



EUROPEAN FUND FOR SOUTHEAST EUROPE

IMPACT REPORT 2023

Zooming in on Sustainable Finance

How EFSE is Working to Future-Proof MSMEs and Financial Sectors

Marketing communication

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FUNDING

EUR 1,313 mn Assets under management

19 Investors/Donors



INVESTMENTS

EUR 1,225 mn Outstanding investment portfolio

EUR 4,179 mn Cumulative volume invested in partner lending institutions

15 Active countries

79 Active partner lending institutions



TECHNICAL ASSISTANCE

SINCE INCEPTION

648 Technical assistance projects managed

EUR 46 mn Volume of technical assistance projects managed

15 Countries with active technical assistance projects

50,700 People benefitted from capacity building

38% Share of female participants of capacity building



IMPACT

1,210,000 Number of sub-loans facilitated to micro, small and medium enterprises (MSMEs) and households¹

EUR 10.3 bn Volume of sub-loans enabled to MSMEs and households through EFSE financing¹

2,266,000 Indirect jobs supported by MSMEs receiving financing through partner lending institutions^{1,2}

933,000 – of which women^{1,2}

54,100 Women-owned enterprises reached through MSME finance^{1,2}

86% Share of total MSME and rural sub-loans disbursed in local currency

53% Share of sub-loans disbursed to rural end-borrowers

¹ Cumulative figure since inception.

² Figures are modeled by EFSE based on primary reporting and third-party data.

FOR SOUTHEAST EUROPE

GREETINGS



Greetings from the Chairperson

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Dear Reader,

In the heart of a region still shaken by Russia’s ongoing war of aggression against Ukraine, EFSE’s commitment has never been stronger. As we enter the third year marked by unrest, now further intensified by the military escalation of the Armenia-Azerbaijan conflict, we continue to stand by those facing the toughest of times, proving that perseverance and solidarity can indeed thrive despite hardship. EFSE has done more than just weather the storm of geopolitical turmoil, persistent inflation, and supply chain disruptions that continued to impact the financial sector and MSMEs in our regions throughout 2023. We have turned these obstacles into opportunities for resilient growth and innovation.

As EU regulatory requirements and sustainability standards increase, and regional economies take steps to integrate more closely with EU markets, local financial institutions and MSMEs are seeing more advantages in adopting these sustainability standards. Committing to these practices is now essential for resilience, competitiveness, and societal progress.

In September, I had the pleasure of attending EFSE’s conference “Investing for the Common Good – ESG Risks to Rewards” in Sarajevo, where we engaged with over 250 key partners and stakeholders from the region, discussing how integrating ESG principles is essential for competitive growth. The message is clear: enabling MSMEs – including those in the agricultural sector – to integrate ESG principles into their businesses is not merely a choice, but a necessity.

This is why EFSE continued to amplify its sustainability-focused investments and technical assistance to strengthen ESG capacities among our PLIs and local MSMEs. Our commitment was further demonstrated through pioneering efforts like launching sustainable agricultural

investments in Romania, Armenia, and North Macedonia. We also increased targeted lending for women entrepreneurs as part of EFSE’s diversity and inclusion agenda. Finally, we provided substantial TA support for women in business, such as an accelerator program for women entrepreneurs in Moldova.

In response to the devastating earthquakes in Türkiye, leading to the significant loss of life as well as physical and economic damage to the Southern regions, we took robust action and participated in Türkiye Earthquake Response Program, led by IFC. These initiatives showcase our proactive approach to sustainable finance and economic resilience.

Thanks to the commitment of our investors, donors, and partners, 2023 was a landmark year. We met our financial and impact targets and prepared a dedicated investment strategy and vehicle to support Ukraine recovery and reconstruction, emphasizing our dedication to the country’s future. Tremendous work went into this project, and we are eager to roll out the sub-fund in 2024.

Looking ahead, we remain focused on strengthening local economies and supporting MSMEs. With EFSE’s strong foundation and solid partnerships, we are well-prepared to continue playing a crucial stabilizing role in the region. In 2024, we will keep aligning with principles of sustainability, diversity, and inclusion, deeply transforming local businesses and financial sectors for sustainable growth.

Thank you for your solid support. I encourage you to explore more about our initiatives and efforts in the following pages.

Kind regards,

ANDREA HAGMANN
Chairperson of the EFSE Board of Directors

Andrea Hagmann



Greetings from the Fund Manager and Advisor

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Dear Reader,

2023 remained a tough year for EFSE markets. Despite this, EFSE continued its strong support to both our partner lending institutions (PLIs) and local MSMEs. This year, we deepened our commitment to sustainability and increased the support for our partners and local entrepreneurs helping them manage ESG-related risks and capitalize on opportunities for robust, competitive growth.

Responding to the vulnerability of the agricultural sector in EFSE regions to climate change and market volatility, as well as increased expectations from the EU trade partners, we piloted our sustainable agriculture financing strategy in Romania during 2023. We established robust criteria for sustainable agricultural activities, providing dedicated financing alongside complementary TA to finance agri-MSMEs engaged in sustainable agriculture, and to build the capacity of local PLIs and farmers. We saw high demand for sustainable agriculture finance in Romania and are gradually expanding our footprint in other countries, making sure to adapt the approach to each market.

We also intensified our focus on diversity and inclusion, particularly for women entrepreneurs. Scaling up the 2022 pilot, we expanded our women-targeted financing in 2023. In total, up to EUR 100 million was provided to 8 PLIs in 6 countries – Armenia, Azerbaijan, Croatia, Georgia, Montenegro, and Romania - dedicating a share of this targeted funding to women entrepreneurs.

In addition, we made substantial progress with our Ukraine strategy, a key target country for EFSE, thanks to the tireless efforts of our partners and EFSE DF in building resilient financial and entrepreneurial markets. We secured EUR 50 million from the German Federal Ministry for

Cooperation and Development (BMZ) and are in advanced discussions with the European Commission for additional contribution. With this, we are ready to set our Ukraine recovery and reconstruction plans into motion in 2024.

Thanks to continued support from public and private investors, we continued to grow in a balanced way. Well-diversified across our regions, our outstanding portfolio is now EUR 1.22 billion, up from EUR 1.09 billion in 2022 (+12%). Last year, we disbursed over EUR 422 million in investments across all EFSE regions. We also approved 42 new technical assistance projects in the total volume of EUR 3.9 million, championing entrepreneurship, sustainability, and innovation in our markets.

Existing and new private investors recognize EFSE as a strong, social impact-focused vehicle, due to its strong track record, well-diversified portfolio, substantial market relevance and robust impact credentials. In 2023, EFSE mobilized EUR 106 million from private institutional investors, including EUR 58 million in the newly launched junior notes instrument, growing the share of private capital in the Fund to 29% (+15% compared to 2022). This is an increasing trend that EFSE aims to maintain in the coming years.

Looking forward, as businesses grapple with new and uncertain challenges, we aim to not only maintain but also expand our presence and deepen our social and sustainable footprint in the regions. In response to the strong continued demand from our PLIs, our focus will remain on providing long-term, stable financing, including in local currency, particularly in the Eastern Neighborhood Region affected by the ongoing conflict in Ukraine.

As we approach 2024 with optimism, EFSE is geared up to continue its leading role in advancing sustainable finance and inclusive economic growth.

