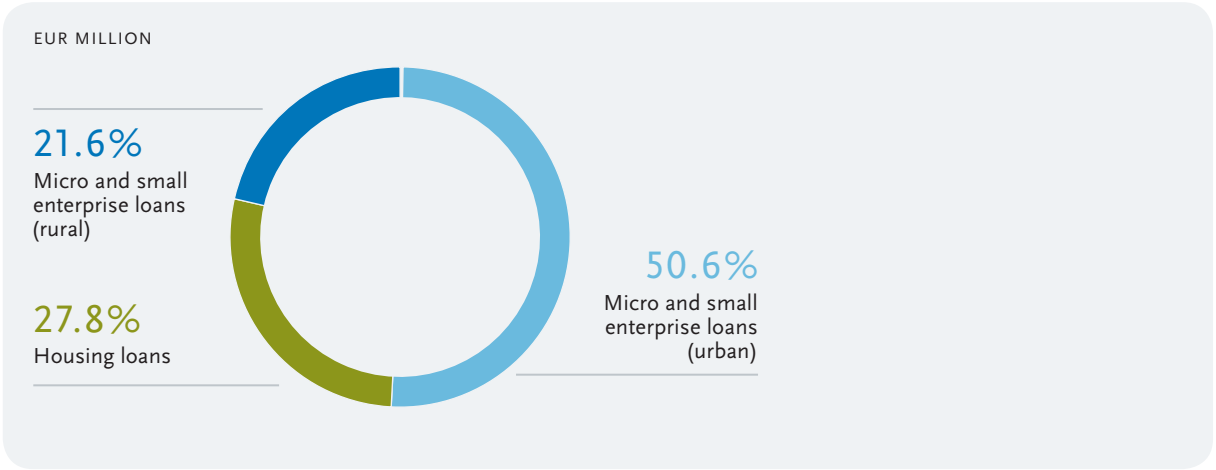
Total committed investment portfolio as of 31 December 2020: EUR 917.2 million



*This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ISJ Opinion of the Kosovo Declaration of Independence.

COMMITTED INVESTMENT PORTFOLIO BY PRODUCT

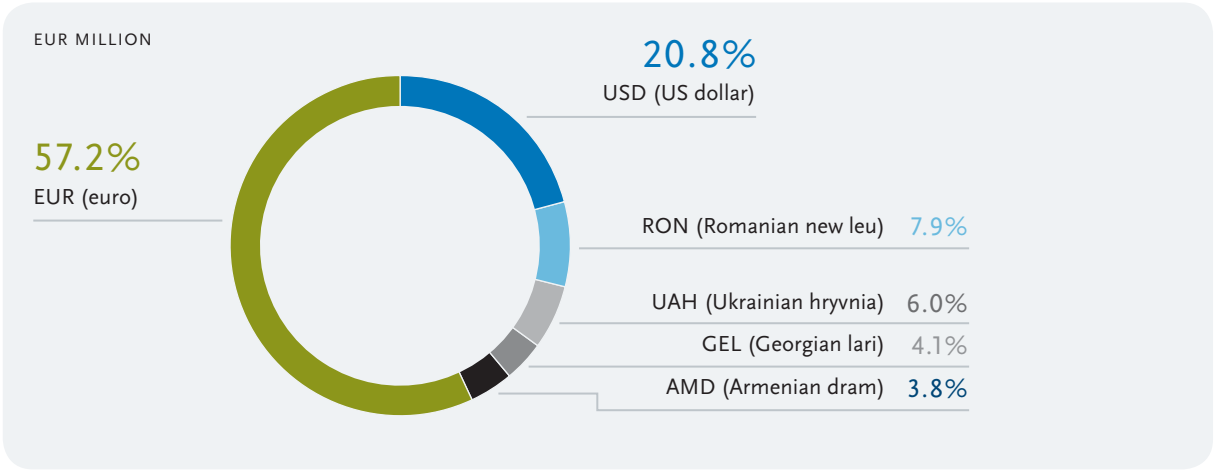
Based on total committed investment portfolio



