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 SURVEYS

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Contents

Introduction

This paper, prepared as an informative support of the FIT4SMEs project, as foreseen within the Component 3 Activity, aims to define a comprehensive framework of the main international financial instruments offered to national SMEs operating in East European transition country markets. The financial aspect assumes a specific relevance due to the particular economic conjuncture framework, whereas a global crisis hardly impacted on East European economic systems in a middle of a radical transition phases bringing them towards tough changes and gradual adaptation to fully market economy.

The document is composed in three sections; the first one briefly presents the situation of the SMEs, emphasizing their peculiarities, their role in national economic and productive systems, as the contribution resulting to the still on-going economic transformation processes in Eastern Europe. On the other hand, it is also taken into account the negative impact resulting from the current international economic situation due to the financial crisis erupted in late 2008 that has in some cases severely affected – and is still affecting - the countries' financial-economic-dynamics.

The descriptive picture of the SME sector is integrated by a concise comparative analytic part of the enterprise possibility to profitably operate on the domestic markets; in this sense, the use of specific well acknowledged qualitative international surveys has the goal to better point out which are, at present time, the main obstacles and barriers to an expected development of the business. Within this topic, a particular attention is given to the role of access to finance and its weight on the opportunity of development and expansion in economic activities.

Subsequently, a global offer of the main current international financial organizations active in Eastern European markets (WB, EBRD, EIB – while the EU has also been considered even if not a IFI but due to its involvement in support to EE development towards future enlargement, integration or closer partnerships) is given, focusing on specific financial instruments designed to support SMEs in this region stressing on the prospective opportunity granted by such facilities that if fully exploited can contribute to the implementation of the business condition activities of Eastern European firms.

The last part of the paper presents a series of Country Surveys, one for each of the nine Project recipient countries (PRC), aiming at deepening the single-country frame-view for financial facilities already offered by the IFIs in support to national SMEs, outlined in terms of regional and national objectives, activated to the benefit of the Accession (Candidates and Potential Candidates) and Eastern Neighbourhood beneficiary Countries (ENC). We have delineated, in the occasion, as an introductory element, to characterize the role and the weight of SMEs in national economy, both in quantitative terms and in absorption of workforce, including, where possible, the contribution to the creation of wealth to highlight even more, if necessary, the real SME key-role in domestic economic development and growth.

As reference of the level of the national system development, it was chosen to relate to the formal periodical evaluations produced by the Brussels' European Commission, whereas possible, on the status of progress *done in the EU integration process specifically referring to pursued industrial and SME policies; an evaluation even more relevant for those countries belonging to South-East European region that openly aim at a medium-term future accession to EU. The recourse to the results of recent international surveys realized on an updated database set up by the World Bank Group in collaboration with the EBRD, allowed a comprehensive view of the direct reactions of the entrepreneurs of the nine Project Recipient countries arisen from the most problematic issues hindering the business activities, with a specific attention to the capacity to access to finance.*

SMEs AND THE MARKET

Small and medium-sized enterprises (SMEs) are often referred to as the backbone of the European economy, providing a potential source for jobs and economic growth. This is proper if one considers that at present 99 percent of EU market players are SMEs[1]. SMEs are generally defined as non-subsidiary, independent firms that employ fewer than a given number of employees[2]. The accepted means used to define the SMEs are, beside the number of employees, the sales and the assets. According to the European Union standardized definition, SMEs are firms with 10 to 250 employees (with a further distinction between medium-sized and small enterprises, respectively with 50-249 and 10-49 employed persons), with less than €50 million in turnover and less than €43 million in balance sheet total (*see the Table below*)[3], clearly severalizing SMEs from micro-firms that employ less than 10 workers, have a turnover and a balance sheet minor than €2 million[4]. These definitions are important when assessing which enterprises may benefit from EU funding programmes aimed at promoting SMEs, as well as in relation to certain policies such as SMEs specific competition rules.

SMEs EU standard definition

Firm Size	Headcount	Turnover	or	Balance Sheet Total
Medium-sized	< 250	≤ € 50 million		≤ € 43 million
Small	< 50	≤ € 10 million		≤ € 10 million
Micro	< 10	≤ € 2 million		≤ € 2 million

Source: European Commission Recommendation 96/280/EC

The SMEs composition is extremely heterogeneous and vast, but most firms are active in the service sector, (which accounts for two-thirds of economic activity and employment in OECD countries), particularly in wholesale and retail trade, hotel and restaurant business, communications and business services and constructions. SMEs also account for a high percentage of manufacturing firms. A relevant role is given by an increasingly presence in technology-intensive industries such as information and communications technology (ICT) and bio-technology (BT). Moreover, SMEs prevail in important strategic business services sub-sector related to

[1] And over 95 percent in OECD market.
[2] *Small and Medium-sized Enterprises: Local Strength, Global Reach*, OECD Policy Brief, June 2000, http://www.oecd.org/LongAbstract/0,2546,en_2649_34197_1918300_119696_1_1_1,00.html
[3] http://epp.eurostat.ec.europa.eu/portal/page/portal/european_business/special_sbs_topics/small_medium_sized_enterprises_SMEs
[4] *Scaling-up SME Access to Financial Services in the Developing World*, IFC/WB, November 2010, http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/G20SMEFinanceStocktaking/$FILE/G20_Stocktaking_Report.pdf. For further samples of SMEs definition, see the Annex A.

computer software and information processing, research and development, marketing, business organisation and human resource development. The SME sector represents different levels of skills, capital, and development policies, and may be in the formal or informal economy (the latest is more present in less developed economic systems, so also interesting East European transition countries).

The firms operationally can be distinguished according to the geo-graphical markets basis in urban, rural, local, national, regional and international.

As stated in the ***Micro, Small, and Medium Enterprises Database*** (last updated in 2007) drawn by IFC[5], that also considers the micro-firms reality, in the OECD region 51 to 63pc are very small enterprises (micro), 32-40pc are small and 6-8pc are medium firms. The balance does not differ much for the Central Asia & Eastern Europe cluster: the scales indicate a light prevail 58-72pc for very small, 27-33 for small and 4-6pc for medium firms.

The same IFC Database points out the distribution of the share of informal and non-employer firms (52pc), small firms (28pc) and SMEs (21pc) in the OECD area. For Central Asia & Eastern Europe cluster the data result differently weighed, with a minor share of informal and non-employer firms (45pc) and SMEs (15pc), and larger for small firms (40pc).

From an economic point of view, SMEs account for a significant share of employment and GDP, as most (private) enterprises are SMEs in developed countries while in developing and transition states the share is minor but in rapid growth. The relevance is even greater when taking into account the "informal" especially in emerging/transition markets, as this sector is essentially represented by SMEs.

The weight of SME sector is also given by their position in the economic system; it contributes significantly to domestic employment and GDP, supporting the national economy formalizing. In many countries, the majority of jobs are already provided by SMEs. In high-income countries and some middle-income countries, the sector accounts for over half of GDP. In low-income countries SMEs play a sizable role, though the informal economy is more dominant. Referring to employment factor, In the EU area SMEs guarantee to almost two-thirds of the working force in the non-financial business economy, generating over three-fifths of value added[6].

The fact that the role of SMEs in an economy appears to increase with country income level might indicate that SMEs are themselves a driver of economic growth[7]. At the same time, higher-income countries, where SMEs contribute more to GDP, have smaller informal sectors, denoting the

[5] *Micro, Small, and Medium Enterprises: A Collection of Published Data*, IFC 2007, http://rru.worldbank.org/Documents/other/MSMEdatabase/msme_database.htm

[6] *Key figures on European Business - with a special feature section on SMEs, Data 1995-2005*, EUROSTAT 2006, http://epp.eurostat.ec.europa.eu/cache/ITY_OFFPUB/KS-DH-06-001/EN/KS-DH-06-001-EN.PDF

[7] *The SME Banking Knowledge Guide*, IFC 2009, http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/SMEBankingGuide2010-E.pdf/$FILE/SMEBankingGuide2010-E.pdf

positive role of a favourable economic environment on the transformation of informal firms into registered SMEs boosting economic growth.

The SME sector strength is the capacity to adapt to opportunities and the need to innovate, developing and offering new goods and services. Differing from location, firms can benefit from information spill-overs and other local social, cultural and political factors, favouring the establishment of dynamic clusters with extremely high levels of entrepreneurial activity.

As larger firms downsize and outsource activities, the weight of SMEs in the economy is increasing, driving business dynamics and fuelling overall economic growth. The sector expansion is also facilitated by the strong competitive process among firms and the dynamic structural changes they undergo, involving a high job turnover, determining that only the more efficient and performing half of the start-ups survive on the markets for more than five years (OECD assessment[8]).

The survival capacity is also given by the aptitude to innovation; based on OECD survey data[9], some 30-60 percent of SMEs in the OECD area are characterized as innovative; they conduct less research and development (R&D) than larger firms, but are ***differently*** more innovative – through the creation or the re-engineering of products and services to meet new market demands, introducing new organizational systems to enhance productivity, or developing new techniques to expand sales. Anyway, within the SME sector there is a range of high-growth small firms (5 to 10pc) that are categorized by a highly innovative capacity, being technology-based and conducting R&D. They are active in knowledge-intensive sectors and in regions characterized by intense economic activity and clustering, often integrated into networks of firms. Their role is particularly relevant in emerging countries, stimulating the action in the formation of new markets and products in sectors such as ICT, new technologies, e-markets and other sectors of the *new economy*.

Yet, SME sector remains vulnerable, with evident weaknesses: the size, first of all, can limit firms into the market approach due to rough competition, especially in internationally activities; the management capacities, with reduced structures/staff with limited business competences (i. e. accounting standards) and market mechanism knowledge; difficulties to access to new infrastructures requiring high investments; a minor attitude to diversification in their economic activities and an extreme volatility of activities leading to a continuous turnover; tough competition, especially from larger firms, and high costs of production and services, leading to the informal sector; the resulting uncertainty of the legal and administrative business environment (i. e. a supportive legislation, regulations and tax treatment); a weak judicial framework and the lack of a clear property rights frame, increasing the risk of potential future losses and of corruption

[8] *Small and Medium-sized Enterprises: Local Strength, Global Reach*, op. cit..
[9] *Small and Medium-sized Enterprises: Local Strength, Global Reach*, op. cit..

menaces. Not considering the operative risk for innovative firms, in environments of high complexity, rapid change and capital greedy[10].

THE FINANCIAL ISSUE

Thus far, there is another crucial problem, as to private SMEs relevance in the economic tissue there is not a corresponding financial respondance; there rather is a pending financial gap unfavouring/or at the worst impeding the expansion of firms. It is a paradoxical issue, if taking into account that the notion of SMEs was introduced in late 40s with the definition of macroeconomic policies and the establishment of public support agencies for small business firms[11].

Such a barrier even represents a great jeopardy for potential new-borne activities; an entrepreneur needs to leverage credit for capital to start its business, to pay creditors at the start-up before a stable cash flow can be established, to afford a greater risk for early failure. Without sustainable financial conditions, he simply can give up the start of a new business[12].
Notwithstanding the above well-evidenced relevance of the sector, SMEs are characterized by a low capitalization that impacts heavily on their survival. The difficulty to access to financial services (credits, insurance, payment facilities), the outstanding financial constraints (access to bank credits, guarantees, venture capital, leasing, trade credit, etc.) are the main economic barrier to SMEs growth, affecting the most smaller firms "(…) *in environment are nearly one-third more likely than large firms to rate financing constraints as a "major" growth obstacle*"[13]. This issue is confirmed by a World Bank analysis (Malhotra et others)[14], where small firms *"identify lack of access to financial services as one of the key constraints to growth and investment. SMEs are usually more credit constrained than other segments of the economy because of the following: (a) financial sector policy distortions; (b) lack of know-how on the part of banks; (c) information asymmetries, for example, lack of audited financial statements; and (d) high risks inherent in lending to SMEs."* This implies the need to have the

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[10] *Enhancing SME Competitiveness. Enterprise, Industry and Services, The OECD Bologna Ministerial Conference*, OECD Proceedings, 2001, http://www.cipi.gob.mx/Biblioteca_Digital_CIPI/bibliografiabasica/La_MPyME/OCDE_BOLOGNA.pdf

[11] *Promoting SMEs for Development*, OECD, 2004, http://www.oecd.org/dataoecd/6/7/31919278.pdf

[12] *Developing Entrepreneurship In the UNECE Region, Country experiences in reducing barriers to enterprise development*, UNECE, 2008, http://www.unece.org/ceci/publications/eed.pdf

[13] Beck T., Demirguc-Kunt A., Maksimovic V., *The determinants of financing obstacles*, WPS 3204, the World Bank, 2004, http://www-wds.worldbank.org/servlet/WDSContentServer/WDSP/IB/2004/02/18/000160016_20040218131618/Rendered/PDF/wps3204.pdf

[14] Malhotra M., Chen Y., Criscuolo A., Fan Q., Ilieva Hamel I., Savchenko Y., *Expanding Access to Finance: Good Practices and Policies for. Micro, Small, and Medium Enterprises*, The World Bank, 2006, http://info.worldbank.org/etools/docs/library/236032/SMEAccessToFinance_Final_083106.pdf

possibility to recur to alternative sources of finance, such as mobilization of reserves, self-financing and factoring[15]. But such a way appears to be even more difficult.

This aspect is more acute in emerging and transition countries, where firms are more undeveloped and economically weak and the national financial infrastructure is not available to fully satisfy the credit demand due to the business environment volatility and a high-perceived risk, and the stock exchange market is not yet fully formed[16].

In the meantime, larger banks prefer to lend to governments, which offer less risk and better return guarantees, but in this way excluding most of the private sector from the direct benefit of the financial system.

As a result, SMEs use mainly internal financing (as smaller more often), represented by entrepreneur's own savings, retained earnings or funds resulting from the sale of assets, while the recourse to the (formal) external financing is exerted to a much lesser degree than large enterprises. Anyhow, from a qualitative point of view, bank financing remains the most important source of external finance to SMEs, as only commercial banks can supply the wide range of needed financial services that go with the credit act (transfers, leasing, insurance, etc.)[17].

When SMEs succeed in accessing to finance, they usually start through the provision of bank short-term credits. A low-risk spectrum for lending institutions prevails, represented by a credit-relationship categorized by smaller loans and shorter tenures, until there is sufficient credit history and structure available to enable larger volumes of lending and longer tenures while also containing risks.

But, in front of a substantial financial demand from SME sector, there is a feeble answer from the financial system; if to SMEs would be supplied with satisfying credit, this would be designed to expand activities, with a virtuous cycle determining the expansion of business and the increasing of sales and profits. This concerns in particular small firms having more difficulty accessing finance, because they lack the resources to make large investments, they suffer the access to capital markets as large firms can, and they often lack qualified staff to perform financial services[18]. The issue results especially difficult to afford for long-term financing products, essential in case of

[15] *The Impact of the Global Crisis on SME and Entrepreneurship Financing and Policy Responses*, OECD, 2009, http://www.oecd.org/dataoecd/40/34/43183090.pdf

[16] *Improving the Competitiveness Of SMEs In Developing Countries, The Role of Finance To Enhance Enterprise Development*, UNCTAD/ITE/TEB, 2001, http://www.unctad.org/en/docs/itetebmisc3_en.pdf

[17] Beck T., Demirguc-Kunt A., Martinez Peria M. S., *Bank Financing for SMEs around the World: drivers, Obstacles, Business Models and Lending Practices*, The World Bank, 2008, WPS 4785, http://www-wds.worldbank.org/external/default/WDSContentServer/IW3P/IB/2008/11/24/000158349_20081124111459/Rendered/PDF/WPS4785.pdf

[18] Beck T., Demirguc-Kunt A., Maksimovic V., *Financial and Legal Constraints to Growth: Does Firm Size Matter?*, The World Bank, 2002, http://siteresources.worldbank.org/DEC/Resources/84797-1114437274304/Full_Draft-III-submitted.pdf

strategic business expansion — for example, through R&D activities, or property and equipment purchases.

Firm capacity to access to finance is directly related to the presence of well-functioning financial market; if not - as it may be the case of the transition countries where the transformation of the system market is still under way -, a relevant role is given by the public/government programmes to influence SMEs finance, allowing cheaper and longer term financing. The most common are the guarantee schemes and the direct credit programmes, generally run by state development finance institutions. Other public instruments less used are interest rate and regulatory subsidies. The issue, in case of public structure involvement, is referred on the effective results of such financial operations, which can be influenced by political choices and interests, not always collimating with market addresses.

GLOBAL FINANCIAL CRISIS CONSTRAINT ON SMES

The SMEs vulnerabilities to face the financial markets have well emerged with the recent financial-economic global crisis that have further constrained access to financial sources, having a global negative impact on business activity, production, demand of goods and services and employment. Moreover, due to the feebler economic tissue, the shock was greater, and the lending slowing down was in the case of SMEs, sharper. Especially more innovative SMEs were hit harder as being more vulnerable due to their elevated activity risk and weaker financial structure.

As a consequence, low profitability resulting from the crisis has adversely affected SME creditworthiness, while financial institutions have tightened credit conditions, further worsening SME access to credit. It is anyway worth to underscore that, as we will further see, for Eastern and South European firms the harsher crisis impact derived mainly from the sudden drop of demand, consequence of the openness of these productive systems and their exports dependence from OECD and EU markets, while the credit crunch affected the economic tissues differently[19].

Contemporaneously, the use of alternative financing sources such as leasing and factoring declined even faster than bank financing, while other factors related to lending (interest rate dynamic, maturity dates, mortgages, etc.) further exacerbated the SME credit situation. In fact, the critically cycle was felt since the 2008 year-end, while the fading of liquidity leaded the most of firms to the reduction of operating costs, the diminution of inventories and the shrinking of investment, including innovation spending, in many cases relying on trade credit as a substitute for bank financing[20]. At the same time, overall levels of SME borrowing have remained steady or

[19] See the **OER-Active Project**, financed by Friuli Venezia Giulia Autonomous Region, focused on the 2009-2010 monitoring of the status of the economic situation and the effects of the anti-crisis measures in a series of 12 Eastern and South European countries (New members countries, Candidate and Potential candidate countries and ENP countries), carried out by the INFORMEST analysis group, http://www.osservatoriocrisi.it/

[20] *Scaling-up SME Access to Financial Services in the Developing World*, op. cit..

declined slightly, but trends have diverged between demand for investment capital, which has reduced significantly almost everywhere, and demand for working capital, which has risen sharply[21].

Most of the governments since the last 2008-months and along the 2009 reacted by introducing a series of crisis-emergency measures packages and programmes aimed to support the domestic macroeconomic tissue and financial stability[22]; within these actions, a relevant issue was the support to SME access to credit by administrative means and recapitalizing financial institutions acting directly with firms, containing the financial pressure on the firms removing the risk of bankruptcy and preventing job losses that would have negative consequences on the society. Major categories of support measures have been:

- Official loan guarantees and direct official loans,
- Credit mediation,
- Export facilitation,
- Other liquidity support.[23]

As evident, such measures are essentially short-term to contrast the incoming conjuncture, scheduled to last mainly through 2010, to allow the sector contribute to the overall economic recovery. On the long-term, it is instead essential to exploit fruitfully the crisis period defining new business conditions and environment to accelerate the re-deployment of resources to new activities and stimulate new capital flows, while – where necessary - improving the SME legal, tax and regulatory framework ensuring a more transparent and efficient business environment, more prompt and attractive to investment stimulation. Moreover, following the proposed actions contained into the 2006 Brasilia OECD Conference' Statement[24], a support to firm recovery and growth should be focused on sustainability and knowledge-based outcomes and characterized by a further push favouring innovative activities and the facilitations present at local level to financing offered by business means as development agencies, business incubators, technology parks and clusters, as a resourceful cooperation with private financial institutions and university poles.

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[21] *Scaling-up SME Access to Financial Services in the Developing World,* op. cit..

[22] OER-Active Project, op.cit..

[23] Estimé M.-F., *The Impact of the Global Crisis* on *SME and Entrepreneurship Financing and the Way Forward*, 6th INSME Association Annual Meeting, May 2010, http://www.oecd.org/dataoecd/40/34/43183090.pdf

[24] http://www.oecd.org/document/30/0,3746,en_2649_34197_35898590_1_1_1_1,00.html

SMEs in Eastern Europe region

Thanks to their specific role of key generator of employment and income and drivers of innovation, SME sector has represented an important asset in the wider spectrum of the East European (EE) transition process, fostering the transformation momentum of the socio-economic system. In fact, such firms existed even ever before the fall of the regimes, almost in some countries, where forms of economic reforms were introduced prior to 1989 (Hungary, Poland). Successively, the opening of the economic systems in this region consented a fast development of a sector based mainly on a quantitative dimension and primarily concentrated, at least during the transition first period, in the consumers trade sectors[25]. Yet, in the following period, East European SMEs still suffered from different obstacles in a full growth and modernization and proximization to mature market economies, identified by Dallago essentially in *a) the nature of transition, b) poverty and low income and c) policy mistakes*[26].

The first issue is related to the complexity of the entire economic transformation process that these countries were subjected to, from the difficulties faced in the new economic structure changes, to privatization features, to legal and institutional deficiencies, to lack of infrastructures and resources. Beside these points, firms missed the necessary experience and competition capacities to operate in the new market conditions. The second obstacle to SME growth and development has been low income and spread poverty; rising inflation first and pursued macroeconomic policies had a strong impact on a socio-economic sphere already affected by a long-term of welfare afflictions and deprivations, expanding joblessness and spreading poverty. Last, but not less relevant, for Dallago were the policy mistakes done by different governments harming a regular SME sector development, in terms of adopted administrative and legal measures.

At present, even if defined proprietorship aspects, but still struggling with an incomplete business framework and unsatisfactory legal frame, also for EE' small and medium firms the financial aspect is seen as crucial, the lack or difficulty to access to credit has become the main obstacle preventing the growth and development of the sector. A problem exacerbated with the surge of the financial crisis. However, it is necessary to stress again that for EE countries it has been mainly a demand crisis, with a drastic drop in demand, started by the 2008-end and continued for the largest part of 2009, caused by a decrease of sales and capacity utilization, creating the condition to draw on the already limited internal funds to finance their working capital and increase arrears and the level of debt. Moreover, the activity slump determined employment excess, increasing abruptly the rank of jobless[27]. Between the anti-crisis measures undertaken since the end of 2008, a

[25] *Business in Transition*, Transition Report 2005, EBRD, 2005, http://www.ebrd.com/downloads/research/transition/TR05.pdf

[26] Dallago B., *Small and Medium Enterprises in Central and Eastern Europe*, 2003, http://src-h.slav.hokudai.ac.jp/pdf_seminar/031210smes_3.pdf

[27] OER-Active Project, op.cit..

relevant component was committed to SME sector to support the firm survival and restraint a huge insolvency and bankruptcy explosion, phenomena that have hit smaller firms the most.

