Financial Facilities for SMEs: training and capacity building for Business Support Organisations in non-EU member states of the Central European Initiative

MAIN INTERNATIONAL FINANCIAL FACILITIES AVAILABLE FOR SMEs. PROJECT RECIPIENT COUNTRY SURVEY: *Belarus*

June 2011

Project co-financed by the Central European Initiative through the KEP Know-how Exchange Programme

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Main International Finance Institutions (IFI) Framework

Since the World Bank and the International Monetary Fund were launched at Bretton Woods in 1944 and the consequent bank environment developments, the world economy has changed in important respects. The new ***globalisation*** aspect implies that foreign trade and private capital play a greater role in economic development than before. At the same time, there has been a re-examination of the role of the state and a strong shift towards private, market-based approaches. As a result of these changes, the private sector and private international finance have become prime agents of economic development, necessitating new conditions for the market-oriented growth and by forming partnerships with the private sector.

The new borne international financial institution (IFI) roles are regulated by the international laws, as they are operational in more than one country. The shareholders or the owners of the international financial institutions are national governments of the countries.

In general terms, the objectives of IFIs have always been poverty alleviation, economic development, promotion of international trade and protection of the environment, with specific mission varying for each IFI. Traditionally, IFIs have promoted these objectives by working with governments and government agencies. The IFIs have pursued these objectives with loans and grants for public sector projects or programmes, technical assistance, policy-based lending and policy reforms mainly in low-income and middle-income countries. IFI loans have generally been made to, or guaranteed by, the borrowing states.

Main international financial are represented by:
The World Bank Group (WB), with its five branches:

- International Bank for Reconstruction and Development (IBRD),
- International Development Association (IDA),
- International Finance Corporation (IFC),
- Multilateral Investment Guarantee Agency (MIGA),
- International Centre for Settlement of Investment Disputes (ICSID),

the ***International Monetary Fund*** (IMF), and various regional development banks that have functions similar to the World Bank Group's activities, but with particular focus on a specific region (shareholders usually consist of the regional countries plus the major donor countries), such as, in the case of the FIT4SMEs Project interesting East Europe's countries the ***European Bank for Reconstruction and Development*** (EBRD), the ***European Investment Bank*** (EIB), the ***Black Sea Trade and Development Bank*** (BSTDB) and different ***country governments export credit agencies***, acting at bilateral level to finance specific development projects in recipient countries.

The global crisis has increased the importance of external aid to address economic instability and the rise in poverty. But the crisis also led to substantial increases in government debt that has severely constrained fiscal resources in donor countries. In such a context, it has become more important than ever to make further progress in improving aid effectiveness through harmonizing donor activities, reducing the share of tied aid, making aid disbursements more predictable, and improving aid allocation.

The IFIs responded to the crisis quickly and decisively to boost lending. A core aspect in tackling the financial crisis has been the establishment of the international framework, the ***Vienna Initiative***, launched in January 2009, which brought together the key international financial institutions to create conditions to coordinate the crisis management and crisis resolution of financial sector issues that were highlighted by the economic downturn and involved large cross-border bank groups systemically important in the emerging Europe region.

IFIs adopted innovative programmes to stabilize markets, limit the slide in economic growth, support the poor, and minimize interruptions in development progress. But even as the recovery progresses, it is clear that the crisis has dramatically altered the development challenges facing low- and middle-income countries, and hence those facing the international community. Managing the availability and the allocation of concessional resources remained a major challenge for the IFIs as the recovery proceeds, as is managing the impact of the crisis-induced frontloading of concessional resources by multilateral agencies. At the same time, changes in responsibilities and organization of the IFIs are on the perspective: increased demand for technical services are to shift requirements for staff expertise, coordination among the IFIs will need to be strengthened, and proposals to improve the responsiveness of the multilateral development banks (such as decentralization at the World Bank) are under consideration.

A key feature of ***institutional cooperation*** is the promotion of a common approach between the various IFIs and multilateral development banks. Such activities comprehend a dialogue on institutional matters, cooperation on operational lending and co-financing, consultation on horizontal topics and on thematic issues. To facilitate the mutual cooperation among IFIs, a number of Memoranda of Understanding have been concluded, covering specific regions and actions.

In the case of **East Europe**, it is worth to highlight the establishment of the ***International Financial Institutions Advisory Group (IFI-AG)*** in March 2007 and chaired by the European Commission (DG Enlargement). The purpose of the IFI Advisory Group is to support and improve the overall co-operation between the IFIs and the European Commission in the candidate and potential candidate countries, including co-operation under the Instrument for Pre-Accession Assistance (IPA).

The IFI Advisory Group consists of representatives from the European Commission, the World Bank Group (IBRD/IFC), the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Council of Europe Development Bank (CoEDB), the Regional Cooperation Council (RCC - successor to the Stability Pact for SEE), the Nordic Investment Bank (NIB), the Nordic Environment Finance Corporation (NEFC) and the Black Sea Trade and Development Bank (BSTDB). Its work is part of an overall effort to integrate the countries of South East Europe amongst themselves and to the EU through developing infrastructure within a regional approach, instead of on a national level. The objectives of the IFI Advisory Group are:

- to provide advice on issues high on the political agenda at both regional and national level on the basis of specific needs;
- to address issues linked to the development of infrastructure, national and regional, including harmonization of approaches to infrastructure projects;
- to exchange information and experience and provides advice on the design of new initiatives and programmes;
- to identify/explore possibilities of improving regional financial co-operation between the Commission and IFIs based on the comparative advantages of each institution in the region.

As to the sectoral and thematic scope, the IFI-AG focuses on the following four sectors: ***energy***, ***transport***, ***environment and human development***, ***employment & social protection***.

A working group has been set up for each of these sectors. These working groups cooperate closely with various regional initiatives such as the Regional Cooperation Council (RCC), the South Eastern Europe Transport Observatory (SEETO), the Energy Community Secretariat (ECS) and the Regional Environmental Council (REC). The IFI Advisory Group can also address cross-cutting policy and methodological issues such as such as fiscal sustainability and the right financing-mix, coherence of IFI support with national public expenditure programmes, preventive measures against crowd-outs of social expenditures, Public Private Partnerships, transparency in bidding procedures and overall Public Investment prioritization.
More recently, on February 2009, the EBRD, the EIB and the World Bank, as the global economic crisis was heading on, launched a ***Joint IFI Action Plan*** in support of banking systems and lending to the real economy in Central and Eastern Europe aimed at supporting banking sector stability and lending to the real economy in crisis-hit CEE countries with a financing plan of up to €24.5 billion (EIB €11 bln, WB €7.5 bln and EBRD €6 bln) for 2009-2010; committing to make joint assessments of large bank groups' financing needs and deploying assistance in a coordinated manner, according to each institution's geographical and product remit. The action was reinforced on October of the same year, by pledging IFIs continued drive to support Central and Eastern Europe through recovery after the global financial crisis. Specifically, the three IFIs have concentrated their attention to a durable coordinated international action contrasting the surging

systemic crisis in the Central and Eastern Europe region and supporting the region's return to growth, deciding to deliver commitments of already €16.3 billion by end of September 2009. An effort was made to coordinate national support packages and policy dialogue among key stakeholders in the region, in close collaboration with the International Monetary Fund (IMF), the European Commission, and other key European institutions. The intervention by granting credits to the real economy through supporting domestic financial institutions by strengthening banks' balance sheets, helping mitigate financial risks and restructuring of private debt, was conceived as an assumption to the intention of ensuring financial support to local enterprises (mainly SMEs) by easing the risk of non-performing loans and increasing unemployment, with the awareness that economic recovery will depend critically on private-sector growth, which will not re-emerge without lending to the real sector[1].

[1] http://siteresources.worldbank.org/NEWS/MiscContent/22085514/COMMUNIQUE.PDF

THE WORLD BANK GROUP[2]

The World Bank (WB) is a vital source of financial and technical assistance to developing countries around the world. The mission is to fight poverty with passion and professionalism for lasting results and to help people help themselves and their environment by providing resources, sharing knowledge, building capacity and forging partnerships in the public and private sectors. WB is not to be considered a bank in the common sense; it is made up of two unique development institutions owned by 187 member countries: the ***International Bank for Reconstruction and Development*** (IBRD) and the ***International Development Association*** (IDA).
Each institution plays a different but collaborative role in advancing the vision of inclusive and sustainable globalization. The IBRD aims to reduce poverty in middle-income and creditworthy poorer countries, while IDA focuses on the world's poorest countries. Their work is complemented by that of the ***International Finance Corporation*** (IFC), ***Multilateral Investment Guarantee Agency*** (MIGA) and the ***International Centre for the Settlement of Investment Disputes*** (ICSID). Together, they provide low-interest loans, interest-free credits and grants to developing countries for a wide array of purposes that include investments in education, health, public administration, infrastructure, financial and private sector development, agriculture and environmental and natural resource management.
More specifically, MIGA guarantees cover projects in a broad range of sectors and subsectors, with projects in the financial sector accounting for the largest share (52pc). Other priority focus for the agency are the infrastructure sector, agribusiness, manufacturing, services and energy. MIGA also offers other services as part of its overall effort to encourage foreign direct investment in the developing world.

Private Sector Development

Since the early '90s, the World Bank has actively supported the transition of the post-communist countries of Europe and Central Asia (ECA) toward a market economy through privatization, post-privatization work and technical assistance to build capacity of institutions. Over time, the focus has broadened to encompass factors affecting the business climate and to promote reform along best international practices.
More recently, a number of Investment Climate Assessments (ICA) has been undertaken in ECA to identify and prioritize investment climate constraints, benchmark reform progress, provide cross-country comparisons of investment climate indicators, and help countries forge broad consensus on priority areas for reform. These assessments ultimately feed into World Bank operations and technical assistance.

[2] http://www.worldbank.org/

In addition, WB has undertaken Knowledge Economy Assessments for selected ECA countries (i.e. Poland) focusing on topics related to the Lisbon Agenda.

The areas of activity, often in collaboration with other donors and International Financial Institutions include:

- Corporate governance,
- Privatization and post-privatization assistance,
- Small and medium enterprises (SMEs),
- Business registration, licensing and related administrative simplification,
- Intermediary organizations,
- Business support services,
- FDI, trade and export facilitation,
- Science, technology and innovation,
- Quality, standards, testing and metrology (QSTM),
- Competition policy,
- Knowledge economy and e-government.

WB Products & Services

The World Bank offers a wide range of lending and non-lending solutions to meet the world's development challenges, as:

- ***Investment and development policy operations*** - Investment operations focus on the long-term (5 to 10 years) and finance goods, works and services that support economic and social development projects. These investment projects encompass a broad range of sectors - from agriculture to urban development, rural infrastructure, education and health. Development policy operations typically run from one to three years, and provide quick-disbursing external financing to support government policy and institutional reforms. Originally designed to provide support for macroeconomic policy reforms, development policy loans, credits and grants now focus more on structural, financial sector and social policy reforms - improving, for example, the management of public resources, the functioning of the judiciary or promoting good governance.
- ***Banking products*** - The World Bank promotes an efficient use of financial resources through traditional and innovative financial services, including the use of adequate risk mitigation tools. The IBRD offers eligible member countries access to a full menu of banking products and services for risk management, and flexible solutions for managing currency, interest rate and commodity risk exposures. The banking products provide ample flexibility to customize terms like repayment schedules, currency selection, including local currency, and interest rate fixity.

- ***Trust funds and grants*** **-** Trust funds are financial and administrative arrangements the World Bank has with an external donor that leads to grants, credits, loans or guarantees for high-priority development needs, such as technical assistance, advisory services, debt relief, post-conflict transition and co-financing. Trust funds are accounted for separately from the Bank's own resources. The Bank also provides grants that are either funded directly or managed through partnerships. Most grants are designed to encourage new ideas, approaches and solutions to development problems; organizations working together; and participation by stakeholders at national and local levels.
- ***Guarantees*** **-** The World Bank Guarantee program meets the growing need many commercial lenders have for products that lesson political risk, when they consider financial investment in developing countries where there is an extra element of risk. The Bank's basic objective in offering guarantees is to pull together private capital for investment projects on a "lender of last resort" basis. Investors see the Bank’s presence in these transactions as a stabilizing factor, because of the World Bank's long-term relationship with the countries and the policy support the Bank provides to the governments.
- ***Non-lending activities*** **-** The World Bank's vast research, analytical and technical capabilities are a vital part of the Bank's contribution to development. Use of these services can help member governments adopt better policies, programs and reforms that lead to greater economic growth and poverty reduction. Products range from reports on key economic and social issues, to policy notes, to knowledge-sharing workshops and conferences.

THE INTERNATIONAL FINANCE CORPORATION (IFC)[3]

The International Finance Corporation (IFC) is a WB branch fostering sustainable economic growth in developing countries (including transition countries) by financing private sector investment, mobilizing capital in the international financial markets, and providing advisory services to businesses and governments. Therefore, IFC can have a direct impact on SME creation and development.