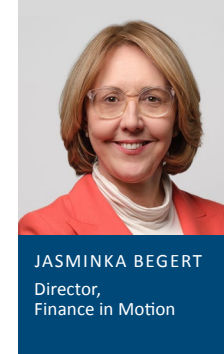
Kind regards,

FINANCE IN MOTION
Advisor

finance  in motion

HAUCK & AUFHÄUSER
Manager

 HAUCK
AUFHÄUSER
FUND SERVICES



JASMINKA BEGERT
Director,
Finance in Motion



JENS GILTJES
Associate Director,
HAUCK & AUFHÄUSER
FUND SERVICES S.A.

29%
share of
private capital
in the Fund

**1.21
million**
sub-loans facilitated to
MSMEs and households

**EUR
1.22 billion**
outstanding portfolio,
up by 12% compared to 2022

A man with short brown hair and a focused expression is leaning forward, looking at a large, glowing orange sphere. He is wearing a black t-shirt. The background is a blurred workshop or factory setting with various equipment and materials. The text "ZOOMING IN ON SUSTAINABLE FINANCE" is overlaid in white, bold, sans-serif font on the left side of the image.

ZOOMING IN ON SUSTAINABLE FINANCE

How EFSE is working to Future-Proof MSMEs and Financial Sectors

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EFSE turned 18 in 2023, entering this world at the same time the term ‘impact investing’ started to take off. EFSE was the very first blended finance fund in development cooperation, pioneering a new model to leverage public and private finance for robust impact.

Since day one, it has had a clear mission: to support the engine room of the regions’ economy – micro, small and medium-sized enterprises. Hand-in-hand with its technical assistance facility (EFSE DF), EFSE has diligently cleared the way and lit the path for vital growth.

Pulling the right levers to contribute to the future we want to live in
After 18 years of investing in the region, we have gained a nuanced understanding of where our impact can be most meaningful. In 2023, EFSE prioritized sustainability integration as a business imperative, strategically supporting initiatives to future-proof MSMEs and strengthening the capacities of EFSE’s financing partners. We took significant steps to increase lending for sustainable agriculture, building resilience and competitiveness.

We also supported ESG strategies, creating awareness and demonstrating the substantial benefits ESG integration offers to financial institutions and MSMEs. Lastly, we continued to amplify our support for women entrepreneurs, not only to boost their market competitiveness but also to advance gender equality more broadly.



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Supporting sustainable agriculture

Climate change has major impacts on agriculture in EFSE regions, where local economies and livelihoods are deeply dependent on the sector. Farmers are dealing with several challenges: not only are they more exposed to extreme weather events such as droughts and floods, but they are also navigating changing regulations, intense competition, and disrupted markets due to the Russian invasion of Ukraine.

For EFSE and its PLIs, challenge is opportunity

Transitioning to sustainable agriculture is more important than ever, and adopting sustainability standards and practices has many benefits for farmers. Circular and resource-efficient practices and innovative farming machinery help increase productivity and bankability, resilience and adaptability, and access to EU markets. As a result, it reduces rural poverty, improves food security, and increases social equity. By promoting sustainable agricultural financing, we also strengthen PLI portfolios, reducing risks and creating new market opportunities.

How we support PLIs and farmers

To effectively promote sustainable agricultural financing in its target markets, EFSE is applying the 'Green List' approach. This list defines sustainable agricultural activities and measures eligible for EFSE financing and is adapted to each market, based on local farm sizes, main agricultural products, and the level of maturity of the sector.



53%

of sub-loans disbursed to
rural end-borrowers

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The Fund piloted its sustainable agriculture financing strategy in Romania, one of its core agricultural markets, and is gradually expanding its footprint to other markets, including, Armenia and North Macedonia.

Last year, EFSE approved over EUR 34 million in loan investments that partially target MSMEs engaged in sustainable agriculture. Such investments are typically complemented with technical assistance to scale partners' capacities and increase farmers' awareness of the benefits of sustainable and resilient agricultural practices.



How EFSE promotes sustainable
agriculture finance in Romania
Read more on p. 17

EUR
34.4 million

approved to finance sustainable agriculture
in 3 countries during 2023



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Leveraging ESG to drive resilient growth

Delivering on EFSE's mandate for sustainable economic development requires more than money. Ideas must be sparked, networks developed, and capacities built. This is why EFSE aims for systemic impact, combining financing with technical assistance, ecosystem building and awareness raising, working side by side with its partners to turn possibility into reality.

To that end, in 2023 EFSE DF approved 19 initiatives to support its PLIs turn ESG risks into competitive advantages through strengthened ESG strategies and sustainability risk management frameworks. EFSE also directly engaged with MSMEs facing growing ESG challenges and expectations from EU trade partners and brought key regional stakeholders together.



EFSE helps NLB Banka lead in
ESG implementation and advise MSMEs.

Discover more on p. 24



Investing for the Common Good: ESG Risks to Rewards Sarajevo, 18 – 19 September 2023

This conference, organized by EFSE, brought together 250 key regional stakeholders. Reframing ESG challenges as business opportunities did not just motivate attendees to continue their sustainability journey – it provided additional arguments and new ideas for them to take back to their institutions. This is how we overcome scepticism and inspire action.



“We exchanged experience and opinions, and that helps us create the better future here, together.”

MARTIN LEBERLE
President of the Management Board, NLB Banka, Montenegro

“This conference comes at the right time for MI-BOSPO and the microcredit sector, as our client entrepreneurs – including women – grapple with the need to embrace ESG for improved strength, productivity, and growth.”

DRAGANA LUKIC
Marketing Manager, MI-BOSPO, Bosnia and Herzegovina

Highlights from the event included:

- >> A panel featuring leading local financial institutions discussing the positive impact of ESG integration, and how they can support their MSME clients in making the sustainable transition.
- >> A panel on sustainable agriculture, which discussed workable steps for farmers to adapt to changes in climate, supply chains, and regulatory requirements.

“ESG is, from one side, a risk topic, but I prefer to focus on the opportunities.”

IGOR ANIC
President of the Management Board, ProCredit Bank, Serbia



Watch how EFSE end-borrowers like Jasminka, a furniture exporter from BiH, are responding to the ESG opportunity



Watch the Sarajevo event after-movie

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Empowering women entrepreneurs

EFSE is committed to increasing economic empowerment and equal opportunities for women entrepreneurs. The GDP in the Western Balkans, one of EFSE's core regions, is estimated to increase by 5% on average, if women's participation as entrepreneurs equalled that of men.¹

The women entrepreneur opportunity

Global evidence mounts that women entrepreneurs deliver higher returns with lower Non-performing loans (NPLs). Yet only a small portion of small and medium enterprises in the EFSE region are owned by women.² Access to finance is a key barrier to their entry into the business world, as demonstrated by the estimated gender finance gap of more than EUR 26 billion across the EFSE region.³ This gap represents a huge market opportunity for EFSE and its PLIs.

¹ Regional Cooperation Council

² World Bank Enterprise Survey

³ SME Finance Forum. Does not include data from North Macedonia



EUR 99.7 million

invested in 2022 and 2023 to address the gender imbalance, with a dedicated share of the funding earmarked for women entrepreneurs

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Sabina Muratagić-Daul and Edina Hadžić, founders of Orangetree, Bosnia and Herzegovina



Leveraging the power of partnerships for even greater impact

Scaling up the 2022 pilot, EFSE expanded its women-targeted financing in 2023. In total, EFSE provided approximately EUR 100 million to 8 PLIs in 6 countries to address this imbalance, dedicating a share of this targeted funding to women entrepreneurs. The impact was amplified through complementary technical assistance and strategic partnerships via EFSE DF.