SMEs STATUS IN PROJECT RECIPIENT COUNTRIES

To better understand the overall situation of the enterprise sector in the Project recipient countries (RCs) it is helpful to define a global regional frame, even more useful if given the progressing transition phase pursued in East European countries.

In 2007, the Small and Medium Enterprise Department of the International Finance Corporation (IFC, a World Bank branch) has collected in partnership with the EBRD data on MSMEs, creating a large ***database*** for over 70 countries[28]. Within these data, we will consider the extracted data for the recipient countries of the **FIT4SMEs** Project (*See the Table below*), with the limit of the joint data for Serbia and Montenegro, as these two countries at the time were still united (until 2006 as State Union of Serbia and Montenegro). Anyway, even if in some case data are not too recent (being provided by main national statistic institutes and international organizations), the global picture can be considered enough exhaustive to present comparatively the peculiarities of the SME sector in this defined cluster.

The IFC database authors chose to also consider micro-firms, to get the weight of the smallest enterprises structures (family and non-employer) in transition economies, often linked to informal business, but relevant to the constitution of national wealth. In a single case (Albania), we have a different classification among micro and small firm dimension, but useful to better understand the reality of the Albanian fragmented business tissue and the drastic predominance of very small firms.

The MSME cipher varies considerably among the eight RCs given their size and the economic structure; the weight is measured in density per 1,000 inhabitants (having the 2005 EU benchmark of 39.3pc), so giving a major density share in Macedonia (27.5pc) and Albania (12.3pc). The structure data reveal the high proportion of micro-firms, with a range from 70.4 to 87.4pc, leaving a certain relevance to small enterprises (max 49 employees) only in Belarus (share of 29.6pc) and Moldova (18.5pc) (but for Ukraine and Serbia and Montenegro micro-small data are joint). Medium firms (50-249 employees) have a bearing mainly in Ukraine (14.2pc) and Moldova (10.7pc), probably a consequence of the incomplete transformation of the domestic productive systems.

The relevance in creating employment in the different domestic markets emerges from the high average contribution of smaller enterprises to labour system; excluding the cases of Belarus and Moldova, where labour engagement is still mainly concentrated in medium-large firms, the other countries reflect a predominance of MSMEs granting working places in internal market, with a

[28] http://rru.worldbank.org/Documents/other/MSMEdatabase/msme_database.htm

share going from 44.4pc in Albania to a high 66.5pc in Ukraine, yet minor than the EU (year 2005) range.

MSMEs database referred to Recipient Countries (data collected in 2007)

Country	Year	GNI per capita, Atlas Meth.	Source of MSME Data	Income Group	MSME Definitions (number of employees, unless otherwise noted)			Structure of the MSME Sector (% of all MSMEs)			MSME Participation in the Economy		
					Micro	Small	Medium	Micro	Small	Medium	MSMEs	MSMEs per 1,000 people	MSME employment (% total)
Albania	2004	2120	INSTAT	Lower middle	1-4	5-19	20-49	91.3	7.2	1.5	38.331	12.3	44.4
Bosnia and Herzegovina	2003	1610	UNECE	Lower middle	0-9	10-49	50-249	83.7	11.0	5.3	14.986	3.8	52.9
Belarus	2002	1380	UNECE	Lower middle	0-9	10-49	50-249	70.4	29.6	0.0	25.108	2.5	14.6
Croatia	2005	8060	CBS	Upper middle	0-9	10-49	50-249	87.4	9.8	2.8	94.088		
Moldova	2003	570	UNECE	Low	0-9	10-49	50-249	70.8	18.5	10.7	25.667	6.1	21.6
Macedonia	2003		UNECE	Lower middle	0-9	10-49	50-249	80.0	3.8	1.7	55.742	27.5	
Ukraine	2005	1520	UKRS	Lower middle	0-9	10-49	50-249	85.8		14.2	343.786	7.3	66.5
Serbia and Montenegro	2003	1940	RDB	Lower middle	0-9	10-49	50-249	96.9		3.1	68.220	9.8	53.8

Source: IFC Database 2007

At the beginning of 2010 was published the ***4th EBRD-World Bank Business Environment and Enterprise Performance Survey*** (BEEPS) [29], a joint initiative of the European Bank for Reconstruction and Development and the World Bank carried out in four rounds: in 1999, 2002, 2005 and 2008, covering 29 countries of Central and Eastern Europe and the former Soviet Union, as well as Turkey. The ***BEEPS at-a-glance Cross Country Report*** provides an at-a-glance view of all country and sub-regional values for selected indicators focusing on problems doing business, corruption, customs and trade, taxation, finance, labour and workforce development, infrastructure and innovation. The cross-country report is integrated by specific ***Country Profiles***. It highlights an expanded analysis of *"Problems Doing Business indicators"*, underscoring the variation across countries and sub-regions for specific indicators.
The Survey, realized in 2008, reflects the business environment picture through a qualitative sample collection by using a questionnaire addressed to private enterprises with five or more

29 http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,,contentMDK:22587588~pagePK:146736~piPK:146830~theSitePK:258599,00.html

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employees. The participating enterprises fall within the considered SME structure by number of employees and by typology of activity, forasmuch as the involved firms in the survey belong mainly to manufacturing, trade and services, sectors characterizing SMEs.

Problems Doing Business: Ranking of problems 2008 (extract)

	Tax Rates	Corruption	Electricity	Skills and Education of Workers	ACCESS TO FINANCING	Crime, Theft and Disorder	Tax Administration	Telecom	Courts	Access to Land	Business Licensing and Permits	Transport	Labour Regulations	Customs and Trade Regulations
Albania	4	2	1	3	**9 (7)**	8	5	10	14	7	12	11	13	6
Belarus	1	10	5	2	**8 (1)**	3	9	6	13	7	4	11	14	12
Bosnia Herzegovina	1	2	9	7	**3 (1)**	8	4	13	5	14	6	12	10	11
Croatia	1	5	7	4	**6 (4)**	11	3	9	2	12	10	13	8	14
Macedonia	3	4	7	10	**1 (4)**	5	6	12	2	9	8	13	14	11
Moldova	3	5	8	2	**4 (5)**	6	10	7	9	1	13	12	14	11
Montenegro	2	6	1	5	**3**	11	4	14	10	13	8	7	9	11
Serbia	3	1	6	5	**2 (2)**	10	9	14	4	13	12	11	8	7
Ukraine	1	2	10	6	**8 (5)**	7	4	9	5	3	11	12	14	13

Note: The most severe problems ranks number 1, the least 14 (in brackets 2005 Survey ranking – Montenegro not ranked)

Source: BEEPS at-a-glance Cross Country Report 2010

The Survey (*See Table above*) expresses the existing disparities among the nine Project' RCs in daily business activities. The results discern different situation from country to country, due to dissimilar economic systems, the level of advance of the economic transition process and the presence and state of negotiations (if any) with EU. Relatively to the ***access to finance*** indication, the answers underline the biggest preoccupation in Macedonian firms (considered by these the main problem), Serbian (ranks 2nd) and Montenegro and Bosnia and Herzegovina enterprises (both ranks 3rd), while Albanian (ranks 9th), Belarus and Ukraine (both 8th) see it as a minor issue. The overall picture reflects a substantial improvement compared to 2005 Survey's gathering for almost all countries but Moldova, Serbia and especially Macedonia, where it remains a crucial issue to private business activity.

The financial services' conditions and access to financial market problems for East European SMEs can also be understood by the results provided by the World Economic Forum in its latest ***Global Competiveness Report 2010-2011***[30] [31]. In the measuring competitiveness in different 139 countries

[30] *Global Competiveness Report 2010-2011*, World Economic Report, 2010, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2010-11.pdf

of the world a section is devoted to the *financial market development* (Section VIII), in which the indicators, even if not exclusively derived from small and medium enterprise system survey (in our case for the eight EE recipient countries [Belarus was not included in the survey] 40 to 70pc of the interviewed respondents firms are under 101 employees and 22 to 49pc of firms between 101 and 500 employees), allow some further comparative considerations among the Project recipient countries.

Table - Financial market development for FIT4SMEs Project recipient countries

	ALB	B&H	CRO	MAC	MOL	MON	SER	UKR	*Aver.*
Availability of financial services	3.3	3.6	4.3	3.5	3.7	4.4	3.8	3.8	***3.8***
Affordability of financial services	3.5	3.2	3.8	3.5	3.1	4.3	3.8	3.2	***3.6***
Financing through local equity market	1.8	2.8	2.9	3.2	2.2	3.9	2.8	2.3	***2.7***
EASE OF ACCESS TO LOANS	**2.4**	**2.3**	**2.5**	**2.1**	**2.1**	**3.6**	**2.4**	**1.9**	***2.4***
Venture capital availability	2.1	1.9	2.1	2.5	1.9	3.4	2.2	1.9	***2.3***
Restriction on capital flows	4.7	3.4	4.0	3.8	3.8	5.1	4.1	3.2	***4.0***
Soundness of banks	4.5	4.6	5.3	5.1	4.5	4.7	4.4	2.5	***4.5***
Regulation of securities exchanges	2.6	3.6	4.1	4.3	3.4	4.6	3.4	2.7	***3.6***
Country Average	**3.1**	**3.2**	**3.6**	**3.5**	**3.1**	**4.3**	**3.4**	**2.7**	***3.8***

Legal rights index	9	5	6	7	8	9	8	9	

Note: in the table, indicators derived from the World Economic Forum's Executive Opinion Survey. Questions asked for responses on a scale of 1 to 7, where an answer of 1 or 7 always corresponds to the worst or best possible outcome, respectively.
For ***Legal right index*** (degree of borrowers and lenders' right) the scale is from 0 (worst) to 10 (best).
Countries: Albania (ALB), Bosnia and Herzegovina (B&H), Croatia (CRO), Macedonia (MAC), Moldova (MOL), Montenegro (MON), Serbia (SER), Ukraine (UKR). Belarus excluded.

Source: Data Tables World Economic Report, 2011

Within each country remains some disparity in approaching the different indicators (*See Table above*), denoting the level of difficulties the entrepreneurs are ordinarily facing with. Besides the other issues questioned subjected to the Survey, we would focus on the first two headings ***availability*** and ***affordability of financial services***, marking a general weaker market situation in the evaluation scale (from 1 to 7), with a further negative factor given by the different assessment of service supply and access (on average 3.8 and respectively 3.6), the latter more critical and in evidence sufferance (EU-27 average indicators are 5.3 and 4.7). On the other hand, the entry ***ease of access to loans*** results as one of the problematic topics for entrepreneurs (only the "*venture*

[31] Note: The Report, as the annexed specific country profiles/enterprise Surveys are the duplex result of the larger annual survey conducted in the WB-EBRD partnership on enterprise activities in national business environment.

capital availability" is considered a worse assessment), denoting a low level of leverage upon business activities (recipient country cluster average 2.4, EU-27 av. 3.1).

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[32].

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

THE WORLD BANK GROUP[33]

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.

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33 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)[34]

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;

[34] 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***[35] 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

[35] 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[36], IFC committed a total of $2.8 billion (2.5 billion by June 2009) to MSME[37] 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.

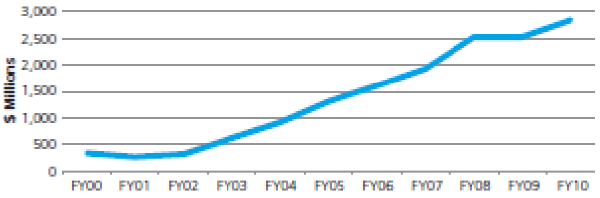
The tables below evidence, beside a constant IFC attention to Europe and Central Asia region, in terms of outstanding loans as of 2009-year end a greater commitment toward loans to medium firms.

[36] *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

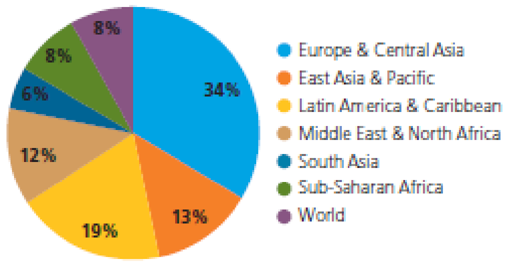
[37] **MSME Firm Size Definitions**: IFC's Global Financial Markets categorizes its clients' sub-borrowers according to the following definitions: 1) micro-enterprise if loan is < $10,000 at origination; 2) small business if loan is < $100,000 at origination; 3) medium business if loan is < $1 million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

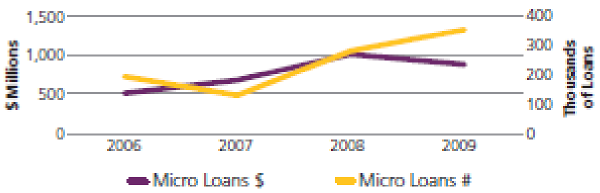
MSME Loans by SME FIs

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.

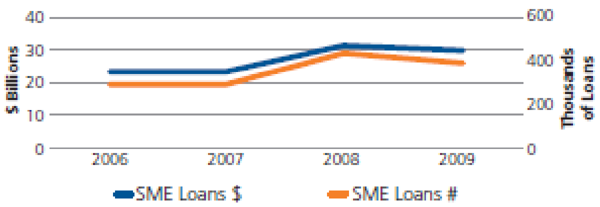
	Outstanding Loan Portfolio in #	Outstanding Loan Portfolio in $	Average Loan Size	NPL %
Micro Loans	355,280	878,992,326	2,474	7
Small Loans	286,626	6,799,155,422	23,721	9
Medium Loans	99,021	23,069,786,429	232,978	6

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***[38]. 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)[39] 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.

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[38] http://www.ifc.org/eca/cr
[39] 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[40] (and recently reviewed[41]), 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[42]: following to these parameters, 99 percent of all European businesses can be included within this category[43].
SBA foresees an extensive business-support network, the Enterprise Europe Network[44], 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

[40] 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
[41] http://ec.europa.eu/enterprise/policies/sme/small-business-act/files/sba_review_en.pdf
[42] See Note 3.
[43] http://ec.europa.eu/enterprise/policies/sme/small-business-act/
[44] http://www.enterprise-europe-network.ec.europa.eu/index_en.htm

sustainable development, economic development (both at the macro and micro-economic levels – 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)[45]

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.

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

- ***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 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)[46]

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)[47].

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

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

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

sectors such as Transport, Energy, the Environment and Social issues (e.g. construction of schools 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.

THE EUROPEAN INVESTMENT BANK (EIB)[48]

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.

[48] 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[49]. Requirements for application may vary according to the respective intermediary.

[49] 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.

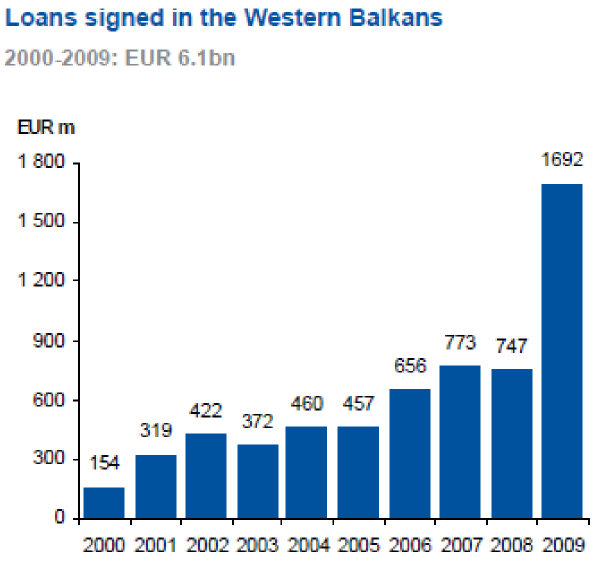
Strictly speaking of the EIB finance action in favour of SMEs, one of the EIB top operational priorities is *to support the investments of small and medium-sized enterprises* active in the EU-27 market. Well before the crisis broke out, the EIB undertook a wide-ranging consultation of SME market players 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.

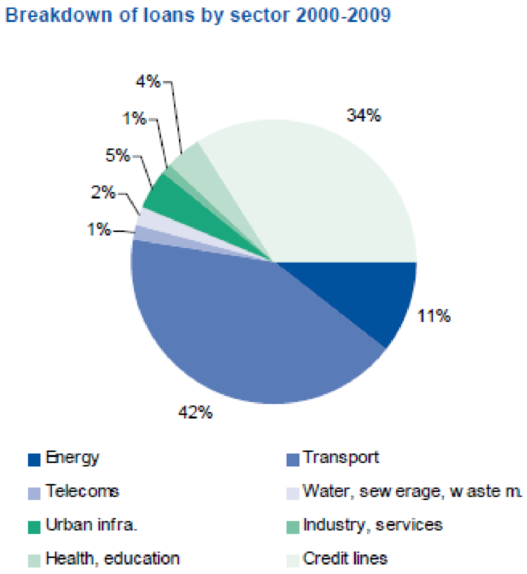
With a total of €20.8 bln signed with intermediary banks during 2008 and 2009, the EIB is well on its way to delivering on its target of lending €30 bln to EU SMEs between 2008-2011, a target set in the European Economic Recovery Plan that was adopted by the Heads of State and Government in December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

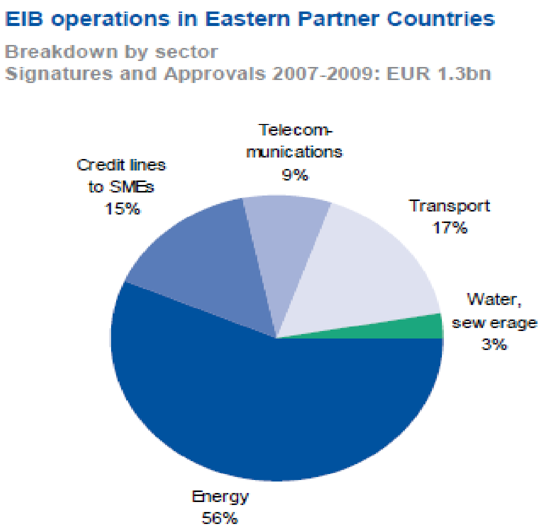
infrastructure sectors, including social infrastructure has been expanded to include support to small and medium-sized enterprises (SMEs), energy efficiency and other investment sectors.
A first meeting of the WBIF Steering Committee decided to allocate €26 million of grants for technical assistance 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[50], expanding geographic coverage and offering its SME

[50] 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:

- for Member States and Western Balkans: 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;
- for Eastern Partnership Countries (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)[51]

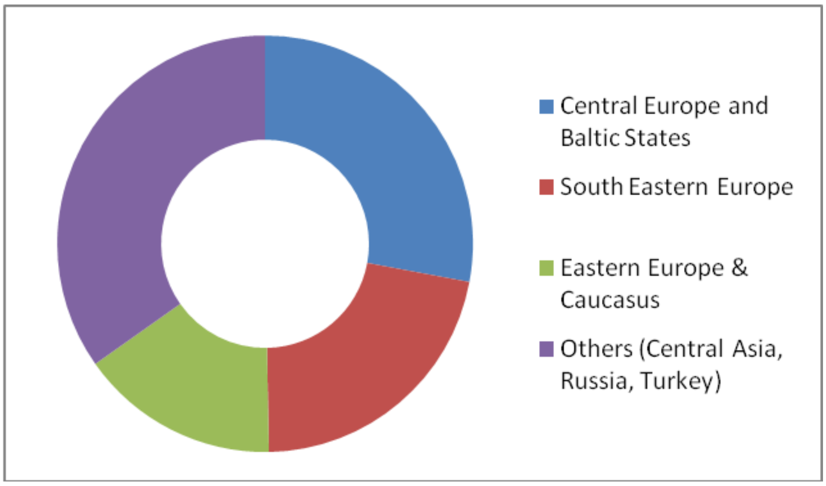
The European Bank for Reconstruction and Development (EBRD) is the first international financial institution of the post Cold War period. It was established in 1991 in response to major changes in the political and economic climate in central and eastern Europe. Inaugurated less than two years after 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.

51 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[52].

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:

[52] 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[53]. 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.

[53] 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[54]

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.

[54] 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[55]. 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*[56]) 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 through the establishment of greenfield micro-finance banks, and through non-bank

[55] *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

[56] See Note 54.

financial institutions. Through technical assistance, the Bank has been able to accompany its capital 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)[57], 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;

[57] 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[58]

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.

[58] http://www.ebrd.com/russian/pages/sector/financial/micro/sme_facility.shtml

Western Balkans Private Sector Support Facility (PSSF)[59]

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)[60]

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.
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

[59] http://www.ebrd.com/english/pages/project/psd/2010/41412.shtml
[60] http://www.ebrd.com/downloads/research/factsheets/lef.pdf

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)[61] 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:

- 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

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

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)[62] 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)[63] 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 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

[62] http://www.ebrd.com/pages/sector/energyefficiency/sei.shtml
[63] http://www.ebrdseff.com

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)[64] 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.

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

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

Western Balkans Sustainable Energy Direct Financing Facility

The **Western Balkans Sustainable Energy Direct Financing Facility** (WBBSEDFF)[65] 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.

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

COUNTRY SURVEYS

ALBANIA

Data from the Albanian Statistic Institute (INSTAT) give a recent picture of the domestic economic enterprise tissue, confirming its specific structure based on micro and small enterprises (MSEs), while medium and large private enterprises are de facto negligible. That implies that Albanian domestic classification applied by INSTAT is based on micro and small firms.

Following its 2008 Structural Survey on Enterprises[66], about 69 thousand enterprises have been found active where 239.5 thousand were the employed. Over 63 thou. are micro firms, with 92.5 thou. employees. In firms with less than 20 employed, are engaged 54 percent of total workforce. These enterprises have also realised 45.2pc of the total turnover but only 20.6 percent of total investments (the biggest share 50.9pc belong to larger firms). It is useful to highlight the rapid quantitative expansion of the Albanian MSMEs in less than five years: from 38.3 thousand in 2004 to over 69 thou in 2008.