Total committed investment portfolio as of 31 December 2020: EUR 917.2 million

COMMITTED INVESTMENT PORTFOLIO BY CURRENCY

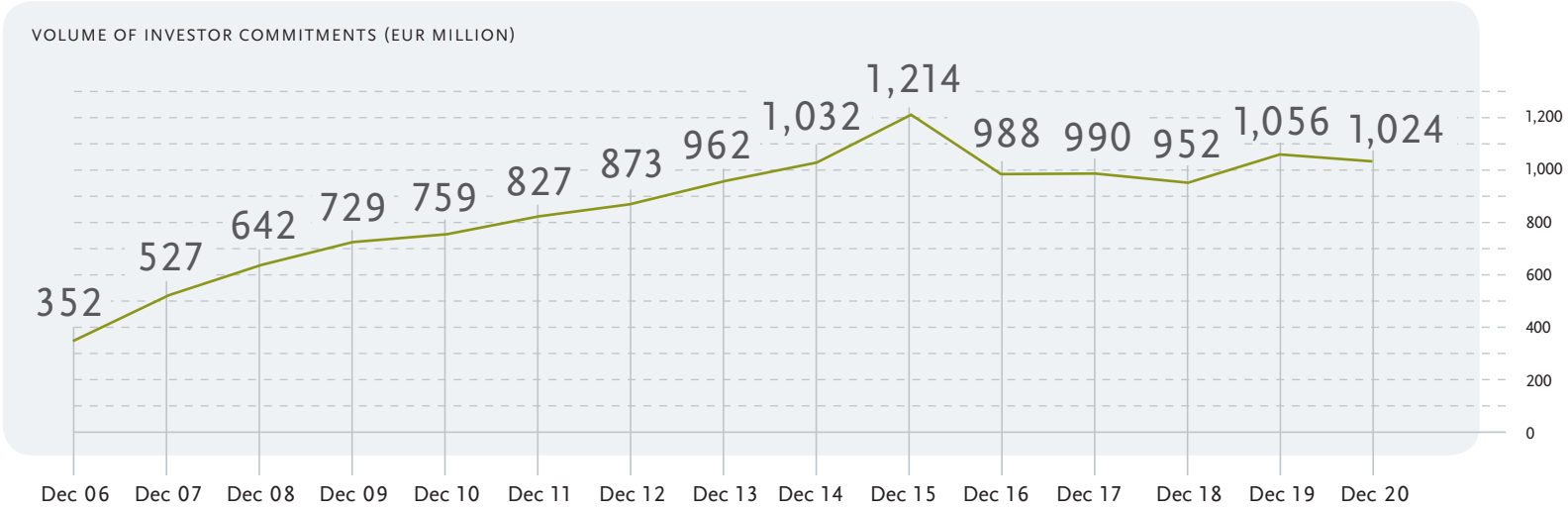
Based on total committed investment portfolio



Total committed investment portfolio as of 31 December 2020: EUR 917.2 million

FUNDING

COMMITTED FUNDS FROM INVESTORS



Total committed investment portfolio as of 31 December 2020: EUR 917.2 million

AVAILABLE FUNDING BY INVESTMENT CLASS

As of 31 December 2020

INVESTMENT CLASS*	VOLUME (EUR)	SHARE (%)
Notes	225.5 million	22.0
A shares	270.0 million	26.3
B shares	71.0 million	6.9
L shares	65.1 million	6.4
C shares	392.7 million	38.4
Total	**1,024.3 million**	**100.0**
Total subscribed (NAV)	**966.7 million**	**100.0**

98 % of the fund's capital commitments were subscribed at the end of 2020.
Private investors were responsible 23 % of committed capital at the end of 2020.

*All commitments are shown as gross commitments.

INVESTORS BY TYPE OF INVESTMENT CLASS

As of 31 December 2020

NOTES
Crédit Coopératif
European Bank for Reconstruction and Development (EBRD)
GLS Bank
Private investors via Deutsche Bank
Raiffeisen Bank International AG
Steyler Bank
Ministerium der Finanzen Land Brandenburg
Stichting Democratie & Media

A SHARES – SENIOR TRANCHE
Development Bank of Austria (OeEB)
European Bank for Reconstruction and Development (EBRD)
European Investment Bank (EIB)
International Finance Corporation (IFC)
KfW German Development Bank

B SHARES – MEZZANINE TRANCHE
European Bank for Reconstruction and Development (EBRD)
European Investment Bank (EIB)
Finance in Motion GmbH
The Netherlands Development Finance Company (FMO)
International Finance Corporation (IFC)
KfW German Development Bank
SMBCS (subsidiary of the Central Bank of Armenia)

L SHARES – FX RISK TRANCHE
KfW for the account of the Federal Republic of Germany (BMZ)
KfW for the account of the European Commission (EC)
SMBCS (subsidiary of the Central Bank of Armenia)

C SHARES – JUNIOR TRANCHE
Government of Austria (ADA)
Government of Denmark (DANIDA)
Development Bank of Austria (OeEB)
European Investment Fund
German Federal Ministry of Cooperation and Development (BMZ)
Republic of Albania
Government of Switzerland (SDC)