A few success stories of EFSE's powerful partnerships include:

- >> *In BiH, EFSE and Sparkasse Bank supported women entrepreneurs like Sabina and Edina, founders of Orangetree – an innovative fashion brand celebrating the bond between mothers and daughters – through financing and mentoring.*
- >> *In Ukraine, EFSE and Bank Lviv continued to boost women entrepreneurs for a sustainable and inclusive recovery. Read more about Natalia, founder of Svarga, the trendsetting brand of Ukrainian embroidery on [page 20](#)*
- >> *In Moldova, EFSE DF teamed up with XY Accelerator, VISA's "She's Next" Program, and Moldova's largest bank maib to launch the Women's Business Accelerator, equipping 30 women entrepreneurs with skills, mentorship and investor access to scale their businesses.*
- >> *In Türkiye, post-earthquake, women were disproportionately affected, facing prolonged business disruptions, and unequal caregiving burden. EFSE DF partnered with Akbank to provide business management workshops for around 200 women entrepreneurs, addressing foreign trade, digital marketing, and financial literacy in affected regions.*

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Change can be hard and requires dedicated work of people on the ground. That's why EFSE focuses its action locally, through strategic investments and capacity building at local PLIs. These institutions, in turn, provide financing and support to those with the vision and courage to advance: local MSMEs determined to deliver on their region's potential.

This is how local action contributes to global impact.

**more than
54,000**

women-owned enterprises
reached through MSME finance
since inception





IMPACT STORIES

EFSE Paves the Way for Sustainable Agriculture in Romania

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Romania’s agricultural sector employs over 20% of the country’s labor force and is a critical source of income and economic activity rurally. The sector faces significant threats from changing temperatures and extreme weather events, caused by the climate crisis.

Despite its fertile soil and status as one of the EFSE region’s largest agricultural producers, the big number of small-scale farms with limited assets makes the country particularly vulnerable to climate shocks, threatening livelihoods.¹ These challenges are amplified by market disruptions caused by the Russian invasion of Ukraine.

The urgency to promote sustainable agriculture in Romania is clear. Sustainable practices, like efficient irrigation, organic farming, and minimal soil movement techniques, can help farmers cut costs and

mitigate risks. Such practices also protect soils and increase yields, enabling farmers to generate and grow stable incomes. This leads to stronger food systems, reduces rural poverty, and benefits the environment. Given its importance for the economic viability and competitiveness of farmers, sustainable agriculture is a priority in Romania’s sustainable development strategy, underpinned by demanding EU regulations and support schemes.



¹Romania has the highest number of farmers – up to 3.5 million – in the EU. 90% of these are small farms (less than 5 hectares). Read more: European Commission, Romania – CAP Strategic Plan



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The value of sustainable agriculture goes beyond the farm

In 2023, EFSE piloted sustainable agricultural finance in Romania, combining financing with capacity building for both PLIs and farmers for increased awareness, uptake and impact.

EFSE began with an in-depth market study, including policy analysis and interviews with farmers and stakeholders, to assess sustainable agricultural practices and market potential. This led to the creation of the 'Green List' of eligible sustainable agricultural measures. This approach now serves as a blueprint for EFSE's engagement in other countries.

EFSE provided EUR 10 million to ProCredit Bank with a dedicated share targeted to farmers practicing sustainable agriculture. Having provided responsible financial solutions to local farmers for over two decades, ProCredit Bank recognized early on the opportunities of supporting the transition to a more sustainable agriculture. The intense droughts of recent years have revealed stark vulnerabilities of the country's agricultural sector, reducing its production and revenue levels, and serving as a tipping point for farmers to seek out modern and sustainable solutions.



“We’ve witnessed firsthand that conventional farming alone fails to meet modern-day challenges. In this context, supporting our client farmers embrace innovative and sustainable agricultural practices is critical.”

STEFAN MANOLE
Executive Board Member at ProCredit Bank, Romania

More than
500,000

sub-loans disbursed to end-borrowers
active in the agriculture sector

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Through EFSE DF, EFSE has also built the expertise of both ProCredit Bank's staff and its client farmers in smart, efficient, and sustainable agricultural solutions. With EFSE's support, today ProCredit Bank continues to actively educate and advise its clients. Today, 27% of ProCredit Bank's agricultural clients are maintaining and investing in sustainable practices in line with EFSE's 'Green List', and the Bank seeks to grow this client base and lending. The shift to sustainable practices creates a win-win scenario, where farmers become better-performing borrowers and stronger contributors to the broader economic growth and development.



>> EFSE DF, in partnership with Raiffeisen Bank and Amazag, sponsored the GreenFields Academy, an 8-month training program for Romanian farmers. The program included practical field sessions with sustainable agri-MSMEs to promote awareness and address misconceptions about sustainable agriculture. Additionally, EFSE DF also built a knowledge-sharing platform for farmers to support continued learning.

>> ProCredit Bank helped a family farm adopt sustainable practices. In 2004, Ionel Gheorghe founded his farm in Valea Argovei, Southeastern Romania. Faced with droughts, rising costs, and EU regulations, he and his son Doru switched to sustainable agriculture. By adopting measures like low-till farming and modern seeders, which cut resource use by 30-40%, they boosted productivity and revenue sustainably.



"We've been able to invest in cutting-edge technology and implement conservation agriculture practices, which allowed us to preserve the quality of our soil, and build a more resilient and competitive business. We have been supported on our sustainability journey by ProCredit Bank, a proof that they are more than just a financial institution. They are a true and reliable partner."

DORU GHEORGHE
Owner of Agro Fondinvest

Tradition Meets Trend in the Global Rise of Ukrainian Embroidered Fashion

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“When people wear our embroidery, it’s more than fashion. It’s a piece of Ukraine,” says Natalia Yarish, founder, and the driving force behind SVARGA. Her brand is making waves by transforming traditional Ukrainian embroidery into a global statement.

Natalia’s journey began in Polissia, in northern Ukraine, amidst flax fields and her grandmother’s embroidery lessons. “I grew up in a world of threads and colors. My grandmother was an artist; I was simply fascinated,” she recalls. Despite initially pursuing a career in accounting, a fashion internship rekindled her passion for textiles. “That’s when SVARGA began – with a dream and a sewing machine back in 2012.”

The story is in the fabric

With Russia’s invasion of Ukraine in February 2022, SVARGA’s designs became symbols of identity. “Our ‘Embroidered Ukraine’ collection? It’s more than clothes. It’s our history, our pride,” Natalia explains. Collaborating with Ukrainian museums ensures each piece tells a genuine story. “The topic of Ukrainian clothing is essential, particularly when you need to return to your roots and reassess your history under the influence of war.”



**“It’s more than clothes.
It’s our history, our pride.”**

NATALIA YARISH
Founder and driving force of SVARGA

more than
EUR 363 million
invested in Ukraine since inception

more than
EUR 78 million
in local currency lending to finance
MSMEs in Ukraine

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SVARGA has drawn a younger crowd, attracted to the brand's authenticity and the charisma of Natalia, who is deeply involved in developing and popularizing her business. With her leadership, and most of the team being women, SVARGA also highlights the gender dynamics within the industry.