	2008	According to number of employed			
		1 - 4	5 - 19	20 - 79	over 80
Number of enterprises	69.039	63.387	4.300	1.092	260
Annual average number of employed	239.545	92.548	37.376	39.547	70.074
Turnover (mln Lek)	1.046.404	207.619	264.902	243.938	329.945
Total investments (mln Lek)	89.336	6.881	11.560	25.047	45.848
Macroeconomic variables					
Production value (mln Lek)	643.324	100.627	127.359	146.737	268.601
Intermediate consumption (mln Lek)	397.850	49.168	92.973	104.456	151.253
Value added (mln Lek)	245.474	51.459	34.386	42.281	117.348

Source: INSTAT

A constant watch at the evolution of the economic framework in which operate SMEs is given by the ***Progress Report of the European Commission for Albania***; last EU document (November 2010)[67] confirmed the overall short-term improvement of the business environment for SMEs in Albania also for the access to finance. "*Albania's transition process has resulted in a business sector dominated by **SMEs** which have a share of more than three-fifths of GDP and employ around four-fifths of total workers. Micro and small enterprises dominate the services and trade sectors, while medium-sized firms are concentrated in construction and industry. **SMEs** concentrate on the domestic market and lack export competitiveness. Support to export-oriented and innovative companies is weak. In 2007, the government established a €1.6 million export guarantee fund to export-oriented firms as well as a grant scheme as part of*

[66] http://www.instat.gov.al/

[67] http://ec.europa.eu/enlargement/pdf/key_documents/2010/package/al_rapport_2010_en.pdf

*a competitiveness fund. A strategic framework for **SME** development was launched in 2007 with the Business and Investment Development Strategy which is a long-term strategy complemented by a medium-term programme. Overall, **SMEs** are mostly domestically-oriented as export promotion remains inadequate.*

*Although access to finance has improved over the years, own resources remain the main source of financing for most firms. This is particularly the case for micro, small businesses and start-ups, which face tough borrowing conditions, especially in rural areas. Since 2009, credit conditions for **SMEs** have become more restrictive, with lending rates charged by commercial banks on new Lek-denominated loans standing at around 15%. While companies continue to suffer from delays in the reimbursement of overpaid VAT or export refunds, the situation has improved somewhat since the beginning of 2010. A public credit registry, established by the Bank of Albania in 2008, collects data from banks and makes them available to lenders. However, the exclusion of micro-credit institutions from the credit registry is considered to be a bottleneck for the access to bank lending for **SME**. Overall, despite significant progress, access to finance remains a challenge to micro and small enterprises.* (…)

Albania has a relatively small and not very advanced industrial base consisting mainly of low-tech sectors (e.g. mining, textiles and clothing, footwear, food and beverages and furniture). In 2009 industry contributed 7.2% to GDP (out of which 6.5% from the processing industry). Textiles and footwear account for 1.6% of GDP and 30% of industrial employment. Other major manufacturing sectors are food products, beverages and tobacco (1.3% of GDP and 12% of industrial employment) and basic metals and metal items (1.3% of GDP and 8.4% of industrial employment). The chemicals, rubber and plastics industry makes a modest contribution to the economy. Agriculture generates 16.2% of GDP and services 54.3%.

*The Business and Investment Development Strategy (BIDS) provides the strategic framework for Albania's enterprise and industrial policy. It aims at promoting steady growth and dynamic development of entrepreneurship, productivity and competitiveness, investment and better use of human, financial and natural resources. The industrial policy is built on analysis of competitiveness and includes broad consultations with stakeholders. During preparation of the policy, Albania followed the EU principles. In general, the measures taken are appropriate to the needs of industry, but attention needs to be paid to effective implementation. The Ministry of Economy, Trade and Energy (METE) is the main institution responsible for enterprise and industrial policy. The Albanian Business and Investment Agency (Albinvest) has been replaced by the Albanian Investment Development Agency. Like Albinvest, the new agency depends of METE and is responsible for promoting investment, improving competitiveness and providing professional support services to **SMEs**.*

*Albania's **SME** policy is based on the European Charter for Small Enterprises and the country is committed to implementing the Small Business Act for Europe. Albania's definition of **SME** is in line with the EU's as regards the number of employees and autonomous partners and linked enterprise concepts. The share of **SMEs** in the economy is similar to that in the EU. In 2008 their value added to GDP stood at 63%, their contribution to exports at 69%, while their contribution to employment was 82.7%. The overall climate for business has improved as a result of developments in the regulatory framework. In particular, business registration and licensing procedures were improved and one-stop shops are in operation for these*

formalities. Positive measures were also taken in the form of tax reforms, entrepreneurship education and programmes to support ***SMEs*** *and promote their competitiveness. Albania will need to step up its efforts to remove remaining obstacles to investment. In this context, fighting corruption and the informal economy, ensuring the rule of law, in particular enforcement of contracts, raising the quality of exported products and improving human capital and infrastructure will require attention.*
Albania currently has no cluster policy, but clusters are being developed in several sectors with external assistance. Incubation and start-up support face challenges, mainly related to the lack of infrastructure and poor availability of bank loans for start-up activities, particularly in rural areas.
Only a few components of an innovation policy and effective innovation support mechanisms are in place. Current initiatives related to strategies, governance and support, such as establishment of the Agency for Research, Technology and Innovation (ARTI) and the planned business relay innovation centre (BRIC), are encouraging signs of development of the institutional framework for Albania's innovation policy.

As regards enterprise and industrial policy instruments, Albania is participating in the Entrepreneurship and Innovation Programme (EIP) under the EU Competitiveness and Innovation Framework Programme, but not yet in the Enterprise Europe Network or EIP's financial instruments. In general, access to finance remains limited. The banking system finances mainly large companies and tends to be conservative towards ***SMEs****. Credit to the private sector increased in 2009, but loans are still provided mainly for purchase of plants and equipment. Start-up businesses have almost no access to financing from banks and rely on the non-banking sector and microcredit providers. Bank requirements on loan collateral vary from 120% to 150% of the loan and credit interest rates are high. Albania has not yet transposed the Directive on combating late payment in commercial transactions.*[68]

Albania joined the part of the EU's ***Competitiveness and Innovation Programme*** (CIP), which promotes innovation, entrepreneurship and growth in small and medium-sized enterprises (SMEs). The Memorandum of Understanding formalising Albania entry to the Entrepreneurship and Innovation Pillar (EIP) of the Competitiveness and Innovation Framework Programme was signed on June 27, 2008. So, Albania is able to take part in the framework of the European Charter for Small Enterprises by making direct ties with EU Member States and learning from good practice in promoting entrepreneurship and innovation in all its various forms. This will strengthen Albania's own policy and delivery capability for the benefit of Small and Medium Sized Enterprises (SMEs). Albanian policy stakeholders and experts can now join the relevant policy groups which the European Commission sets up under CIP to assist to develop an SME friendly policy, which is key to achieve sustainable growth and more and better employment opportunities. It is another step to bring Albania, which has an EU Membership perspective, closer

[68] Op. cit., *Assessment in terms of the Copenhagen Criteria (The existence of a functioning market economy), Capacity to cope with competitive pressure and market forces within the Union: Sector and enterprise structure*, and *Chapter 20: Enterprise and industrial policy*.

to the EU. It will benefit Albanian SMEs as it will benefit those SMEs from the EU with business ties to Albania, to develop together.

Albania is not yet member of the ***Enterprise Europe Network***.

Following the already quoted ***WB/EBRD BEEPS 2010 Survey***[69], Albanian firms are encountering difficulties in their daily activities mainly due to electricity shortage, corruption, deficiency of skills and education of workers and high tax rates, a subdivision confirmed also among the firms classed by different size. The problem in *accessing to finance* is ranked as 9th in relevance (up to 14), with a slight improvement respect to 2005 Survey results (7th). Within the destructurated financial aspect, for 39pc of the Albanian firms interviewed access to finance even does not results as a problem (33pc in 2005), 19pc as a minor obstacle (22pc in 2005), 24 as a moderate obstacle (27pc), 13pc as a major obstacle (18pc) and only 4pc as a very severe obstacle. At the same time, 72pc (69pc in 2005) of the interviewed did not applied for a loan because it was not needed. The latest data should not be misunderstood, as it does not assume the lack of need of loans but rather the resort to internal funds or informal sources, as well results from the following question, related to the share of the firms resorting to a credit for the purchase of materials (57pc in 2008). Another question defines that in 2008 41pc of firms had no sales on credit, 25pc less than half, and 35pc more than 50 percent of annual sales on credit.
The Survey also allows to individuate the different enterprise choices in accessing to credit lines; according to the given answers, in 2008 14 percent of firms borrowed from private banks and the 0.6pc from state-owned banks, while 1.6pc purchased funds on trade credit from suppliers or customers. The interviewed firms explained the main raisons they did not apply for a loan, considering whereas for the 13.2pc the application procedures as too complex and 12pc the unfavourable interest rates.

The overall functioning situation of the Albanian firms is confirmed by the ***IFC Enterprise Survey***[70]; the *Finance indicators* issue indicates the prevailing of internal sources for investment for all firms and a low recourse to bank financing, denoting a potentially inefficient financial intermediation. The same, a low level of investments comes from the stock market.

[69] BEEPS at-a-glance 2008 Albania, The WBG, January 2010, http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/704589-1267561320871/Albania_2010.pdf
[70] See Note 22.

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

Albania SMEs Survey Finance Indicators, 2007

	Albania	Small Firms (1-19 employees)	Medium Firms (20-99 employees)	Large Firms (over 100 employees)
Internal Finance for Investment (%)	79.3	78.2	80.4	83.9
Bank Finance for Investment (%)	14.1	12.8	18.0	12.9
Trade Credit Financing for Investment (%)	1.6	2.0	1.0	0.2
Equity, Sale of Stock For Investment (%)	2.1	2.8	0.4	1.7
Other Financing for Investment (%)	2.9	4.2	0.3	1.3
Working Capital External Financing (%)	17.1	18.6	15.2	7.9
Value of Collateral Needed for a Loan (% of the Loan Amount)	146.6	148.5	144.6	124.3
% of Firms With Bank Loans/line of Credit	42.2	37.9	53.8	44.9
% of Firms With a Checking or Savings Account	92.4	89.1	100.0	100.0

Source: IFC Enterprise Surveys, Albania Country Profile 2007

MAIN FINANCIAL FACILITIES FOR ALBANIAN SMEs

WB/IFC

The World Bank Group adopted a Country Partnership Strategy (CPS) for Albania for the period FY11-FY14. The Bank support to Albania development is ongoing for nearly two decades, allowing positive performances that enabled Albania to transform itself from a low income to an upper middle income country as of July 2010 and having weathered the global financial and economic crisis reasonably well, maintaining a positive, albeit significantly reduced, growth rates in 2009 and a sound banking sector. These achievements have been possible thanks to substantial structural reforms aimed at building market economy mechanisms and institutions and a sound macroeconomic framework. The present CPS FY11-FY14 is focused on priorities as maintaining stability on a vision of long-term development, improving governance and strengthening institutions, maintaining a stable macroeconomic framework; improving the business environment, upgrading public infrastructure, improving effectiveness and targeting of social services and strengthening management of water, land and other critical natural resources.

EUROPEAN UNION

On November 18, 2010 came to an end an €1 million EU-funded project that had the objective to help Albanian SMEs to improve their businesses supporting economic growth in the country. Successively, a €2.2 million project launched in February 2010 and funded by the European Commission (EU SME Project Albania[71]) intends to help Albania's SMEs by facilitating access to innovation and technology that give

[71] http://www.eu-sme.al

firms a competitive edge in the market. Through this assistance, Albanian SMEs will be better prepared to face competition in the EU market.
In order to help Albanian SMEs, this project enabled the establishment of a 'Business Relay and Innovation Centre' – a focal point to coordinate and deliver business innovation and technology services and initiatives for SMEs. The project also supports the development of an Albanian Business Innovation and Technology Strategy, a National Competitiveness Programme for SMEs, an Albanian SME Development Programme, and a training needs analysis for Albania's SMEs. Through these measures, Albanian SMEs will have easier access to new production methods and technology available in the EU that help companies improve the quality of their products, efficiency, and marketing.

EIB

The EIB is a lead player in implementing EU priority objectives in the Balkan area. Active in Albania since 1994, the EIB has contributed over €240 million towards projects of key importance for the economy, such as various infrastructure investments including energy and transport.

FIRST EIB LOAN FOR SMES

The EIB and Tirana Bank have signed in December 2009 a €10 million loan targeting small and medium-sized enterprises and infrastructure projects promoted by local authorities in Albania. This is the first EIB loan for SMEs in Albania.
This operation will finance small and medium-scale projects located in Albania in the fields of industry, infrastructure improvements, environmental protection, health and education, energy efficiency as well as services including tourism. A minimum of 70pc of the loan will be allocated to the SME sector.
The EIB funding will cover up to 100pc of the investment cost of projects implemented by SMEs, in line with standard EIB criteria. The operation will have a financial leverage effect since the EIB requires that the intermediary, Tirana Bank owned by Piraeus Bank, grows its total SME portfolio by double the amount of the EIB loan. Some €20 million are to be invested in Albania to boost the economy and help the country's progress towards economic recovery. The financial intermediary, Tirana Bank will also undertake to transfer the advantage of EIB funding to SMEs and local authority investors through lower interest rates and longer maturities.

EBRD

The EBRD is one of the most active private-sector financiers in Albania with a recent focus on small production enterprises, development of natural resources, as well as improving infrastructure. It is also engaged in policy dialogue with the Albanian government, with the potential to invest in key public sector projects, along with the implementation of numerous donor-funded projects in the country. Since initiating *operations, direct EBRDfinancing in Albania exceeded €500 million, with a further €1.1 billion from sponsors and co-financiers. Bank's focus over the current strategy period (2009-2012) is to strengthen state institutions, invest in infrastructure, including upgrading of national, regional and local road transport networks, further strengthen the banking system, support MSMEs and bank financing of these companies to improve competitiveness.*

The EBRD launched in Albania the TAM/BAS Programme. Since 1996, TAM has undertaken a total of 37 projects in the country, in a wide coverage across industry sectors and with a generally even distribution of micro, small and medium-sized enterprises. The BAS Programme was established in 2006 with the funds provided by the Netherlands. Further funding has been provided by Portugal, the EBRD Special Shareholders Fund and more recently by Luxembourg. Till the end of 2009, BAS in Albania has undertaken a total over 150 projects - all with small and medium enterprises, engaging 50 consultants. The BAS Programme in Albania has also undertaken a number of market development activities, including four training events promoting the development of the local consultancy market.

BANKA POPULLORE SUPPORT SMES

The EBRD and Banka Popullore, a private bank in Albania, have signed in August 2006 a €5 million long-term loan to give small and medium-sized enterprises more access to finance to build or develop their businesses.

The loan falls under the Western Balkans SME Finance Facility, a €50 million framework approved by the EBRD to finance local SMEs in different West Balkan countries. This is the first project under this Facility in Albania. The loan will enable Banka Popullore to further develop its activities with the SME clients by offering longer maturities, facilitating the growing demand for loans of between three and five years.

Banka Popullore was established in March 2004 and has become the seventh bank in Albania. Moreover, the bank has built a strong network covering the whole country with a strong focus on the SME sector.

Previously, the only EBRD project in favour of Albania's SMES has been in 1999 the Lek 140 million (up to € 1.2 million) equity investment in ProCredit Bank Albania (formerly Foundation for Enterprise Finance and Development - FEFAD), a financial specialised institution, based in Tirana, which focuses on providing financial services to Albanian micro and small enterprises in the private sector.

TIRANA BANK €40 MILLION CREDIT LINE

The EBRD has signed investments worth a €40 million with Tirana Banka, a Piraeus Group subsidiary in Albania as part of a larger €200 million multi-country package approved in July 2010 for South-Eastern countries. The aim is to provide medium and long-term debt financing through Piraeus Group subsidiaries in support of SMEs and corporate organisations for investment and working capital needs. The credit lines will contribute to the transition process by maintaining an essential flow of lending to enterprises at a time when the availability of credit, particularly to SMEs, has been constrained.

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

BELARUS

According to the data on MSMEs produced by the *National Statistical Committee of the Republic of Belarus* (BELSTAT) referred to year 2009[72], 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[73], 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[74] 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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72 http://belstat.gov.by

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

74 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***[75] 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***[76]; 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.

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

[76] See Note 27.

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

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

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.

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

BOSNIA AND HERZEGOVINA

SME sector in Bosnia and Herzegovina felt the long-term effects of Yugoslav dissolution first, than of costs of 1992-1995 War. The consequences have been serious postponement in enterprise sector transformation, hold ups in privatisation process and delays of the transition to market economy, worsened by insufficient economic environment and institutional framework, with development strategies defined only after 2006 and distinguished by entities, missing a common structure at B&H level.

Traditionally SMEs in Bosnia and Herzegovina rely on banks and relatives to finance their operations. As confirmed by the first results of FIRMA Project[77], financed in 2009 by USAid and SIDA, due to high collateral demands and interest rates perceived as excessive, Bosnian SMEs persistently complain about their inability to obtain suitable finance in support to their activities. meanwhile, banks localised on the domestic market complain for insufficient bankable projects expressing doubts about the effective competitiveness of most local SMEs. This dilemma has resulted in a vicious circle that afflicts SME ability to make new investments and finance working capital.

Following to limited available data produced by the B&H Ministry of Foreign Trade and Economic Relations (MVTEO) referred to 2007 (data are not distinguished by entities)[78], the largest number of enterprises (over 151 thousand unities) in the country are micro-enterprises (with up to 9 employees), which account for 93.6 % of all national SMEs, while small firms represent a quota of 5.5 percent (*See the Table below*).

Structure of SMEs in Bosnia and Herzegovina (2007)

Number of employees	Number of total entities	% of SMEs
1 to 9	151,107	93.6
10 to 49	8,712	5.5
49 to 249	1,476	0.9
TOTAL	161,295	100.0

Source: SME Development Strategy in Bosnia and Herzegovina 2009-2013, MVTEO

A relevant issue related to Bosnian enterprise activity is rather the size of the grey economy. There are various estimations about the grey economic in both entities that could reach in each one a level from 20-50 percent of the GDP. According to the figures done by the EC and the World Bank, the grey economy should encompass some 36pc of the total country economy.

[77] http://www.firmaproject.ba
[78] http://www.mvteo.gov.ba

Furthermore, there is a very large difference in Bosnia and Herzegovina between the registered and active SMEs. However, the available numbers (of active firms) are unreliable, due to the statistics deficiencies and to the short-lived enterprises facing failure, in absence of capital, poor competition and lack of competence by the entrepreneurs.

A constant watch at the evolution of the economic framework in which operate SMEs is given by the ***Progress Report of the European Commission for Bosnia and Herzegovina*** as potential candidate; last EU November 2010 paper[79] confirmed the limited improvement of the business environment for SMEs in BH. *"Some progress has been made in the area of industry and **SMEs**. There has been some progress in the area of industrial policy. The strategies for development and for social inclusion include industrial policy elements. However, a country-wide industrial strategy remains to be developed. The Entities prepared industrial policies and action plans. The industrial policy framework remains inconsistent. Cooperation and harmonisation of measures to boost competitiveness and restructuring of the major industrial sectors remain insufficient. Harmonised statistics are needed for effective industrial policy planning.*

*Little progress has been made in the area of **SMEs**. Bosnia and Herzegovina is participating in the European Enterprise Network. The European Charter for Small Enterprises is being implemented slowly and unevenly and preparations for implementing the Small Business Act are at an early stage. The State-level **SME** development strategy needs to be implemented. The law on promotion of **SMEs** and entrepreneurship, which was needed to implement the **SME** development strategy, remains to be adopted. The Entities took some initiatives to support **SMEs**. However, **SMEs** continue to operate under different conditions across the country.*

A single registration system for the whole country which would simplify conducting business in both Entities remains to be established. Inter-Entity investment flows are small. The e-government strategy to provide on-line public services to businesses remains to be fully implemented and a systematic approach to business education is lacking. An export promotion strategy does not exist and the institutional framework remains weak.

*The Export Promotion Agency is operational but the related department in the Ministry of Foreign Trade and Economic Relations and the Export Council are not. Overall, preparations in the area of industry and **SMEs** remain at an early stage. Bosnia and Herzegovina has to develop a comprehensive industrial strategy and to implement the State level strategy for **SMEs**. Further improvements in the business environment are essential for the expansion of business and trade."*

[79] http://ec.europa.eu/enlargement/pdf/key_documents/2010/package/ba_rapport_2010_en.pdf

Bosnian firms consider in their activity the *access to finance* a rather relevant issue; the ***WB/EBRD BEEPS 2010 Survey on B&H***[80] point out this problem as 3rd, immediately after the tax rate burden and the corruption. It is a slight amelioration referred to 2005 Survey when the finance aspect was ranked as first. But at the same time, 34 percent of surveyed firms declared not a problem the access to finance, and 67pc stated that did not applied for a loan because it was not needed (70pc in 2005). The percentage of firms purchasing input materials paid for on credit results in decrease (64pc versus 69pc four years before), but is somewhat growing the balance for more sales on credit: 54pc of the enterprises recurs to more than half of their sales, and only 11 percent does not use such system.

25.8 percent of the Bosnian surveyed enterprises declared to borrow from private banks and only 1.8pc from state-owned financial institutions, while 13.4pc purchased on trade credit from suppliers. The firms declaring not having applied for a loan justify themselves for the non-favourable interest rates (24.4 percent of the answers) and the complexity of the procedures (6.5pc). The underdevelopment of the Bosnian SME system emerges from the ***IFC Enterprise Survey***[81], with the *Finance indicators* issue revealing the low level of recourse to bank financing (one firm out of four) and even less to the stock and equity market (one out of seven), while half of the interviewed counts mainly on internal funds.

Bosnia and **Herzegovina SMEs Survey Finance Indicators, 2009**

	Bosnia & Herzegovina	Small Firms (1-19 employees)	Medium Firms (20-99 employees)	Large Firms (over 100 employees)
Internal Finance for Investment (%)	44.3	51.6	41.2	25.8
Bank Finance for Investment (%)	27.5	21.7	33.6	29.9
Trade Credit Financing for Investment (%)	13.2	9.7	14.0	24.4
Equity, Sale of Stock For Investment (%)	15.0	17.0	11.2	19.9
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)	173.4	148.9	200.4	158.9
% of Firms With Bank Loans/line of Credit	65.0	54.5	74.1	84.1
% of Firms With a Checking or Savings Account	99.8	99.5	100.0	100.0

Source: IFC Enterprise Surveys, Bosnia & Herzegovina Country Profile 2009

[80] *BEEPS at-a-glance 2008 - Bosnia and Herzegovina*, The WBG, January 2010, http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/704589-1267561320871/Bosnia_Herzegovina_2010.pdf

[81] See Note 22.