EFSE DEVELOPMENT FACILITY

TOTAL SCOPE OF ACTIVITIES

Based on total project volume

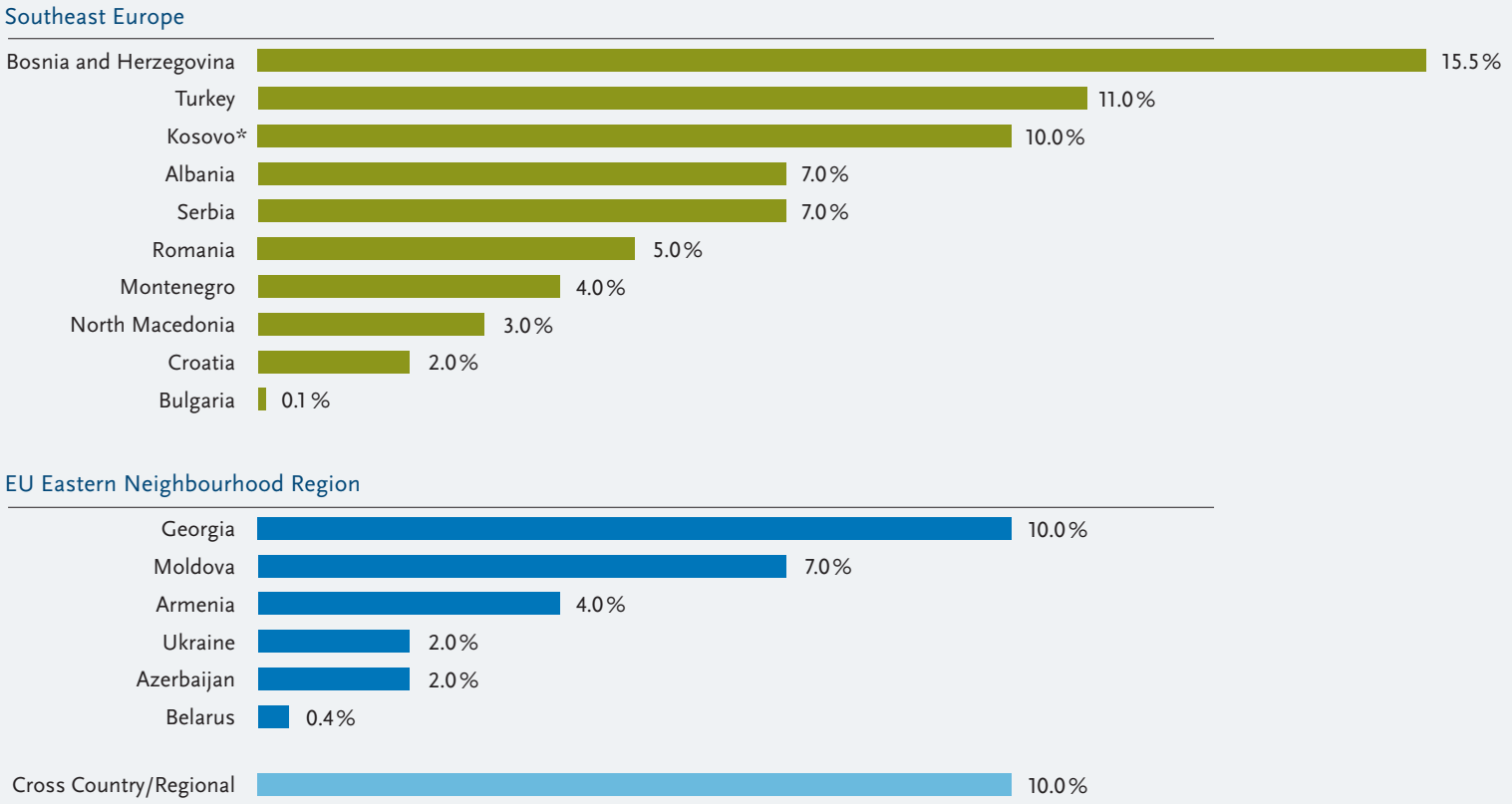
	CUMULATIVE (AS OF 31 DECEMBER 2020)		2020 APPROVAL	
	Volume (EUR)	**Share (%)**	Volume (EUR)	Share (%)
Entrepreneurship	8,258,330	25.7%	2,207,818	50.3%
Responsible Finance	16,620,960	51.8%	1,618,215	36.9%
Agricultural finance	2,997,151	9.3%	–	0.0%
Financial Technology	1,201,976	3.7%	298,316	6.8%
Local Currency Lending	1,532,136	4.8%	266,965	6.1%
Other	1,487,532	4.6%	–	0.0%
Total	**32,098,085**	**100.0%**	4,391,314	100.0%

The EFSE Development Facility offers tailored technical assistance and training to the fund's partner lending institutions, conducts high-level research that includes development impact assessment, and contributes to strengthening the region's financial sector through advisory support at the governmental agency level and by actively fostering responsible finance. The DF implements projects on a range of relevant topics with MS(M)E lending, responsible finance, entrepeneurship development, financial technology, financial product development and core capacity building for the partner lending institutions' remaining key topics.

TECHNICAL ASSISTANCE PROJECT DISTRIBUTION BY COUNTRY

Based on number of projects

Cumulative, from inception of the EFSE Development Facility in 2006 to 31 December 2020



*This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ISJ Opinion of the Kosovo Declaration of Independence.

TECHNICAL ASSISTANCE FUNDING CONTRIBUTIONS BY FUNDING SOURCE

Based on amount approved

All projects

Cumulative, from inception of the EFSE Development Facility in 2006 to 31 December 2020

	IN EUR	SHARE
TOTAL PROJECTS: 523		
Total project budget	32,098,085	100.0%
EFSE DF contribution	20,126,050	63.0%
Partner contribution (partner lending institutions and sector institutions)	9,918,545	31.0%
EFSE DF third parties	2,053,490	6.0%

Individual technical assistance projects only

Cumulative, from inception of the EFSE Development Facility in 2006 to 31 December 2020

	IN EUR	SHARE
TOTAL PROJECTS: 282		
Project budget	17,398,185	100.0%
Partner lending institution contribution	6,881,625	39.6%
EFSE DF contribution	9,724,318	55.9%
EFSE DF donors (and third parties)	792,242	4.5%