Making the right decisions during times of war

Her greatest challenge during the first months of the war was keeping her team safe and maintaining a certain level of revenue, as this is essential not only to sustain the business, but also to keep the spirit alive. Natalia remarked, "To avoid thinking about today's difficulties, you have to keep working." She had confidence in the growing demand for Ukrainian clothing and actively moved all production and marketing processes forward instead of stopping them.

In 2023, production increased by 50%, and plans are underway to boost it by another 30% this year, thanks to significant support from EFSE and Bank Lviv.





86%

of total MSME and rural sub-loans
disbursed in local currencies

EFSE provided EUR 4 million equivalent in UAH to its longstanding strategic partner, Bank Lviv, enabling continued local currency lending to MSMEs in the tumultuous environment. This support helps protect businesses like Natalia's from currency fluctuations and allows stable financial planning. A portion of this funding was directed specifically to enterprises led by women, enhancing their resilience and adaptability amid the ongoing economic challenges of war.

The support of EFSE and Bank Lviv made all the difference

"We currently have 15 people in our team and expect to expand gradually as many new projects are in the pipeline," Natalia shares. Plans are also in motion to open another branded store in Kyiv and to partner up with Ukrainian clothing stores in Odesa to include the entire SVARGA range there. "Through EFSE and the pivotal support from Bank Lviv, which saw me – not just my business plan – our expansion and innovation have been made possible. Their belief in SVARGA made all the difference."

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EFSE Continues to Support Ukraine's Recovery and Reconstruction

Russia's war of aggression has caused immense suffering in Ukraine, displacing 3.7 million people, disrupting businesses, and destroying assets, infrastructure, and jobs¹. The agricultural sector, a critical source of local incomes and global food security, has been severely affected, disproportionately impacting vulnerable groups such as women and internally displaced persons. The estimated cost for Ukraine's reconstruction and recovery is EUR 452.8 billion². MSMEs, the backbone of the economy, face substantial costs for relocation, reorganization, and adaptation, while access to finance, especially in local currency, remains limited.

Since the war began, EFSE has steadfastly supported Ukraine, providing over EUR 20 million in funding to PLIs and EUR 2.7 million in technical assistance and grants to MSMEs. In 2023, EFSE's Board of Directors approved a comprehensive strategy for continued engagement in Ukraine, addressing immediate needs and supporting resilient recovery in coordination with other IFIs.

This strategy includes creating a dedicated sub-fund under EFSE's governance to address Ukraine's needs while managing risks. EFSE will blend financing (including local currency) with



technical assistance and MSME grants to improve the bankability and resilience of local businesses and entrepreneurs.

EFSE will implement its Ukraine strategy in 2024, focusing on four recovery verticals:

- Strengthening and adapting agricultural MSMEs
- Relocating and rebuilding MSMEs
- Supporting entrepreneurship and micro-businesses
- Restoring businesses in de-occupied and frontline regions

All with the aim to accelerate Ukraine's recovery and reconstruction, promoting resilience and economic stability.

¹ UNHCR, the UN Refugee Agency

² Government of Ukraine, World Bank Group, EU Commission, UN - Rapid Damage and Needs Assessment (RDNA3)

NLB Banka Sarajevo is Turning ESG Challenges into Competitive Advantages

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In the Western Balkans, a region highly affected by environmental degradation, social inequality, demographic decline, and other development challenges, the financial sector and businesses are facing a wake-up call. For them, ESG is no longer a question of ethics or corporate social responsibility alone; it is a question of business survival.

At the same time, the region's geographic proximity and high level of economic integration with the EU offer significant advantages. However, to preserve or expand this access, adopting ESG practices is imperative, especially given the increasing EU regulatory requirements.

The financial institutions that integrate ESG principles not only boost financial performance and gain market opportunities, but also build resilient client relationships. By contrast, ignoring ESG risks, such as climate change impacts or inadequate human rights policies, can lead to increased credit risks and reputational damage.

Recognizing the urgency of these challenges, NLB Banka Sarajevo, a member of the Slovenia-based NLB Group, which has championed economic growth and innovation in the region for over three decades, decided to act quickly. "For us, this region is not just a dot on the map; it is our home," says Denis Hasanić, Board Member at





Over

EUR 862 million

invested in BiH since inception,
enabling over 212,000 loans to MSMEs
and households

50,700

people benefitted from capacity
building through EFSE DF

NLB Banka. This ethos has driven the bank to not only adopt ESG practices internally, but to also assist its MSME clients in overcoming these hurdles.

Since its inception, NLB Banka has been at the forefront of supporting Bosnian businesses with innovative financial solutions and business advice, including pioneering sustainability products. Their partnership with EFSE, established in 2008, has enabled over EUR 95 million in sub-loans to Bosnian MSMEs, and provided business trainings to more than 100 entrepreneurs.

EFSE helps NLB and its MSME clients navigate the ESG landscape

As ESG demands from EU trade partners grew and challenges like inefficient processes surfaced among its MSME clients, NLB Banka realized that its journey would not be complete without extending ESG support to its clients. In response, EFSE stepped in with EUR 15 million in funding and comprehensive technical assistance.

This enabled NLB Banka to conduct a climate risk assessment and integrate ESG into its risk management framework and business operations. EFSE DF also played a crucial role in equipping NLB's

up to 100

NLB employees trained
on ESG with EFSE DF
support in 2023

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employees, from senior management to loan officers, with necessary ESG skills. Furthermore, with EFSE's help, NLB provided tailored ESG advice to 20 SME clients. For instance, an industrial parts manufacturer learned to digitalize its processes and improve waste and water management, boosting efficiency and competitiveness, while a food producer learnt how to improve workplace safety to retain talent and secure better financing conditions.

NLB Banka wins prestigious award for its ESG leadership

Today, NLB Banka is more confident in managing ESG risks and advising its clients effectively. The bank's efforts were recognized at Bosnia and Herzegovina's prestigious financial awards ceremony Golden BAM in 2023, highlighting its progress in ESG integration.

Looking ahead, NLB Banka is committed to strengthening its ESG practices by launching new sustainable products, formalizing its ESG strategy and KPIs, enhancing policies (including introducing ESG requirements for supply chain partners), and educating more MSME borrowers.

"ESG is now part of our business. It is what allows us to create a positive footprint. We, both the bank and our MSME clients, are in this together."

DENIS HASANIĆ
Board Member at NLB Banka



IMPACT & SUSTAINABILITY

Our Approach

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EFSE’s impact management approach combines managing and mitigating potential negative outcomes with enhancing positive impact. Thereby, EFSE works towards the Sustainable Development Goals and aligns with international standards and good practices, including 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.

In pursuing its sustainable investment objective, EFSE is classified as an Article 9 impact fund in accordance with the Sustainable Finance Disclosure Regulation¹ (SFDR). The Fund’s overall sustainability-related impact of the Fund is demonstrated by relevant sustainability indicators (*see pp. 31*).

Positive impact management

Assessing EFSE’s positive 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 manages its progress towards its impact objective based on a set of key indicators in line with its *Theory of Change*, reflecting both the

direct impact on the investee and the sector overall, for instance by improving the financial institutions’ capacity to serve MSMEs. It also reflects the indirect impacts on or through the investees’ clients, for example sustaining and creating job opportunities in the local MSME sector.