MAIN FINANCIAL FACILITIES FOR BOSNIA AND HERZEGOVINA SMEs

WB/IFC

The World Bank Country Partnership Strategy (CPS) for the period 2008 – 2011 outlines a lending program of about $200 million in support of the country's B&H main development priorities. With a mix of financial and non-financial services, the WB is supporting the Bosnian government to achieve their development goals of improving infrastructure and the investment climate, increasing the efficiency of public spending, and strengthening service delivery - in particular those directed to the most vulnerable segments of the population.

The success of the partnership to be pursued under the CPS are measured by improved infrastructure and services, increased employment opportunities and better quality of life for the people of Bosnia and Herzegovina. Ultimately this would translate into an accelerated integration in Europe.

IFC activities are focusing investments services on increasing access to finance by supporting the development of local financial institutions, especially the ones that concentrate on micro, small, and medium enterprises. IFC has also invested in the country's health sector, municipal infrastructure, agribusiness, construction, and general manufacturing. IFC advisory services aim to improve the investment climate, performance of private sector companies, access to finance, and also to attract private sector participation in development of infrastructure projects.

WB €48 MILLION TO BOOST SMEs

The World Bank approved in 2006 €48 million financing for the enhancing SMEs access to finance in Bosnia and Herzegovina. The objective is to improve access to funds for country small and medium enterprises (90 percent of the amount), contributing to the growth of the regional economy and exports. The project also aims to help the banking sector in Bosnia & Herzegovina that has suffered from the global economic downturn triggering financing difficulties for the enterprise sector.

The outcomes of the project are to be measured by three groups of key indicators: 1) number of loans and the amount of medium and long-term credit extended to SMEs in B&H, including exporters, 2) the payment performance of the sub-borrowers in the project - the number and volume of non-performing sub-loans, and 3) the investment and export performance of the sub-borrowers, and the impact on their employment level. Performance indicators of SMEs - final beneficiaries would be monitored throughout the project to offer lessons which may be helpful in designing future crisis response schemes for SMEs.

Technically, there are two components to the project: the financial component that comprises a credit line of € 46.97 million to be extended through participating financial institutions to creditworthy private enterprises for viable projects, and the project management and monitoring component, in the amount of €408,300, the latter to finance costs of project management, monitoring, financial management, audits and other activities related to overall project management in the Federation of Bosnia and Herzegovina. The Bank has also decided to dispose further €300,000 of unallocated funds which could serve as a contingency for this component.

IFC LOAN TO BANK SUPPORTS SMALL BUSINESS GROWTH

In July 2006 the IFC agreed to Nova Banka in Bijeljina, a commercial bank operating predominantly in the less developed Republic of Srpska (RS), a financing package of up to €15 million. Alongside this financing, Nova Banka has requested IFC to support with a technical assistance program involving training and consulting in specific areas to enable better service delivery to the Bank's retail and corporate clients. Nova Banka activity, still active, is focused on on-lending to private small and medium-sized enterprises and to the consumer retail housing sector.

LONG-TERM LOAN TO RAIFFEISENBANK BOSNIA

The IFC project consists of a long-term loan of up to €12 million to Raiffeisen Bank Bosnia and Herzegovina (RBBH) Sarajevo, the largest bank in Bosnia and Herzegovina, representing 21pc of the market share. RBBH is considered the leading bank in B&H offering a wide range of financial services, including corporate, personal and investment banking. The Bank's main strategic goal is to consolidate its leading position in the market by establishing long-term, mutual beneficial cooperation with its corporate and retail customers and by providing high quality comprehensive client services based on advanced banking technology and professional management.

<u>EIB</u>

The EIB has provided loans in Bosnia and Herzegovina exceeding €923 million since 2000. The EIB is providing finance in particular to projects in the sectors of energy, transport and environmental protection, as well as to small and medium-sized enterprises through partner financing institutions operating in the country.

VOLKSBANK BH DD GLOBAL LOAN

A 2010 EIB credit line up to €20 million for Volksbank BH for financing of limited scale projects of small and medium enterprises and local infrastructure projects of local authorities has the objective of finance the investments of small/medium scale by small size enterprises and local authorities, giving them access to long-term funds at affordable interest rates.

€ 110 MILLION TO BOOST LOCAL ECONOMY

By the end of November 2009 were signed three separate loan contracts for a total amount of €110 million aimed at boosting the economy of Bosnia and Herzegovina and supporting the country's economic recovery efforts:

- <u>€50 million via Intesa Sanpaolo Banka for small and medium sized enterprises and priority projects</u>. A €50 million loan for the financing of small and medium-scale projects promoted by SMEs or local authorities in the fields of the knowledge economy, energy and environmental protection throughout the country. A minimum of 70pc of the loan will be allocated to SME projects.

  EIB financing could cover up to 100pc of the total cost of the investment for SME projects with a ceiling of €12.5 million per project, whereas all other projects will be co-financed up to 50pc in partnership with Intesa Sanpaolo Banka (subsidiary of the Italian banking group Intesa Sanpaolo).
- <u>€50 million via IRBRS-Republic of Srpska Investment-Development Bank for SMEs and local infrastructure projects,</u>. A €50 million loan with a similar structure to the above-mentioned one. IRBRS manages a number of public funds on behalf of the Government of Republika Srpska with the purpose of supporting the development of the economy of its territory. At the request of the Government of Bosnia and Herzegovina and Republika Srpska, the EIB loan would provide much needed additional funds for lending to the SME sector as well as to public projects, especially in poor areas.
- <u>€10 million via LOK Microfinance for small and micro-enterprises, including start-ups</u>. This is an innovative facility of €10 million in favour of projects undertaken by small and very small businesses in the sectors of agriculture, trade, manufacturing and services. The facility aims at supporting economic development, contributing towards job creation and poverty alleviation and supporting entrepreneurship development. Microcredit Foundation LOK is a non-depository financial organisation whose core business activity is the provision of micro-loans in accordance with the Law on Microcredit Organisations in order to improve the material status of the micro-loan users.

These three operations constitute a major contribution to the development of projects in those economic sectors not adequately supported by financial services and also to making funds available to a vast platform of small and micro-sized enterprises to the benefit of an important section of the local economy.

RZB LOAN FOR SMES AND PRIORITY PROJECTS

In September 2009 Raiffeisen Leasing received from EIB a credit line for up to €40 million for loan operation for lease-financing of small and medium scale projects promoted by SMEs or municipal entities, for investment in the field of environmental protection, energy efficiency, infrastructure, industry, services and tourism.

MICROFINANCE LOK LOAN FOR SMEs

EIB granted in April 2009 a €20 million loan to LOK Microcredit Foundation Sarajevo to provide finance at favourable conditions to small and micro-enterprises in the sectors of agriculture, trade, manufacturing, and services, thus supporting the development of the economy, contributing to job creation and poverty alleviation, both have high priority for B&H and the EU.

€25 MILLION CREDIT LINE TO UPI BANKA

In 2007 UPI Banka Sarajevo obtained from EIB a €25 million credit line for financing of limited scale projects of small and medium-sized enterprises and local infrastructure projects of local authorities, with the objective of making available access to long-term funds at affordable interest rates to sectors of economy with least availability of financing - small and medium size enterprises and local authorities.

CREDIT LINES FOR HAA GROUP BOSNIA GLOBAL LOAN

In December 2006 EIB activated HAA Group Bosnia Global Loan, first credit line of €105 million for the Bosnian beneficiaries Hypo Alpe-Adria-Bank d.d., Hypo Alpe-Adria-Bank a.d., Hypo Alpe-Adria-Leasing, with the objective of making available access to long-term funds at affordable interest rates to sectors of economy with least availability of financing – small and medium size enterprises and local authorities. In 2008, for the same Bosnian bank beneficiaries, was opened the HAA GROUP BIH GL II, a second credit line up to €150 million to support the financing and the development of Bosnian SMEs and local authorities.

CREDIT LINES TO NOVA BANJALUCKA BANKA

In 2007 EIB granted a credit line of €25 million to Nova Banjalucka Banka from Banja Luka for financing of limited scale projects of small and medium enterprises and local infrastructure projects of local authorities with the aim to make available access to long-term funds at affordable interest rates to sectors of economy with least availability of financing - small and medium size enterprises and local authorities.

LOAN FOR SMALL AND MEDIUM-SIZED INVESTMENT IN BOSNIA-HERZEGOVINA

The EIB agreed in April 2006 a credit line amounting to €20 million to UniCredit Zagrebacka Banka. The funds are used to provide long-term financing for small and medium-sized enterprises and infrastructure investments in Bosnia and Herzegovina.

The EIB global loan (line of credit) aims at tackling the scarcity of funds for investment needed to sustain investment in environmental protection, energy savings, infrastructure, industry, services and tourism. With the funds stemming from the EIB, up to 50 percent of the eligible project cost may be financed. The term for infrastructure projects is 15 years; loans for SMEs may go up to 12 years. By this way, UniCredit Zagrebacka Banka can respond to the long-term needs of SMEs that represent an important source of job creation and are a key driver for economic and social progress. The EIB funding are complementing resources being made available by other international financial institutions.

UniCredit Zagrebacka Banka benefited in 2007 from further credit lines for the financing of small and medium-scale infrastructure schemes for an amount of €20 million.

€30 MILLION LOAN TO HVB CENTRAL PROFIT BANKA FOR SMEs AND URBAN INFRASTRUCTURE

The EIB lent in December 2005 €30 million to HVB Central Profit Banka. The funds is used to provide long-term financing for SMEs and infrastructure investments in Bosnia Herzegovina. The EIB line of credit aims at tackling the scarcity of funds for investment needed to sustain development and economic growth in the country. With the funds stemming from the EIB, up to 50 percent of the eligible project cost may be financed. The term for infrastructure projects is 15 years; loans for SMEs may go up to 12 years. HVB Central Profit Banka will be able to respond to the long-term needs of SMEs that represent an important source of job creation, and of local authorities, particularly of municipalities, which contribute to raising the living standards of the populations concerned through investments in urban infrastructure.

The credit lines were raised with additional €10 million in 2007.

EIB LOAN FOR SMES AND URBAN INFRASTRUCTURE

The EIB granted in May 2005 a lending of €30 million to Raiffeisen Bank Bosnia Herzegovina and to Raiffeisen. Leasing. The funds is used to provide long-term financing for small and medium-sized enterprises and infrastructure investments in Bosnia and Herzegovina. The EIB global loan (line of credit) to the two subsidiaries of the Raiffeisen Zentral Bank Austria aims at tackling the scarcity of funds for investment needed to sustain development and economic growth in the country. With the funds stemming from the EIB, up to 50pc of the eligible project cost may be financed. The term for infrastructure projects is 15 years; loans for SMEs may go up to 12 years.

Further €30 million were granted in 2006 by the Raiffeisen Group Bosnia Global Loan II.

EBRD

The EBRD is the largest institutional investor in Bosnia and Herzegovina. From January 2007 to March 2010 the EBRD signed 35 projects amounting to €626 million. In 2009 investments amounted to €110 million, mainly focused on crisis response projects and financial sector support. In the public sector, the Bank is supporting the construction of a motorway interchange as well as a natural gas pipeline. It also extended a credit line facility of €50 million to the national Deposit Insurance Agency of Bosnia and Herzegovina, providing further stability to deposit insurance schemes in the country through an increase of deposit coverage to €25,500. In the private sector, the EBRD signed eight projects providing finance for banks and microfinance institutions, as well as the private corporate sector.

The EBRD is financing in Bosnia and Herzegovina the TAM/Bas Programme. 25 TAM projects have been completed in the country utilising €1.4 million in funding. The largest donor has been the EBRD Western Balkans multi-donor fund followed by Japan, the EU, Canada, Italy and Denmark. The majority of projects have been in the furniture and wood manufacturing industries, followed by the automotive sector, and textile manufacturing. Most of the BAS Programme, started in 1997, projects focus on the introduction of European Standards into local enterprises. Other very important objectives are related to Improving Management Effectiveness and Improving Market Performance.

RAIFFEISEN BANK BH-SENIOR SME & RETAIL LOAN

A medium-term €20 million credit facility for on-lending purposes to Raiffeisen Bank B&H was signed in September 2006, favouring medium-term financing to its customers, small and medium sized enterprises as well as retail sector clients. By providing medium to long-term funding, the project intended to stimulate growth within the private SME sector and at the same time to support access to term finance to SMEs in the regions where such finance is scarce.

UNICREDIT BANK D.D. SME CREDIT LINE

Within the action as part of a joint effort with other IFIs to tackle the impact of the global economic crisis on the region, EBRD provided €45 million medium and long-term debt financing through its Bosnian Unicredit subsidiaries (UniCredit Bank Bosnia and UniCredit Leasing Bosnia) in support of SMEs and lease finance activities. The SME credit lines are contributing to the transition process by supporting the constrained SME market and maintaining an essential flow of lending to this group of enterprises.

FUNDS FOR ENERGY EFFICIENCY AND RENEWABLE ENERGY PROJECTS

Under the EU/EBRD Western Balkans Sustainable Energy Credit Line Facility EBRD is promoting energy efficiency and renewable energy projects in Bosnia-Herzegovina with a €5 million credit line to UniCredit Bank approved in November 2010, for on-lending to local private companies undertaking sustainable energy investments. The proceeds of the loan will be used to support companies investing in industrial energy efficiency, small renewable energy production and energy efficiency in commercial buildings with loans worth up to €2 million.

The project is supported by EU grant financing that will be used as investment incentives to encourage local companies to implement energy efficiency and renewable energy projects. Technical assistance to help companies prepare eligible projects will be funded by the EBRD Western Balkans Multi-donor Fund.
This is the second transaction under the EU/EBRD Western Balkans Sustainable Energy Credit Line in Bosnia and Herzegovina.

CROATIA

Data provided by the Croatian economic system support the relevant role of the private small and medium firms in the domestic economic activity. Almost 99.6 percent of Croatian firms are to be considered as SMEs, absorbing 65.7pc of the national workforce and producing almost 40 percent of the GDP. These data confirm the picture given by the ***SBA Croatia Factsheet***[82] enclosed to 2009 Annual Report SME Performance Review: the share of SMEs in Croatia (99,5pc) roughly equals the EU average figured by SBA (99.8pc). However, when looking within the SME size-classes, the share of micro-enterprises in Croatia is noticeably lower (87.6 versus 91.8 percent) and the share of small and medium-sized enterprises is significantly higher than the EU average.
The contribution of Croatian SMEs to the overall economy as measured by the added value (55.7pc) is in line with the EU average (57.9pc). In terms of employment, the Croatian SMEs account for a much smaller share of total employment in the private sector (57pc) than the SMEs from EU member states (67.4pc) even though they are well above the EU averages in the category of "medium-sized" businesses.

SMEs in Croatia (estimates for 2008)

	Enterprises	Share	Employed	Share	Value added (€ bln.)	Share
Micro	72,465	87.6	117,709	14.6	14	18.3
Small	8,013	9.7	158,212	19.7	12	16.6
Medium-sized	1,790	2.2	185,766	23.1	16	20.8
SMEs	**82,268**	**99.5**	**461,687**	**57.4**	**42**	**55.7**
Large	427	0.5	343,250	42.3	33	44.3
TOTAL	82,695	100.0	804,937	100.0	75	100.0

Note: data refer to the non-financial business economy.
Source: SBA Croatia Factsheet 2009

The present evolution of the SME sector in Croatia is reflected in the *Chapter 20 - Enterprise and industrial policy* of the most recent **EU Croatia 2010 Progress Report**[83] edited in November 2010 "*In 2009, small and medium-sized enterprises (**SME**) accounted for around 40% of the corporate sector's total assets, 66% of total employment and 46% of total investment. **SMEs** generated 55.7% of GDP5 and more than 42% of total exports. Except for investment where the share declined from 65%, those indicators remained virtually unchanged compared with the previous year. In order to support the **SME** sector, the government adopted an operational plan for 2010 and a set of measures under the Economic Recovery*

[82] http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/pdf/final/sba_fact_sheet_croatia_en.pdf
[83] http://ec.europa.eu/enlargement/pdf/key_documents/2010/package/hr_rapport_2010_en.pdf

Programme. The State Development Bank (HBOR) was further strengthened financially to increase lending to ***SMEs*** *on more favourable terms. Still, the sector continued to suffer from a cumbersome regulatory framework and inefficiencies in public administration. Access to longer-term financing remained difficult, particularly for newly established businesses. Overall, while the* ***SME*** *sector continued to benefit from significant government support, its share in the overall economy has not increased. (…) Some progress was made with regard to enterprise and industrial policy principles. Further efforts were made on implementation of enterprise policy principles, particularly of the Small Business Act for Europe. The government adopted a development strategy to promote entrepreneurship among women. Alignment of Croatia's definition of '****SME****' with the acquis recommended definition is not yet completed. Further progress has been made in the area of business registration, especially in the form of introduction of the e-register online application but is not yet fully functioning.*

Further to the decision on abolition of the Regulatory Impact Assessment Office, the government adopted a decree amending the structure and functions of the Government Legislation Office (GLO) which was appointed as the body responsible for regulatory impact assessment (RIA) in Croatia. The GLO has taken steps in order to be able to conduct professionally regulatory impact assessments.

Industrial policy measures were taken to alleviate the effects of the crisis. In April 2010, the government adopted the Economic Recovery Programme, which includes measures to improve the business environment and create a competitive economy. However, an assessment of the efficiency of measures in the existing industrial strategy was not done.

In the area of enterprise and industrial policy instruments, Croatia has made some progress, mainly thanks to active participation in the EU's Competitiveness and Innovation Programme (CIP). Croatia participates in the Europe Enterprise Network.

There has been some progress in the field of sector policies, like in the shipbuilding industry, where the tendering procedure was finalised in May. (…) Further work was carried out in the area of tourism, with the adoption of legislation implementing the Law on tourist boards and on promotion of Croatian tourism.

Croatia made progress in this chapter, particularly with regard to policy principles and instruments. Overall, alignment with the acquis in this chapter is very advanced. Further sustained efforts need to focus on improving the business environment, by reducing the administrative burden, and on innovation and skills. Alignment of the definition of ***SME*** *with the acquis needs to be completed. Efforts to restructure the steel and, particularly, shipbuilding industries need to be pursued."*

Croatia has joined the EU's ***Competitiveness and Innovation Programme*** (CIP), under which the European Commission promotes innovation, entrepreneurship and growth in small and medium-sized enterprises (SMEs) on October 18, 2007.

Croatia is partner of the ***Enterprise Europe Network*** - EEN network.

Croatian SMEs do not consider the *access to finance* issue a priority problem in its common activities, as emerges from the ***WB/EBRD BEEPS 2010 Survey on Croatia***[84]; the ranking of problems expressed by national entrepreneurs shows this issue as 6th (out of fourteen), denoting a slight amelioration rapported to the 2005 Survey (when it classed as 4th). The most relevant difficulties are related to high tax rates, court activity, tax administration, skills and education of workers and corruption. 43 percent of the interviewed firms indicated access to finance as not a problem (47pc in 2005), and 22pc considered it as a minor one; 70pc of them stated not having applied for a loan as it was not needed in their activities (79pc in 2005). 78 percent of the firms declared having purchased input materials on credit, while 92pc admitted the recourse to sales on credit (of them, 77pc for more than half of total sales), an increasing percentage faced to 2005 survey. According to the given answers, Croatian enterprises prefer borrowing from private banks (25pc) rather that state-owned institutions (8.2pc, a percentage in relevant increase respect to previous Survey), while 2.3pc purchased credit from suppliers. The firms declaring not having applied for a loan justify themselves for the unfavourable interest rates and the complexity of application procedures.

The fragility of the Croatian SME system is shown throughout the ***IFC Enterprise Survey for Croatia***[85], with the *Finance indicators* issue reveals the medium level of recourse to bank financing (less than 40 percent of firms), with almost one firm out of two preferring to count on internal funds for investment, while very limited is still the stock and equity market option.

Croatia SMEs Survey Finance Indicators, 2007

	Croatia	Small Firms (1-19 employees)	Medium Firms (20-99 employees)	Large Firms (over 100 employees)
Internal Finance for Investment (%)	48.1	65.1	36.5	37.1
Bank Finance for Investment (%)	39.8	22.7	53.0	43.3
Trade Credit Financing for Investment (%)	2.2	2.4	1.2	6.7
Equity, Sale of Stock For Investment (%)	2.3	1.4	3.2	1.1
Other Financing for Investment (%)	7.6	8.4	6.2	11.8
Working Capital External Financing (%)	43.9	36.7	50.7	54.9
Value of Collateral Needed for a Loan (% of the Loan Amount)	120.9	100.4	133.2	121.7
% of Firms With Bank Loans/line of Credit	67.3	60.2	72.9	83.6
% of Firms With a Checking or Savings Account	99.8	99.5	100.0	100.0

Source: IFC Enterprise Surveys, Croatia Country Profile 2007

84 *BEEPS At-A-Glance 2008 Croatia*, January 2010, http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/704589-1267561320871/Croatia_2010.pdf

85 See Note 27.

MAIN FINANCIAL FACILITIES FOR CROATIAN SMEs

WB/IFC

Croatia's priority is to enter the EU with a competitive and growing economy and the institutional capacity to meet the demands of membership. This entails reducing Croatia's external vulnerability, completing its transition to a market economy, fostering greater competitiveness, and achieving convergence with EU income levels. These priorities are shared across the political spectrum and society, albeit with varying degrees of emphasis, and form the basis of the Bank's assistance to Croatia. The goal of the WB Country Partnership Strategy (CPS) 2009-2012 is to support the completion of Croatia's EU accession process, the rapid convergence of its income level with that of current EU member states in a fiscally, socially and environmentally sustainable fashion, and a well-brought-up quality of life for Croatia's citizens. This overarching goal is fully in line with the government's priorities expressed in various government programmes. In order to support the achievement of this goal, the WB program will aim at contributing in four areas: (i) sustaining macroeconomic stability, (ii) strengthening private sector-led growth and accelerating convergence with the EU, (iii) improving the quality and efficiency in the social sectors; and (iv) increasing the sustainability of long-term development.

Within WB activities, IFC strategy in Croatia is focused on strategic sectors crucial for Croatia's long-term sustainable development, with a particular attention on the financial sector with a special emphasis on small and medium enterprises and energy efficiency lending, the climate change including investments in infrastructure and energy sectors, the agribusiness with an emphasis on food retail and manufacturing, the value-added manufacturing, the business infrastructure with a focus on logistics and distribution, the sub-national finance with a focus on municipal infrastructure and waste management and the tourism sector.

LONG-TERM LOAN TO ERSTE & STEIERMARKISCHE BANK D.D. ZAGREB

IFC granted a long-term loan (up to ten years) of up to €30 million to Erste & Steiermarkische Bank Zagreb in March 2002. The strategy is focused on SMEs and retail; recently, the bank has increased its emphasis on residential housing mortgages. E&SB is based in Zagreb and has a network of 34 retail branches concentrated in the Zagreb, Bjelovar, and Northern Croatia regions.