IFC helps companies and financial institutions in emerging markets create jobs, generate tax revenues, improve corporate governance and environmental performance, and contribute to their local communities. The goal is to improve lives, especially for the people who most need the benefits of growth. IFC invests in enterprises majority-owned by the private sector throughout most developing countries in the world. Developing regions include: Sub-Saharan Africa, East Asia & the Pacific, South Asia, Europe & Central Asia, Latin America & the Caribbean, Middle East & North Africa.

IFC emphasizes five strategic priorities for maximizing its sustainable development impact:

- strengthening its focus on frontier markets, particularly the SME sector;
- building long-term partnerships with emerging global players in developing countries;
- addressing climate change, and environment and social sustainability activities;
- addressing constraints to private sector investment in infrastructure, health, and education;
- developing domestic financial markets through institution building and the use of innovative financial products.

For all new investments, IFC articulates the expected impact on sustainable development, and, as the projects mature, IFC assesses the quality of the development benefits realized.

IFC offers an array of financial products and services to its clients and develops new innovative financial and advisory tools that enable companies to manage risk and broaden their access to foreign and domestic capital markets, implementing corporate governance, environmental and social expertise in support of private sector development in developing countries.

IFC offers a wide variety of ***financial products*** for private sector projects in developing countries.

To be eligible for IFC funding, a project must meet a number of criteria. The project must:

- be located in a developing country that is a member of IFC;
- be in the private sector;
- be technically sound;
- have good prospects of being profitable;
- benefit the local economy;

[3] http://www.ifc.org/

- be environmentally and socially sound, satisfying IFC environmental and social standards as well as those of the host country.

IFC does not lend **directly** to micro, small, and medium enterprises or individual entrepreneurs, but many of its investment clients are financial intermediaries that on-lend to smaller businesses.
A company or entrepreneur seeking to establish a new venture or expand an existing enterprise can approach IFC directly by submitting an investment proposal. After this initial contact and a preliminary review, IFC may proceed by requesting a detailed feasibility study or business plan to determine whether or not to appraise the project. Although IFC is primarily a financier of private sector projects, it may provide finance for a company with some government ownership, provided there is a private sector participation and the venture is run on a commercial basis. Although IFC does not accept government guarantees for its financing, its work often requires close cooperation with government agencies in developing countries.

To ensure the participation of investors and lenders from the private sector, IFC limits the total amount of own-account debt and equity financing it will provide for any single project. For *new projects* the maximum is 25 percent of the total estimated project costs, or, on an exceptional basis, up to 35 percent in small projects. For *expansion projects*, IFC may provide up to 50 percent of the project cost, provided its investments do not exceed 25 percent of the total capitalization of the project company. IFC provides a wide variety of financial products and services to its clients and can offer a mix of financing and advice that is tailored to meet the needs of each project. However, the bulk of the funding, as well as leadership and management responsibility, lie with private sector owners.

IFC ***investment operations*** are managed by regional departments (managing projects in their respective geographical area in sectors that are not covered by an IFC industry department) and sector/industry departments (managing projects within their respective sector globally, regardless of the region the project is located). Beside this, IFC and the World Bank combine the expertise of several existing groups and jointly manage departments where there are strong interfaces between policy and private investment transactions.

It is the case of ***Small and Medium Enterprises Department***, by which the International Finance Corporation promotes private sector development through its investment, technical assistance and advisory work. Strengthening IFC ability to offer integrated investment and advisory services to its clients is a corporate priority. Its *Department of Partnerships and Advisory Services Operations* (PASO) focuses on the critical central office functions of IFC Advisory Services Business as well as on building partnerships.

The Department's main functions include:

- **portfolio management**, developing and implementing standardized Advisory Services project management processes and tools, as well as, regularly report on characteristics and trends within the AS portfolio;
- **results measurement**, coordinating evaluation efforts for advisory services across IFC. Supported by a global network of monitoring and evaluation officers in its regional facilities, other donor funded operations, and departments engaged in advisory work, it coordinates evaluation efforts for advisory services across IFC;
- **donor relationships,** coordinating donor relationships and foster partnership development. Coordinate communication with donors and help align donor and IFC strategies. It manages donor trust funds that provide support for a broad range of private sector oriented advisory services in countries with developing and transitional economies. It also works with foundations to broaden and deepen relationships with the philanthropic community and to help strengthen its capacity to work with these important development partners;
- **knowledge management and learning programs,** providing training in Advisory Services and support in multiple knowledge management initiatives including communications, websites and content dissemination.

The objective of PASO Department is to promote reforms that support private sector development. Drawing on knowledge of best practice, it provides advisory services to clients in the public and private sectors in developing countries, and support IFC/World Bank operational units with their reform efforts. Depending on the specific priorities and needs of the local private sector, it targets the most critical areas affecting local businesses, such as burdensome business regulations, and brings small businesses into the public-private dialogue.

The aim is to be a knowledge centre in the area of implementing business environment reforms. PASO Department collects, summarizes and analyzes various data on the successes and failures of business environment reform efforts, and develop practical ***toolkits and guides***[4] for designing and implementing these reforms. It is currently focusing on business registration, business licensing, business inspections, municipal simplification, corporate tax administration, export/import procedures, building the capacity of business membership organizations, and alternative dispute resolution.

Advisory ***Services to expand access to finance*** (A2F) often accompanies IFC financial investments, giving clients the benefit of in-house expertise from seasoned sector specialists. IFC also partner with consultants familiar with local conditions to provide solutions suited to the unique characteristics of a particular country. IFC A2F advisory services projects include assistance to

[4] http://www.ifc.org/ifcext/sme.nsf/Content/BEE+Toolkits

banks and specialized financial institutions in improving their ability to provide financial services to micro, small, and medium enterprises.
IFC offers access to finance advisory services for the following areas:

- agribusiness finance,
- collateral registries/secured lending,
- credit bureaus,
- gender access to finance,
- housing finance,
- insurance,
- leasing,
- microfinance,
- payment systems & remittances (retail payments, mobile banking),
- risk management,
- loan portfolio monitoring & workout,
- securities markets,
- SME banking,
- sustainable energy finance
- trade finance.

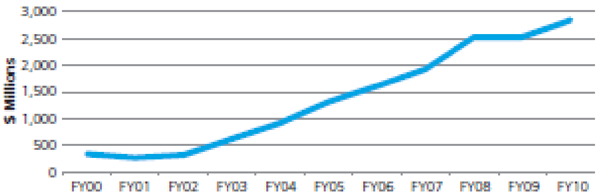
As of June 2010[5], IFC committed a total of $2.8 billion (2.5 billion by June 2009) to MSME[6] finance in Europe and Central Asia, with $918.7 million in fiscal year 2010. This value represents 34pc of IFC regional committed portfolios in MSME FIs. In addition, IFC microfinance institution (MFI) clients had 209 thousand loans outstanding to micro-enterprises in Europe and Central Asia by end of 2009, totalling $411.3 million. Similarly, IFC SME financial institution (SME FI) clients had 386 thousand loans outstanding to SMEs by end of 2009, totalling $29.9 billion in this region.
The tables below evidence, beside a constant IFC attention to Europe and Central Asia region, in terms of outstanding loans as of 2009-year end a greater commitment toward loans to medium firms.

[5] *IFC Financing to Micro, Small and Medium Enterprises in Europe and Central Asia*, IFC Factsheet 2010, http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/MSME-Factsheet-ECA-10/$FILE/MSME-Factsheet-ECA-10.pdf

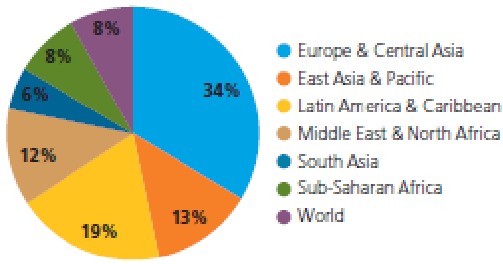
[6] **MSME Firm Size Definitions**: IFC's Global Financial Markets categorizes its clients' sub-borrowers according to the following definitions: 1) micro-enterprise if loan is < $10,000 at origination; 2) small business if loan is < $100,000 at origination; 3) medium business if loan is < $1 million at origination ($2 million for more advanced countries).

MSME financial intermediary portfolio, June 2010

IFC's Committed Portfolio in MSME FIs in Europe and Central Asia



IFC's Regional Committed Portfolios in MSME FIs



MSME loans by IFC clients, December 2009

MSME Loans by MFIs

IFC was able to survey or extrapolate outreach data from 13 MFI clients in 10 countries. 69% of these clients received advisory services from IFC.

	Outstanding Loan Portfolio in #	Outstanding Loan Portfolio in $	Average Loan Size	NPL %
Micro Loans	209,039	411,293,986	1,968	3
Small Loans	35,555	578,346,080	16,266	4
Medium Loans	2,038	316,972,945	155,531	4

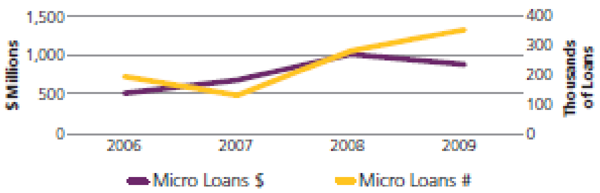
MSME Loans by SME FIs

IFC was able to survey or extrapolate outreach data from 23 SME FI clients in 14 countries. 32% of these clients received advisory services from IFC.

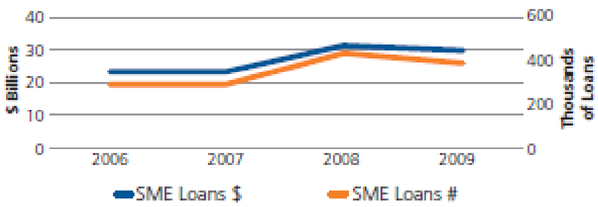
	Outstanding Loan Portfolio in #	Outstanding Loan Portfolio in $	Average Loan Size	NPL %
Micro Loans	355,280	878,992,326	2,474	7
Small Loans	286,626	6,799,155,422	23,721	9
Medium Loans	99,021	23,069,786,429	232,978	6

SME FINANCIAL INSTITUTIONS

Micro Loans



SME Loans



Source: IFC Financing to Micro, Small, and Medium Enterprises in Europe and Central Asia, 2010

During the recent ***global crisis*** and into the recovery, IFC has provided critical support to banking sectors and businesses in the hard hit Europe and Central Asia region, easing unemployment and ensuring that companies and individuals continue to have access to the finance they need. Crisis response facilities focused on areas such as trade finance and distressed assets. IFC Advisory Services responded to the crisis with programmes designed to support and stabilize banks and businesses. IFC delivered training to over 500 stakeholders on crisis-related topics, provided advice to banks on risk management and distressed assets, and helped the banking industry develop a Code of Conduct for Responsible Debt Collection.

The focus on bank portfolios helped preserving stability, strengthening the bank system, avoiding from bank failure risk and run on deposits, and granting the financial deliver to the local markets.

The IFC Capitalization Fund invested €120 million in Serbia's Komercijalna Banka in December 2009. In Bosnia and Herzegovina, IFC helped establish the Debt Advice Centre in a bid to help banks and microfinance institutions in the country deal with the rising number of non-performing loans. Moreover, numerous banks from Albania, Bosnia and Herzegovina, Serbia and Ukraine joined the ***IFC Global Trade Finance Program***; the program extends the bank capacity to deliver trade finance services and supports trade into and between emerging markets. In April 2010, IFC provided a €25 million loan that enabled NLB Tutunska Banka to extend loans to small and medium enterprises in Macedonia. Similar loans in support of smaller businesses were extended in Montenegro through NLB Montenegro Banka, through Agroindbank in Moldova, and through ProCredit Bank in Serbia, so helping address the limited access to finance for smaller businesses.

IFC, in partnership with the Swiss Confederation and the Netherland's Agency for International Business and Cooperation, activated the ***ECA Corporate Sector Crisis Management & Recovery Programme***[7]. This Programme works with small and medium-size enterprises in Eastern Europe and Central Asia to help the recovery from the effects of the economic crisis. In partnership with international companies and consultancies, the Programme disseminates practical tools in risk management, operational cost reduction and debt restructuring. The goal of the Programme is to increase SME efficiency by improving their ability to manage their businesses in the areas of crisis management, cost reduction and cash flow management, risk management and debt restructuring, and thus to emerge from the crisis stronger. The Programme covers Ukraine, Georgia, Russia, Azerbaijan, Tajikistan, Kyrgyzstan, Bosnia & Herzegovina, Montenegro, Albania, Serbia and Macedonia.

At the end of 2009 IFC launched the ***Debt and Asset recovery Programme*** (DARP)[8] to help the CEE region countries to recover from the crisis. IFC will contribute up to $1.55 billion over three years and expects to mobilize up to an additional $5 billion from other international financial institutions and private sector partners. DARP is investing directly in businesses that need to restructure debt and in pools of distressed assets and indirectly via investment funds targeting pools of distressed assets and companies. IFC operates within DARP in partnership with EBRD and other national and financial institutions.