¹ Regulation (EU) 2019/2088 on sustainability-related disclosures in the financial services sector.



In 2023, Finance in Motion, EFSE's advisor, underwent an independent verification against the Operating Principles for Impact Management. BlueMark, a provider of independent impact verification services for investors assessed its impact management system as advanced, the highest possible rating, against the Impact Principles and current industry best practices. Finance in Motion was also designated as a "Practice Leader" by BlueMark, for the second year in a row.



Read Finance in Motion's
Disclosure Statement

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Managing environmental & social risks

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

E&S risks are considered throughout the investment process. E&S screening, risk categorization and thorough due diligence processes are key tools for identifying E&S risks and for assessing EFSE’s investees’ capacity and commitment to address and mitigate against these impacts. E&S undertakings are also included in the financing documents with the partner lending institutions, as well as EFSE’s E&S exclusion list. Once capital is deployed, EFSE regularly monitors the E&S performance and compliance of its investees and engages with them to strengthen their E&S capacity where required.



Read more about EFSE’s approach to impact & sustainability, including our sustainability-related disclosures in line with the requirements of the SFDR

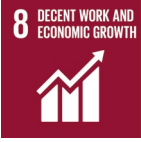


Our Contribution to the SDGs

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EFSE's activities have been mapped against the SDGs at SDG target level, based on which six have been selected as core SDGs.

SDG	EFSE CONTRIBUTION AND INDICATORS	2022	2023
 1 NO POVERTY	EFSE contributes to eradicating poverty by meeting the basic financing needs of micro, small, and, medium enterprises and low-income households.		
	Sub-loans facilitated to MSMEs and households ¹	1,160,000	1,210,000
	Share of total rural and MSMEs sub-loans disbursed below 20,000 EUR	82%	76%
	Share of microfinance institutions among active partner lending institutions	24%	23%
 2 ZERO HUNGER	EFSE helps improve agricultural productivity and the livelihoods of small-scale food producers through secure and equal access to financial services.		
	Share of sub-loans disbursed to rural end-borrowers	57%	53%
	Share of partner lending institutions with EFSE investments dedicated to rural & agri financing	43%	42%
 8 DECENT WORK AND ECONOMIC GROWTH	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.		
	Indirect jobs supported in MSMEs receiving financing through partner lending institutions ^{1,2}	2,096,000	2,266,000
	People benefitted from TA ¹	37,100	50,700
	Partners supported with capacity building in developing and strengthening processes and practices ¹	209	225

¹ Cumulative figure since inception.

² Figures are modeled by EFSE based on primary reporting and third-party data.

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EFSE's activities have been mapped against the SDGs at SDG target level, based on which six have been selected as core SDGs.

SDG	EFSE CONTRIBUTION AND INDICATORS	2022	2023
	EFSE contributes to inclusive and sustainable industrialisation by upgrading small-scale enterprises through improved access to finance and innovative solutions.		
	Active borrowers	87,000	86,600 ³
	Share of outstanding portfolio in local currencies	24%	19% ⁴
	Volume of sub-loans enabled for MSMEs and households through EFSE financing ¹	EUR 9.5 billion	EUR 10.3 billion
	Partner lending institutions ¹	137	143
	EFSE contributes to the economic inclusion of all by sustaining and growing business income among marginalised entrepreneurs.		
	Women-owned enterprises reached through MSME finance ^{1,2}	51,000	54,100
	Share of female participants in capacity building projects ¹	40%	38%
	Share of total MSMEs and rural sub-loans disbursed in local currencies	72%	86%
	As a pioneer in blended finance, EFSE contributes to bringing together public and private investors for sustainable development.		
	Committed capital ⁵	EUR 1,092 million	EUR 1,202 million
	Volume of technical assistance projects ¹	EUR 42 million	EUR 46 million
	Share of private capital committed to EFSE	28%	29%

¹ Cumulative figure since inception.

² Figures are modeled by EFSE based on primary reporting and third-party data.

³ The number of active borrowers has decreased as the Fund's outreach to small and medium enterprises has increased, in line with the structural transformation in EFSE target countries, alongside the growth and formalization of local MSMEs.

⁴ The decrease in the share of investment portfolio in local currencies in 2023 is mainly caused by the temporary decrease in the outstanding portfolio in Ukraine during the year, which is expected to be reversed during 2024.

⁵ Committed capital includes originally committed amounts on active contracts, not including any changes in the Net Asset Value (NAV) overtime.

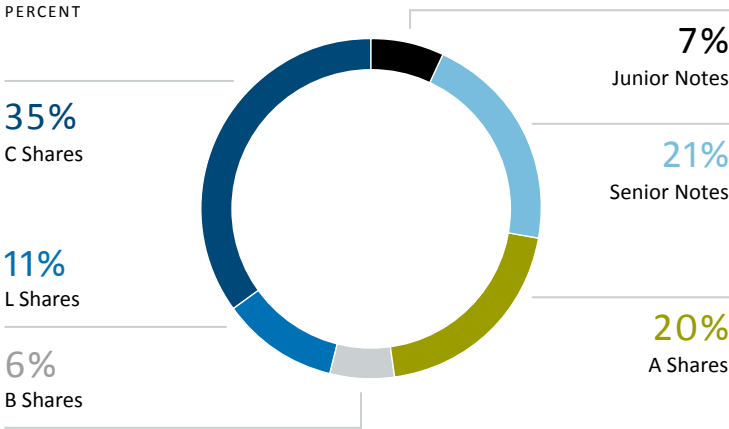


OPERATING RESULTS

Funding

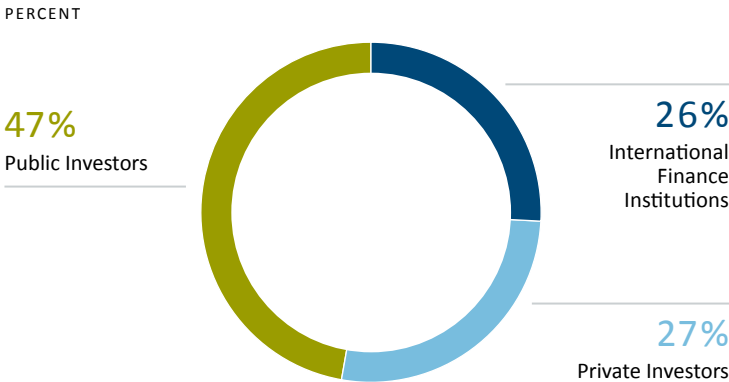
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Available funding by investment class