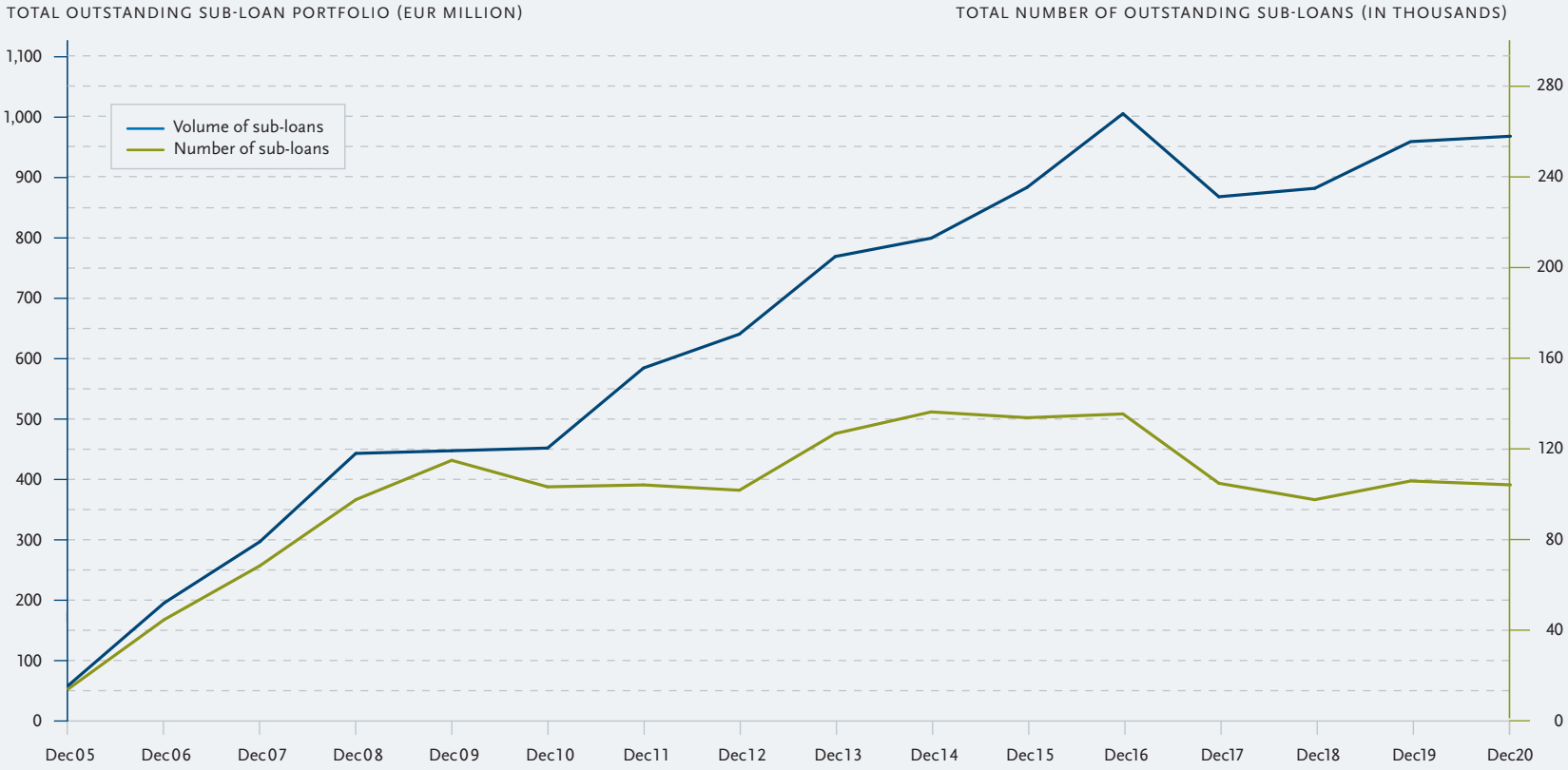
As a blended finance structure honed to generating long-lasting, deep impact on both a systemic and individual level, EFSE is powered by shareholders with a commitment to social and economic development in addition to financial returns. Therefore, the EFSE DF is partly funded by a portion of the EFSE income waterfall that enables the fund to engage in capacity building for an inclusive financial sector. To this end, partner lending institutions have also contributed approximately 45% of the costs relating to individual technical assistance projects and 37% towards project budgets.

DEVELOPMENT IMPACT

OUTSTANDING SUB-LOAN PORTFOLIO

As of 31 December 2020

Total outstanding number of sub-loans as of 31 December 2020: 105,068
Total outstanding sub-loan portfolio as of 31 December 2020: EUR 961.1 million