LONG-TERM LOAN TO PRIVREDNA BANKA ZAGREB

IFC granted in December 2004 a long-term loan which amount is expected to be €50 to €100 million to Privredna Banka Zagreb, a Croatian financial institution Controlled by Gruppo Intesa of Italy. PBZ offers the full range of banking products to corporate and retail customers in Croatia. The proposed project aims to provide a long term loan facility to PBZ to enable it to enhance long term lending to its customers, particularly to retail mortgage customers and small enterprises, securing to the latter sufficient funding for capital investments programmes.

EIB

The EIB's lending operations in Croatia support projects helping the country to meet EU accession criteria and to integrate rapidly into the Union. EIB lending in Croatia since 2001 focused on the construction and rehabilitation of the country's infrastructure, especially transport infrastructure, which has absorbed almost 64 percent of total EIB lending in Croatia. After the economic crisis blast in 2009, the EIB increased its activities in Croatia and its support went mostly towards SMEs investments with new SME credit lines established with local financial institutions and public sector projects in line with the priorities of the Government.

Total EIB lending in Croatia since 2001 reached around €2.15 billion to the end of 2010.

€ 40 MILLION FOR PROJECTS OF CROATIAN SMES AND MUNICIPALITIES

The EIB lent in 2007 €40 million to Hrvatska Banka za Obnovu I Razvitak (HBOR – the Croatian Reconstruction and Development Bank) to finance indirectly smaller projects of Croatian SMEs and municipalities in the areas of environmental protection, energy saving, infrastructure, industry and services, including tourism. SMEs, regional and municipal authorities, to whom the loan is directed, are customers of HBOR and can profit from the improved access to long-term finance provided by the loan. The EIB loan is a continuation of the successful cooperation between the EIB and HBOR. The first loan of €10 million signed in 2001 has been fully disbursed in favour of six SME projects.

€40 MILLION FOR PROJECTS OF CROATIAN SMES AND MUNICIPALITIES

In 2008 the EIB granted €40 million to Privredna Banka Zagreb. This funds will help PBZ to finance projects of SMEs and municipalities, whose access to funding is still limited. This will continue the successful cooperation of the EIB with this financial institution in support of small-scale investments in operations benefiting from the Croatian bank's knowledge of the local market and extensive network of branches in the country.

ESB LOAN FOR SMES AND PRIORITY LENDING

The EIB financing up to €40 million were made available in 2008 to Erste & Steiermärkische Bank Rijeka for eligible projects of limited size carried out by SMEs in Croatia in the fields of infrastructure, environmental protection and improvement, the rational use of energy, health and education.

ULC LOAN FOR SMES AND PRIORITY LENDING

EIB 2008 credit line up to €100 million for lease-financing at affordable interest rates to sectors of economy with least availability of financing, of small and medium-scale projects promoted by

SMEs or by other final beneficiaries in the field of environmental protection, energy savings, infrastructure, industry, services and tourism.

EIB INTRODUCES NEW LENDING PRODUCT TO PROVIDE SUBSTANTIAL SUPPORT FOR SMES

In September 2009 the EIB lent €250 million to the Croatian Reconstruction and Development Bank (HBOR) to finance the projects of small and medium-sized companies, mid-cap companies and municipalities in Croatia. This new type of loan is in line with the EIB's priority of strengthening its support for Europe's SMEs to help mitigate the effects of the current financial crisis.

€200 million of the loan support projects implemented by SMEs (with fewer than 250 employees) and €50 million finance the projects of mid-cap companies (with more than 250 and fewer than 3,000 employees) and improve their access to long-term finance. HBOR has focused SMEs, mid-cap companies and municipalities as their customers and possess a well developed network.

Promoters of projects in the area of energy benefit from grants provided by the European Commission under the Energy Efficiency Finance Facility if their project leads to a decrease in energy consumption by 20pc or reduction in CO_2 emissions by 20pc.

This is the largest loan provided by the EIB in Croatia so far. The current loan represents a continuation of the successful cooperation between the EIB and HBOR. The EIB has provided three previous credit lines to this financial institution amounting to €110 million supporting SME investments.

EIB SUPPORTS WITH € 100 MILLION SME PROJECTS

The EIB lent in December 2009 €100 million to Zagrebacka Banka to finance small and medium-sized projects from SMEs and public sector in the areas of industry, upgrading of infrastructure, environmental protection, energy efficiency and services including tourism in Croatia.

The EIB funds will help small and medium-sized enterprises and municipalities to mitigate the effects of the current credit crisis and improve their access to medium and long term finance. This type of EIB lending helps to increase the productivity and competitive capacity of SMEs, which collectively make an important contribution to economic growth, modernisation and employment throughout Croatia.

The current loan represents the first EIB loan granted to Zagrebacka Banka and will increase the number of EIB partner financial institutions in Croatia having positive implications for the SME sector and public authorities.

EIB CONTINUES TO SUPPORT SMALLER PROJECTS AND FINANCES CHEMICALS PRODUCTION UPGRADE

The EIB provided in April 2010 two loans in Croatia: €250 million to the Croatian Reconstruction and Development Bank (HBOR - Hrvatska Banka Za Obnovu i Razvitak) to finance projects of

small and medium-sized companies, mid-cap companies and municipalities in Croatia and €34 million to HBOR to support the upgrading and extension of the chemicals production of Dina Petrokemija d.d. (first EIB loan to a larger project promoted by a firm in Croatia).
The loan of €250 million will finance SME projects and medium-sized companies projects in the area of industry and services, including tourism, small and medium-scale infrastructure schemes promoted by local authorities and projects supporting the establishment of the knowledge based economy and investments in the areas of energy, environmental protection, health and education.
This loan is in line with the EIB's priority of strengthening its support for Europe's SMEs to help mitigate the effects of the current financial crisis.
The current loan is a continuation of the successful cooperation between the EIB and HBOR. The EIB has previously provided four credit lines to this financial institution amounting to €360 million supporting SME investments.

<u>EBRD</u>

In Croatia, the EBRD supports growth and regional expansion of local companies, privatisation, foreign direct investment and infrastructure development. Financial sector activities focus on small and medium-sized enterprises, through banks and non-bank financial institutions, and on expanding trade. The EBRD activities in the country are integrated within the international community's efforts to promote growth and stability in South-Eastern Europe.
The Bank's portfolio in Croatia by end-March 2010 amounted to €1,204 million, invested in 79 projects. In 2009 as a crisis response, the EBRD has invested €248 million, including substantial financing for the two largest Croatian banks for on-lending to SMEs which were particularly affected by the lack of liquidity in the market. The choice was to directly support economic recovery by financing investments to improve competitiveness and to support the regional expansion of Croatian enterprises. The EBRD also intervenes through the ***EBRD/Italy Local Enterprise Facility****, strengthening local SMEs with equity capital; the first equity investment was signed in February 2010, for € 4 million, in GEOFOTO. The EBRD has provided SME facilities to Raiffeisen Bank and Raiffeisen Leasing under the* ***EU/EBRD SME Finance Facility*** *focusing on leasing companies, and continued working with Croatian Post Bank and Erste S-Leasing under this programme. Globally, EBRD has signed five EU-EBRD SME Finance Facility loans to banks and leasing companies with a value of € 50 million.*
Croatian SMEs are also supported through the TAM/BAS programme; to date, TAM has secured € 1.4 million and BAS € 4.6 million in donor funding for projects.

PBZ SME CREDIT LINE

In the spring 2009 EBRD granted a loan for up to €50 million in the form of a long-term credit line for SMEs to Privredna Banka Zagreb, supporting Croatian SME activities hurt by the constrained finance resource availability.

ZAGREBACKA BANKA SME CREDIT LINE (UNICREDIT GROUP)

In 2009 EBRD also granted a loan for up to €50 million in the form of a long-term credit line for SMEs to Zagrebacka Banka Zagreb (UniCredit Gr.), supporting Croatian SME activities through the banking subsidiaries in lease finance and energy efficiency projects. The project is part of the a joint IFIs effort to tackle the impact of the global economic crisis on the region by providing through UniCredit Bank subsidiaries over €434 million in support to eight East Europe country banking sectors.

MACEDONIA

According to the EU-Enterprise and Industry ***SBA 2009 Survey on Macedonia***[86], the SME sector in Macedonia is composed by 45 thousand firms (99.8 percent of the total business units) denoting its small-scale predominant structure: the percentage of small and medium enterprises is on European average. Almost 41 thousand are micro-firms (90.6pc). The contribution of SMEs to employment is in Macedonia significantly higher (71.2pc) than the EU-27 average (67.4pc) as is the contribution of the small-sized enterprises.

SMEs in Macedonia (estimates for 2008)

	Enterprises	Share	Employed	Share
Micro	40,890	90.6	79,563	29.5
Small	3,792	8.4	74,095	27.5
Medium-sized	376	0.8	38,133	14.2
SMEs	**45,058**	**99.8**	**191,791**	**71.2**
Large	88	0.2	77,644	28.8
TOTAL	45,146	100.0	269,435	100.0

Note: data refer to the non-financial business economy.
Source: SBA Macedonia Factsheet 2009

A watch at the evolution of the economic framework in which operate SMEs is given by the end-year ***Progress Report drafted by the European Commission for Macedonia*** as candidate country; last EU November 2010 official document[87] within the *Chapter 20 - Enterprise and industrial policy*, confirmed the limited improvement of the business environment for SMEs in Macedonia. "*There has been some progress in the field of enterprise and industrial policy. Good progress is achieved in reducing administrative barriers and operating costs of businesses. New bodies have been established and significant resources are devoted to their operation. There are a number of strategies and annual programmes for supporting enterprises and the **SME** sector which need streamlining and proper public funding. Measures addressing traditional sectors received inadequate budgets. (…)*
Progress can be reported in the area of enterprise and industrial policy principles. The second phase of the regulatory guillotine project implemented 27 measures aimed inter alia at making the operation of the customs terminals and border inspections more efficient, cutting paperwork and streamlining administrative procedures, and reducing fees and tariffs. A third phase of the project has started, focusing on the penalty policy. Regular meetings on issues related to impediments to business operations take place between the government and the business sector. The guidelines for regulatory impact assessment came into force and the

[86] SBA Factsheet Former Yugoslav Republic of Macedonia 2009, EU-Enterprise and Industry, http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/performance-review/index_en.htm
[87] http://ec.europa.eu/enlargement/pdf/key_documents/2010/package/mk_rapport_2010_en.pdf

civil servants involved in the development of legal acts received training on how to apply them correctly. However, some line ministries still do not carry out a broad stakeholder consultation and a detailed and systematic analysis of draft laws. The 'think-small-first' principle is not embedded in the law and policy development in the country. The human resources and the public funding for operation of the SME Department and the ***SME*** *Agency remain insufficient. In the area of enterprise and industrial policy principles, the country is moderately advanced.*

Some progress can be reported in the field of enterprise and industrial policy instruments. The country started to benefit more from the EU Entrepreneurship and Innovation Programme. The 2010 annual programmes to support competitiveness, entrepreneurship and clusters networking were adopted, totalling about € 0.49 million. This represents a reduction of about 40% in comparison to the budgets in 2009. The export promotion activities have been transferred to the Agency for Foreign Investments and its 2010 budget is about € 5.7 million. In 2009 the agency spent significant resources to attract foreign investors, with little tangible results.

The Law on obligations was amended in order to ensure further transposition of the Late Payments Directive. Full transposition will be ensured over several phases. The National Centre for Development of Innovations and Entrepreneurial Learning was established as a public-private body. The Government secured a € 100 million loan from the European Investment Bank, which is being used to improve the ***SMEs'*** *access to capital through loans, guarantees and interest rate subsidies. Preparations in the area of policy instruments are moderately advanced.*

There has been some progress in the area of sector policies. The strategy for tourism development 2009-2013 was prepared. It sets the priorities for the development of tourism based on sustainable natural and cultural values. The implementation of the strategy is supported with a budget of about € 0.5 million. A significant share of the funds is allocated to the programme to subsidise visits by foreign tourists. The Agency for Promotion and Support of Tourism was staffed and started to operate. The Ministry of Economy budgeted about € 57,000 for the 2010 programme for the restructuring of the textile industry. In 2009, the mining and basic metal production sectors recorded a drop in production of 3.6% and 42.1% respectively compared to 2008, and a reduction in the number of employees of 13.8% and 19.7% respectively. In the area of sector polices, the country is on track with the EU obligations."

Macedonia has joined the EU's ***Competitiveness and Innovation Programme*** (CIP), under which the European Commission promotes innovation, entrepreneurship and growth in small and medium-sized enterprises (SMEs) on October 18, 2007.

Macedonia is partner of the ***Enterprise Europe Network*** - EEN network.

Following the ***WB/EBRD BEEPS 2010 Survey***[88], Macedonian firms consider the *access to finance* as the main problem in their common activities, followed by the court actions, the high tax rates and the corruption. The latter topic was the most relevant in previous 2005 Survey, when financial difficulties ranked 4th. 12 percent of Macedonian firms consider the fund recourse a very severe obstacle, while 17pc a major obstacle.

Out of the interviewed firms, 28 percent declared not a problem the access to finance (a share in slight decrease respect to previous survey) while 64pc stated that did not applied for a loan because it was not needed. But the percentage of those that purchase input materials paid for on credit is high, reaching 85 percent (63pc in 2005), and has contemporaneously widely increased the share of the firms effectuating more than half of their sales on credit (70pc of the firms versus 47pc in 2005), where two of three economic societies have sales to customers sold on credit. Regarding the source of funding, 26.7 percent of the interviewed firms opted for borrowing from private banks, and 4.5pc from state-owned banks, while 2.8pc purchased financing on trade credit from suppliers. Within the application procedures for a loan, 16.9 percent of firms declared not having applied for a loan due to unfavourable interest rates and 4,2pc to the complexity of application procedures.

The overall picture given by the Survey evidences the insufficient development and the fragility of the business framework in which operate Macedonian enterprises, as their objective difficulties to face with the financial aspects, a situation worsened by the conjuncture economic crisis. Further elements result from the ***IFC Enterprise Survey Macedonia Country profile***[89], with the *Finance indicators* issue revealing that the domestic firms mostly rely on internal funds (two out of three) and the reduced level of recourse to bank financing (one firm out of three) and even lower level recourse to the stock and equity market.

[88] BEEPS at-a-glance 2008 FYR Macedonia, The WBG, January 2010, http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/704589-1267561320871/FYR_Macedonia_2010.pdf

[89] See Note 27.

Macedonia SMEs Survey Finance Indicators, 2008

	Macedonia	Small Firms (1-19 employees)	Medium Firms (20-99 employees)	Large Firms (over 100 employees)
Internal Finance for Investment (%)	62.2	62.5	61.3	63.9
Bank Finance for Investment (%)	30.8	29.6	32.7	30.6
Trade Credit Financing for Investment (%)	1.5	1.6	1.5	1.1
Equity, Sale of Stock For Investment (%)	5.5	6.2	4.5	4.4
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)	175.9	186.2	153.4	196.4
% of Firms With Bank Loans/line of Credit	61.1	58.2	66.1	69.9
% of Firms With a Checking or Savings Account	96.8	96.0	98.6	97.6

Source: IFC Enterprise Surveys, Macedonia Country Profile 2008

MAIN FINANCIAL FACILITIES FOR MACEDONIAN SMEs

WB/IFC

The World Bank Group support to Macedonia takes place over the present Country Partnership Strategy (CPS) 2011-2014 according to four CPS pillars: 1) *growth and competitiveness,* 2) the *business environment;* 3) *human development, and 4) infrastructure. These areas have remained central to Macedonia's development agenda from previous CPS, and WB Group activities were designed to provide direct support through targeted interventions. To support the* b*usiness climate in Macedonia, the Bank and IFC contributed to reduce and streamline business registration and other commercial procedures, while increasing the efficiency and transparency of the judiciary, including case management and commercial dispute resolution. The Bank also helped improve the flexibility of its labour market through targeted Policy Notes and strengthen land administration through focused studies on Access to Land for Investments and Security of Land Tenure that provided the basis for the Real Estate Cadastre project.*
The World Bank supports a portfolio of 14 loans and four grants totalling $337.4 million in commitments.
Within the World Bank Group activities, the IFC focused its support to strategic sectors crucial for country's long-term sustainable development, with a particular focus on financial sector with a special emphasis on small and medium enterprise and energy efficiency lending, climate change including investments in infrastructure and energy sectors, agribusiness with an emphasis on food retail and manufacturing, value-added manufacturing, business infrastructure - with a focus on logistics and distribution, sub-national finance - with a focus on municipal infrastructure and waste management, health and education.

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

IFC HELPS EXPAND ACCESS TO FINANCE FOR SMALLER BUSINESSES

The IFC provided a €25 million loan enabling NLB Tutunska Banka Skopje, one of the top three leading Macedonian bank institutions (majority owned by the Slovenian NLB), to extend loans to small and medium enterprises in the country. Furthermore, IFC provided a €3 million trade finance guarantee facility to support the bank's clients, small and mid-size importers and exporters. IFC's investment helps address the limited access to finance for Macedonia's smaller businesses, a problem exacerbated by the global financial crisis.

The project is part of a regional facility for Nova Ljubljanska Banka Group providing long-term loans for an aggregate amount of €90 million to NLB subsidiaries for on-lending/on-leasing to SME borrowers in several countries across the Balkans.

EIB

The EIB launched its lending in the country in 1977, with a €3 million loan to the energy sector. The total amount of financing provided to the country since 1998 is approximately €330 million. EIB financing has aimed, in particular, at promoting economic activity and fostering balanced regional economic prosperity through the expansion of transport and energy infrastructures. Efforts have also been made by the EIB in supporting the local economy through the network of local commercial banks.

The most important project so far, totalling on its own €100 million, was signed in 2009 between the EIB and the Macedonian Bank for Development Promotion (MBDP). This operation is aimed at supporting SMEs and investments in the fields of the knowledge economy, energy and environmental protection throughout the country.

In 2010, the EIB signed a €50 million loan with the government for financing water and wastewater investments in the country. This operation represents a continuation of the EIB's support for Macedonia and is fully in line with the EIB's lending priorities. Over the coming years, the EIB expects to continue its financing of projects in Macedonia, with the aim to support the country in its path towards European integration.

TUTUNSKA BANKA GLOBAL LOAN

The EIB granted in 2006 to Tutunska Banka Skopje a credit line up to €20 million for financing of limited scale projects of small and medium enterprises and local infrastructure projects of local authorities, with the objective of making available access to long-term funds at affordable interest rates to sectors of economy with least availability of financing – small and medium size enterprises and local authorities.

€100M MBDP LOAN FOR SMES AND PRIORITY LENDING

The EIB and the Macedonian Bank for Development Promotion (MBDP) signed in June 2009 a €100 million loan aimed at financing projects in Macedonia. The operation is intended to support small

and medium enterprises and any size industrial investment in the fields of knowledge economy, energy and environmental protection throughout the country in compliance with EIB eligibility criteria. A minimum of 70 percent of the loan amount is to be allocated to SME projects. MBDP would allocate the funds through selected local commercial banks.
The projects will be co-financed up to 50 percent in partnership with the local commercial banks. For SMEs the EIB financing could cover up to 100pc of the total cost of the investment, with a maximum of €12.5 million per project, in line with EIB standard criteria.

<u>EBRD</u>

Since 2001, the EBRD business volume in the country reached over €700 million in 68 projects, mobilising addition investments close to €700 million. The EBRD, operational in Macedonia since 1993, continues its support to the national economic structure focusing on industry, commerce and agribusiness, energy, financial institutions (including investments and long-term credit lines in micro, small and medium-sized enterprises through financial intermediaries) and infrastructures.
TAM Programme started its activities in Macedonia in 1998. The main impediments faced by Macedonian MSMEs addressed by the TAM Programme assistance relate to poor management skills (operational, organizational, human resources, marketing, deficiencies in long term business planning, and a lack of exposure to international best practices). In the Macedonian MSME sector, the smallest companies are most vulnerable to the effects of the global financial crisis. Therefore, the BAS Programme remains a key component of assistance, thus helping financially constrained enterprises to access consultancy services.

OHRIDSKA BANKA PROVIDES €5 M TO BOOST SME FINANCING
The EBRD activated in December 2009 a €5 million credit line with Ohridska Banka Ohrid, a Société Générale Group subsidiary for on-lending to small and medium-sized enterprises based in Ohrid region.
It is currently the fourth largest bank in Macedonia. The EBRD loan will support Ohridska Banka's strategy to further expand its operations throughout the country and become a significant national player, by increasing its portfolio of SME loans. The proceeds of the credit line will be used to finance the operations of small and medium-sized businesses with loans of up to €500,000. The credit line will be complemented by a technical cooperation programme, funded by €500,000 grant funds from the EBRD's Western Balkans Fund, to strengthen SME lending procedures of Ohridska Banka.

NEW LOAN TO BOOST COMPETITIVENESS OF MACEDONIAN ENTERPRISES
The EBRD increased in December 2010 the availability of financing to the real economy in Macedonia with a supplementary €5 million financial package to Sparkasse Bank Macedonia for on-lending to small and medium-sized enterprises undertaking investments aimed at improving

their competitiveness on local and European markets. Formerly Investbanka Skopje, Sparkasse Bank Macedonia is a subsidiary of the Austrian Steiermarkische Bank und Sparkassen AG. It has a wide network of branches throughout the country and focuses on SME, corporate and retail lending.

The EBRD €5 million loan will be used to support the development of Macedonian businesses with investments to improve environmental, health and safety standards and product quality in line with EU requirements. Extended under the EBRD's Private Sector Support Facility for Western Balkans, the credit line is complemented by technical assistance and grant financing from the European Commission and the Western Balkans Multi-Donor Fund.

€6 MILLION LOAN TO EXPORT AND CREDIT BANK UNDER EU/EBRD WESTERN BALKANS SUSTAINABLE ENERGY CREDIT LINE FACILITY

The EBRD is supporting the Macedonian real economy with a €6 million loan to Export and Credit Bank (ECB), a universal commercial bank (EBRD holds a 25 percent stake in ECB) with 21 branches throughout the country, for on-lending to local businesses undertaking investments aimed at improving their competitiveness on local and European markets, as well as sustainable energy investments.

The EBRD funds will be used by ECB to provide longer-term loans to small and medium Macedonian companies that choose to invest in projects improving their energy efficiency, and to bring environmental, health and safety and quality standards to the level of EU requirements. The project will help Macedonian companies become more energy efficient and strengthen their competitiveness, easing their access to the EU market.