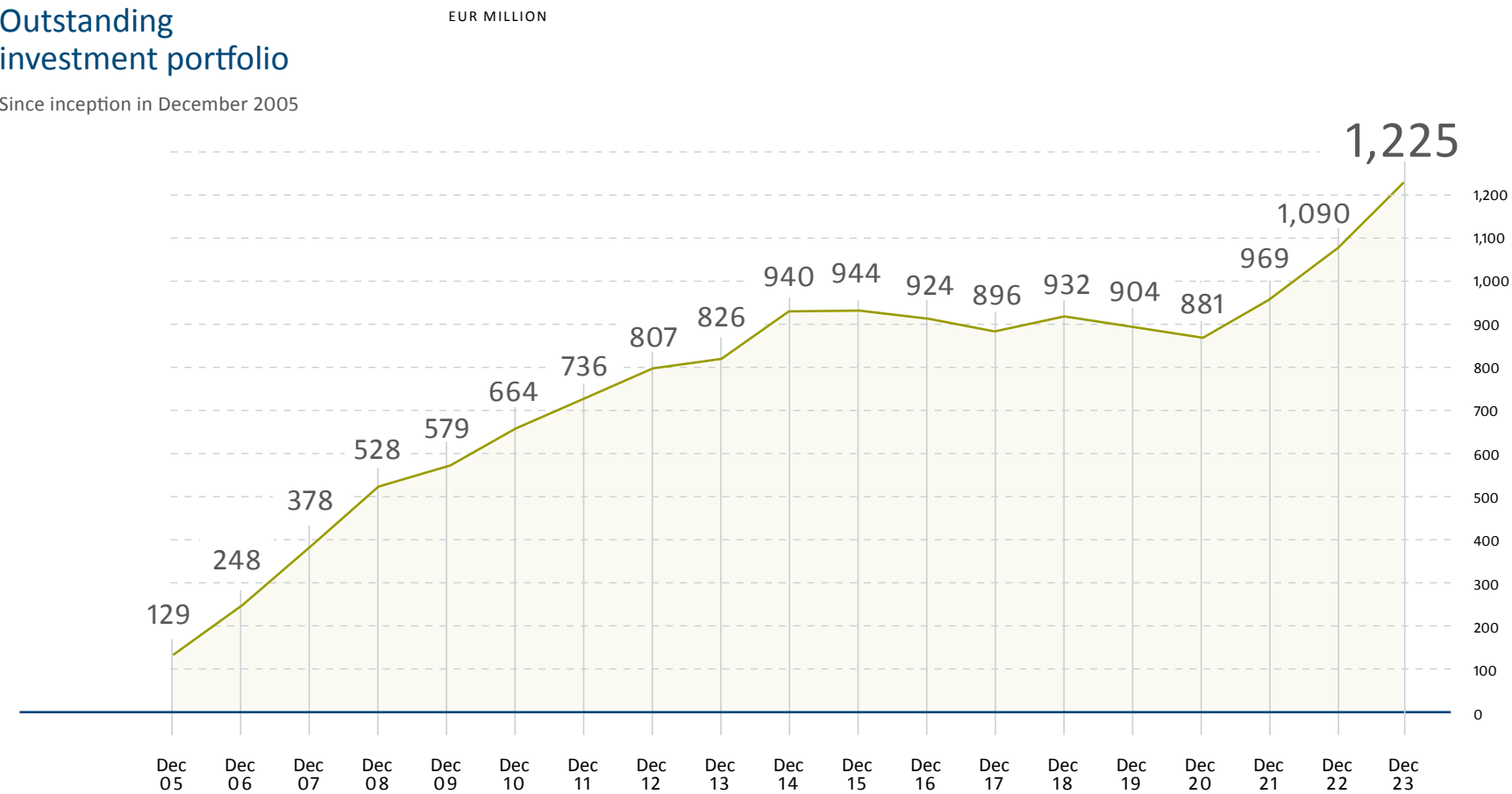
Total available funding on Net Asset Value (NAV) basis as at 31 December 2023: EUR 1,234 million, up by 10% (EUR 107 million) compared to 31 December 2022.

Fund investors by investor class



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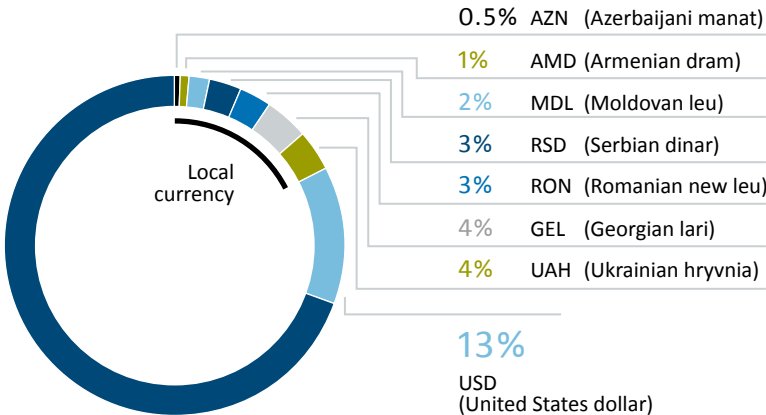
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Outstanding investment portfolio by currency

PERCENT

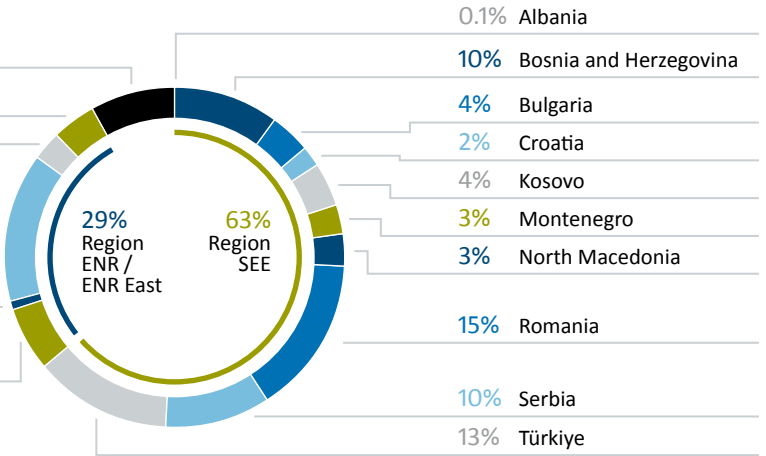
69%
EUR (Euro)¹



Outstanding investment portfolio by country

PERCENT

8% Cross Country
4% Ukraine
3% Moldova
14% Georgia
1% Azerbaijan
6% Armenia

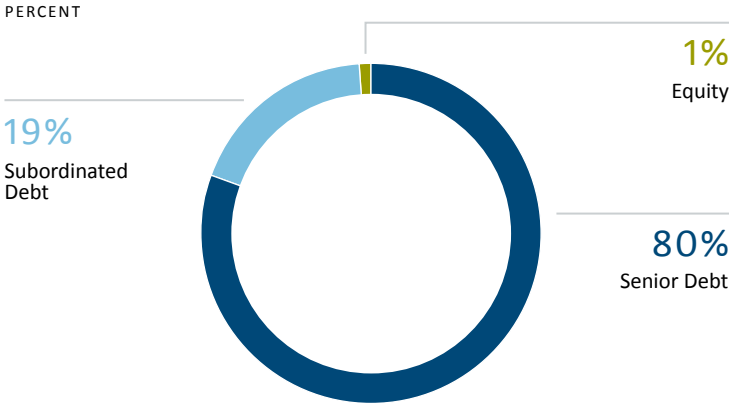


¹ Thereof, 49% are foreign currency (EUR) loans in the respective countries, and 20% are EUR loans in the countries where EUR is a legal tender or which support a currency board regime: Kosovo, Montenegro, Bosnia and Herzegovina, Bulgaria