[7] http://www.ifc.org/eca/cr

[8] http://www.ifc.org/ifcext/media.nsf/AttachmentsByTitle/AM09_DARP/$FILE/AM09_DARP.pdf

IFC is also to use grants worth over €3.2 million from Oesterreichische Entwicklungsbank (OeEB), the Development Bank of Austria, to help countries in Eastern Europe and Central Asia recover from the economic crisis by supporting smaller enterprises and improving access to finance for their entrepreneurs. The grants signed in October 2010 will help finance two projects. Under a €800,000 project, IFC will help address non-performing loans in Eastern Europe and Central Asia and implement a crisis response and recovery program. The program focuses on financial intermediaries and micro, small, and medium enterprises. Another project, totalling €2.43 million, is to benefit small and medium enterprises globally, with special components for Moldova, Azerbaijan, Kazakhstan, Serbia, Montenegro, Macedonia and Kosovo.

THE EUROPEAN UNION

The EU framework of reference for SMEs is the so-called ***Small Business Act for Europe*** (SBA), launched on June 2008[9] (and recently reviewed[10]), recognising the central role of SMEs in the EU economy and defining a comprehensive SME policy framework for the EU and its Member States. SBA aims to improve the overall approach to entrepreneurship, to irreversibly anchor the "*Think Small first*" principle in policy making from regulation to public service, and to promote SME growth by helping them tackle the remaining problems that hamper their development. The Small Business Act for Europe applies to all companies that are independent and have fewer than 250 employees, respecting the EU standard definition: following to these parameters, 99 percent of all European businesses can be included within this category[11].
SBA foresees an extensive business-support network, the Enterprise Europe Network[12], set up to assist and advise European SMEs to overcome daily business operative difficulties. The SBA represents a relevant reference point for all East European countries presently involved in the process of enlargement, view as an objective to acquire for future access to Single Market, as for non-candidate ENP countries the outline of the EU standard for SME scheme to aim in their economic system transformation.

For non EU-countries, Brussels promotes its political action through its external relations programme of cooperation, supporting the economic reform processes underway in East Europe transition countries, with a distinction in areas characterized by the level of bilateral cooperation development and membership proximity. In the case of FIT4SMEs Project, ***Candidate*** (Croatia, Macedonia, Montenegro) and ***Potential Candidate*** (Albania, Bosnia and Herzegovina, Serbia) countries are provided with assistance and funding with *Instrument for Pre-Accession Assistance* (IPA). Small businesses can benefit form of support for human resources and economic development within its component activity favouring regional development. Referring to other East Europe transition ***Neighbouring countries*** (for our RCs Belarus, Moldova, Ukraine), EU makes available instruments through the *European Neighbourhood Policy* and specific country Action Plan, also enforced through the *EuropeAid Development and Cooperation action Programme* for non-EU countries (within the Economic support sub-programme), providing funding for projects targeting sustainable development, economic development (both at the macro and micro-economic levels –

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[9] Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions, *"Think Small First", A "Small Business Act" for Europe*, CEC, Brussels, 25.6.2008, COM(2008) 394 final, http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2008:0394:FIN:en:PDF
[10] http://ec.europa.eu/enterprise/policies/sme/small-business-act/files/sba_review_en.pdf
[11] http://ec.europa.eu/enterprise/policies/sme/small-business-act/
[12] http://www.enterprise-europe-network.ec.europa.eu/index_en.htm

including supporting national budgets, funding regional integration activities and micro-finance initiatives), approximation to EU legislation and cross-border cooperation. EU finance support takes place within main European IFI regional development banks as EBRD and EIB, in which the EU participates as a relevant partner.

In the specific case, SME candidate countries can potentially benefit from instruments offered to EU member firms.

Competitiveness and Innovation Framework Programme (CIP)[13]

With small and medium-sized enterprises as its main target, the Competitiveness and Innovation Framework Programme (CIP) supports innovation activities (including eco-innovation), provides better access to finance and delivers business support services in the regions.
It encourages a better take-up and use of information and communication technologies and helps to develop the information society. It also promotes the increased use of renewable energies and energy efficiency. The CIP runs from 2007 to 2013 with an overall budget of € 3,621 million.
The CIP is divided into three operational programmes. Each programme has its specific objectives, aimed at contributing to the competitiveness of enterprises and their innovative capacity in their own areas, such as ICT or sustainable energy:

- The Entrepreneurship and Innovation Programme (EIP).
- The Information Communication Technologies Policy Support Programme (ICT-PSP).
- The Intelligent Energy Europe Programme (IEE).

The Competitiveness and Innovation Framework Programme has several schemes and a budget of over €1 bln to facilitate access to loans and equity finance for SMEs where market gaps have been identified.
The CIP financial instruments are implemented for the Commission by the European Investment Fund (EIF) on a trust basis. They cover different needs depending on the stage of development of the small business.
Main CIP financial instruments are:

- ***Equity financing: The high growth and innovative SME*** **(GIF).** SMEs wishing to apply for an equity investment need to contact the funds that have signed an agreement with the EIF. These funds make investment decisions based on normal commercial criteria. Financial institutions interested in participating in the programme should contact the EIF that manages the instruments or visit its CIP venture capital website.
- ***Guarantees: The SME Guarantee Facility*** **(SMEG).** It provides loan guarantees to encourage banks to make more debt finance available to SMEs, including microcredit and housing

[13] http://ec.europa.eu/cip/index_en.htm

finance, by reducing the banks' exposure to risk. SMEG provides co-, counter- and direct guarantees to financial intermediaries providing SMEs with loans, mezzanine finance and equity.

SMEs wishing to apply for guaranteed financing should contact one of the financial intermediaries that have signed an agreement with the EIF.

Entrepreneurship and Innovation Programme (EIP)[14]

The EIP, one of the specific programmes under the CIP, seeks to support innovation and small and medium enterprises in the EU, focusing on:

- access to finance for SMEs through "CIP financial instruments" which target SMEs in different phases of their lifecycle and support investments in technological development, innovation and eco-innovation, technology transfer and the cross border expansion of business activities;
- business and innovation service centres all around the EU and beyond provide enterprises with a range of quality and free-of-charge services to help make them more competitive through the "Enterprise Europe Network";
- support for improving innovation policy. Supports transnational networking of different actors in the innovation process and innovative companies, including benchmarking initiatives and the exchange of best practice;
- eco-innovation pilot and market replication projects for the testing in real conditions of innovative products, processes and services that are not fully marketed due to residual risks and that are aimed at reducing environmental impacts, preventing pollution or achieving a more efficient use of natural resources
- support for innovation and SME policy-making through contracts and grants: Analytical work and awareness raising activities (i.e. conferences and studies) on certain industrial sectors, SMEs or innovation policy are organised to inform and support policy-makers, and make policy suggestions to increase cooperation between EU Member States.

For the countries belonging to the Eastern neighbourhood region EU is promoting specific investment action through the ***Neighbourhood Investment Facility*** (NIF)[15].

The NIF, launched in May 2008, is an innovative financial mechanism aimed at mobilising additional funding to cover the investment needs of the Neighbouring region for infrastructures in sectors such as Transport, Energy, the Environment and Social issues (e.g. construction of schools

[14] http://ec.europa.eu/cip/eip/index_en.htm

[15] http://ec.europa.eu/europeaid/where/neighbourhood/regional-cooperation/irc/investment_en.htm

or hospitals). **The Facility also supports the private sector particularly through risk capital operations targeting small and medium-sized enterprises.**

As the amounts at stake for large infrastructure projects are huge (e.g. the total cost of projects supported by the NIF as of end of 2010 is more than €10 billion), the Neighbourhood Investment Facility has been designed to create a partnership bringing together grants from the European Commission and the EU Member States with loans from European public Finance Institutions as well as own contributions from the ENP partner countries.

By encouraging such large projects, the EU backs ENP partner countries priorities and supports them in carrying out necessary investments for the future. This is intended to have a significant positive impact on their population as well as on European citizens in the light of common interests (i.e. the de-pollution of the Mediterranean or the Black Sea).

Moreover, by enabling joint European operations, the NIF plays a key role in the concrete implementation of donor coordination, division of labour and harmonisation of procedures, which helps to increase the efficiency and the effectiveness of European external cooperation as well as its visibility. The NIF is a key-financing tool that supports the implementation of regional and multilateral processes, in particular the Union for the Mediterranean, the Eastern Partnership and the Black Sea Synergy.

For the 2007-2013 period, the European Commission has earmarked a total amount of €745 million for the NIF, which are complemented by direct contributions from Member States.

At present, within the NIF there are three projects approved and ongoing:

- ***The SME Finance Facility*.** It is one of the flagship initiatives of the Eastern Partnership. The Facility aims at offering a wide range of financial services and products to SMEs and financial intermediaries throughout the region, increasing the availability of long-term funding to the SME sector and helping the economies to recover from the economic and financial crisis. Financing actors are EIB, EBRD and KfW for a total cost of €300 million (of which NIF grant amount to €15 mln);
- ***The European Neighbourhood Fund*** **(ENBF).** The Fund aims at improving access to finance by micro and small enterprises in the Eastern Neighbourhood region, thus providing stimulus to growth and employment in the private sector. Lead IFI is KfW in partnership with OeEB, for a total cost up to €70 million (of which NIF grant is €10 mln);
- ***Financial Sector Institution Building and Crisis Response*.** This Technical Assistance aims at restoring access to credit by micro, small and medium-sized enterprises in the Eastern Neighbourhood region and Russia by providing assistance to banks that have been particularly affected by the financial crisis. The lead IFI is EBRD, while total costs have still to be evaluated (NIF foreseen grant is to be up to €12 million).

East-Invest - Support to SME sector

The recent launched €7 million East-Invest project aims to support during the timeframe 2010–2013 the economic development of the Eastern Neighbouring region and the improvement of its business environment through building up networks between the Eastern partners themselves and between them and the EU, in priority sectors, and by developing mechanisms to encourage the flows of Foreign Direct Investment (FDI). East-Invest also supports small and medium-size enterprises in their internationalisation process, improves their networking and facilitates their trade development.

The project seeks to strengthen public-private dialogue, by integrating into the networking mechanism SMEs, business facilitators and selected public-sector SME facilitators. It also supports the exchange of best practices and connections between the EU and EN companies with the ultimate goal of reaching business cooperation agreements, mutual trade, transfer of technology, customs procedures, product standards and investments. The project offers technical assistance to SMEs and public sector bodies and implements five specific instruments to achieve its goals, these are: SME Technical Assistance Facility, Trade Fair Technical Assistance Facility, SME Business-to-Business Facility, Business Facilitator (operator) Technical Assistance Facility and Institutional Exchange Facility.

At the core of East-Invest are two business networks, one in the EU (EURONET) and one in the Eastern Neighbourhood Region (EAST-NET).

Project Actions are focused on:

- The consolidation and establishment of SME support networks in EAST-NET and EURONET,
- The organisation of matchmaking meetings between EU and Eastern SMEs to initiate partnerships,
- The provision of technical assistance to SMEs within EAST-NET to enhance their networking and trading competences and opportunities,
- The offer of technical assistance to business facilitators within EAST-NET to build their abilities and opportunities in supporting SMEs network,
- Assistance to public sector bodies in their effort to create a more conducive business environment for SMEs.

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THE EUROPEAN INVESTMENT BANK (EIB)[16]

The European Investment Bank (EIB) is the European Union's financing institution. Its shareholders are the 27 Member States of the Union, which have jointly subscribed its capital. The EIB Board of Governors is composed of the Finance Ministers of these States. The EIB role is to provide long-term finance in support of investment projects.

Inside the European Union the EIB supports the EU's policy objectives in the following areas:

- *small and medium-sized enterprises:* stimulating investment by small businesses;
- *cohesion and convergence*: addressing economic and social imbalances in disadvantaged regions;
- *the fight against climate change*: mitigating and adapting to the effects of global warming;
- *environmental protection and sustainable communities*: investing in a cleaner natural and urban environment;
- *sustainable, competitive and secure energy*: producing alternative energy and reducing dependence on imports;
- *the knowledge economy*: promoting an economy that stimulates knowledge and creativity through investment in information and communication technologies, and human and social capital;
- *trans-European networks*: constructing cross-border networks in transport, energy and communications.

In 2009, some 89 percent of the total EIB financing of €79 billion went to projects inside the EU.

Outside the EU, the EIB is active in over 150 countries (the pre-accession countries of South-East Europe, the Mediterranean partner countries, the African, Caribbean and Pacific countries, Asia and Latin America, Russia and other neighbours to the East), working to implement the financial pillar of EU external cooperation and development policies (private sector development, infrastructure development, security of energy supply and environmental sustainability).