The EBRD financing includes a €3 million loan under the Bank's Private Sector Support Facility for Western Balkans (PSSF) and an additional €3 million under the EU/EBRD Western Balkans Sustainable Energy Credit Line Facility. The two facilities are complemented by technical assistance funds from the European Commission and the Western Balkans Multi-Donor Fund, which will assist ECB and its clients in assessing, developing and implementing relevant investments. The grant financing will be used to provide financial incentives to companies by reimbursing a part of the projects' costs upon the completion of the works.

MOLDOVA

Following to the data processed by the Moldovan Statistics Office for 2009[90], in the country are included over 44.6 thousand enterprises, of which 89.4 percent are private[91]. The MSME share reached 97.8pc of the total of the Moldovan economic societies; 75,7pc are dominating micro-structures and 18.5pc are small firms. Comparative with other East countries, the level of contribution to the domestic workforce is still low, as less than 60 percent of employees are active in the MSMEs, predominantly in small and medium's categories enterprises. Even smaller is the MSME turnover, below 40pc in the all enterprises' turnover, highlighting the reduced impact on the economy.

SME structure in Moldova (2009)

	Micro firms (0-3)	Small firms (4-9)	Medium firms (10-249)	MSMEs	Total firms
Firms	33,805	8,264	1,589	43,658	44,633
Private firms	31,117	7,120	1,154	32,271	39,911
Employees	84,085	117,104	115,055	316,244	539,195

Source: BNS – Statistics Office Moldova

Within the ***EU/Moldova Action Plan*** adopted in 2005[92] containing the strategic objectives for Moldova based on commitments to shared values and effective implementation of political, economic and institutional reforms, a relevant part is dedicated to the implementation of the ***Enterprise policy (Chapt. 2.3)***, with references to SMEs. The objectives to pursue are to "(...) *Develop a dialogue on enterprise policy aiming at the improvement of the administrative and regulatory environment for companies, at promoting industrial co-operation and tackling the impact of industrial restructuring, and develop the Moldovan legislative and administrative framework for **SME** promotion - in line with articles 52, 69 and 70 of the PCA." (...)* And, more specifically, *(...) to*

- *"develop a legislative framework and appropriate infrastructure for **SMEs**, as provided for in Article 70(2) of the PCA,*
- *endorse and implement the European Charter for Small Enterprises and participate in the monitoring cycles from 2004 (includes participation in co-ordination meetings, writing an annual national report and organising an annual bilateral meeting with the European Commission and Moldovan enterprise policy stakeholders),*

[90] http://statbank.statistica.md/pxweb/database/RO/24%20ANT/24%20ANT.asp

[91] The considered data are referred only to the Republic of Moldova, excluding the Transnistria breakaway province.

[92] http://ec.europa.eu/world/enp/pdf/action_plans/moldova_enp_ap_final_en.pdf

CEI CENTRAL EUROPEAN INITIATIVE
REGIONE AUTONOMA FRIULI VENEZIA GIULIA
INFORMEST
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- *the preparation of companies for progressive opening of internal market elements to Moldovan participation, focusing on information and training. The opening of one Euro-Info-Correspondence Centre (EICC) is envisaged,*
- *in accordance with articles 52 and 69 of the PCA, (to) promote dialogue on industrial policy and associate Moldova to EU initiatives to stimulate competitiveness, including in the tourism sector (e.g. exchange of information, participation in networks and studies, training)."*

According to the results of the ***WB/EBRD BEEPS 2010 Survey***[93], Moldova enterprises placed the *access to finance* at the 4th place as a problem in their common activities, after the access to land – 1st (comprehensible given the country's agricultural structure), the skills and education of workers and the tax rates. The previous 2005 Survey indicated the latter issue (tax rates) as the main problem. Out of the interviewed firms, 28 percent declared not a problem the access to finance (a share in slight increase respect to previous survey), while 63pc declared not have applied for a loan because it was not needed. Somehow high appears the share of these firms recurring to purchase input materials by paying for on credit (69pc), while is contained the percentage of the firms effectuating more than half of their sales on credit (37pc of the firms), even if two of three enterprises have already sales to customers sold on credit.

Regarding the source of funding, 22 percent of the interviewed firms chose to borrow from private financial institutions and 1.5pc from state-owned banks, while 5.6pc acquired funds on trade credit from suppliers/customers. Within the application procedures for a loan, 25.2 percent of firms declared not having applied due to unfavourable interest rates and 6.7pc to the complexity of application procedures.

The overall picture given by the Survey evidences the insufficient development and the fragility of the business framework in which operate Moldovan SMEs, as their constant complications to face with the financial issues, a situation deeply worsened by the conjuncture economic crisis. Moreover, the present domestic financial system has a limited role on funding SME activities, while almost all loans with maturities over one year are financed by international donors programmes.

Further elements confirming such a statement result from the ***IFC Enterprise Survey Moldova Country profile***[94]; the *Finance indicators* issue reveals that only one out of five domestic firms use bank financing for investment activities and almost 60pc of the firms rely on internal funds, while still limited is the recourse to the stock and equity market.

93 BEEPS at-a-glance 2008 Moldova, The WBG, January 2010, http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/704589-1267561320871/Moldova_2010.pdf

94 See Note 27.

Moldova SMEs Survey Finance Indicators, 2009

	Moldova	Small Firms (1-19 employees)	Medium Firms (20-99 employees)	Large Firms (over 100 employees)
Internal Finance for Investment (%)	58.7	60.8	54.3	61.1
Bank Finance for Investment (%)	22.5	17.4	30.0	26.9
Trade Credit Financing for Investment (%)	6.7	8.4	4.2	4.6
Equity, Sale of Stock For Investment (%)	12.2	13.4	11.5	7.4
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)	138.6	128.4	141.6	165.7
% of Firms With Bank Loans/line of Credit	39.6	30.9	53.1	53.9
% of Firms With a Checking or Savings Account	88.2	87.1	90.1	90.2

Source: IFC Enterprise Surveys, Moldova Country Profile 2009

MAIN FINANCIAL FACILITIES FOR MOLDOVAN SMEs

WB/IFC

The Country Partnership Strategy (CPS) sets out the World Bank Group's planned lending and non-lending support to Moldova over the period 2009-2012. It is aligned with the priorities detailed in the country's National Development Strategy 2008-2011 and it builds on the strengths of the previous Country Assistance Strategy (CAS), which itself was closely aligned with the Government's development objectives as articulated in the Economic Growth and Poverty Reduction Strategy Paper 2004-2006.
This results-based CPS aims to assist in laying the foundations for inclusive economic growth in Moldova. This will require addressing three interrelated challenges: 1) improving economic competitiveness to support sustainable economic growth; 2) minimizing social and environmental risks, building human capital, and promoting social inclusion; and 3) improving public sector governance. For this reason, The World Bank has been actively supporting Moldova in areas as rural business development, competitiveness enhancement, energy efficiency, better targeting of social assistance and investment in community initiatives.
Within WB activities in Moldova, IFC specific strategy action focuses on investing in financial intermediaries to provide access to finance for micro, small, and medium enterprises (MSMEs) and agribusiness. IFC also aims to attract private sector investors to develop infrastructure and health care facilities.

ADDITIONAL FINANCING FOR COMPETITIVENESS ENHANCEMENT PROJECT

This WB 2009 project provides an additional $24 million credit to Moldova through IDA for additional financing and restructuring of the Moldova Competitiveness Enhancement Project

(CEP). The additional credit will help finance the costs associated with activities aiming to enhance the impact and development effectiveness of CEP in the economic and financial crisis environment. The additional financing aims to maintain and enhance the competitiveness of the Moldovan enterprise sector through a combination of scaling up of the existing matching grant component in order to assist enterprises with upgrading their labour skills and management practices, and introducing new products and a new line of credit component in support of the investment and working capital needs of exporting enterprises. The main expected outcome is the improved access of private enterprises to credit and business development services. A secondary outcome should be the improved ability of Moldovan banks to provide term financing to the enterprise sector.

MAIB SME

The IFC investment is consisting of an up to 5-year senior loan of up to $15 million for on-lending to SMEs to Moldova Agroindbank (MAIB). In the given market environment, IFC is supporting MAIB with long term financing, sustaining Bank's efforts in offering high quality financial services to SME sector. MAIB is the market leader in terms of lending and is an important player in SME financing. The Bank's strategy for the next 1-2 years is to focus on strengthening its presence on the SME market and on development of the retail business. The bank intends to maintain and increase the customer basis, including through support of new enterprises and development of existing companies from SME sector.

EIB

The EIB finances projects in Eastern Neighbourhood (Ukraine, Moldova, Armenia, Azerbaijan, Georgia and Russia) 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 also finance projects benefiting small and medium-sized enterprises 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.

EIB Total investments in Moldova till 2010 stand at €235 million, mainly interesting transport, agriculture, water & waste and SMEs.

FIRST INTERMEDIATED LOAN TO SUPPORT SMALLER PROJECTS IN MOLDOVA UNDER THE EASTERN PARTNERS FACILITY

The EIB approved in November 2010 its first credit line to Mobiasbanca, a Société Générale subsidiary, one of the leading commercial banks in Moldova. The credit line is for €20 million intended to support primarily projects of small and medium sized companies, including a tranche for small and medium scale energy and environment projects promoted by mid-sized corporate and public entities. This operation lies within the Eastern Partners Facility launched in May 2009, and the framework of the joint IFI Action Plan in support of the banking systems and lending to the real economy. The current loan is the first EIB operation of this kind provided in the Eastern Partner Countries.

PCH LOAN FOR SMES AND PRIORITY PROJECTS

In June 2010 the EIB activated a €175 million loan for Western Balkans and Eastern Partnership Countries (Armenia, Georgia, Moldova and Ukraine). The long-term credit line in Moldova will be through the ProCredit Bank Moldova, a German ProCredit subsidiary.

EBRD

In Moldova the EBRD pursues investment opportunities across a wide range of sectors including banking, food processing, manufacturing, information and communication technology (ICT), retail and property. The Bank promotes foreign investment in Moldova and aims to support infrastructure and energy projects within the country's sovereign debt capacity constraints. Other key priorities are policy dialogue in improving the investment climate and support for the Moldovan financial sector. The economy was deeply affected by the global financial and economic crisis, with remittances as well as industrial production declining by more than 30 per cent year-on-year in 2009.

Until 2010, EBRD signed with Moldova 74 projects of a portfolio value of over €400 million.

TAM Programme operations in Moldova began in 1998; since then, 24 projects have been completed and 5 are still in progress. Food and beverage and building and garden materials are dominant in the distribution of projects. The largest donors include the EU, the EBRD European Special Shareholders' Fund, the Early Transition Countries' Fund, and the UK.

The BAS grant is a key component of BAS Programme assistance, thus helping financially constrained enterprises to access consultancy services. The BAS Programme started its activities in Moldova in 2005. Higher grants are given to support projects aiming to stimulate energy efficiency projects and improve environmental management, improve market performance, reduce costs, and implement computerised management information systems.

BANCA SOCIALA - CREDIT LINE FOR SMES

The 2007 EBRD project is a credit line for up to €5 million in two tranches to Banca Sociala to be on-lent to small and medium sized enterprises in Moldova. The proceeds of the credit line will be used by BS to provide medium-term financing to SMEs for production, investment, trade, services and working capital needs. The proposed project also includes a Trade Facilitation Program of $1 million which supports the development of BS documentary trade operations in favour of Moldovan enterprises.

MOLDOVA MICROLENDING FRAMEWORK

In 2006 the EBRD provided €20.6 million on-lending funds to leading four Moldovan banks and non-bank microfinance institutions enabling EBRD to further expand outreach to creditworthy MSEs throughout the country. Credit lines to commercial banks were accompanied by an intensive technical assistance programme (worth €1.3 million) ensuring they develop the necessary skills and capacity to undertake MSE lending profitably.

MOBIASBANCA CREDIT LINE II

The syndicated loan signed in 2006 is to be provided by EBRD to Mobiasbanca in the aggregate amount of $6 million under an A/B loan structure, consisting of A loan of $3 million for the EBRD account and a B loan of up to $3 million to be syndicated to Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden. The loan is used for on-lending to Moldovan SMEs. Mobiasbanca is dedicated to the SME sector and this syndicated loan provided much needed long-term financing to eligible SMEs for investment and working capital purposes, thereby supporting the development of the private sector in Moldova as well as assisting the bank in diversifying its funding base by introducing a co-financier.

BANCA SOCIALA - CREDIT LINE FOR SMES (II)

The proposed 2010 project is a credit line for up to €5 million in two tranches to Banca Sociala to be on-lent to SMEs in Moldova. The proceeds of the credit line will be used to provide medium-term financing to SMEs for production, investment, trade, services and working capital needs.

MOLDOVA FINANCIAL SECTOR FRAMEWORK

A multi-client, multi-product framework facility was proposed in 2008 for an aggregate amount of €70 million equivalent. Under the framework facility, the EBRD provided its local Partner Financial Institutions (Eximbank, Moldindconbank, Banca Sociala, MICB and MAIB) with a full range of financial products including mortgage financing, SME credit-lines, consumer finance, energy efficiency credit-lines, leasing finance, guarantee facilities, syndicated loans, subordinated debt and equity investments.

MOBIAS BANCA - SENIOR LOAN

The EBRD granted in 2008 a senior loan for up to €20 million in two tranches to Mobias Banka, a Groupe Société Générale branch, to be on-lent to SMEs and larger companies in Moldova. The proceeds of the credit line is used to provide medium and long-term financing to private companies for production, investment, trade, services and working capital needs.

MAIB - SME CREDIT LINE

The EBRD signed in 2008 for a senior loan of up to €20 million in two tranches to CB Moldova-Agroindbank (MAIB) to be on-lent by MAIB to SMEs in Moldova. The proceeds of the credit line is used to provide medium and long-term financing to private companies for production, investment, trade, services and working capital needs. Given the limited supply of term funding for Moldovan banks, this targeted credit line has an important impact on supporting the real economy in Moldova.

MOLDOVAN SUSTAINABLE ENERGY FINANCING FACILITY[95]

In February 2010 the EBRD launched the Moldova Sustainable Energy Financing Facility (MoSEFF) to support energy efficiency investments in Moldovan enterprises by fostering sustainable energy saving and production of renewable energy; more specifically, these investments will be used to finance replacement of outdated production and heating equipment, rehabilitation and replacement of boilers, installation of meters, thermal insulation, refurbishment of heat and power distribution systems, biomass, biogas and solar energy projects. The investment foresees a €20 million credit line combined with a 5 to 20 percent grant component provided for on-lending to Moldovan companies through EBRD's partner banks; loans go from 25 thousand to a maximum of €2 million. MoSEFF provides also technical assistance to the projects through Fichten engineering and consulting company from Germany.

At present within MoSEFF have been implemented/are under implementation 8 projects. Till June 2010 EBRD already disbursed €7 million loan to Agroindbank and a €6 million loan to Moldindconbank, for on-lending to local companies undertaking energy efficiency investments.

[95] http://www.moseff.org

MONTENEGRO

The enterprise sector in Montenegro has a relatively large-scale structure (*see the Table below*): the SME percentage (99.6 percent, corresponding to over 23 thou. registered enterprises) of is similar to the EU-27 average whereas the percentages of micro-firms is lower (88.9pc) and of small-sized enterprises is slightly higher (8.9pc). According to recent estimates, the SME sector wealth-product represents approximately 60 percent of the domestic GDP. The contribution of small and medium firms to global domestic employment in Montenegro (61.6pc), even if below the European average (67.4pc), well mirrors its relevance in the overall economy. Yet, the share of the workforce employed in micro-societies (20pc) is lower than in EU, and is similar to the one concerning the small firms (20.1 percent).

SMEs in Montenegro (estimates for 2008)

	Enterprises	Share	Employed	Share
Micro	20,820	88.9	40,076	20.0
Small	2,083	8.9	40,348	20.1
Medium-sized	428	1.8	43,314	21.6
SMEs	**23,332**	**99.6**	**123,738**	**61.6**
Large	95	0.4	76,996	38.4
TOTAL	23,427	100.0	200,734	100.0

Note: data refer to the non-financial business economy.
Source: SBA Montenegro Factsheet 2009

Within the dominant role that SMEs have in the Montenegro economic tissue, a very sensible issue coming from the local entrepreneurs is the urgent demand of financial resources as obstacle to economic growth and firm development; the problem has clearly emerged during the conference for small and medium enterprises held in Montenegro in 2006[96], reflecting the need for micro-finance by start-up investments as well to support existing activities as a result of lack to financial access and/or difficulty to meet conditions required by banks.

An important point of view of the state of the economic framework in which operate Montenegro SMEs, as also the relevance of this sector, is given by the November 2010 ***Analytical Report of the EU Commission on Montenegro's application for membership***[97]: "*The share of small and medium-sized enterprises (**SMEs**) in the economy has constantly increased over the recent years. However, **SMEs***

[96] The First International SME Conference In Montenegro "*Microfinance in Montenegro*" (organized by Montenegrin Union of Employers – MUE/UPCG), Podgorica, February 28, 2006, http://www.poslodavci.org/srp/Z_Mikrofinansiranje.asp
[97] http://ec.europa.eu/enlargement/pdf/key_documents/2010/package/mn_rapport_2010_en.pdf

remain largely focused on the domestic market and only around 15% of them export outside the former Yugoslav territory. Having benefited from the buoyant credit activity of banks until 2008, they are now faced with diminishing demand, increasing payment arrears, and stricter bank loans conditions due to the crisis. In 2009, the ***SME*** *sector represented some 60% of GDP and employed 67% of the total workforce. SMEs face a number of persistent obstacles, such as delays and costs for obtaining municipal permits or the absence of spatial planning documents in some municipalities. Overall,* ***SMEs*** *have increased their weight in the economy but there is still ample scope for development. (…) The acquis under the enterprise and industrial policy chapter consists largely of policy principles and policy recommendations, which are reflected in communications, recommendations and Council conclusions. The EU's enterprise and industrial policy, including its small and medium-sized enterprises (****SME****) policy, seeks to promote the competitiveness of the economy. It is strongly driven by the Europe 2020 strategy, the successor of the Lisbon strategy for growth and jobs, and by the 2008 Small Business Act for Europe. Enterprise and industrial policy comprises policy instruments, including financial support and regulatory measures. It also includes sectoral policies, such as recommendations for more targeted policy analysis and for new initiatives and consultations at sectoral level. The most highly developed component of Montenegrin enterprise and industrial policy is currently* ***SME*** *policy.*

Montenegro has developed an ***SME*** *policy which has a positive impact on the business environment as the weight of* ***SMEs*** *in terms of employment, GDP and exports has increased in recent years. (...) The contribution of* ***SMEs*** *to Montenegro's total exports is 31%.*

The Montenegrin ***SME*** *policy complies with the principles of the European Charter for Small Enterprises and is moving towards alignment with the Small Business Act. An* ***SME*** *strategy is in place for 2007-2010 and a new one for 2011-2015 is being prepared. The main body in charge of the* ***SME*** *policy, the Directorate for development of* ***SMEs*** *(SMEDA) within the Ministry of Economic Affairs, has 11 regional and local centres and runs the European Information and Innovation Centre (EIIC). The centres provide information to local businesses, advise on the preparation of business plans and implement SMEDA's projects. Business representatives are consulted on legislation in the framework of the Council for Regulatory Reform and Enhancement of the Business Environment. However, the definition of* ***SMEs*** *is not fully aligned with the EU definition, and different providers of statistics on* ***SMEs*** *(the Central Register of the Commercial Court, the statistics agency — MONSTAT, and the tax administration) use different criteria in monitoring registered companies.*

Montenegro's industrial policy is relatively weak as regards overall policy design, even though the development of specific policy components, such as enterprise policy, is fairly satisfactory. Montenegro has faced a strong decline in the relative size of industry to GDP (from 20.7% to GDP in 2001 to 13.5% in 2009), with the manufacturing sector going down from 12.8% to 5.9% for the same period. Industrial production has kept on increasing in absolute terms, but not in relative terms. So far, the government has not indicated whether the issue of declining industry will be addressed in an industrial strategy. Such a strategy should also address the high concentration of the manufacturing industry in the metal and agri-processing sectors. The country has few elements of an innovation policy. There is no overall strategy for *effective innovation support, only a number of sectoral innovation programmes and innovation support for* ***SMEs****. Innovation policy focuses still very much on R&D as a major source of innovation. The involvement of the business community in innovation policy is limited.*

As regards enterprise and industrial policy instruments, Montenegro joined the Entrepreneurship and Innovation Programme of the EU Competitiveness and Innovation Framework Programme in 2008 and participates in the Enterprise Europe Network. The government launched a series of programmes in order to promote and improve access to finance for ***SMEs****, newly-established enterprises and unemployed people establishing their own business. However, there is no indication whether the programmes concerning access to finance have yielded the expected results. In order to improve access to finance, the Montenegrin government has established the Investment and Development Fund (with a capital of €80 million, of which 20% will be liquid assets), which should operate in the following fields: supporting the implementation of infrastructure and ecological projects, reducing regional discrepancies, supporting the sector of micro, small and medium-sized enterprises, and privatising the remaining capital in the Fund's portfolio. Regarding alignment with Directive 2000/35/EC on combating late payments in commercial transactions, Montenegro has made progress in aligning its national legislation with the obligations of the Directive.*

As regards sector policies, the main component of Montenegrin industry is manufacturing. Approximately 80% of gross value added in manufacturing in 2009 came from two sectors with similar contributions: production of foodstuffs, beverages and tobacco and production of basic metals and standard metal products. At this stage, no sectoral policies have been drawn up, with the exception of tourism. Tourism is an important sector of the Montenegrin economy. For 2009 the travel and tourism industry indicators show that tourism has 16 % of total GDP and 10.8 % when related to employment. The Ministry of Tourism supports the tourism sector through promotion programmes aimed at creating a more favorable overall environment for enhancing tourism development, as well as improving the quality of services offered. The tourism strategy as developed and put in place so far shows that Montenegro is taking account of the sustainability aspect as followed by the EU and its Member States. Montenegro is a member of the United Nations World Tourism Organisation and works with other international organisations in developing its strategic framework.

The production of basic metals and standard metal products is the largest sector of the manufacturing industry. The capacity of the iron and steel industry in Montenegro is about 160,000 tonnes, corresponding to slightly more than 0.1% of the EU-27 capacity. Production capacity for the manufacture of non-ferrous metals is about 145,560 tonnes, mainly aluminium oxide (alumina) and aluminium ingots. The biggest plant, the Podgorica aluminium plant (1300 employees), was privatised in 2005, being acquired by the Central European Aluminium Company. The plant is the biggest single contributor to Montenegrin GDP and exports (until recently 51% of the country's exports). The restructuring programme started in 2005 and is on-going in 2010.