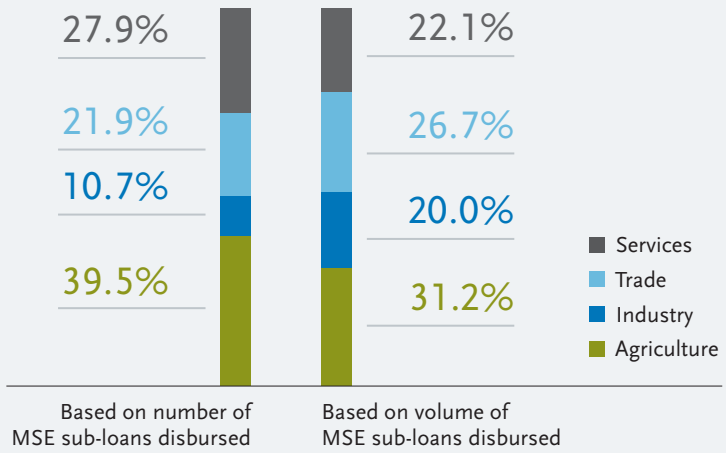


OUTSTANDING SUB-LOAN PORTFOLIO BY PRODUCT

As of 31 December 2020

	2020	2019
Outstanding sub-loan portfolio to end-borrowers	**EUR 961.1 million**	EUR 958.4 million
Micro and small enterprise loans – urban/rural	EUR 686.1 million	EUR 712.6 million
Housing loans	EUR 275.0 million	EUR 245.8 million
Number of active end-borrowers	**105,068**	106,415
Micro and small enterprise loans – urban/rural	92,733	93,988
Housing loans	12,335	12,427
Average outstanding sub-loan amount	**EUR 9,147**	EUR 9,006
Total sub-loan volume disbursed in 2020	**EUR 495.6 million**	EUR 594.1 million
Micro and small enterprise loans – urban/rural	EUR 425.4 million	EUR 562.1 million
Housing loans	EUR 70.2 million	EUR 32.0 million
Total number of sub-loans disbursed	**48,014**	48,236

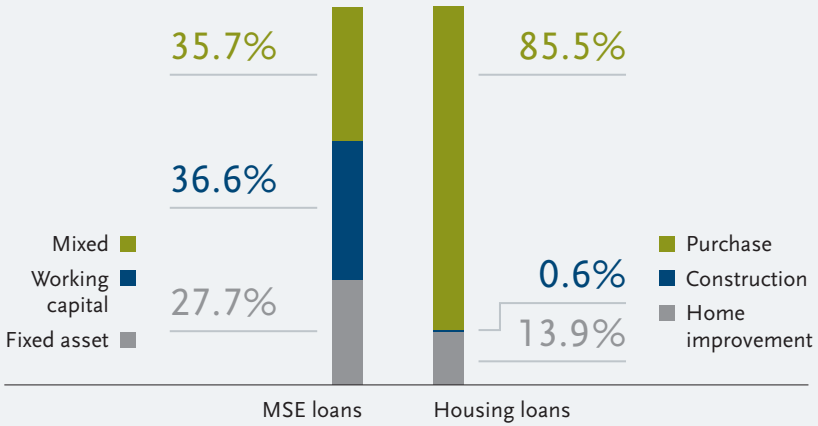
SUB-LOAN DISBURSEMENTS BY ECONOMIC SECTOR IN 2020 MICRO AND SMALL ENTERPRISE (MSE) LOANS ONLY



Total number of MSE sub-loans disbursed in 2020: 36,854

Total volume of MSE sub-loans disbursed in 2020: EUR 425.4 million

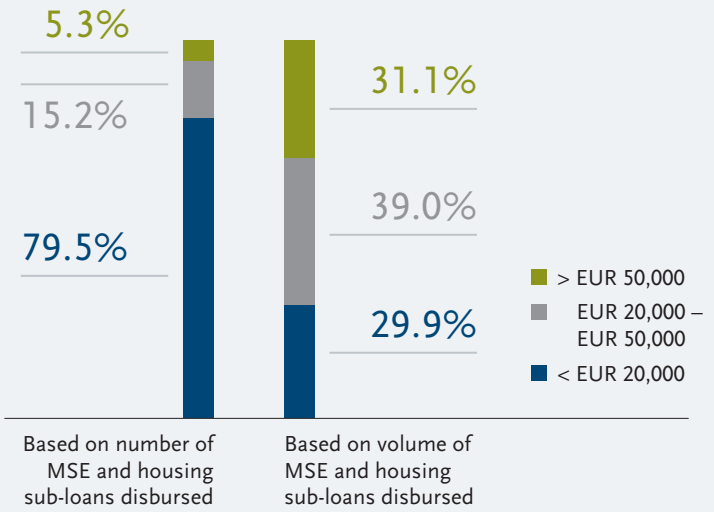
SUB-LOAN DISBURSEMENTS BY PURPOSE IN 2020
MICRO AND SMALL ENTERPRISE (MSE) AND HOUSING LOANS



Total volume of MSE sub-loans disbursed as of 31 December 2020: EUR 425.4 million

Total volume of housing sub-loans disbursed as of 31 December 2020: EUR 70.2 million