The EIB, as the largest international non-sovereign lender and borrower, raises the resources it needs to finance its lending activities by borrowing on the capital markets, mainly through public bond issues. Its AAA credit rating enables it to obtain the best terms on the market. As a not-profit institution, the EIB passes on this advantage in the terms it offers to the beneficiaries of its loans in both the public and private sectors.

The EIB works closely with the other EU institutions, especially the European Parliament, the European Council and the European Commission. The European Investment Fund is a subsidiary of the EIB.

[16] http://www.eib.org

For Enlargement Countries, for the period 2007-2013 the EIB provides finances for the countries in the enlargement region: **Candidate Countries (**Croatia, Turkey, Iceland, Macedonia), and **Potential Candidate Countries (Albania, Serbia, Montenegro, Kosovo under UNSCR 1244, Bosnia and Herzegovina).** EIB group lending in the enlargement countries takes the form of individual loans, intermediated loans and venture capital finance.

Individual loans (direct loans) are granted to projects where the total investment cost exceeds €25 million. The EIB may finance a maximum of 50pc of the total cost of any project.
Individual loans are available to promoters in both the public and private sectors, including banks.
The conditions of financing are adapted to the investment type. Adequate security is needed, such as that provided by a bank or banking syndicate, a financial institution, or a large diversified parent company with a good credit rating.
The Bank can offer fixed rates, revisable fixed rates, and convertible rates (allowing for the change of interest rate formula during the life of the loan at predetermined dates or periods).
The EIB does not normally charge commitment fees or non-utilisation fees. Fees for a project's appraisal and required legal services may be applicable in certain cases.
The EIB financial accounts are in Euro (€). In addition, the Bank can lend in UK Sterling (GBP), US Dollar (USD), Japanese Yen (JPY), Swedish and Danish Crowns (SEK and DKK), Swiss Franc (CHF), currencies of candidate countries and other EIB partner countries.
Repayment is normally on a semi-annual or annual basis. Grace periods for capital repayment may be granted for the construction phase of the project.

Intermediated loans are lines of credit or indirect loans designed to permit the financing of projects with a total investment cost of less than €25 million. An EIB credit line may finance up to 50pc of the total cost of any project or, in certain case, the 100pc of the loan granted by the intermediary bank. Credit lines are granted to intermediary banks and financing institutions in the country in which the project is based. These institutions pass on the EIB funds to the promoters, generally SMEs and local authorities.
To qualify as an SME, a company must normally have fewer than 250 employees and to respect the EU standard definition. The conditions of financing (interest rate, grace period, loan period etc.) are determined by the respective EIB partner bank. Maturities typically range between 5 and 12 years. Lending decisions under these schemes remain with the financial intermediaries.
Promoters are requested to apply directly to one of the intermediary banks and financing institutions, which operate on a national, regional or local level[17]. Requirements for application may vary according to the respective intermediary.

[17] For an updated list of the intermediary banks and financing institutions, by country, see the link: http://www.eib.org/about/news/the-intermediary-banks-and-financing-institutions-for-credit-lines.htm

EIB is a leading player in the European ***venture capital market*.** Venture capital is the funding source for innovation needed to build a knowledge-based society. The investment strategy has historically focused on early stage venture capital funds and the promotion of European technology. Through the investment history, EIB has acquired a reputation as a major player in the European venture capital market. Although a more diversified portfolio, EIB continues to actively invest in early stage, high-tech, regional and pan-European funds, thereby contributing to the development of a balanced European venture capital market.

In 2009, EIB was able to contribute to face the consequences of the financial crisis for venture funds in their fundraising efforts. Commitments to high quality funds have been increased with the aim to preserve the valuable European venture capital infrastructure in a period of capital attrition for this asset class.

EIB also supports investment efforts required to meet the requirements of EU legislation and to aid economic development prior to the start of membership negotiations.

The EIB works closely with the European Commission, combining grants and loans in the pre-Accession region to achieve an optimum financing package. Financing foreign direct investment receives particular emphasis, since transfers of both capital and know-how are strong drivers for economic modernisation, exports and higher productivity.

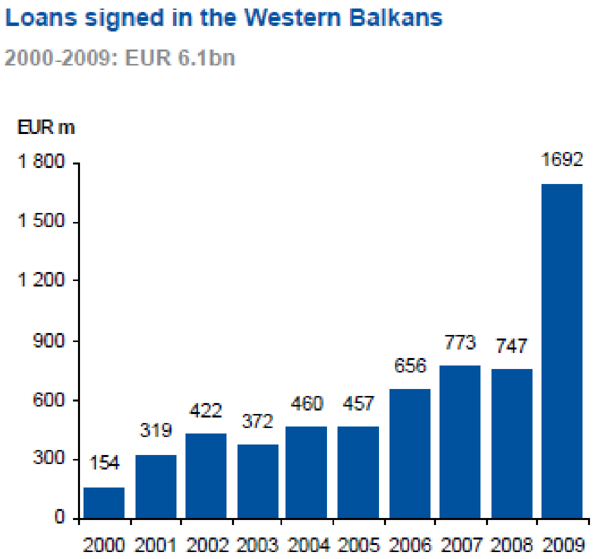
Strictly speaking of the EIB finance action in favour of SMEs, one of the EIB top operational priorities is *to support the investments of small and medium-sized enterprises* active in the EU-27 market. Well before the crisis broke out, the EIB undertook a wide-ranging consultation of SME market players enabling it to develop a new lending product, doubling EIB loans for SMEs. Available since October 2008 and channelled through commercial banks, these new loans are simpler, more flexible and more transparent, making it possible to reach a greater number of European SMEs.

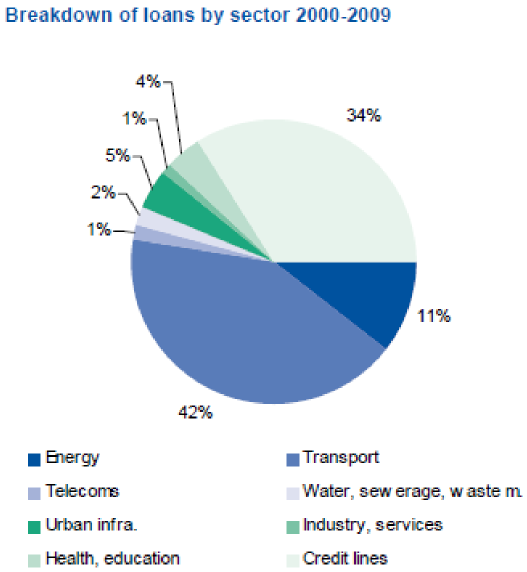
With a total of €20.8 bln signed with intermediary banks during 2008 and 2009, the EIB is well on its way to delivering on its target of lending €30 bln to EU SMEs between 2008-2011, a target set in the European Economic Recovery Plan that was adopted by the Heads of State and Government in December 2008.

Consequently, a particular attention is also given to the SMEs of the candidate neighbouring countries.

EIB in the Western Balkans

The EIB has been active in the Western Balkans since 1977 and is today the largest international financier in the region. Over the past ten years, the Bank has financed projects totalling €6.1 bln in the area. The Bank's focus in the Western Balkans has been on the implementation of transport, energy, health and education projects, support for small and medium-sized enterprises and local authorities, industry and services, water and sanitation.





Source: EIB Financing in the Western Balkans Factsheet, 2010

The EIB aims to foster through its financing the countries’ economic development and their integration and harmonisation process with the EU. In the late 1990s financing focused on urgent reconstruction and repairs to damaged infrastructure. Thereafter, EIB loans were earmarked for the modernisation and upgrading of national infrastructure supporting the competitiveness of the economy. Over the last three years, the EIB has diversified its lending into new sectors, such as health and education. It has also increased its support to SMEs and local authorities through lines of credit with local banks and leasing companies. To support candidate countries and potential candidate countries, the EIB offers lending without a state guarantee, corporate-sector finance, as well as technical assistance and innovative financial instruments.

The EIB lends to all countries in the Western Balkans on the basis of an EU budget guarantee (*Pre-Accession Mandate*) for an amount of €8.7 billion over the period 2007-13. The EIB also lent at its own risk under the *Pre-Accession Facility* (€5.5 bln over the period 2007-2010).

Within the IFI action defined in support of East European countries countering the financial crisis, in November 2009 the EIB, in partnership with the European Commission, the European Bank for Reconstruction and Development, the Council of Europe Development Bank, with the endorsement of EU Member States, launched the ***Western Balkans Investment Framework*** (WBIF) to finance priority projects in the Western Balkans.

The objective was to pool and coordinate different sources of finance and leverage loans with grants for priority projects in the countries of the Western Balkans. An initial focus on

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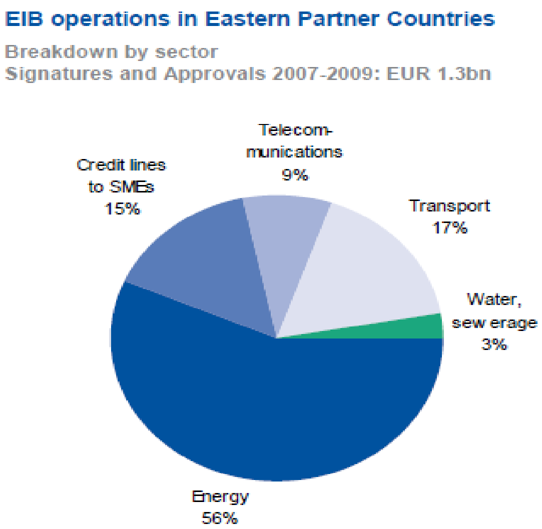
infrastructure sectors, including social infrastructure has been expanded to include support to small and medium-sized enterprises (SMEs), energy efficiency and other investment sectors.
A first meeting of the WBIF Steering Committee decided to allocate €26 million of grants for technical assistance support to 26 projects across the region in various sectors. The projects are expected to attract €2.2 billion of loans from International Financial Institutions.
The WBIF consists of a joint grant facility and a joint lending facility to finance priority projects in the Western Balkans. The joint-grant facility will contribute to financing the preparation and implementation of priority projects in Albania, Bosnia Herzegovina, Croatia, Macedonia, Kosovo (under UNSCR 1244), Montenegro and Serbia, contributing to economic growth in the Western Balkans in the context of the accession process.
The WBIF represents a single entry point for project submission by beneficiary countries and screening by contributors and financiers.

In December 2009 the EIB, in partnership with the German Development Bank KfW launched the ***Green for Growth Fund for South Eastern Europe*** (GGF SEE), in cooperation with the the European Commission and the EBRD as additional lead investors, and since April 2010 also the IFC. The mission of the Fund is to enhance the energy efficiency and renewable energy sector in the pre-accession countries in the Western Balkans (Croatia, Serbia, Albania, Macedonia, Montenegro, Bosnia and Herzegovina and Kosovo under UNSCR 1244) and Turkey through the provision of dedicated financing to private businesses, SMEs and households partnering with local financial institutions. The initial committed funds amounted to €128 million, an amount that will grow with the addition of the IFC contribution (€25 million) that should reach a €400 million collective plafond. Besides the long-term loans are also offered well-tailored technical assistance facilities for capacity building.

EIB operations in the Eastern Neighbourhood

The EIB also supports the EU Neighbourhood Policy in the ***Eastern Partner Countries*** by financing projects of significant EU interest. The EIB finances projects in Ukraine, Moldova, Armenia, Azerbaijan, Georgia and Russia (while operations in Belarus are subject to joint EU Parliament/Council decision and approval) on the basis of an EU mandate of €3.7 billion for the period 2007-2013. In line with this mandate, EIB activity focuses on projects of significant interest to the EU in transport, energy, telecommunications and environmental infrastructure. Outside Russia, the Bank can finance projects benefiting small and medium-sized enterprises in all sectors within the framework of the Joint IFI Action Plan.
In December 2009, the EIB Board of Governors also approved the creation of an ***Eastern Partners Facility (EPF)***, which enables the Bank to lend up to €1.5 billion at own risk to its balance sheet (without EC guarantee), further strengthening economic ties between the EU and its neighbours

notably by supporting direct investment by European companies. The EPF allows the Bank to support EU foreign direct investments in Eastern Neighbour countries, with a €500 million ceiling for projects in Russia. The bulk of the facility is used to support investment-grade projects/structures; financing up to €150 million can be structured pursuant to the Structured Finance Facility, which provides for a higher risk bearing capacity. Thanks to the EPF, the Bank plays a pro-active role in supporting the resumption of FDI in Eastern Europe and thereby contributes to the modernisation of these economies and to their integration with the EU economy.



Source: EIB financing in the EU's Eastern Neighbours Factsheet, 2010

EIB has signed and approved financing operations totalling over €1.3 billion for major investment projects in the EN region in the past three years. The Bank gives priority to projects on extended major trans-European network axes, projects with cross-border implications for one or more Member States and major projects fostering regional integration through increased connectivity. In the energy sector, priorities relate to strategic energy supply and energy transport projects. In the environmental sector in Russia, the EIB gives particular priority to projects within the framework of the Northern Dimension Environmental Partnership. In 2009, the EIB approved its first loans for SMEs via partner financing institutions in the region. SMEs will be able to apply for funding to these institutions for projects costing up to €25 million.