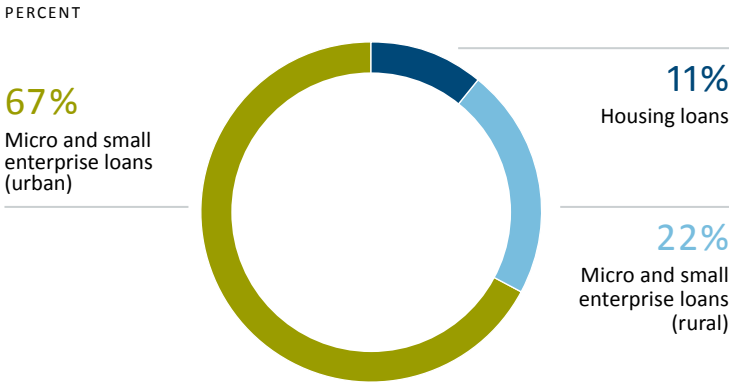
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Outstanding investment portfolio by instrument



Outstanding investment portfolio by product



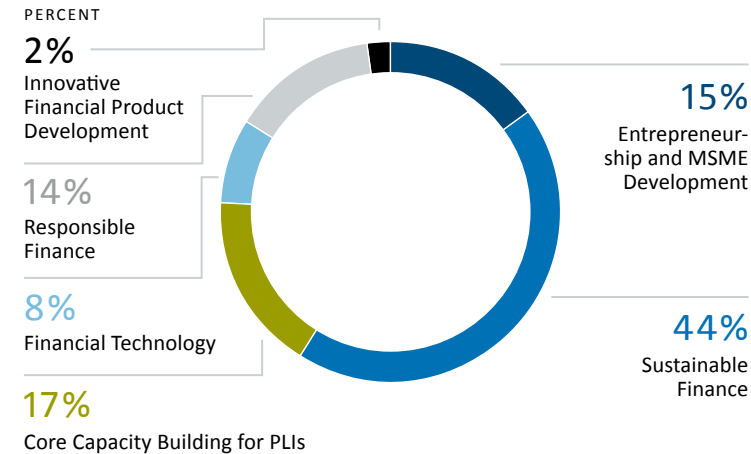
Technical Assistance

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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; it also contributes to strengthening the local financial sectors through advisory support and by actively fostering responsible finance. The EFSE DF implements projects on a range of relevant topics with micro, small, and medium enterprise lending, responsible finance, entrepreneurship development, financial technology, financial product development and core capacity building for partner lending institutions remaining key topics.

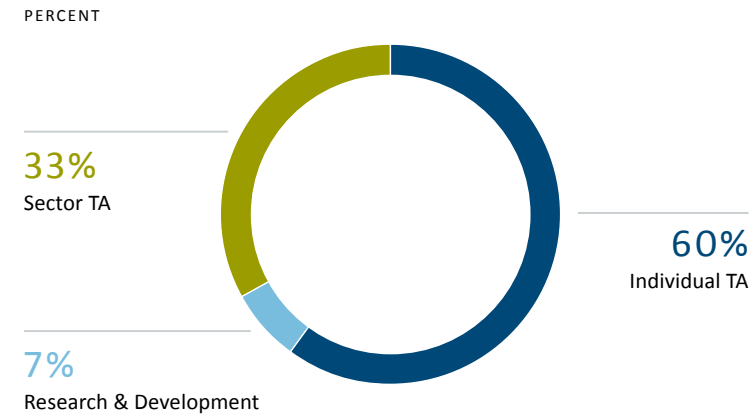
Total scope of activities

Based on approved project volume YTD



Technical assistance by type

Based on cumulative project volume



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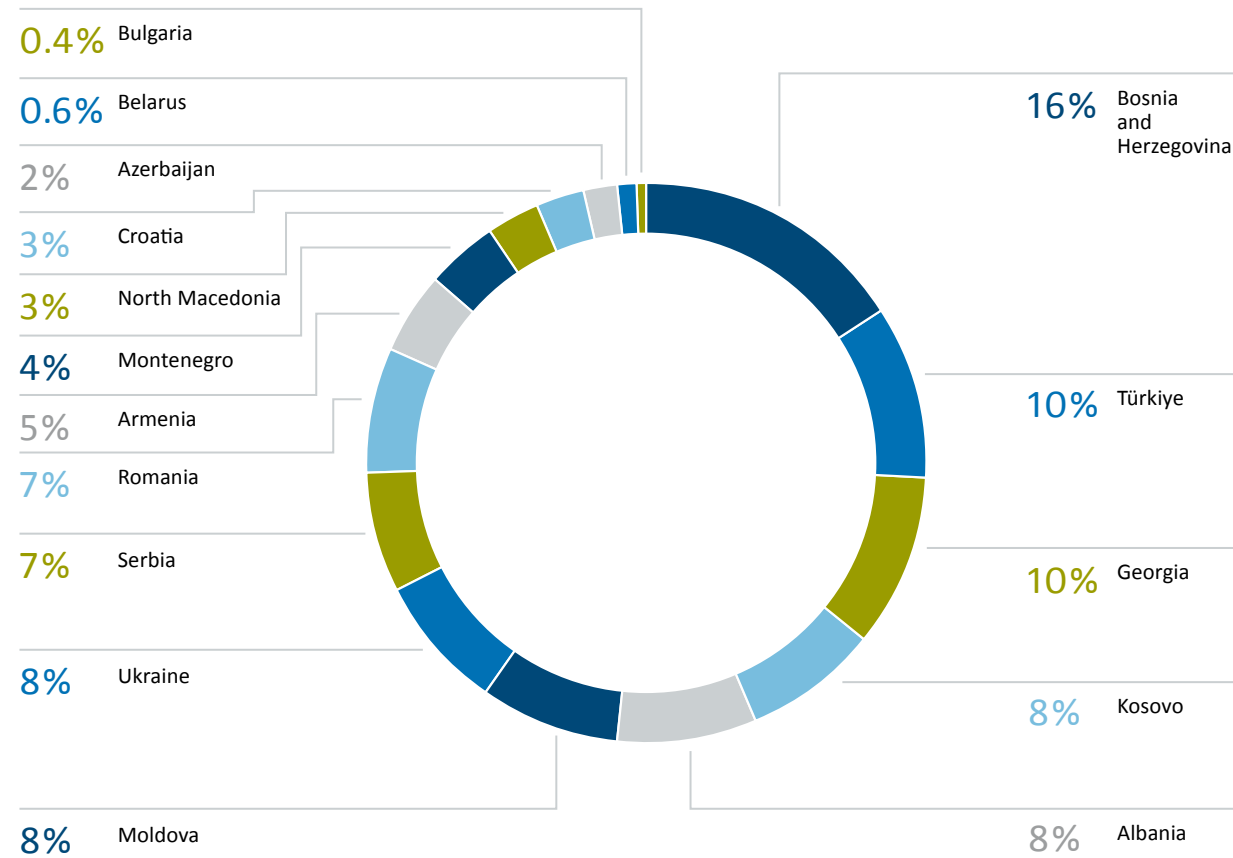
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Project distribution by country

Cumulative, from inception of the EFSE Development Facility in 2006 at 31 December 2023