The production of food products, beverages and tobacco products is the second largest manufacturing sector (38% of total manufacturing in 2008). Other industrial sectors (chemicals and rubber, defence industry, wood production, and maritime industry) make only a marginal contribution to the country's *manufacturing sector and economy. (…) Montenegro has developed an enterprise policy in line with EU principles, particularly in the area of support for* ***SMEs****. Overall, therefore, if it continues its efforts it should have the capacity to comply with the requirement of the acquis in the medium-term. However, further efforts are needed with regard to industrial policy and strategically important manufacturing sectors."*

Montenegro has joined in March 2008 as the 4th country of the group of candidate and potential candidate countries to join the ***EU's Competitiveness and Innovation Programme*** (CIP) under which the European Commission promotes innovation, entrepreneurship and growth in small and medium-sized enterprises.

Montenegro is partner of the ***Enterprise Europe Network*** - EEN network.

As previously asserted, the *access to finance* issue emerges as a priority problem for SMEs also from the ***WB/EBRD BEEPS 2010 Survey on Montenegro***[98]; within the ranking of problems expressed by national entrepreneurs, placing it as 3rd (out of fourteen) after the electricity supply and the high level of tax rates imposed to economic societies. In the interview 55 percent of the Montenegrin entrepreneurs declared as not being a problem the access to finance, while 44pc asserted that did not applied for a loan because it was not needed. Huge is also, according to the answers, the percentage of businesses purchasing input materials paid for on credit: 62 percent. Finally, a huge share of firms (67pc) has more than 50pc of their sales on credit.

According to the given answers, Montenegro enterprises prefer borrowing from private banks (39.4pc) rather that state-owned institutions (3pc), while 9.8pc purchased credit from suppliers, a share notably higher (almost twofold) than the region level. The firms declaring not having applied for a loan justify themselves for the unfavourable interest rates (42.1pc) and the complexity of application procedures (6.2pc).

The fragility of the Montenegro SME system is also shown through the ***IFC Enterprise Survey*** for Montenegro[99], in which the *Finance indicators* (*See the Table below*) issue reveals the poor level of recourse to bank financing (44.9 percent of firms), with one firm out of four preferring to count on internal funds for investment, while very limited are the stock and equity market options, due to the scarce development and the practice to refuge to the domestic stock market.

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[98] *BEEPS At-A-Glance 2008 Montenegro*, The WBG, January 2010, http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/704589-1267561320871/Montenegro_2010.pdf

[99] See Note 27.

Montenegro SMEs Survey Finance Indicators, 2009

	Montenegro	Small Firms (1-19 employees)	Medium Firms (20-99 employees)	Large Firms (over 100 employees)
Internal Finance for Investment (%)	24.9	21.7	35.5	17.0
Bank Finance for Investment (%)	44.9	51.0	28.5	41.6
Trade Credit Financing for Investment (%)	10.8	11.2	11.4	2.5
Equity, Sale of Stock For Investment (%)	19.4	46.1	24.6	38.9
Other Financing for Investment (%)	0.0	0.0	0.0	0.0
Working Capital External Financing (%)				
Value of Collateral Needed for a Loan (% of the Loan Amount)	150.6	145.7	157.7	215.2
% of Firms With Bank Loans/line of Credit	49.6	46.4	60.9	71.3
% of Firms With a Checking or Savings Account	78.5	74.8	92.0	100.0

Source: IFC Enterprise Surveys, Montenegro Country Profile 2009

MAIN FINANCIAL FACILITIES FOR MONTENEGRO' SMEs

WB/IFC

The World Bank Group supports the Montenegro EU integration process recently started (In mid-December 2010 Brussels granted Montenegro the status of EU candidate country) and provides resources to help to strengthen institutions and improve environmental management. The new Country Partnership Strategy (CPS) FY2011–FY2014, result of the on-field experiences of the previous CPS FY2007-FY2010, is client driven and reflects Montenegro's status as an upper middle-income client with well-defined development priorities. Based on the outcome of extensive consultations with the Montenegro government, domestic stakeholders and external partners, the focus of Bank interventions falls under two main priorities (i) strengthen institutions and competitiveness in line with EU accession requirements, and (ii) improve environmental management, including reducing the costs of environmental problems.

IFC focuses its investment services in Montenegro on increasing access to finance by supporting the development of local financial institutions, particularly ones that lend to small and medium enterprises. IFC also invested in the country's retail sector and is looking into opportunities offered by the country's dynamic economy. IFC's advisory services in Montenegro aim to improve the investment climate, performance of private sector companies, and to attract private sector participation in development of infrastructure projects. IFC services in strategic sectors crucial for Montenegro long-term sustainable development, focus in particular on the financial sector with a special emphasis on small and medium enterprises and energy efficiency lending, the climate change including investments in infrastructure and energy sectors, the agribusiness with an emphasis on food retail and manufacturing, the value-added *manufacturing, the business infrastructure with a focus on logistics and distribution, the sub-national finance with a focus on municipal infrastructure and waste management, and tourism.*

NLB MONTENEGRO

The 2009 IFC project aims to increase access to finance for SMEs in Montenegro through a €10 million senior loan to NLB Montenegrobanka Podgorica (NLB-M) to be on-lent to SMEs. NLB-M is a leading commercial bank in Montenegro and part of the Nova Ljubljanska Banka (NLB) Group. The project is part of a regional facility for Nova Ljubljanska Banka Group that aims to provide to regional facility for NLB Group term loans for an aggregate amount of €90 million to subsidiaries of NLB for on-lending/on-leasing to SME borrowers in several countries across the Balkans.

EIB

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 (SMEs) and local authorities, industry and services, water and sanitation.

The EIB aims to foster through its financing the countries' economic development and their process of integration and harmonisation 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. In December 2009, the EIB launched, together with the European Commission, the Council of Europe Development Bank and the European Bank for Reconstruction and Development, the Western Balkan Investment Framework (WBIF). This provides a joint grant facility and a joint lending facility for priority investments in the region. The objective is to simplify access to credit by pooling and coordinating different sources of finance and technical assistance. An initial focus on infrastructure sectors, including social infrastructure, will be expanded to include support for small businesses, energy efficiency and other investment sectors.

To the beginning of 2011, EIB activated loans for Montenegro in 32 projects, for a global investment of over €259 million, of which 224 million after 2006.

€100 MILLION GUARANTEE FOR SMES

The EIB and Montenegro have signed in 2009 a Guarantee Agreement covering Finance Contracts with Montenegrin banks for a total amount of up to €100 million. This operation supports small and medium-sized enterprises and infrastructure projects and investments promoted by local authorities of any size in the fields of the knowledge economy, energy and environmental protection throughout the country in compliance with EIB eligibility criteria. A minimum of 70 percent of the loan amount will be allocated to SME projects.

The present EIB operation is being mounted in responds to a request from the Montenegro government and comes at a time of international financial crisis marked by the scarcity of available funding in particular with regard to long-term loans for SMEs.

FIRST EIB LOAN TO SUPPORT SME AND MUNICIPALITY PROJECTS

The EIB lent €30 million in 2008 to finance projects implemented by small and medium-sized enterprises and local authorities in Montenegro. The loan is intended to support investments in the areas of environmental protection, rational use of energy, industry and services, including tourism, as well as projects helping to upgrade local and regional infrastructure.

This is the first EIB line of credit provided to a partner financing institution in Montenegro, Hypo Alpe-Adria-Bank Podgorica. It serves to further develop the SME sector in the context of economy growth and help to meet the growing demand from the private sector for finance for productive investments. The loan can also finance infrastructure projects undertaken by local authorities.

EBRD

The EBRD is supporting the transition process in Montenegro. Together with the IBRD, the EIB and the EU is acting in the country in the context of the newly established Western Balkan Investment Framework (WBIF). The Bank is focusing in on key infrastructure projects with significant transition impact, prioritising projects in transport, energy and municipal infrastructures with a material impact on regional integration and environmental improvement. In the financial sector, the Bank is supporting the strengthening of commercial banks and microfinance institutions, with specific products to allow the banks to resume and grow further their lending activities. Given the strategic relevance of economic diversification in the country, the EBRD is investing in all sectors where local SMEs can have competitive advantages and where there is a prospect of regional expansion. This is mostly done through financial intermediaries. Across sectors and in view of the high carbon intensity in Montenegro, the Bank is intensifying its activities under the Sustainable Energy Initiative in energy efficiency and renewable energy projects, including through the Western Balkans Sustainable Energy Credit Line Facility (WeBSECLF) and the Western Balkans Sustainable Energy Direct Financing Facility (WeBSEDFF).

To the end of 2010 the EBRD invested a value of €240 million in 28 projects in Montenegro.

EBRD TAM Programme is specifically aiming to assist the privatisation process in Montenegro, according to the TAM/BAS Strategy for 2008-2010. TAM projects are assisting in the rebuilding of the industrial production processes, diversifying the economy, and creating employment opportunities. The BAS grant is a key component of BAS assistance, thus helping financially constrained enterprises to access consultancy services. A Grant Guideline Matrix is used in order to prioritise intervention to areas where BAS assistance is additional in Montenegro.

PODGORICKA BANKA SOCIETE GENERALE GROUP CREDIT LINE

The EBRD financed a credit line up to €25 Million to Podgoricka Banka Société Générale Group to provide medium and long-term debt financing in support of SMEs and corporates for investment and working capital needs as well as for efficiency projects. The investment is part of investments worth a total of €215 million signed by the EBRD with Société Générale subsidiaries across four Eastern European countries.

SERBIA

Due to a yet uncompleted process of privatization/transformation of the domestic productive system, the structure of the SME sector in Serbia is characterized by a larger scale enterprises (*See the Table below*): the share of small and medium-sized firms is higher than the EU-27 average at the expense of micro-firms, that still dominate the overall SME system (84.9 percent). Also large businesses also account for a higher proportion in the total business population than in the EU-27 on average. The contribution of Serbian micro-firms to employment (13.9pc) is more than halved respect to the European average, while the workforce is mainly concentrated in medium-sized and large enterprises. As a consequence, the contribution of the total SME sector to employment in Serbia (57.3 percent) is substantially lower than in the EU on average (67.4pc).

Nonetheless, since the 2000 the Serb economic system has experienced a strong growth in the number of small and medium-sized firms (10 percent yearly, on average), even if they still face large challenges in increasing competitiveness and market potential, being hampered y financing difficulties that have deteriorated following the global financial turmoil.

SMEs in Serbia (estimates for 2008)

	Enterprises	Share	Employed	Share	Value added (€ bln.)	Share
Micro	69,235	84.9	135,899	13.9	2	11.4
Small	9,421	11.6	184,747	18.9	3	18.9
Medium-sized	2,350	2.9	240,413	24.5	3	21.1
SMEs	**81,006**	**99.4**	**561,059**	**57.3**	**7**	**51.5**
Large	523	0.6	418,794	42.7	7	48.5
TOTAL	81,529	100.0	979,853	100.0	14	100.0

Note: data refer to the non-financial business economy.

Source: SBA Serbia Factsheet 2009

The EU Commission document on the state of the enlargement strategy and Progress made by Serbia, the ***2010 Progress Report***[100] drafted in November, reflects the present picture of the economic and enterprise framework in which operate Serb SMEs and the implementations made to the productive tissue; in fact, "*Little progress was made in the* ***SME*** *sector. Serbia continued previous efforts to move from the phase of policy formulation and the identification of strategic objectives to policy implementation in support of innovative companies, start-ups, provision of business services and information dissemination. The action plan for 2009 was successfully implemented — with some activities however postponed due to lack of financial resources. The action plan for 2010 was adopted and is currently being implemented. The* ***SME*** *Business Council, with 80* ***SME*** *representatives, was established in March*

[100] http://ec.europa.eu/enlargement/pdf/key_documents/2010/package/sr_rapport_2010_en.pdf

2010 and steps to link it up with other private initiatives have been taken. The transformation of the ***SME*** *Agency into the National Agency for Regional Development has been finalised. Financial support continued with start-up loans, investments in underdeveloped areas, programmes for innovation and clusters.*
Serbia continued its participation in the Entrepreneurship and Innovation Programme and joined the Information Communication Technologies policy Support Programme in 2010, thus becoming a member of two out of the three operational programmes under the EU's Competitiveness and Innovation Programme. Serbia also continued being active in the Enterprise Europe Network.
In the reporting period Serbia continued implementing several measures to improve ***SME's*** *access to finance and more specifically the support of start-ups. However, developments in the area of* ***SMEs*** *were affected by the shift of the focus of the ministry in charge of* ***SMEs*** *to regional development and also by a significant cut in human resources in its* ***SME*** *department. Reduced administrative capacity raises concern for the implementation of the national strategy for* ***SME*** *development 2008–2013 and for the implementation of the Small Business Act. The level of cooperation between the ministry in charge of policy and the agency in charge of implementation needs to be improved. Serbia has made little progress in developing and implementing a modern industrial policy. The industrial strategy remains to be adopted.*
Overall, Serbia's preparations in the area of industry and ***SMEs*** *are well advanced. However, reduced administrative capacity may adversely affect the good level that the* ***SME*** *policy has attained."*

Serbia has joined in 2010 the ***EU's Competitiveness and Innovation Programme*** (CIP) under which the European Commission promotes innovation, entrepreneurship and growth in small and medium-sized enterprises (SMEs).
Serbia is partner of the ***Enterprise Europe Network*** - EEN network.

Serbia entrepreneurs consider the *Access to finance* issue as a priority barrier in their ordinary activities, as emerges from the ***WB/EBRD BEEPS 2010 Survey on Serbia***[101], placing it as 2nd (out of fourteen) after the corruption spread in the country. Anyhow, in the interview only 30 percent of the Serbian entrepreneurs declared as not being a problem the access to finance, while 60pc asserted that they did not applied for a loan because it was not needed. High is also, according to the responses, the share of businesses purchasing input materials paid for on credit: 69 percent. Finally, a huge share of firms (69pc) has more than 50pc of their sales on credit, a score increased by 11 points versus the 2005 survey.
According to given answers, enterprises from Serbia prefer borrowing from private banks (25.4pc) rather that state-owned institutions (3.9pc,), while 6.5pc purchased credit from suppliers. The firms declaring not having applied for a loan justify themselves for the unfavourable interest rates (19.5pc), the collateral requirements (7.8pc) and the complexity of application procedures (2.7pc).

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[101] *BEEPS At-A-Glance 2008 Serbia*, The WBG, January 2010, http://siteresources.worldbank.org/INTECAREGTOPANTCOR/Resources/704589-1267561320871/Serbia_2010.pdf

The low level of the banking sector intermediation capacities and the fragility of financial offers to Serbia SME system is also expressed through the ***IFC Enterprise Survey for Serbia***[102], in which the *Finance indicators* (*See the Table below*) issue reveals an increased use of internal funds for investments (52.8 percent) and a low level of bank financing disposal (30.7 percent of interviewed firms). Very limited are the stock and equity market options, due to the scarce development of the domestic stock market, mainly pursued by larger enterprises.

Serbia SMEs Survey Finance Indicators, 2009

	Serbia	Small Firms (1-19 employees)	Medium Firms (20-99 employees)	Large Firms (over 100 employees)
Internal Finance for Investment (%)	52.8	52.7	55.9	45.5
Bank Finance for Investment (%)	30.7	33.6	25.2	31.0
Trade Credit Financing for Investment (%)	7.0	3.5	10.2	15.6
Equity, Sale of Stock For Investment (%)	9.4	10.1	8.7	7.9
Other Financing for Investment (%)	0.0	0.0	0.0	0.0
Working Capital External Financing (%)				
Value of Collateral Needed for a Loan (% of the Loan Amount)	137.1	116.9	158.9	138.7
% of Firms With Bank Loans/line of Credit	67.6	60.4	78.5	77.8
% of Firms With a Checking or Savings Account	100.0	100.0	100.0	99.9

Source: IFC Enterprise Surveys, Serbia Country Profile 2009

MAIN FINANCIAL FACILITIES FOR SERBIAN SMEs

WB/IFC

The World Bank Country Partnership Strategy (CPS) 2008-2011 is supporting Serb Government led reform efforts since 2001 as the economic growth is the most important priority to support Serbia's development efforts. Within the overarching framework of European integration and poverty reduction, the CPS supports three Serb Government identified priorities: encouraging dynamic private sector led growth to ensure incomes continue to converge with European levels; providing opportunities and broadening participation in growth; and managing emerging environmental and disaster risks.

Specifically, IFC operates in Serbia through investment and advisory services in strategic sectors crucial for long-term sustainable development, with a particular focus on: the financial sector, with a special emphasis on small and medium enterprises and energy efficiency lending, the climate change, including investments

[102] See Note 22.

in infrastructure and energy sectors, the agribusiness, with an emphasis on food retail and manufacturing, the value-added manufacturing, the business infrastructure, with a focus on logistics and distribution and the sub-national finance, with a focus on municipal infrastructure and waste management.
Across all sectors, IFC prioritizes investment in Serbia's less-developed regions and in projects that contribute to greater economic diversification and regional integration.

€15 MILLION LOAN TO PROCREDIT LEASING SERBIA
ProCredit Leasing Serbia (PCL) was established by ProCredit Bank Serbia (PCB) in March 2005. The company is engaged in providing financial lease to a broad segment of Serbian market and has a major focus on SME and the agricultural sector. The IFC investment under this project signed in June 2008 consists of a €15 million senior term loan to ProCredit Leasing Serbia. The IFC funds would be used for extending leasing finance to the SME and agriculture sector. The IFC loan would have a maturity of up to six years with two years grace period and is to be unconditionally and irrevocably guaranteed by PCB.

PROCREDIT MSME
The IFC project consists of a €20 million senior term loan approved in May 2010 to the ProCredit Bank Serbia, a full scale commercial bank, whose core business is the provision of credit and other banking services to very small, small and medium-sized enterprises and lower and middle income savers who have previously had limited access to formal financial services. The facility would be dedicated to financing medium and small-sized enterprises.

IFC AND EBRD INVEST IN SERB BANK TO HELP SPEED RECOVERY FROM CRISIS
The IFC in partnership with the EBRD are jointly investing €8 million in Cacanska Banka Cacak to strengthen Serbia's banking sector and speed its recovery from the global financial crisis. IFC is investing about €6 million. This equity investment will strengthen Cacanska Banka by providing a capital buffer to ease liquidity problems arising from the economic downturn. The capital increase will allow the bank to continue lending to small and mid-size companies, thereby generating jobs and growth in the region, enabling the Cacanska Banka privatisation (presently on-going), as at present the Serb government is its largest shareholder.

IFC HELPS EUROBANK INCREASE ACCESS TO FINANCE FOR SMALLER BUSINESSES
The IFC approved in December 2010 the decision to provide a €38 million loan to EFG Eurobank's Ergasias subsidiary in Belgrade, to enable the bank to ensure a continuous flow of credit to smaller and medium enterprises in Serbia and help speed economic recovery.

EU

EU ICIP FUNDS €3 MILLION PROJECT TO SUPPORT SERB DEVELOPMENT

The EU funded Project ***Improved SME Competitiveness and Innovation*** (ICIP) funded a project in value of €3 million together with the Serb Ministry of Economy and Regional Development, the National Agency for Regional Development through a consortium led by GFA Consulting Group supporting the development and competitiveness of the SME sector for both existing and new Serbian business.

The overall goal of the ICIP is to provide support to the development of the SME sector and enhance their competitiveness within existing and future business endeavors through two major components. Firstly, the project provides high quality business support to SMEs in all regions of Serbia. Secondly, the project also supplies SMEs with support and information from national and EU funded programmes on how to become more innovative (these programmes include: Enterprise Europe Network - EEN, Competitiveness and Innovation Programme – CIP and the Research Assistance Programme – FP7). The final aim is to help SMEs become more competitive and innovative so that they can create more job opportunities which in return will foster the Serbian economy and improve the standard of living of the Serbian citizens.

EIB

Serbia has been the main beneficiary of EIB funding since 2001 with extended financing of €1,630 billion to date. In 2008, three separate projects were signed: €50 million for regional and local infrastructure, €70 mln for four clinical centers located in Belgrade, Kragujevac, Nis and Novi Sad and €50 million for lease financing for SMEs. The projects being appraised in 2009 mostly concern investments in Trans-European Transport Corridor X (road and rail), improvement of local infrastructure and environment, research and development, school modernisation, energy transmission, upgrade of judiciary facilities and support to SMEs. All these projects may possibly benefit from EIB financing of over €1.4 billion.

EIB LOAN FOR SMES, INFRASTRUCTURE AND INDUSTRY

The EIB granted in 2006 a €40 million loan to Banca Intesa Beograd. The funds is to be used to provide long-term financing for small and medium-sized enterprises, for infrastructure projects by local authorities and for industrial investments in the fields of innovation and human capital, energy and environmental protection in Serbia.

The EIB global loan aims at tackling the scarcity of long-term funds. With the funds stemming from the EIB, up to 50 percent of the eligible project cost may be financed. The term for infrastructure projects is 15 years; loans for SMEs may go up to 12 years.

€30 MILLION LOAN TO RAIFFEISEN BANK

The EIB loan €30 million to Raiffeisen Bank Belgrade and to Raiffeisen Leasing Belgrade is to be used to provide long-term financing for small and medium-sized enterprises and infrastructure investments in Serbia.

The EIB global loan (line of credit) to the two subsidiaries of the Raiffeisen Zentral Bank Austria aims at tackling the scarcity of funds for investment needed to sustain development and economic growth in the country. With the funds stemming from the EIB, infrastructure projects and SMEs may receive long-term financing for up to 50 percent of the eligible project cost.

Raiffeisen Bank will be able to respond to the long-term needs of SMEs that represent an important source of job creation, and of local authorities, particularly of municipalities, which contribute to raising the living standards of the populations concerned through investments in urban infrastructure. Raiffeisen Leasing will be in the position to support, in particular, industrial SMEs contributing as well to develop leasing operations in the local financial market. Both financial institutions will be passing on to their clients the long-term benefits offered by the EIB.

FIRST €250 MILLION LOAN FOR SMES AND THE NEW FRAMEWORK AGREEMENT

The EIB has launched in 2009 in Serbia a programme aimed at combating the financial crisis and bringing the country closer to the European Union. A first loan of €250 million for small and medium-sized enterprises and priority projects in the country, via the National Bank of Serbia (NBS), was signed. At the same time, the EIB and the Republic of Serbia signed a new Framework Agreement aimed at laying down the EIB activity in Serbia.