The European Investment Bank launched in September 2009 at the Istanbul IFI meeting to support Eastern recovery a lending facility via other financial institutions for small and medium-sized enterprises in the EU's Eastern Neighbours[18], expanding geographic coverage and offering its SME

[18] http://www.eib.org/about/press/2009/2009-184-eib-launches-sme-loans-for-eus-eastern-neighbours.htm

loans product also to Eastern Partnership countries, establishing an appropriate joint small and medium-sized enterprise facility that enables EIB to support via partner banks in the region investments by SMEs and energy and environmental projects costing up to €25 million. EIB is in talks with a number of state-owned development banks in the region as well as EU banks with subsidiaries in the region with a view to concluding the first loan agreements.

In June 2010 the EIB started a €175 million ***ProCredit (PCH) loan for SMEs and priority projects*** benefitting several financial institutions from East Europe (Serbia, Ukraine, Bulgaria, Georgia, Armenia, Albania, Moldova, Macedonia, Bosnia and Herzegovina, Romania and Kosovo under UNSCR 1244), that foresees:

- <u>for Member States and Western Balkans</u>: loan for financing small and medium-sized projects promoted by SMEs (within the Bank's usual eligibility criteria) as well as infrastructure projects promoted by local authorities and projects for investments in the fields of knowledge economy, energy, environmental protection, health and education promoted by final beneficiaries of any size;
- <u>for Eastern Partnership Countries</u> (Armenia, Georgia, Moldova and Ukraine): loan aimed at providing finance to SMEs, as well as to small and medium-size energy and environment projects promoted by mid-caps and public sector entities.

The credit line will make available access to long-term funds at affordable interest rates to sectors of the economy with least availability of financing – small and medium size enterprise and local authorities.

THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)[19]

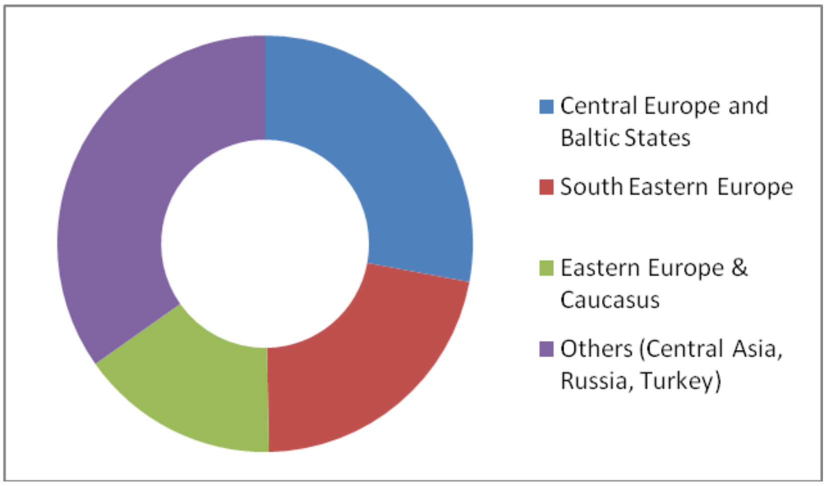
The European Bank for Reconstruction and Development (EBRD) is the first international financial institution of the post Cold War period. It was established in 1991 in response to major changes in the political and economic climate in central and eastern Europe. Inaugurated less than two years after the fall of the Berlin Wall, the Bank was created to support the development of market economies in the region following the widespread collapse of communist regimes.

EBRD commitments 1991-2009 (€ million)

TOTAL	47,685
Central Europe and Baltic States	13,319
South Eastern Europe	10,385
Albania	518
Bosnia & Herzegovina	1,054
Macedonia	527
Montenegro	103
Serbia	1,829
Eastern Europe & Caucasus	7,395
Belarus	262
Moldova	348
Ukraine	4,760
Others (Central Asia, Russia, Turkey)	16,586

The EBRD is the largest investor in Central and Eastern Europe and the former Soviet Union areas. Since it was established in 1991, it has provided over €47.7 billion (of which 7.9 bln in 2009) to support the transition from centrally planned to market economies. Over €4 billion (8.5 percent of the global investment) have been provided to SEE Project recipient countries and €5.37 billion (11.3pc) to the three ENC Project RCs.

19 http://www.ebrd.com



Source: EBRD Annual Report 2009

The Bank is funded by 61 shareholders countries plus two international institutions (European Union and the EIB) and works in both the public and private sectors. Financing is provided directly or through financial intermediaries, such as local banks and investment funds. Support is also provided through business development programmes that help to promote new skills in the region. EBRD approach to dealing with projects is similar to commercial banks. A project has to be commercially viable to be considered and financing is provided on a commercial basis.
The EBRD has a strong presence in all of its countries of operations through a network of local offices providing in-depth knowledge of the social, economic and political conditions within the region and help to generate and implement new projects as well as monitor existing operations[20].
The EBRD complements private sources of finance. The Bank invests where it can provide added value, by investing in projects that could not otherwise attract financing on similar terms. The work is in partnership, drawing other investors and serving as a catalyst to attract triple the amount of investment provided by the EBRD. In some cases, selective grant funding is available from bilateral or multilateral donors, which assists with project preparation. Grants from donors are used to finance consultants who support the preparation and implementation of a project.

Requirements for EBRD financing

EBRD financing for private sector projects generally ranges from €5 million to €250 million, in the form of loans or equity. The average EBRD investment is €25 million. Smaller projects may be financed through financial intermediaries or through special programmes for smaller direct investments in the less advanced countries. The financing project duration can reach 15 years for long-term sovereign infrastructure projects.
To be eligible for EBRD funding, the project must:

[20] http://www.ebrd.com/pages/about/where.shtml

- be located in an EBRD country of operations;
- have strong commercial prospects;
- involve significant equity contributions in-cash or in-kind from the project sponsor;
- benefit the local economy and help develop the private sector;
- satisfy banking and environmental standards.

The EBRD tailors each project to the needs of the client and to the specific situation of the country, region and sector. The EBRD typically funds up to 35 percent of the total project cost for a greenfield project or 35pc of the long-term capitalisation of the project company. The Bank requires significant equity contributions from the sponsors, which must equal or be greater than the EBRD investment. There must be additional funding from the sponsors, other co-financiers or generated through the EBRD syndications programme.

The EBRD finances projects in most sectors. These include: agribusiness, energy efficiency, financial institutions, manufacturing, municipal and environmental, infrastructure, natural resources, power and energy, property and tourism, telecommunications and information, technology and media, transport.

The EBRD does not finance sectors for defence-related activities, the tobacco industry, selected alcoholic products, substances banned by international law and stand-alone gambling facilities.

The principal forms of **direct financing** that may be provided by the EBRD are loans, equity and guarantees.

Loans

The EBRD loans are structured with a high degree of flexibility to match client and project needs. The Bank suggests a suitable loan currency and interest rate. The basis for a loan is the expected cash flow of the project and the ability of the client to repay the loan over the agreed period. The credit risk can be taken entirely by the Bank or may be partly syndicated to the market. A borrower's assets may secure a loan and/or it may be converted into shares or be equity-linked. EBRD loans consist of the following features:

- a minimum amount of €5 million, although this can be smaller in some countries,
- a maximum amount of €250 million (the average loan amount is €25 million),
- a fixed or floating rate,
- senior, subordinated, mezzanine or convertible debt,
- denominated in major foreign or some local currencies,
- short to long-term maturities, from 1 to 15 years,
- project-specific grace periods where necessary.

EBRD loans are priced competitively, based on current market rates, such as EURIBOR. The EBRD offers both fixed and floating interest rates (with a cap or collar). The EBRD does not subsidise projects, does not offer soft loans and the Bank does not compete with private banks.

A margin above the base rate is added to reflect country risk and project-specific risk. This information is confidential to the client and the EBRD. In addition to the margin, the Bank charges the following fees and commissions:

- appraisal fee,
- front-end commission and structuring fee, paid up-front,
- syndication fee, where applicable,
- commitment fee, payable on the committed but undisbursed loan amount,
- loan conversion fee, paid at the time of interest rate, or currency conversion on the amount that is to be converted,
- prepayment, cancellation and late payment fees where applicable.

In line with commercial practice, sponsors are obliged to reimburse the EBRD for out-of pocket expenses, such as fees for technical consultants, outside legal counsel and travel expenses.

Full lending terms are negotiated with the client for each project. *Recourse* to a sponsor is not always required. However, the EBRD may seek specific performance and completion guarantees plus other forms of support from sponsors of the kind that are normal practice in limited-recourse financing. The EBRD requires project companies to obtain *insurance* against normally insurable risks. Examples include theft of assets, outbreak of fire, specific construction risks. The Bank does not require insurance against political risk or non-convertibility of the local currency.

The EBRD usually requires the companies it finances *to secure the loan* with project assets. These can include:

- mortgage on fixed assets, such as land, plant and other buildings,
- mortgage on movable assets, such as equipment and other business assets,
- assignment of the company’s hard currency and domestic currency earnings,
- pledge of the sponsor’s shares in the company,
- assignment of the company’s insurance policy and other contractual benefits.

Typical project finance *covenants* are required as part of the loan package. Such covenants, limiting indebtedness and specifying certain financial ratios and various other issues, will be negotiated. *Repayment* is normally in equal, semi-annual instalments. Longer maturities and uneven repayment schedules may be considered on an exceptional basis – for example, up to 15 years under mortgage-style authorization for large infrastructure operations.

The EBRD can help manage financial risks associated with a project's assets and liabilities. This covers foreign change risk, interest rate risk and commodity price risk. *Risk-hedging instruments* include currency swaps, interest rate swaps, caps, collars and options and commodity swaps.

Moreover, projects that are too small to be financed directly by the EBRD can still benefit from specific investments. The EBRD supports local commercial banks, which in turn provide loans to SMEs and municipalities[21]. Tools that may be available include credit lines, bank-to-bank loans, standby credit facilities and equity investments in the local banks. SMEs should contact local banks directly to access finance and check local requirements and investment limits. Micro and small and small and medium-sized loan financing is available from banks with which the EBRD has signed a loan or standby facility or in which the EBRD has made an equity participation.

Businesses looking to obtain loans through local banks should provide:

- sound business plans for establishing or expanding a company's business,
- solid management with a proven track record,
- products that are competitive in the marketplace,
- information on owners/partners,
- financial history,
- security in the form of pledges, mortgages, etc.,
- funds provided must be used in strict accordance with the aims stated in the original business plan,
- in line with the EBRD mandate, banks ensure that all proposals pay due regard to environmental issues,
- funding cannot be provided to majority state-owned companies or for government-guaranteed projects.

Equity

The EBRD can acquire equity in amounts ranging from €2 million to €100 million in industry, infrastructure and the financial sector if there is an expected appropriate return on investment. The Bank will take only minority positions and will have a clear exit strategy. The EBRD equity and quasi-equity instruments include:

- ordinary shares, listed or unlisted,
- subordinated and convertible loans,
- income notes,
- redeemable preference shares,
- underwriting of share issues by public or privately owned enterprises.

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[21] List of local banks granting loan financing or standby facility: *Loan Financing for Small and Medium sized enterprises*, EBRD, http://www.ebrd.com/downloads/funding/small_med_business_banks.pdf

Other forms of financing can be discussed with EBRD banking staff. The EBRD usually exits within four to eight years of the initial investment, varying from project to project. The Bank's exit strategy typically involves selling its participation to the project sponsors or selling the investment via a public offer.

The EBRD also participates in ***equity funds***, which focus on a specific region, country or industry sector, have a local presence and are run by professional venture capitalists. These funds use the same investment criteria as the EBRD when it considers direct investments.

The terms and conditions of EBRD investment depend on risks and prospective returns associated with each project. They are also affected by the financial/ownership structure of the project company. As the Bank has limited capital resources, it does not take long-term equity investments or controlling interests. Nor does it assume direct responsibility for managing the project company.

To give entrepreneurs and smaller firms greater access to finance, the EBRD also supports financial intermediaries, such as local commercial banks, micro-business banks, equity funds and leasing facilities.

Equity finance is available from EBRD-supported private equity funds, donor-supported equity funds and directly from the EBRD. Equity funds support all kinds of investments including business start-ups, expansion and acquisitions. Some funds specialise in financing companies in need of restructuring, in distressed situations or mezzanine capital for a later stage. Fund investments generally have a higher prospective return and require longer-term risk capital than standard EBRD projects. Investment criteria are consistent with EBRD policy, but investment decisions are made by fund managers.