SUB-LOAN DISBURSEMENTS BY SIZE IN 2020
MICRO AND SMALL ENTERPRISE (MSE) AND HOUSING LOANS



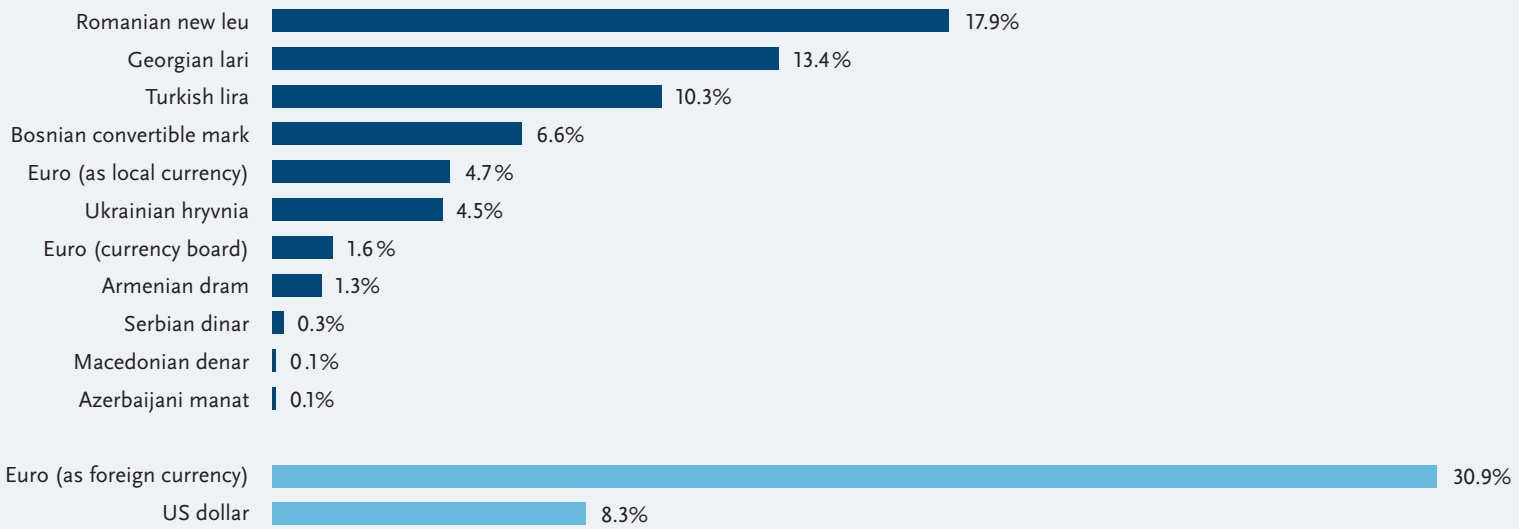
Total number of MSE and housing sub-loans disbursed for the year to date as of 31 December 2020: 48,014

Total volume of MSE and housing sub-loans disbursed for the year to date as of 31 December 2019: EUR 495.6 million

OUTSTANDING SUB-LOAN PORTFOLIO BY CURRENCY

Based on total outstanding sub-loan portfolio

Total outstanding sub-loan portfolio as of 31 December 2020: EUR 961.1 million



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PARTNER LENDING INSTITUTIONS

OVERVIEW BY COUNTRY

COUNTRY		
ALBANIA	Commercial bank	Banka Kombetare Tregtare, Kosovo Branch
	Microcredit organisation	SLC FED Invest
ARMENIA	Commercial bank	CJSC ACBA – CREDIT AGRICOLE BANK, ARMENIA
		ARARATBANK OJSC
		Inecobank CJSC
	Microcredit organisation	SEF International Universal Credit Organisation LLC
	Non-bank financial institution	ACBA Leasing CO CJSC, Armenia
AZERBAIJAN	Microfinance bank	AccessBank CJSC
BELARUS	Commercial bank	Belarusian Bank for Development and Reconstruction "Belinvestbank" Joint-Stock Company
		BNB – Belarusky Narodny Bank
BOSNIA AND HERZEGOVINA	Commercial bank	Raiffeisen Bank BA d.d. Bosna i Hercegovina
		Addiko Bank a.d. Banja Luka
		Intesa Sanpaolo Banka d.d.
		NLB Banka a.d. Banja Luka
		NLB Banka d.d., Sarajevo
	Microcredit organisation	Microcredit Company EKI LLC Sarajevo
		Microcredit Foundation EKI
		MCF MI-BOSPO
		Microcredit Company "Mikrofin" LCC
		PARTNER MIKROKREDITNA FONDACIJA, Tuzla
		Sunrise
	Non-bank financial institution	Raiffeisen Leasing D.O.O.
	Microfinance bank	MF Banka a.d. Banja Luka

COUNTRY		
CROSS COUNTRY	Non-bank financial institution	ProCredit Holding AG & CO. KGAA
GEORGIA	TCX	TCX
	Commercial bank	Joint Stock Company BGEO Group
		JSC Bank of Georgia
		Basisbank
	Microfinance bank	Crystal Micro Financial Organisation
KOSOVO*	Commercial bank	BKT Kosovo
		BpB
	Microcredit organisation	Agjencioni për Financim në Kosovë
		KEP Trust
		Kreditimi Rural I Kosoves LLC
MOLDOVA	Non-bank financial institution	I.C.S. "BT LEASING MD" S.R.L.
MONTENEGRO	Commercial bank	NLB Banka a.d. Podgorica
		Erste Bank Podgorica
	Microcredit organisation	MFI Alter Modus DOO Podgorica
NORTH MACEDONIA	Microcredit organisation	Mikrokreditna Fondacija HORIZONTI Skopje
		Halkbank a.d., Skopje
		Ohridska Banka a.d., Skopje

*This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ISJ Opinion of the Kosovo Declaration of Independence.