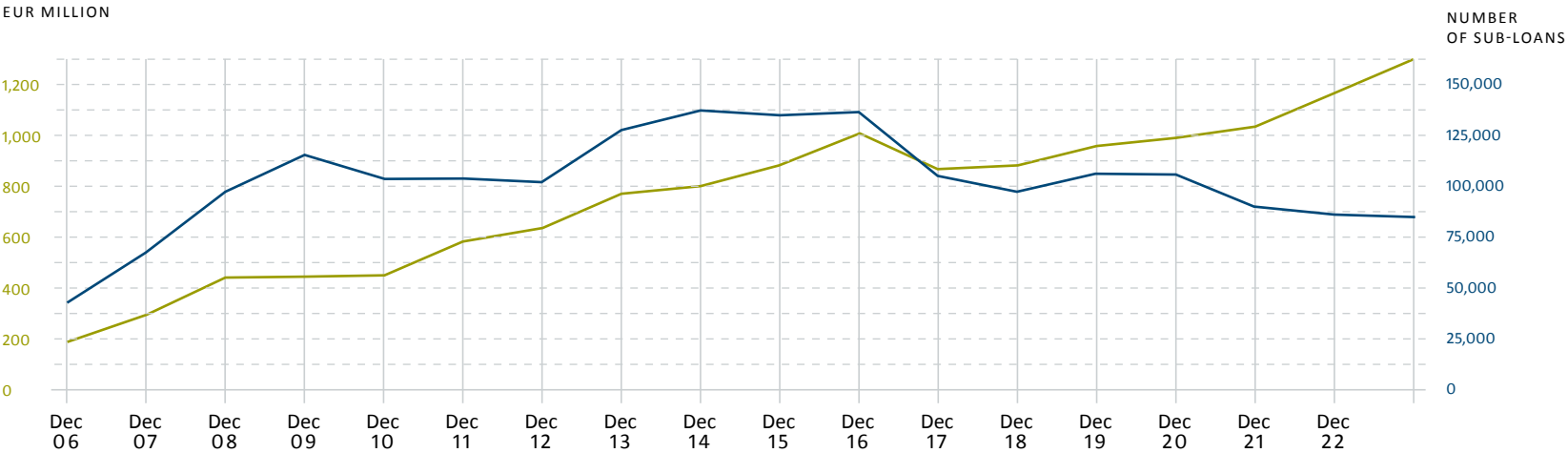


Sub-Loan Portfolio

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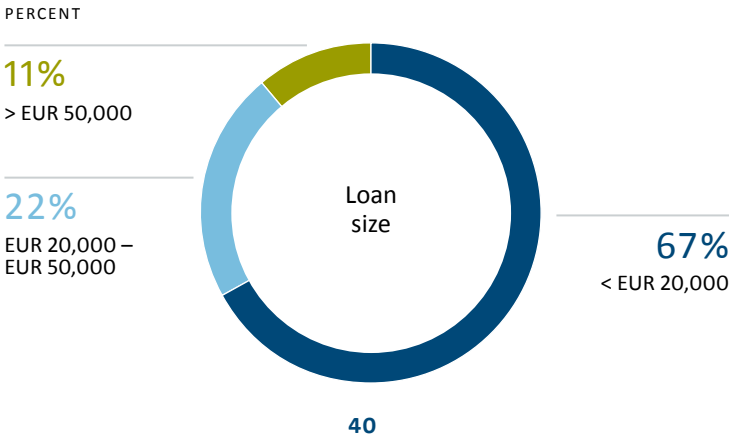
Outstanding sub-loan portfolio per year

Sub-loan portfolio outstanding (EUR)
Number of sub-loans outstanding



Sub-loan portfolio outstanding by loan size of sub-loans

Based on total number of sub-loans outstanding



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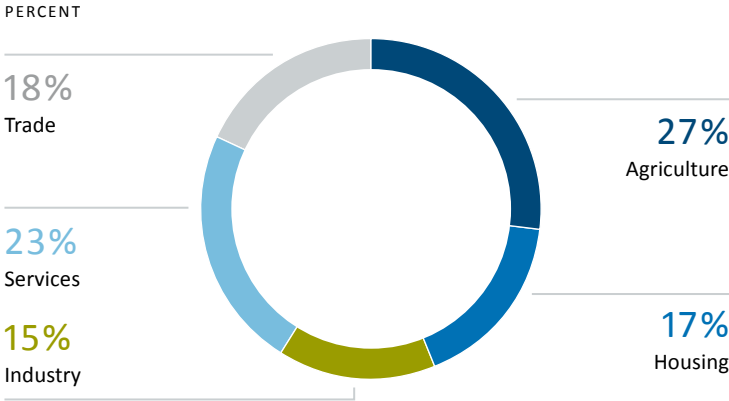
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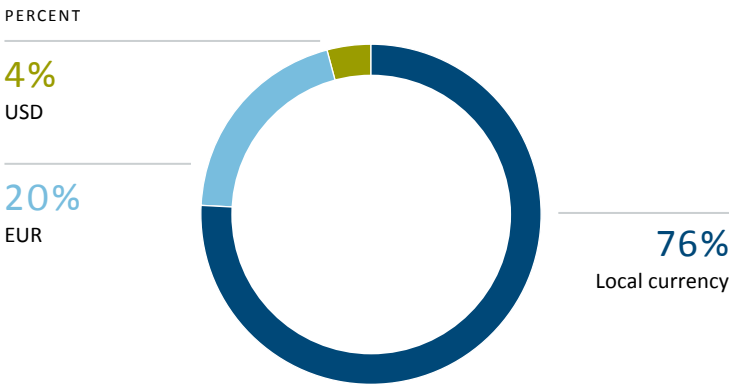
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Sub-loan portfolio
outstanding by economic
sector based on volume
of sub-loans



Sub-loan portfolio
outstanding by currency
based on volume
of sub-loans



EUR as local currency/currency board in Bosnia and Herzegovina, Bulgaria, Kosovo, Montenegro

ABOUT EFSE

Introducing the Fund, our Board, and our Investors



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The European Fund for Southeast Europe is an impact fund whose holistic approach to fostering economic development and prosperity in Southeast Europe and the EU Eastern Neighbourhood Region focuses on empowering micro, small and medium-sized enterprises as well as improved living conditions for private households. The Fund contributes to a stable financial sector at the governmental level and, through partner lending institutions, facilitates access to finance for these target groups.

The EFSE Development Facility

EFSE multiplies Investment impact through technical assistance: the EFSE Development Facility works with institutions and businesses to build capacities, connect ecosystem players, study markets, and help build a culture of entrepreneurship and responsible finance.

As one of the first impact investment vehicles to pioneer a public-private partnership, EFSE’s layered and blended finance structure leverages public contributions as a risk cushion to mobilize private investments. EFSE is active in 16 countries, collaborating from in-region offices with investees, partners, national regulators, and entrepreneurship organisations.



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Board of Directors



Committees

Investment Committee

Henry Russell (Chairperson)
Madhumita Dutta-Sen
Dr. Christoph Achini
Thomas Reker

Audit and Risk Committee

Nico Pijl (Chairperson)
Sylvia Gansser-Potts
Monique Bachner-Bout

Foreign Exchange Committee

Henry Russell (Chairperson)
Dr. Christoph Achini

Development Facility Committee

Andrea Hagmann (Chairperson)
Thomas Reker
Kristin Duchâteau

Investors

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Public Investors



European Investment Fund
and KfW as Trustees for the
European Commission



Federal Ministry
for Economic Cooperation
and Development



AUSTRIAN
DEVELOPMENT
AGENCY



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

International Financial Institutions



International
Finance Corporation
WORLD BANK GROUP



European Bank
for Reconstruction and Development



Entrepreneurial
Development
Bank



European
Investment Bank

Private Institutional Investors*



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* 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

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