The EBRD provides various types of ***guarantees***. These range from all-risk guarantees, whereby the Bank covers lenders against default regardless of the cause, to partial risk-specific contingent guarantees covering default arising from specified events. In all cases the maximum exposure must be known and measurable and the credit risk must be acceptable. Precise legal definitions of the events guaranteed and pricing are handled on a case-by-case basis. Main products are:

- debt guarantees,
- equity guarantees,
- local currency loan guarantees,
- guarantees for capital market products,
- guarantees for trade facilitation.

EBRD guarantees cover a wide range of goods and services, including consumer goods, commodities, equipment, machinery and power supply as well as cross-border engineering, construction, shipbuilding and technical and other services.

The EBRD tries to mobilise domestic and foreign capital because co-financing increases the resources available for funding other projects and introduces borrowers to the international debt markets. Sources of ***co-financing*** include commercial banks, official co-financiers (such as government agencies and bilateral financial institutions providing grants, parallel loans and equity), export credit agencies and other international financial institutions, such as the International Finance Corporation and the World Bank. The EBRD aims to broaden and deepen the co-financing base by increasing the number of commercial lenders, and by introducing new co-financing structures and new countries into the market. By being flexible and responding to the market, the Bank seeks to maximise the sources of finance available to clients and to structure the most appropriate forms of finance. The types of co-financing available include A/B loans (where the EBRD finances a portion of the loan and syndicates the remainder to commercial lenders), parallel loans, export credit agency guarantees, political risk insurance, loans and equity from international financial institutions and grants. The EBRD works in partnership with other institutions to increase the availability of financing and improve the investment climate in the region.

Technical Cooperation (TC) is part of EBRD business model and allows the Bank to provide a range of advisory services to its current or prospective clients. TC may include: i) consultancy services for feasibility studies as part of EBRD project preparation; ii) institutional reform; iii) procurement and project management assistance during project implementation, iv) energy audits, v) the TurnAround Management (TAM) and Business Advisory Services (BAS) Programme, vi) the development of management skills and vii) legal advice to improve legislation and corporate governance, and to develop the regulatory framework. Technical Assistance is offered to EBRD clients free of charge or on a cost-sharing basis and is funded by governments or international organisations.

Early Transition Countries Initiative[22]

In early 2004 the EBRD launched a new initiative to increase its activities in the ten 'Early Transition Countries' (ETCs).

The Early Transition Countries Initiative aims to stimulate economic activity in the Bank's countries which still face the most significant transition challenges: Armenia, Azerbaijan, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan, Turkmenistan and Uzbekistan. More than 50 percent of the people in these countries live below the national poverty line.

[22] http://www.ebrd.com/pages/about/where/etc.shtml

The pace of economic development in the early transition countries has been hindered in particular by underdeveloped local infrastructure, small domestic markets coupled with limited access to world markets and a difficult business climate, together with competition from more attractive destinations for foreign direct investment.

The initiative aims to stimulate market activity in these countries by using a streamlined approach to financing more and smaller projects, mobilising more investment and encouraging ongoing economic reform. The initiative builds on international efforts to address poverty in these members of the Commonwealth of Independent States (CIS).

The Bank will accept higher risk in the projects it finances in the ETCs, while still respecting the principles of sound banking. To increase its investments in these countries the EBRD has allocated more staff to work on ETC projects and has created a new team dedicated to the initiative.

The ETCs have lagged behind the rest of the region in their transition to market economies and more than one out of every two people live below the poverty line.

Economic development is hindered by a number of factors:

- national debt is extremely high in most of the ETCs;
- reform and improvement of key institutions – banks, courts and regulatory authorities, state enterprises, infrastructure – is slow, as is the transition to democracy and stability;
- business skills are lacking;
- domestic markets are small, distances large, borders are difficult to cross (whether by goods or people);
- basic services from roads to telecommunications are not in good shape.

This poor investment climate, which discourages foreign investment, is addressed by the initiative both at the micro level of individual project finance and advisory services to local enterprises and financial and the macro level of policy dialogue and institutional reform in selected sectors.

Priorities for each of the ETCs are set out in the relevant EBRD country strategies and take into account national poverty reduction strategies.

The EBRD initiative emphasises private sector development, particularly in micro, small and medium sized enterprises (MSEs and SMEs). These enterprises offer the greatest opportunities for creating sustainable employment and prosperity. They also can have a positive impact on a country's transition to democracy: their owners have a stake in improving the ways laws and regulations are made and implemented, and in reducing corruption.

In 2009, pledges to the Fund had reached about €67 million, granted by fourteen donors. These funds are untied, which means that donor funds can be used without any restriction on the nationality of the firm or experts contracted in particular projects. Since its establishment in 2004, nearly 463 loan and equity projects in the ETCs have supported the development of private domestic enterprises, the financial sector and improvements to the local infrastructure.

EBRD SUPPORT TO MSMES

One of the EBRD's key aims is **to support the development of micro, small and medium-sized enterprises** (MSMEs) which are crucial to nurturing a private sector economy[23]. To do this, EBRD may make equity and loan financing available to SMEs through a range of intermediaries throughout our countries of operations. These intermediaries include banks in which the EBRD has an equity stake or with which it has signed a loan, and investment or venture capital funds in which the EBRD has made an investment.

Providing sustainable *lending and universal financial services* to the MSME sector is a key element of financial sector development, considering that financial institutions and markets are differently underdeveloped in EBRD countries of operations – even the most advanced. The structure and needs of the MSME sector vary among countries at different stages of transition and are also influenced by the history and economic structure of the countries. The degree of underdevelopment is higher the poorer the country and the less advanced it is in the transition iter towards an efficient market economy and a pluralistic, open society and political system. For this reason, the intervention by the Bank is designed to bring benefits both to MSMEs and to the financial institutions engaged in MSME financing. The support is designed with a view to ultimately making these activities financially sustainable.

The Bank has utilised its core products through financial intermediaries to cater for the financing and development needs of MSMEs. These include credit lines to existing commercial banks (so called *partner banks*) focused on MSE and/or SME sub-borrowers, investments in and loans to specialised micro-finance banks, SME leasing operations, and loans to non-bank micro-finance institutions. These products have proved durable and successful and with the necessary evolution and adaptation, they remain at the heart of the strategy moving forward. In addition, the Bank explores the use of guarantees, capital markets and local currency instruments to provide a diverse range of products to meet the need of the evolving regional markets. The Bank also encourages intermediaries in the provision of universal services in addition to lending which are recognised as a need of the MSME market.

Technical assistance, which supports the intermediaries' ability to provide efficient and quality financing on a sustainable basis, has been central to the Bank's support to the MSME sector and made possible the broad reach of the programme across international and local commercial banks, as well well through the establishment of greenfield micro-finance banks, and through non-bank financial institutions. Through technical assistance, the Bank has been able to accompany its capital

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[23] *Micro, Small and Medium-Sized Enterprises Strategy*, As Approved by the Board of Directors at its Meeting on 7 February 2006, EBRD, http://www.ebrd.com/downloads/policies/sector/msme.pdf

resources with significant institution building support, addressing all aspects of banking to the MSME sector including inter alia, credit methodology, information technology, universal banking services, rural and agricultural lending and corporate governance.
As well as providing technical assistance for intermediaries, the Bank strengthens individual MSMEs, pre- and post- financing through the TAM/BAS Programme. TAM/BAS both develops pipelines for financing and helps protect financing already in place, by improving management and business skills. The strategy aims to provide support for MSMEs across all of the Bank's countries of operations, strengthen the financial sector infrastructure dedicated to financing growth of MSMEs of all sizes, improve the business environment for MSMEs, and develop the skill sets of entrepreneurs. In this context, the strategy continues to be structured around the three pillars established in its 2000 Strategy "*Promoting SMEs in the Transition*", namely, Finance, Policy Dialogue and Business Support.

The Bank supports MSME programmes that identify and fill a gap in the existing financing market. The EBRD fills this gap not only by providing finance for MSMEs, but also by mobilising support for capacity building for MSME financing operations in partner institutions and fostering a culture of credit in its countries of operations. Importantly, donor support is used to leverage the Bank's resources and to achieve the broader impacts associated with these activities. The programmes also catalyse private sources of funding for MSMEs with the aim of increasing the share of private financing over time. As the participating financial intermediaries develop and mature, an increasing emphasis is placed on assisting them in attracting and mobilising non-IFI funding and ultimately achieving financially sustainable activities. This aspect is particularly true for the non-bank micro-finance institutions which the Bank has started to work with, which have in large part been dependent on donor grants and are new to commercial financing.

The TAM/BAS Programme

The EBRD *TurnAround Management* and *Business Advisory Services* (TAM/BAS) Programme for non-financial micro, small and medium-sized enterprise support focuses on assisting and improving the management skills of enterprises, leading to greatly improved business performance and increased job opportunities.
Areas of assistance include restructuring of businesses, improving enterprises' products, reducing operating costs, advising on local and export markets and helping to develop business planning skills at management level.

TAM (*TurnAround Management)* focuses on substantial managerial and structural change within companies, by providing the advisory services of experienced senior executives from economically developed countries;

- TAM helps enterprises with 200-1,500 staff,

- the programme restructures and improves management culture and skills,
- experienced staff from economically-developed countries transfer commercial and technical know-how.

BAS (*Business Advisory Services*) supports short-term projects that have narrowly-defined objectives. It does this by developing networks of local business advisory services that can assist enterprises in meeting specific goals;

- BAS helps enterprises with up to 250 staff,
- enterprises receive guidance from local private sector consultants,
- grants of up to € 10,000 are provided,
- local BAS teams organise market development activities.

The TAM/BAS strategy is to foster transition through a two-pronged, inter-linked support Programme. TAM restructures and introduces a new management culture in transition countries, for communities as well as individual enterprises, by utilising the skills of industry-specific, senior managers from developed countries. BAS teaches MSME managers to use external business services, and, at the same time, develops local business consultancy sectors.

TAM/BAS is an essential pillar in the MSME strategy, since financial investment alone cannot answer to all the economic development needs of the Bank's countries of operation. Individual MSMEs require urgent assistance in order, for example, to develop strategic business and marketing plans, to improve management skills, to develop new products and to raise quality standards to those demanded by their actual and potential export markets. These goals can only be reached quickly through the provision of customised and focused assistance to individual companies with the explicit objective of achieving such results.

The TAM/BAS Programme has a long and successful record in assisting the development and growth of MSMEs, and the linking of banking projects with TAM/BAS activities is now and will remain a high priority for banking teams. TAM and BAS are able to produce strong pipelines of potential candidates for external financing by the Bank's instruments or those of its partner banks, because working with enterprises on advisory projects is a very effective screening procedure. Moreover, TAM/BAS expertise can also be applied to strengthening the performance of enterprises in the post-investment phase.

An immediate productive feature of closer Bank/TAM/BAS relationships could be direct collaboration in MSME programmes in the transition countries. For example, in those countries there is a demonstrably strong demand for micro and small loans that is being met by the Bank's MSE lending programs and micro-finance banks. Based on feedback from MSMEs in the Caucasus, the synergy of linking this type of financing with TAM/BAS projects would be very beneficial and create an extremely high demand for overall transition assistance.

SME PROGRAMMES WITH PARTNER BANKS AND LEASING COMPANIES

The **EU/EBRD SME Finance Facility** (EU SME Facility)[24], initiated in 1999, is the Bank's main instrument for financing small businesses in the EU countries of Central and Eastern Europe (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia). Under the programme, the EBRD made €716 million funding available for lending and lease financing to SMEs with an EU contribution of €130 million for technical assistance and financial incentives through loans to local banks, leasing companies and investments in private equity funds..

The average loan/leasing to a participating bank or leasing company is between €5 million and €15 million. The financing extended is normally for small enterprises with up to 100 employees (up to €100,000) and micro enterprises with less than 10 employees (up to €30,000). The equity funds range between €12 and €20 million, and maximum financing per investee is restricted to €1 million for a minority stake. The Bank normally holds minority positions (up to 49 percent).

The programme also intends to catalyze banks and leasing companies to provide financing to SMEs and reach the lower end of the market. However, average size of sub-loan and lease financing are higher in the less advanced countries.