The €250 million loan is disbursed via the NBS and will be on-lent by Serb commercial banks. During the current financial downturn, the amounts made available by the EIB will help to fund and support projects by SMEs and local authorities as well investments in the following sectors: industry, infrastructure, energy, environmental protection, knowledge economy, health, education, and services. EIB loans are available to all financial institutions in Serbia. In order to accelerate support to the SME sector, EIB loans may cover up to 100 percent of the cost of each project.

APEX LOAN FOR SMES II

The EIB is providing to Serbia a €250 million Apex Loan for SMEs II, intended for financing of SME projects, small and medium scale infrastructure projects promoted by local authorities and any size investments in the fields of knowledge technology, energy, infrastructure, environmental protection, industry, health and education, and services.

EBRD

The EBRD is one of the largest investors in Serbia. The objective is to assist the country corporate and financial sectors to cope with the effects of the economic crisis, providing financing for privatisation and post-privatisation restructuring to both local and foreign corporate and supporting banks with a strong presence looking for opportunities to develop new products. The Bank's contribution also covers major infrastructure loans for the municipal and transport sectors; improving roads, especially in the context of facilitating cross-border transport and trade, is core to the EBRD's drive to back Serbia's overall economic development. Bank investments also support sustainable energy projects, small and medium-sized enterprises, private companies and new ventures.

As of December 2010, in 153 projects launched in Serbia, EBRD invested over €2.4 million.

EBRD' TAM projects have been present in Serbia since 2001. TAM Programme is specifically aiming to assist the privatisation process in Serbia, according to the TAM/BAS Strategy for 2008-2010. Serb SMEs have been below the regional average regarding participation in joint ventures with foreign companies, and TAM is working to address this by linking enterprises to foreign counterparts. The BAS grant is a key component of BAS assistance, thus helping financially constrained enterprises to access consultancy services. A Grant Guideline Matrix is used in order to prioritise intervention to areas where BAS assistance is additional in Serbia. TAM/BAS Programme complements the assistance at enterprise level with the following market development activities in order to maximise the Programme's transition impact in Serbia.

UNICREDIT SERBIA' SME CREDIT LINE

The €45 million EBRD loan in Serbia is part of the wider investment action (€432.4 million) to UniCredit Group subsidiaries across eight Eastern European countries decided in 2009 as joint effort to tackle the impact of the global economic crisis in the region, in support of SMEs and lease finance. The SME credit lines to UC Bank Serbia (€30 mln) and UC Leasing Serbia (€15 mln) is contributing to the transition process in Serbia by supporting the constrained SME market and maintaining an essential flow of lending to this group of enterprises.

KOMERCIJALNA BANKA SME CREDIT LINE

The EBRD has granted in December 2009 a €30 million five year SME loan with a two year grace period to Komercijalna Banka Beograd for on-lending to private SMEs in Serbia. The purpose of the loan is to support the real economy in times of crisis by providing long-term financing for SMEs that otherwise have difficulties in accessing financing. In addition, the SME loan will improve Komercijalna Banka balance sheet maturity structure.

SOCIETE GENERALE BANKA SRBIJA SME CREDIT LINE

The EBRD has signed a loan worth €20 million with the Société Générale Banka Serbia (the investment is part a total package of €215 million with Société Générale subsidiaries across four

Eastern European countries, approved in July 2009). The aim is to provide medium and long-term debt financing through Société Générale subsidiary in Serbia in support of SMEs and corporate for investment and working capital needs as well as for efficiency projects. The credit lines will contribute to the transition process by maintaining an essential flow of lending to enterprises at a time when the availability of credit, particularly to SMEs, has been constrained.

ALPHA BANK SERBIA-SME AND CORPORATE CREDIT LINE

The EBRD has signed a loan worth €50 million to Alpha Bank (ABG) Serbia, as part of a total of €200 million package approved in July 2010 for Alpha Bank (ABG) subsidiaries in Romania and Serbia. The aim is to provide medium and long-term debt financing through ABG's subsidiaries for on-lending to private businesses operating in the countries. The credit lines will contribute to the transition process by maintaining an essential flow of lending to enterprises at a time when the availability of credit, particularly to SMEs and corporate has been constrained.

EUROBANK EFG BEOGRAD - SENIOR LOAN

The EBRD has signed in November 2010 a loan worth €60 million with Eurobank EFG Beograd, as part of a €230 million package approved in July 2010 for Eurobank EFG subsidiaries across three South-Eastern European countries. The aim is to provide medium and long-term debt financing through Eurobank EFG subsidiaries for on-lending to private businesses operating in the three countries. The credit lines will contribute to the transition process by maintaining an essential flow of lending to enterprises at a time when the availability of credit, particularly to SMEs and corporate has been constrained.

UCB SERBIA - SME AND MEDIUM CORPORATE CREDIT LINE

The EBRD should provide a senior loan of up to €60 million to UniCredit Bank Serbia (UCB Serbia) for on-lending to SMEs and medium-sized corporate in Serbia. The proceeds of the loan will be used by UCB Serbia to provide medium and long-term financing to private companies for production, investment, trade, services and working capital needs.

UKRAINE

The data provided by the Ukraine Statistic Office UKRSTAT[103] emphasize the preponderant role of the small enterprises in the domestic economic tissue as a major driver, reaching a share of 93.7 percent on the total number of firms (*See the Table below*). The quota appears even greater if we also consider the medium companies role (5.8pc), giving a combined 99.5 percent contribution. The proportions differ on the number of employees; larger enterprises still take up a relevant percentage of workers (39.6pc)[104], whereas small and medium sized firms occupy 60.4 percent of the workforce. Similarly, the contribution of Ukraine SMEs to the overall economy as measured by the added value, is still moderate (a share of 54.4pc), whereas is largely overbalanced the large firms part (45.6 percent).

Enterprise structure in Ukraine, by size (2009 data)

	Small-scale enterprises	Medium enterprises	Large enterprises
Number of small-scale enterprises per 10,000 persons	75	5	0
Share number of enterprises (%)	93.7	5.8	0.5
Number of employed, thou. persons	2,152.0	2,844.1	3,278.7
in percent (%) to total number of employed	26.0	34.4	39.6
Number of employees, thou. persons	2,067.8	2,843.1	3,278.6
in percent (%) to total number of employees	25.3	34.7	40.0
Volume of products sold, mln. UAN	456,667.8	1,034,749.3	1,249,361.4
In percent (%) to total volume of products sold	16.7	37.7	45.6

NOTE: average exchange rate 2009: 1 €/ 11.5 UAN (Hryvnia)
Source: UKRSTAT 2011

EU-Ukraine institutional cooperation is managed by ***EU-Ukraine Association Agenda***[105], adopted in November 2009. This Agenda replaces the former EU-Ukraine Action Plan, in view of the entry into force of the new Agreement; furthermore, in 2010 have been added a jointly agreed list of priorities for short-term action. By defining the guidelines toward the implementation of the Association Agreement, the cooperation in the economic field foresees the continuing of the EU support already expressed in previous EU/UKr AP on implementation of an SME policy based on EU best practice and maintain a regular dialogue on industrial and enterprise policy, involving government and business representatives from both the EU and Ukraine.

[103] http://www.ukrstat.gov.ua/
[104] *Running a Business in Ukraine*, Enterprise Surveys Country Note Series No. 5, The World Bank Group, 2009, http://www.enterprisesurveys.org/documents/CountryNotes/Ukraine_09.pdf
[105] http://eeas.europa.eu/ukraine/docs/2010_eu_ukraine_association_agenda_en.pdf

Following the results of the ***WB/EBRD BEEPS 2010 Survey on Ukraine***[106], local entrepreneurs give a moderate relevance to the *access to finance* issue, placing it 8th out of 14 (it was 5th in 2005 Survey). The main concern results from the tax rate level, the huge corruption, the access to land and the tax administration. Anyhow, 36 percent of the interviewed entrepreneurs consider this problem as a major/very severe obstacle, which does rather suggest that the concerns may rather focus on other priorities. The Survey stresses the moderate share of Ukrainian firms indicating access to finance as not a problem (23pc) and the 58pc component that did not applied for a loan at the time of the interview because it was not needed. Contemporaneously, 58 percent of the businesses declared having purchased input materials paid for on credit. Finally, a limited share of firms (37pc) declared to have more than 50pc of their sales on credit, a score in sensible increase versus the 2005 Survey.

According to the given answers, enterprises from Ukraine choose to borrow from private banks (16pc) rather that state-owned institutions (1.1pc,), while 7.5pc admitted to purchase credit from suppliers or customers. The firms declaring not having applied for a loan justify themselves for the unfavourable interest rates (26.1pc) and the collateral requirements (6.5pc), whereas the complexity of application procedures remain a minor matter (3.2pc).

Some data produced by the ***IFC Enterprise Survey for Ukraine***[107] emphasize the still underdeveloped banking sector intermediation capacities and offer to the SME productive tissue. It is still prevailing the recourse to internal finance to investments (62.1 percent of the interviewed firms), whereas only 18.5pc had chosen to turn to a bank financing for the same reason. Very moderate is the share of firms seeking for funds on the stock market, not last due to the low development of the domestic stock market.

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[106] *BEEPS At-A-Glance 2008 Ukraine*, The World Bank Group, January 2010, http://www.enterprisesurveys.org/documents/EnterpriseSurveys/Reports/Ukraine-2008.pdf

[107] See Note 27.

Ukraine SMEs Survey Finance Indicators, 2008

	Ukraine	Small Firms (1-19 employees)	Medium Firms (20-99 employees)	Large Firms (over 100 employees)
Internal Finance for Investment (%)	62.1	60.5	61.3	69.7
Bank Finance for Investment (%)	18.5	16.2	20.7	18.5
Trade Credit Financing for Investment (%)	6.7	5.1	9.4	3.5
Equity, Sale of Stock For Investment (%)	12.7	18.3	8.6	8.3
Other Financing for Investment (%)	0.0	0.0	0.0	0.0
Working Capital External Financing (%)				
Value of Collateral Needed for a Loan (% of the Loan Amount)	137.5	124.4	143.4	154.2
% of Firms With Bank Loans/line of Credit	31.7	26.3	34.8	50.4
% of Firms With a Checking or Savings Account	90.1	86.5	93.7	98.1

Source: IFC Enterprise Surveys, Ukraine Country Profile 2008

MAIN FINANCIAL FACILITIES FOR UKRAINIAN SMEs

WB/IFC

On December 2007 the World Bank endorsed a Country Partnership Strategy (CPS) for Ukraine covering the period of 2008-2011. The CPS outlines the priorities for the Bank Group's engagement through lending and investments, analytical and advisory services, and technical assistance. The strategy proposes a lending range of $2-6 billion over four years, with annual lending levels modulated by a series of performance benchmarks, including progress in structural reforms, macroeconomic stability and improvements in the implementation of existing World Bank loans.

In addition, the International Finance Corporation will continue to invest significant resources to support the private sector in Ukraine. The IFC focus concentrates on strategic sectors crucial for Ukraine's sustainable development, and with a particular focus on agribusiness, infrastructure, construction materials, retail trade and services, energy efficiency/cleaner production and financial markets. IFC investment operations in Ukraine have expanded rapidly over the last few years, with annual commitments reaching about $247million in 2010. Helping Ukrainian companies become market leaders and global players, IFC has invested until the end of 2010 over $1.5 billion in more than 50 projects.

Moreover, in 2003 IFC developed an internet model as informative Toolkit for support to Ukrainian SME business activities, Vlasnasprava[108].

[108] http://www.vlasnasprava.info

$30 MILLION LOAN TO AVAL

This IFC project consists of a senior loan secured by loan assets of up to $30 million to JSC Post-Pension Bank Aval, the largest Ukrainian bank with headquarters in Kiev, for on-lending to SMEs. The bank has a country wide branch network with more than 1,300 branches and 16,000 employees, who serve 30,000 corporate and more than 3 million individual clients. The bank offers a wide range of services but sees its comparative advantages in lending to SMEs and retail. IFC's financing would support this strategy and would increase Aval's ability to offer long term loans to small and medium sized private companies.

PROCREDIT UKR EE

The IFC loan of up to $20 million to ProCredit Ukraine in 2008 is intended to enable the Bank to extend financing for energy efficiency improvements to micro, small, and medium-size enterprises and individuals. The loan will be complemented by Advisory Services to help the Bank build capacity and grow its loan portfolio in the energy efficiency segment.

LOAN TO MEGABANK

The IFC Project consists in financing to OJSC Megabank, in Kharkiv, located in the North Eastern region of the country, to help the bank increase to finance for small and medium businesses. In addition to a full range of banking services, Megabank also provides a unique utility payments service through a system called the Integrated Clearing Center (ICC) which allows households to make a variety of utility and rent payments through the Bank on a single monthly bill. Actually the Bank's ICC system serves 2 million households, representing 15 percent of the utility payments processing market in Ukraine. IFC's investment consists in $10 million in 3-year convertible senior loan, and $10 million 7-year subordinated loan. The purpose of the investment is to strengthen the capital and liquidity of the Bank in the face of the current crisis in Ukraine, and to facilitate future growth once the economic situation stabilizes.

IFC EXPANDS ACCESS TO FINANCE FOR SMALLER BUSINESSES AND RESIDENTIAL BORROWERS IN UKRAINE

The IFC signed in August 2008 a $70 million loan agreement with OJSC Swedbank, a leading commercial bank in Ukraine, for on-lending to small and medium enterprises and residential mortgage borrowers. IFC also plays a critical role in mobilizing parallel and syndicated loans of approximately $69 million in order to complete the financing package to the bank. This is one of IFC's largest investments in Ukraine's financial sector and IFC's first syndication for a Ukrainian financial institution. It supports expansion of credit to small businesses and potential home owners, with a focus on opportunities for people who live in areas outside Kyiv and cannot access financing under current market conditions.

EIB

The EIB finances projects in Eastern Neighbourhood (Ukraine, Moldova, Armenia, Azerbaijan, Georgia and Russia) on the basis of an EU mandate of €3.7 billion for the period 2007-2013.1 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 also finance projects benefiting small and medium-sized enterprises 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. On June 2005 EIB and Ukraine signed as Framework Agreement governing EIB lending to projects in the East European country. Since 2001, EIB has invested in Ukraine over €465 million.

FORUMBANK SME & ENERGY_ENV LOAN

EIB lent €115.5 million for environmental and small and medium-sized investments in Ukraine; €15.5 million to upgrade water supply and wastewater treatment in the City of Mykolayiv (Southern Ukraine) and €100 million to finance small and medium-sized investments in the areas of SMEs, energy efficiency and the environment. The EIB loan of €100 million is being provided to Forum Commercial Bank and will indirectly support smaller investments with total costs of up to €25 million promoted by SMEs as well as energy efficiency and environmental protection projects undertaken by mid-cap companies and public entities in Ukraine.

EBRD

The EBRD has contributed to the on-going transformation process enabled in Ukraine; in recent years it has intervened to the stabilisation of the financial sector, crucial to allow to local banks to restart lending to the real sector, being Ukraine one of the East European countries most affected by the recent financial crisis. EBRD has presently prepared a new draft strategy for Ukraine for the period 2011-2014[109], which the key immediate challenges are put on the public sector debt and a sustainable path and complete post-crisis stabilisation of the financial sector; such measures in this area are implemented with the support of the IMF and other IFIs. In addition, the challenges focus on the strengthening energy efficiency and energy security, improving the business environment and implementing the country infrastructures.
Until the end of 2010, EBRD was involved in 266 projects in Ukraine, with a net business volume of €6.4 billion.
The EBRD attention to the MSME sector has been accomplished by launching since 1998 in partnership with USAid and TACIS and absorbing the German-Ukrainian Fund (GUF) into the ***Ukraine micro***

[109] http://www.ebrd.com/downloads/country/strategy/ukraine_draft.pdf

lending programme (UMLP)[110]*, providing reliable access to commercial financing for Ukrainian micro and small enterprises (MSEs) and strengthening the banking sector by creating sustainable micro and small facilities in Ukrainian commercial banks. Over the past ten years, nine banks have been providing finance to MSEs in the framework of the UMLP: Raiffeisen Bank Aval, Privat Bank, Forum Bank, ProCredit Bank, Nadra Bank, Kreditprombank, Kredobank, Rodovid bank and Megabank.*

UMLP offers to local clients varied types of loans through the partner banks. Depending on the size of the business and the amount needed, private small businesses and entrepreneurs are able to receive express loans of up to $10,000 within 24 hours, with no collateral required. The express loan was introduced by the UMLP's consultants in 2004 and was the first business loan with no collateral requirement to be offered in the Ukrainian banking market. Partner banks also issue micro-loans in amounts ranging from $10,000 to $30,000 with a minimum of collateral. Loans from $30,000 to $250,000 are considered small loans and have a period to maturity of five years. Additionally, the UMLP's partner banks are serving agricultural clients with a unique product known as the Agro+ loan.

The programme target groups include not only Ukrainian micro and small enterprises, but also Ukrainian commercial banks interested in receiving systematic technical assistance to prepare them to carry out a large scale micro and small business lending and provide appropriate training to their staff.

UMLP has so far disbursed nearly $4 billion through over 500 thousand loans to Ukrainian firms, confirming its strong micro-business orientation.

Within the EBRD activities, in Ukraine is operating the TAM/BAS Programme; the TAM Programme started in Ukraine in 1993, supporting local small and medium enterprises in various productive and economic sectors. Since then it has carried out 59 projects, advising companies on their management practices and strategic planning to improve turnover and productivity. The BAS Programme, established in 2009 with funds provided from the EBRD, aims at increasing the competitiveness of domestic enterprises through business advisory projects at enterprise level and to develop sustainable infrastructure of business advisory services through capacity building initiatives. In addition to projects, the BAS Programme is planning a number of Market Development Activities, including training events promoting the development of the local consultancy market.

UKRSOTSBANK(UNICREDIT) SUB DEBT (UNICREDIT GROUP)

The €78.5 million loan granted in 2009 to Ukrsotsbank, a UniCredit subsidiary, as part of a €432.4 million investments to UniCredit subsidiaries across eight Eastern European countries, as part of a joint effort to tackle the impact of the global economic crisis on the region, is providing medium and long-term debt financing in support of SMEs and lease finance projects. More specifically, the investment is aimed to strengthen the Bank capital base, while at the same time sustaining lending to enterprises in the country.

110 http://www.microcredit.com.ua

PROCREDIT UKRAINE - SENIOR MSE LOAN

ProCredit Bank Ukraine (PCBU) was established in December 2010, with the support of EBRD to provide financial services to micro and small enterprises (MSEs) in Ukraine. Since its establishment, PCBU had disbursed over 148,000 MSE loans for a total amount of $1 billion. A new senior loan up to $20 million has been proposed in July 2008 to further assist PCBU in providing financing to MSEs in Ukraine. PCBU is part of the international ProCredit Holding group, a network dedicated to developing microfinance banks.

JSCIB UKRSIBBANK - SME CREDIT LINE

The proposed project consists of long-term financing to JSCIB UkrSibbank, the 3rd bank in Ukraine, a BNP PariBas Group subsidiary, to support the bank's lending to private small and medium-size companies in the country. The project consists of a $50 million SME 5-years' credit line for on-lending to local SMEs to be used for investment needs, export financing and working capital finance help meeting the growing demand for investment finance from local businesses.

MEGABANK - MSME SENIOR LOAN

The EBRD provided in 2007 a $20 million long-term senior loan to MegaBank in Kharkiv, a Kharkiv-based Russian bank, for on-lending to micro, small and medium size enterprises in the East Ukrainian regions. The loan intends to support the Bank to implement its development strategy which includes regional expansion and the accelerated development of small and medium enterprise lending.

RAIFFEISENBANK AVAL SME II LOAN FACILITY

The project signed in 2006 is a medium term financing to Joint-Stock Post Pension Bank Aval to support its lending to private small and medium-size companies. The project consists of a $50 million SME credit line for on-lending to local SMEs. The funds is an on-lent to small and medium sized enterprises and local businesses, whose demand for financing and investment finance is high and further growing.

KREDITPROM SME CREDIT LINE

The project signed in November 2005 is medium term financing to Joint-Stock Bank Kreditprom to support its lending to private micro, small and medium-size companies. The project consists of a $10 million SME credit line for on-lending to local SMEs and a $7 million MSE credit line for on-lending to local MSEs. The funds is on-lent to micro, small and medium sized enterprises, whose demand for financing is high and further growing. The MSE sub-loans will be increasingly directed to rural and agricultural MSEs. The loans to SME sector would meet the demand for investment finance from local businesses.

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

UKRAINE MSME LENDING FRAMEWORK

The EBRD project approved in 2004 is a $200 million Framework Facility for on-lending to local banks for financing private sector micro, small and medium-size enterprises. Under the Framework EBRD provides direct long-term credit lines to local participating banks which will in turn lend the funds to micro and small enterprises and to private small and medium size enterprises. The Framework objective is to improve access of creditworthy MSEs/SMEs to sources of reliable finance and to further strengthen the lending capacity and skills of participating banks. The Framework includes technical assistance for institutional building and increased lending capacity of the participating banks.

UKRAINE ENERGY EFFICIENCY PROGRAMME[111]

EBRD developed since 2007 within SEFF the *Ukraine Energy Efficiency Programme* (UKEEP), a $150 million credit facility targeting Ukrainian private companies (or at least a 51 percent private ownership) in all sectors looking to invest in energy savings, efficiency or renewable energy projects, producing a profitable investment. Besides this, UKEEP maintains a periodically updated 8' categories list of pre-approved equipment and services as well as suppliers[112]. UKEEP also provides debt financing and free technical assistance by international energy efficiency consultants from the Austrian Federal Ministry of Finance and the Swedish International Development and Cooperation Agency (SIDA), as well as the Swedish Vattenfall Company and the Swedish Export Credit Corporation (SEK).

At present, the UKEEP credit line is provided through participating banks in Ukraine, who in turn on-lend to Ukrainian private companies applying for UKEEP financing. As of October 2009, the participating banks are Ukreximbank, Bank Forum and OTP Bank.

There are no exact limits on project size, although a typical loan size will range somewhere between $2-5 million. For larger investments, companies can complement this facility with other forms of financing, e.g. own funds and other commercial credits. Smaller investments may also be eligible, with financing up to $2.5 million for equipment, building insulation and switch to biomass for heating. In the case of very small projects up to $50,000 there is a *fast-track* procedure that implies an automatic procedure of approval Based on list of pre-approved equipment.

As of August 2010, UKEEP has committed almost $100 million to over 170 energy efficiency projects in various economic sectors.

[111] http://www.ukeep.org/

[112] http://www.ukeep.org/en/equipment

Addendum – EBRD Offices in Project Recipient Countries

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