PARTNER LENDING INSTITUTIONS

OVERVIEW BY COUNTRY

COUNTRY		
ROMANIA	Commercial bank	Banca Transilvania S. A.
		Alpha Bank Romania S.A.
	Microcredit organisation	BT Microfinantare IFN S.A.
		Patria Credit IFN S.A.
		Vitas Romania
	Non-bank financial institution	BT Leasing Transilvania IFN S.A.
		Garanti Leasing RO
		Agricover Credit IFN S.A.
SERBIA	Commercial bank	Raiffeisen Banka a. d., Beograd
		UniCredit Bank JSC
		Halkbank akcionarsko drustvo Beograd
	Microfinance bank	Opportunity Bank RS a. d., Novi Sad
TURKEY	Commercial bank	Denizbank A. Ş.
		Finansbank A. Ş., Turkey
		Garanti Bank Finansal Kiralama A. Ş.
		Alternatifbank A. Ş.
		Fibabanka A. Ş.
	Non-bank financial institution	Garanti Leasing TR
		QNB Finans Leasing
		Yapi Kredi Leasing

COUNTRY		
UKRAINE	Commercial bank	Joint Stock Company Agroprosperis Bank
		Bank Lviv
		Public Joint Stock Company Kredobank
		ProCredit Bank UA
	Non-bank financial institution	OTP Leasing

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Investors

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European Investment Fund and KfW as Trustees for the European Commission

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Departement of Economic Affairs, Education and Research EAER
State Secretariat for Economic Affairs SECO

Federal Ministry for Economic Cooperation and Development

AUSTRIAN DEVELOPMENT AGENCY

DANIDA

INTERNATIONAL FINANCIAL INSTITUTIONS

KFW

IFC International Finance Corporation WORLD BANK GROUP

FMO Entrepreneurial Development Bank

European Bank for Reconstruction and Development

European Investment Bank

OeEB Oesterreichische Entwicklungsbank AG

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Steyler Ethik Bank

GLS Bank das macht Sinn

Democracy & Media Foundation Stichting Democratie & Media

Raiffeisen Bank International

Deutsche Bank

financeinmotion

KEY FIGURES GREETINGS EFSE'S IMPACT SOLID PARTNERSHIPS OPERATIONAL RESULTS
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Board and Committees

BOARD

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(Chairperson)

ANDREA HAGMANN

DR. CHRISTOPH ACHINI

DOMINIK ZILLER

HUBERT COTTOGNI

SYLVIA GANSSER-POTTS

DR. MARKUS ASCHENDORF

NICO PIJL

SYED AFTAB AHMED

INVESTMENT COMMITTEE

Henry Russell (Chairperson)
Andrea Hagmann
Madhu Dutta-Sen
Dr. Markus Aschendorf
Syed Aftab Ahmed

DEVELOPMENT FACILITY COMMITTEE

Dr. Markus Aschendorf (Chairperson)
Claire Nyambori
Gerbrich Salverda
Kristin Duchâteau
Michael Hamp

AUDIT AND RISK COMMITTEE

Dr. Christoph Achini
Nico Pijl

FOREIGN EXCHANGE COMMITTEE

Dr. Christoph Achini
Sylvia Gansser-Potts

Letter from the Fund Manager and Advisor

Dear Reader,

2020 was a year that left its mark on all of us. Even now, the pandemic is not over, and the aftershocks of last year's events are still reverberating — not least in EFSE's target regions of Southeast Europe and the Eastern Neighbourhood Region.

These economies are driven by the micro and small enterprises who depend on robust local commerce to support their livelihoods. And yet, as we have seen, the economic ramifications of the COVID-19 crisis have weighed especially heavily on smaller businesses for whom a sudden drop in liquidity could very well mean an existential threat.

This is where impact investing is crucial. By bringing together public and private investors who want to make a difference, funds like EFSE are specifically tasked with taking on development challenges facing local economies and entrepreneurs. In 2020, this task became more imperative than ever before. It meant acting quickly to channel finance to the fund's local partner institutions – the on-the-ground banks and microfinance providers upon which micro and small enterprises critically rely for their liquidity.

For example, in spring of 2020, just as the pandemic hit the Western Balkans, EFSE moved swiftly to supply EUR 43 million in additional funding to nine key microfinance lenders in the region to help them maintain cash flows and help entrepreneurs overcome liquidity challenges.

In fact, in 2020 the fund approved record investments to financial institutions in its regions, equipping them to meet the needs of more than 40,000 entrepreneurs and households. This was through a range of instruments, whether through senior loans, subordinated debt, or local currency financing. Indeed, more than 57% of the financing enabled by EFSE was in local currency, providing an extra layer of security against foreign exchange risks in uncertain times. In the end, EFSE's investments in 2020 contributed to supporting over 91,000 local jobs.

Meanwhile, the EFSE Development Facility took action to help financial institutions with the operational challenges of adapting to a new reality. A set of emergency programs was launched in the spring of 2020, designed to provide expertise to EFSE's partners in dealing with, for example, loan restructuring, digitalisation, human resource management, and other topics essential to navigating through a turbulent environment. For business owners, the EFSE Development Facility offered one-on-one mentoring and helplines, in addition to regional webinars and online monitoring and coaching. Targeted grants and novel tech-based solutions were also deployed to enable entrepreneurs adapt new business models, manage costs, and stay in business.