Working with increased number of financial intermediaries remains an EBRD key priority in expanding the scope of SME lending programmes. Within the framework of the existing model, the Bank's future strategy for the programme focuses on potential new directions:

- although the Bank works through different financial intermediaries, banks remains the main vehicle for SME finance. The Bank continues to focus on providing long term funds to established commercial partner banks for SME lending;
- in the Accession states, the Bank will continue to implement the EU SME Facility. Following the successful experience showed by the capacity-building programme for the financial sector, the *EU SME Facility was enlarged to the pre-candidate countries of South Eastern Europe as part of the Instrument for Pre-Accession Assistance (IPA) initiatives from 2007 onwards*. In the EU candidate and pre-candidate countries, a combination of performance fees and technical assistance are used to achieve the potential transition impacts;
- in the new Member States, the Bank implements the EU/EBRD Preparatory Action programme, which is an evolution of the SME Facility with the aim of encouraging microfinance in particular. Since the EU SME Facility has widely demonstrated the potential for banks and leasing companies to serve the SME market segment in the new Member States, technical assistance for institutional building is focused on expanding further into the MSE segment. Under this programme, no performance fee support will be provided;

[24] http://www.ebrd.com/pages/sector/financial/sme.shtml

- *the Bank mobilises donor funding to implement programmes similar to the EU/EBRD SME Finance Facility in countries that have not yet been covered or are in an immature stage of development. Examples are the Western Balkans SME Finance Facility and the Ukraine*;
- leasing may in some cases be the only funding source available to SMEs as those enterprises in many instances cannot afford other 'traditional' bank financing. On the other hand, leasing is a key part of more developed financial markets and it generally follows the development of the banking system as financial sectors become more advanced and adequate legislation is in place. The Bank's goal is to continue to work with leasing companies to improve their lease underwriting to reduce losses and ensure their long-term viability;
- risk-sharing is one way to alleviate bank balance sheet and equity requirements under Basle II, which should be fully implemented by the end of 2006. The Bank is introducing risk-sharing products for banks' SME portfolios in the more advanced markets. This is a key product with which the Bank will remain additional including in the advanced countries.

***US/EBRD SME Finance Facility*[25]**

The US/EBRD SME Financing Facility was established in July 2000 to promote private sector growth and economic development in South East Europe (SEE) and Early and Intermediate Transition (EIT) Countries. US/EBRD SME FF was EBRD first regional MSE finance fund, providing support for the establishment of a network of microfinance banks in South East Europe and the development of partner bank programmes in Central Asia.
The Facility focuses on micro and small business lending (loans up to $10,000 and $100,000 respectively), with up to 20percent of the funds available for loans of up to $500,000 to medium-sized borrowers.
The Facility approaches MSE financing in three ways:

- providing access to financing for micro, small and medium-sized enterprises through local financial intermediaries;
- providing technical assistance and training to these intermediaries to strengthen their lending capacity;
- reducing barriers to investment and private sector development by identifying legal, policy and regulatory constraints to the financing and development of private enterprises, particularly micro businesses and SMEs.

The Facility covers the following countries: Albania, Armenia, Belarus, Bosnia & Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Georgia, Kazakhstan, Kosovo, the Kyrgyz Republic, Romania, Serbia, Tajikistan and Ukraine.

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25 http://www.ebrd.com/russian/pages/sector/financial/micro/sme_facility.shtml

Western Balkans Private Sector Support Facility (PSSF)[26]

The EBRD defined in 2010 a framework operation of €110 million under which credit lines are to be provided to commercial banks in the Western Balkan region for on-lending to private sector borrowers for energy efficiency and small-scale renewable energy investments and to SMEs to improve competitiveness in preparation for EU accession. The **PSSF** Project intend to:

- generate transition impact by supporting sustainable development of Western Balkan SMEs within the EU single market by facilitating enterprise upgrading targeted to support SMEs to better comply with EU Directives in the areas of environmental protection, health and safety and product quality and safety, as have been or will be transposed into local laws as part of the EU accession process;
- encourage behavioural change of enterprises with respect to the objectives promoted by EU regulations, which is consistent with the business conduct and standards desirable in a fully functioning market economy while maintaining efficient use of resources;
- provide demonstration effects of sustainable energy investments among sub-borrowers and skills transfer arising from project preparation technical assistance to the private sector borrowers and increased awareness with respect to the new competitive environment.

Clients of the facility are commercial banks operating in the Western Balkans region selected from main commercial banks with extensive outreach into the industrial and SME segment and the institutional capacity and commitment to successfully implement the Project. The Facility is supported by a comprehensive technical assistance programme to provide implementation support to participating banks and sub-borrowers, as well as financial incentives for participating banks and sub-borrowers to overcome the barriers to implementing the desired investments. Funding for the TA and incentive programme is provided under the EC IPA 2009 funding allocation.

EBRD-Italy Local Enterprise Facility (LEF)[27]

The EBRD-Italy Local Enterprise Facility (LEF) is a €270 million proprietary investment for small and medium-sized enterprises in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Montenegro, Romania, Serbia and Turkey. It provides long-term financing to such businesses because their needs are not sufficiently addressed by existing financing facilities. As of December 2010, LEF has invested €154 million in 59 projects with small and medium-sized businesses.

[26] http://www.ebrd.com/english/pages/project/psd/2010/41412.shtml

[27] http://www.ebrd.com/downloads/research/factsheets/lef.pdf

Project co-financed by the Central European Initiative through the KEP Know-how Exchange Programme

Established in 2006, the Facility includes a €20 million contribution from the Italian government and €250 million from the EBRD. The Italian government has contributed an additional €6 million in technical cooperation funds to cover costs of consultancy services for facilitating the implementation of projects.

A team of dedicated bankers and advisers in the EBRD Resident Offices in Belgrade, Bucharest, Istanbul, Podgorica, Pristina, Sarajevo, Skopje, Sofia, Tirana and Zagreb supervise the LEF's projects.

Eligible investments. Expansion, restructuring or acquisitions of existing private businesses (both locally or internationally controlled) are all eligible investments. Funds made available by the Facility can be used for the purchase of assets such as equipment, for civil works, patents and trademarks, but also to finance working capital requirements and for balance sheet restructuring.

A wide range of sectors, except weapons, liquor and tobacco, qualify for LEF investments. All projects must be in line with the sound environmental principles adopted by the EBRD. Investments under the facility vary in size from €1 million to up to €10 million and last for an average period of between three and seven years.

Financing instruments. LEF is designed to provide various financing instruments such as debt, quasi-equity and equity financing. All financing structures are tailored to fit the needs of the client company. In a debt deal, the local company receives a long-term loan from LEF, with an appropriate grace period and a market-based interest rate, reflecting the potential risk of the project. In a quasi-equity deal, the LEF provides a convertible loan, a mezzanine debt or purchases preferred shares to complement the other financing sources utilised by the client. In an equity deal, the LEF contributes to the (share) capital of the company and becomes a (minority) partner of the owners. The EBRD and the owners of the local company agree to develop the business together and to bring it to the next level. They share proportionally the benefits (profits, dividends) but also the associated risks. The company is not requested to provide collateral for the capital received from the EBRD.

European Fund for South-East Europe (EFSE) II – A shares

The EBRD decided to finance up to €30 million investment in senior A-shares of the **European Fund for Southeast Europe** (EFSE)[28] comprising two equal tranches of €15 million each. The EFSE is an investment company established in 2005 as a development finance initiatives launched by several European donors to provide long-term funding to qualified partner lending institutions in the South-East Europe Region and the European Eastern Neighbourhood, to better serve the financing needs of micro and small enterprises and low-income private households.

The transition impact of the proposed investment focuses mainly on two aspects:

[28] http://www.efse.lu

- support for markets: the EBRD facility intends to increase the funding available to the banks and MFIs, partner lending institutions of the Fund, to be then on-lent to MSEs for their working capital and investment needs, to implement the financial resources available to MSMEs and farmers that have become increasingly constrained in the current environment;
- commercial mobilisation: investment in A-share of the Fund should create an additional cushion for private note-holders providing further comfort for investment as commercial financing is rarely available to local institutions, especially in present economic environment, due to perceived high risks.

Green for Growth Fund (GGF), Southeast Europe (former SEE Energy Efficiency Fund)

The EBRD participates to the GGF-SEE partnership initiated by EIB and KfW launched on December 2009 to provide finance to public and private entities of the energy efficiency sector in the pre-accession countries in the Balkan region and Turkey, mainly through local financial institutions. The equity investment amounts to €25 million. The project aims at broadening access to sustainable energy finance, to improve energy efficiency among recipient regional and local borrowers and technical cooperation through the transfer of skills and expertise related to sustainable energy investment among banks, particularly in the area of assessing the risk and creditworthiness of clients for energy efficiency loans.

The EBRD involvement in the support of the energy sector development, efficiency and sustainability in East Europe countries is confirmed by the facilities launched that are specially dedicated to medium- and small-scale energy efficiency and renewable energy investment projects. These facilities fall within the EBRD ***Sustainable Energy Initiative*** (SEI)[29] defined in 2006 to address the twin challenges of energy efficiency and climate changes in the East Europe and Central Asia region; since today have been invested over €6.6 billion (out of a total project value of €35 billion) through 369 projects in 29 countries. At present activities are inserted in Phase 2 of SEI (Phase 1 ended in 2008), including projects in industrial, power and municipal infrastructure energy efficiency, renewable energy sector and carbon market development. Areas of new activity include buildings energy efficiency and climate change adaptation. Phase 2 is lasting until the end of 2011.
One of the EBRD activities within SEI is the ***Sustainable Energy Financing Facilities*** (SEFF)[30] by offering a technical and financial support required to facilitate and/or add value to sustainable energy investment opportunities regarding industrial energy efficiency, renewable energies and residential energy consumption. In this sense, EBRD extends credit lines to local banks that participate in the facilities; each credit line, used by local banks to provide commercial loans to

[29] http://www.ebrd.com/pages/sector/energyefficiency/sei.shtml
[30] http://www.ebrdseff.com

borrowers with eligible investment opportunities, is specifically dedicated for on-lending to industrial and/or residential sector borrowers, for the implementation of energy efficiency and/or renewable energy investment opportunities. Moreover, every credit line is supported by a comprehensive free-of-charge technical assistance package that supports the demand for the facility, helps potential borrowers prepare loan applications and acquaints local bank loan officers with sustainable energy investment opportunities. At present 16 facilities in East Europe and Central Asia region countries are implemented, plus two additional direct lending facilities. Three regard directly PR countries (Ukraine and Moldova) and the Western Balkan area (that also benefited from a lending facility).

Within SEFF, actions are specifically focused on Western Balkan region. EBRD established two investment facilities: the *Western Balkans Sustainable Energy Credit Line Facility* and the *Western Balkans Sustainable Energy Direct Financing Facility*, while also undertaking an *institutional capacity building programme* (ICBP). The latter, financed by EBRD special shareholders fund, has the objective to propose new of refine existing mechanism, procedures and standards in the area of sustainable energy as well as to support local administrations and institutions in implementing sustainable energy development measures into energy market frame and regulatory development.

Western Balkans Sustainable Energy Credit Line Facility

The **EU/EBRD Western Balkans Sustainable Energy Credit Line Facility** (WeBSECLF)[31] is an investment facility established in 2009 to provide debt financing to energy efficiency and small renewable energy projects implemented by private entities in the South East Europe. The €60 million credit line is available through local banks to help SMEs invest in energy efficiency and renewable energy projects worth up to €2 million.

The Facility is conceived as an instrument for encouraging businesses to pursue sustainable energy projects by providing financing to small and medium projects from private companies. The investments are eligible for industrial energy efficiency, commercial sector energy efficiency projects and small renewable energy projects. Eligible countries are Bosnia and Herzegovina, Macedonia, Montenegro, Serbia, while other region countries can benefit on demand-based.

More specifically, the investment incentives come in the form of completion fees (cash-back reimbursements) on investments as follows:

- industry energy efficiency sub-projects: 15percent in general, and 20pc for replacements of boilers and implementation of small cogeneration/trigeneration;
- stand-alone renewable energy sub-projects: 15pc for projects eligible for feed-in tariffs (currently only in Bosnia and Herzegovina, Serbia and Macedonia) and 20pc for projects not eligible for feed-in tariffs (in general);
- building energy efficiency sub-projects: 20pc in general.

[31] http://www.webseclf.com/cms/

WeBSECLF is complementary to WBSEDFF (*See below*).

Western Balkans Sustainable Energy Direct Financing Facility

The **Western Balkans Sustainable Energy Direct Financing Facility** (WBBSEDFF)[32] is an investment facility established by EBRD to provide debt financing from renewable energy and industrial energy efficiency projects to small and medium-sized enterprises in the Western Balkans countries.

EBRD investment is up to €50 million. This facility is open to local private SMEs or project developers to implement industrial energy efficiency or renewable energy projects. Individual loans provided are between €2 and €6 million (for certain countries from €1 million) and cannot be more than 65 percent of total investment costs, while tenors can be up to 12 years, including grace period. Between 15 and 25 individual energy projects are to be supported. Furthermore, up to €13 million in technical cooperation and incentive payment funds are offered to business and local authorities.

All energy projects have to be in line with local energy policies in the countries where the project is implemented and comply with country-specific energy efficiency standards and environment protection requirements.

[32] http://websedff.com/en/

COUNTRY SURVEY : BELARUS

According to the data on MSMEs produced by the *National Statistical Committee of the Republic of Belarus* (BELSTAT) referred to year 2009[33], there is a certain quantitative dynamics in its evolution. Within the over 77 thousand registered firms in the country, 68.7 thou. resulted active (of which 56.6 thou. are micro, with max 15 employees, while 12 thousand have up to 100), absorbing 17.5pc of the national workforce, but on qualitative plan realizing modest economic results: 9.2pc of the volume of industrial production, 34.3pc of exports and the 11.4pc of the domestic GDP (2008: 1.2pc). The negative aspect of these data, besides the limited contribution to national workforce (the lowest in East Europe), is as well the high quota of individual entrepreneurs still operating informally and mainly as retailers, to which government administrative and legislative actions in recent years have given only a limited remedy. On average, Belarus stands as having the largest share of large firms of the Eastern Europe region, and the highest percentage of state-owned SMEs[34], denoting a low-capacity of system transformation; the overall picture evidences a low development level of growth-oriented favouring medium-sized enterprises, the so-called *missing middle*.

Nevertheless, Belarus government has focused great attention to the development of the SMEs as the backbone of private sector. Thanks to the UNCTAD/IPR (Investment Policy Review) support in 2009[35] has been developed a strategy that foresees the sector fostering by attracting foreign investments. The strategy foresees four measures aimed to:

- improve the FDI-specific regulations by strengthening the treatment and protection provisions of the investment code;
- enhance the general investment climate in areas such as taxation, competition and land;
- remove obstacles to SME development, particularly in the areas of price regulations, reporting requirements and administrative controls;
- adopt targeted policy interventions to foster the developmental role of FDI for the SME sector, such as carrying out professional investor targeting activities to attract investor in sectors which are prone to the establishment of supplier linkages and designing specific linkages policies.

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33 http://belstat.gov.by

34 *Belarus. Running a Business in Belarus*, Enterprise Surveys – Country Note Series, 2009, IFC/WB 2009, http://www.enterprisesurveys.org/documents/CountryNotes/Belarus_09.pdf

35 http://www.unctad.org/en/docs/diaepcb200910_en.pdf

Shares of micro and small firms in Belarus main economic indicators

Shares	2007	2008	2009		
			TOTAL	Micro > 15	Small >100
GDP	10.5	11.2	11.4	3.9	7.5
Output	10.6	11.3	12.0	3.7	8.3
Employees	15.1	17.6	17.5	7.0	10.5
Investments in fixed capital	20.0	21.1	23.9	8.3	15.6
Exports	22.2	31.4	34.3	1.9	32.4
Firms (number)	53,167	69,947	77,402	65,204	12,198
Of which actives (nr.)	41,709	62,675	68,741	56,597	12,144
Employees (nr.)	641,349	775,812	773,362	309,932	463,430
Loss-making firms	24.0	21.8	23.4	24.1	20.1

Source: BELSTAT

The ***WB/EBRD BEEPS 2010 Survey***[36] presents a picture of the Belarus firms denoting most severe problems in their activities due to high tax rates (mainly by pro-export firms), followed by lack of skills and education of workers, crime, theft and disorder issues. *Access to finance*, that emerged as the most problematic topic in 2005 Survey, has slipped to 8th in ranking as relevance (but rises to 3rd place for larger enterprises). 29 per cent of interviewed Belarus entrepreneurs does not consider it as a problem (in 2005 the firms attesting so were the 31pc), but, at the same time is decreasing the firm share not needing to apply for a loan (from 53pc in 2005 to 41pc in 2008). And more, the percentage of businesses admitting the recourse to purchase of material by credits has drastically grown (76pc of the answers). In less than four year, following the compared Surveys, have also expanded the credit expansions to clients, reaching a share of over 80pc of Belarus firms. Always following the responses to the questionnaire, in 2008 10.2 percent of Belarus enterprises borrowed from private banks and 10.9 from state-owned banks (the latter being a high share in the region), while 8pc purchased on trade credits from suppliers. Within those that indicate that did not apply for a loan, the main reasons were the unfavourable interest rates (20.7pc) and the complexity of application procedures (13.3pc).

The fragile situation of the Belarus firms is confirmed by the ***IFC Enterprise Survey***[37]; the 2008 *Finance indicators* issue states the relevance of internal sources for investment for all firms and the moderate recourse to bank financing, denoting a limited financial intermediation. The same, a low level of investments comes from the domestic (undeveloped) stock market.

[36] BEEPS at-a-glance 2008 Belarus, The WBG, January 2010, http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/704589-1267561320871/Belarus_2010.pdf
[37] http://www.enterprisesurveys.org

Belarus SMEs Survey Finance Indicators, 2008

	Belarus	Small Firms (1-19 employees)	Medium Firms (20-99 employees)	Large Firms (over 100 employees)
Internal Finance for Investment (%)	66.0	61.0	66.9	66.1
Bank Finance for Investment (%)	21.2	20.6	23.3	18.8
Trade Credit Financing for Investment (%)	7.7	8.3	5.9	9.7
Equity, Sale of Stock For Investment (%)	5.2	10.2	1.9	5.4
Other Financing for Investment (%)	0.0	0.0	0.0	0.0
Working Capital External Financing (%)	n/a	n/a	n/a	n/a
Value of Collateral Needed for a Loan (% of the Loan Amount)	118.4	134.1	109.4	115.2
% of Firms With Bank Loans/line of Credit	49.5	33.2	56.9	79.3
% of Firms With a Checking or Savings Account	92.3	93.6	86.4	99.0

Source: IFC Enterprise Surveys, Belarus Country Profile 2008

On November 2006, the European Commission launched a document setting out what the EU could bring to Belarus, to engage the country in full democratization, respect for human rights and the rule of law. It contains concrete examples of how the Belarus could gain from a rapprochement with the EU within the framework of the European Neighbourhood Policy (ENP). But, due to the current internal political conditions, it has so far not been possible for the EU to offer to Minsk the full advantages of the ENP, which are already enjoyed by other countries in the region, including Ukraine and Moldova.

MAIN FINANCIAL FACILITIES FOR BELARUS SMEs

WB/IFC

The World Bank Country Partnership Strategy (CPS) FY08 to FY11 defined the still ongoing Country Assistance Strategy for Belarus. The World Bank support to Belarus is focused on enhancing the competiveness of the country economy to assure rising incomes and the welfare of the most vulnerable, and addressing environmental and energy challenges.

In 1992 Belarus became the first of the newly independent states to join the International Finance Corporation. IFC has implemented a range of advisory services activities with advisory services for privatization of small businesses, for small and medium enterprise development and business associations capacity building project. Currently, IFC focuses its efforts on improvement of the business environment and investment climate. The activities are co-financed by the ***Swedish International Development Cooperation Agency*** *(SIDA). To improve SME access to business information, IFC created a dedicated on-line resource www.bel.biz, launched in June 2005, modelled on a IFC SME Toolkit already applied for Ukraine.*

In December 2007 IFC has signed an agreement, in partnership with EBRD and other European international institutions, to launch the ***Belarusian Bank for Small Business****, to enhance access to finance for private entrepreneurs and small and medium enterprises in Belarus. The investment for the new bank, that operates as a closed joint stock company with a full banking license, amounted to €7 million.*

In 2009 IFC also contributed to help the government of Belarus develop a broad package of proposed business reforms to strengthen the economy by removing barriers to entrepreneurship; the IFC ***Advisory Services' Business Enabling Environment Programme*** *proposed some recommendations including streamlining administrative procedures for starting a business and reducing the number of documents required to obtain permits as measures to improve tax and customs legislation, property and land issues, price and antimonopoly regulations, and administrative and technical procedures.*

More recently (July 2010), IFC bought 19.9 percent of equity and provided a $5 million loan to Belarusky Narodny Bank, a midsize Belarusian bank with strong focus on small and medium enterprise finance. This financing was complemented to a recent investment in the bank by IFC's long-term partner, Bank of Georgia, the main investor in the Belarusky Narodny Bank.

In August 2010 IFC started the 3-years ***Belarus Regulatory Simplification and Investment Generation Programme*** *focused on improving the business and investment climate, particularly regulatory simplification related to business operations in Belarus, increasing Belarus's overall performance and deepening reforms in doing business-related topics, and building government capacity for investment generation. The Programme is co-funded by SIDA, the Swedish International Development Cooperation Agency and by USAID.*

EIB

The EIB finances projects in the Eastern Neighbourhood (Ukraine, Moldova, Armenia, Azerbaijan, Georgia and Russia, while Belarus is subject to joint EU parliament/Council decision and approval) on the basis of an EU mandate of €3.7 billion for the period 2007-2013. In line with this mandate, the EIB activity focuses on projects of significant interest to the EU in transport, energy, telecommunications and environmental infrastructure. Outside Russia, the Bank can also finance projects benefiting SMEs in all sectors. In December 2009, the EIB's Board of Governors also approved the creation of an Eastern Partners Facility, which will enable the Bank to lend up to €1.5 billion at own risk to its balance sheet, further strengthening economic ties between the EU and its neighbours notably by supporting direct investment by European companies.

The EIB freezed since 2006 the possibility to issue loans to Belarus following the decision taken by the EU Council. Without its decision, Belarus cannot benefit from the launch of the lending facility for small and medium-sized enterprises in EU's Eastern Neighbours countries decided by-end 2009 in Istanbul together with other main IFIs.

EBRD

Since 1996 the Bank's activities in the Republic of Belarus have been limited by the country's slow progress in democratic and market-oriented transition (See above the EIB for the imposed EU limitations). Previous EBRD Country Strategies have highlighted inconsistencies in the Belarusian authorities' commitment to and application of the principles of multiparty democracy, pluralism and market economics, as contained in Article 1 of the Agreement Establishing the Bank. As a result of the difficult operational environment created by these inconsistencies, the Bank's engagement with Belarus has been constrained.

The EBRD supported the Belarusian Bank for Small Business (BBSB), particularly in its regional expansion phase, through debt and equity investment if required. Through BBSB and MSE lines of credit available to partner banks, the Bank has acquired, in aggregate, a leading position in the microfinance market. Its impact on the Belarus private sector remains, however, significantly hindered by the limited outreach of its primary distribution channel for MSME lines of credit only through privately owned banks that collectively account for less than 25 percent of the overall banking market and an even smaller proportion outside the main cities.
To supplement a limited capacity of privately owned banks, the EBRD is implementing its MCFF (Medium-Sized Co-Financing Facility) product in Belarus through existing privately owned partner banks, including through co-financing existing clients. A major step forward can be achieved through granting MSME lines of credit to selected state-owned banks which have a much

larger share of the MSME market than privately owned banks, particularly in the regions. The product portfolio could also be broadened by providing targeted loans for energy efficiency improvements through the adoption of the Sustainable Energy Finance Facility.
The facilities remain available to majority privately owned MSMEs only and include undertakings of new participating banks on improving their MSME lending capacity and actual volumes of MSME business with particular focus on rural areas.

BELARUS MSE/SME FINANCING FACILITY EXTENSION

The EBRD Board approved in 2007 the extension of the Belarus SME/MSE Financing Framework for $25 million adopted in November 2004 and extended for $25 million in January 2006, which is fully committed. The proposed extension in the total amount of additional $50 million is aimed at supporting the development of the private sector in the country. The key objective of the Project is to support Belarusian private FIs in the time of the financial crises through various forms of financing. The range of financial products should include all types of senior debt (e.g. SME, MSE, mortgages), as well as syndicated loans, subordinated loans and equity investments.

BELARUS MSEFF – BELGAZPROMBANK (MSME)

EBRD approved in 2008 a 5-year $40 million senior loan to Belgazprombank (BGPB) for MSME financing; $20 million for on-lending to SMEs and $20 million to MSEs. The project supports expanding BGPB lending operations to private MSEs, as well as more complex corporate lending for private SMEs in Belarus. The sub-loans will be on-lent for up to five years and used for capital expenditures and working capital. The focus is on further expanding into the regions using the BGPB’s network of sub-branches and outlets and will serve as an excellent platform in reaching out to MSMEs outside of the main cities and main regional centres. BGPB is a medium sized Belarusian bank (7th by assets as of end-2007, and is currently one of the key players in MSME financing in Belarus.

JSC BELPROMSTROJBANK MSME CREDIT LINE

EBRD is planning to sign an agreement with the JSC BPS-Bank (Belpromstroibank) on an already approved $50 million credit line to finance small and medium-sized enterprises. The Belarus bank has focused its activity in supporting small and medium-sized businesses in the country, setting up a special unit for small and medium-sized business and launching a program of lending to national SMEs. From March to December 2010 the BPS loan portfolio of SMEs increased 6 times and as of 1 January 2011 amounted to 527.9 billion Belorussian Roubles. The share of SMEs in the bank’s corporate credit portfolio went up by 7pc (from 2.4pc to 9.4pc). BPS plans to further increase its MSME lending as a proportion of its loan portfolio allocating an additional $100 million of its internal sources over the next five years.

CENTRAL EUROPEAN INITIATIVE
REGIONE AUTONOMA FRIULI VENEZIA GIULIA
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Project co-financed by the Central European Initiative through the KEP Know-how Exchange Programme

The EBRD TAM/BAS Programme has not yet initiated activities in Belarus.

Project co-financed by the Central European Initiative through the KEP Know-how Exchange Programme

Addendum – EBRD Offices in BELARUS

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