EFSE today has built a reputation as a seasoned expert and reliable ally in challenging times.

Of course EFSE has not been tackling these challenges alone. The fund's investees – the dedicated financial institutions in EFSE's regions – have shown enormous resilience and initiative in providing for their micro and small enterprise clients. Local business support organisations as well as national regulators are working tirelessly to help brace entrepreneurs and institutions against the storm. And EFSE's international investors have shown resolution and trust in keeping open the crucial flow of funding needed to maintain business operations and stability in Southeast Europe and the Eastern Neighbourhood Region. Indeed, the European Union has even invested an additional EUR 40 million into EFSE to boost the fund's crisis response ability.

As the Manager and Advisor of this remarkable vehicle for impact, it has been our privilege to contribute to EFSE's strong crisis intervention over the last year and beyond. EFSE has its roots in international collaboration for local support: From its origin in the consolidation of European efforts to help a region rebuild from a decade of conflict; to reinforcing financial infrastructure in the face of the 2008/2009 crisis; to serving as a conduit for critical resources to equip institutions and entrepreneurs to manage a pandemic – EFSE today has built a reputation as a seasoned expert and reliable ally in challenging times.

We would like to extend our thanks to EFSE's investors and partners for their dedication to our shared mission. Together, we aim to support sustainable development from the ground up, by investing in the success of the hardworking entrepreneurs of Southeast Europe and the Eastern Neighbourhood Region.

We would like to thank the EFSE Board of Directors, the Investment Committee, the Development Facility Committee, and all fund decision-makers whose keen understanding and quick action have enabled EFSE to provide swift, targeted support to combat the crisis.

And we would like to thank you, the EFSE community, for your commitment to making a positive impact. A stable, healthy, integrated Europe is one where we all pool strengths for the well-being our neighbours. And the EFSE community has shown, as ever, unflagging commitment to this vision throughout an unprecedented period.

With best regards,

FINANCE IN MOTION
Advisor

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KEY FIGURES GREETINGS EFSE'S IMPACT SOLID PARTNERSHIPS OPERATIONAL RESULTS
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EUROPEAN FUND FOR SOUTHEAST EUROPE

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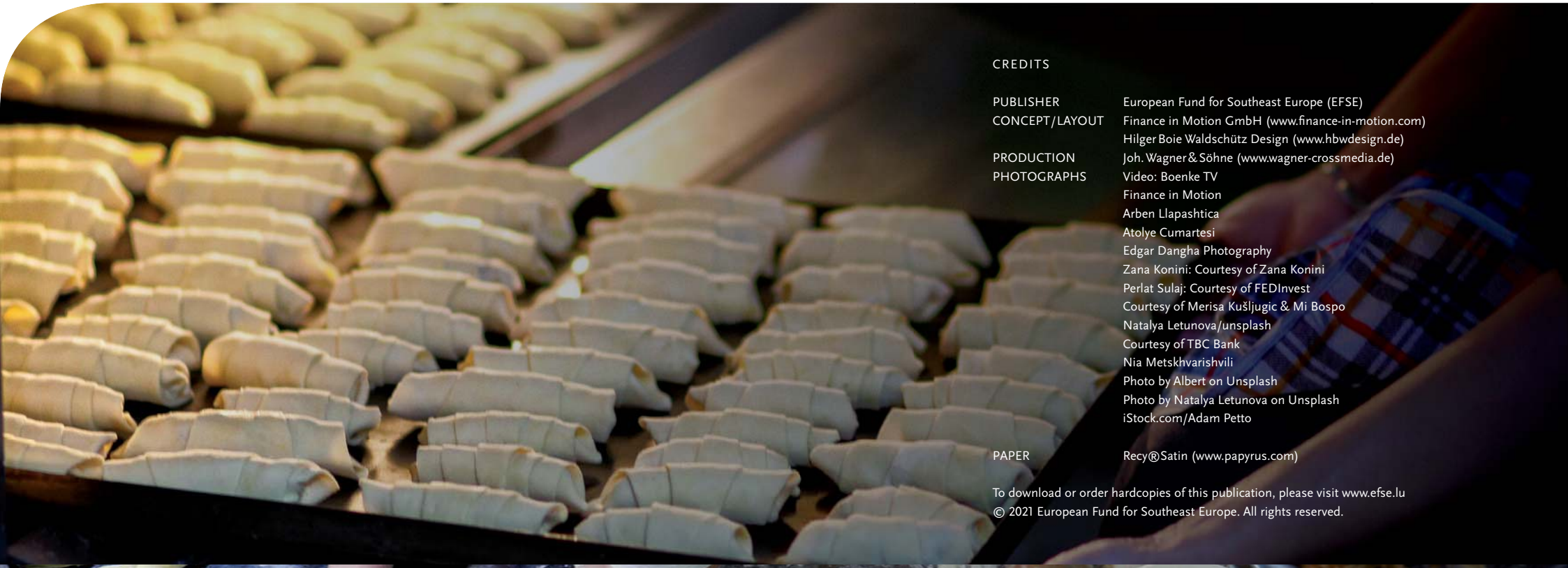

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