

# GROWING RESPONSIBLY – GROWING RESPONSIBILITY

## EFSE Annual Meeting 2010



EFSE – a Development Finance Initiative supported by



European Investment Fund  
as Trustee for  
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Federal Ministry  
for Economic Cooperation  
and Development



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Swiss Agency for Development  
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Danida



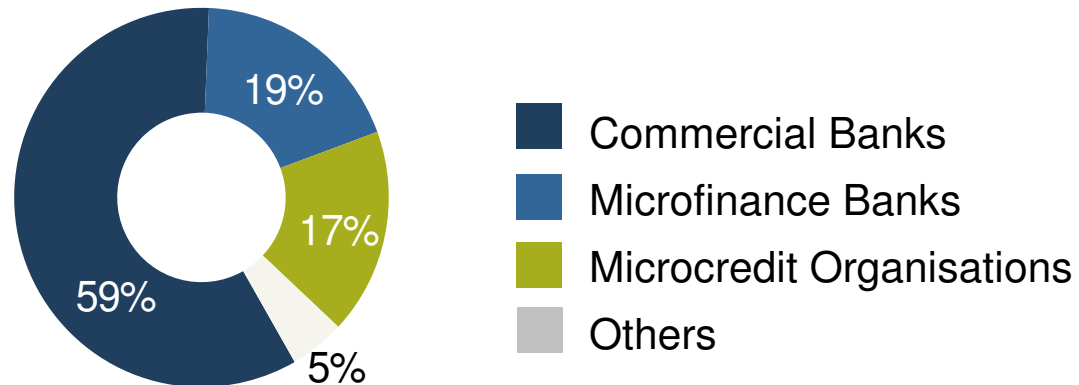
CeEB

Ohrid

June 9, 2010

## EFSE Portfolio Profile

- 14 markets in Southeast Europe, including four new countries of the European Neighborhood Region (Armenia, Azerbaijan, Belarus and Georgia)
- Outstanding investment portfolio of EUR 579 million in 10 countries
- Investments in 58 Partner Financial Institutions

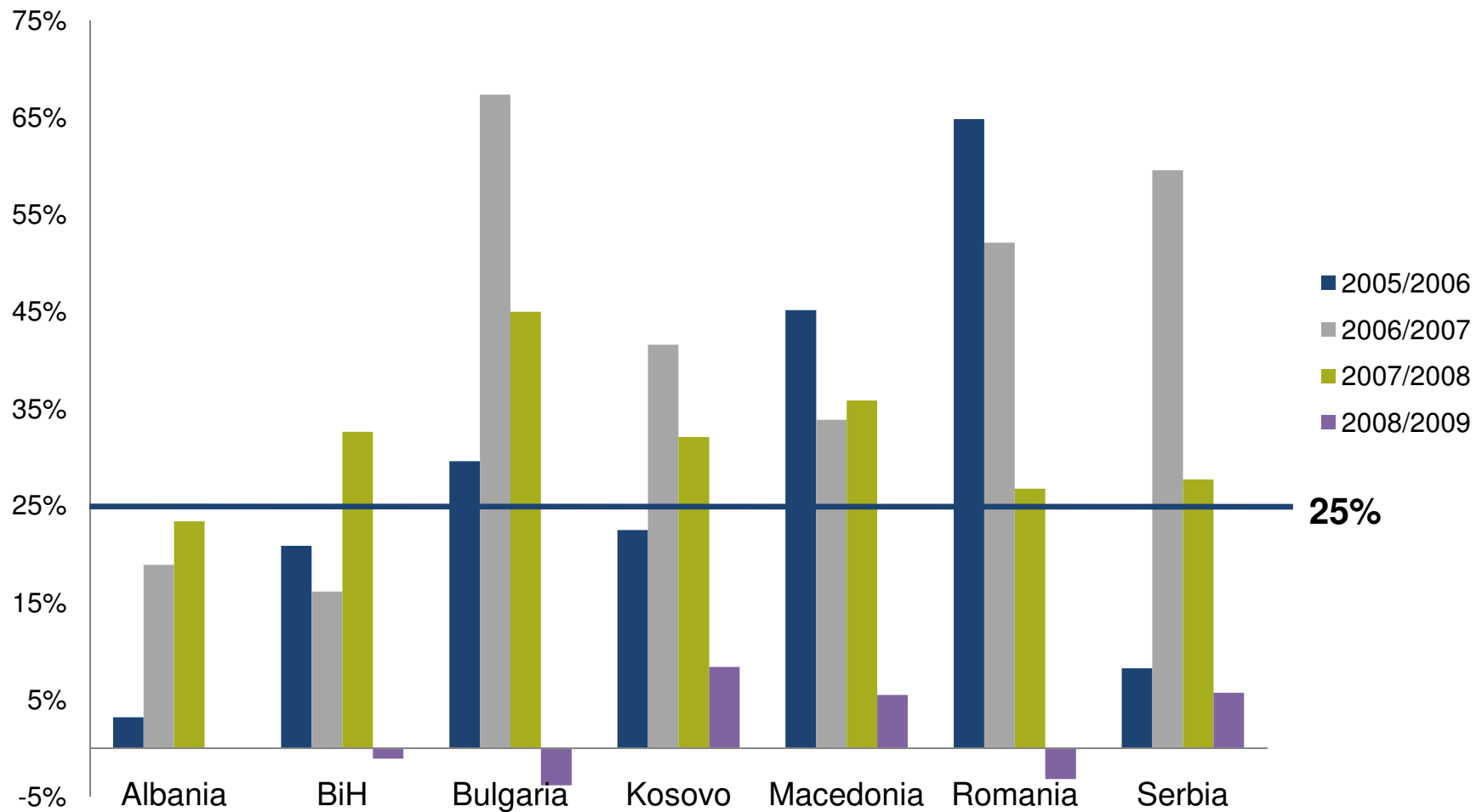


We care about responsible growth because

- this mandate is inbuilt in the Fund's mission
- the Fund wishes to contribute to sustainable financial sectors
- the Fund serves as reference for other Funds

# Banking Sector Loan Growth Rate Southeast Europe (SEE)

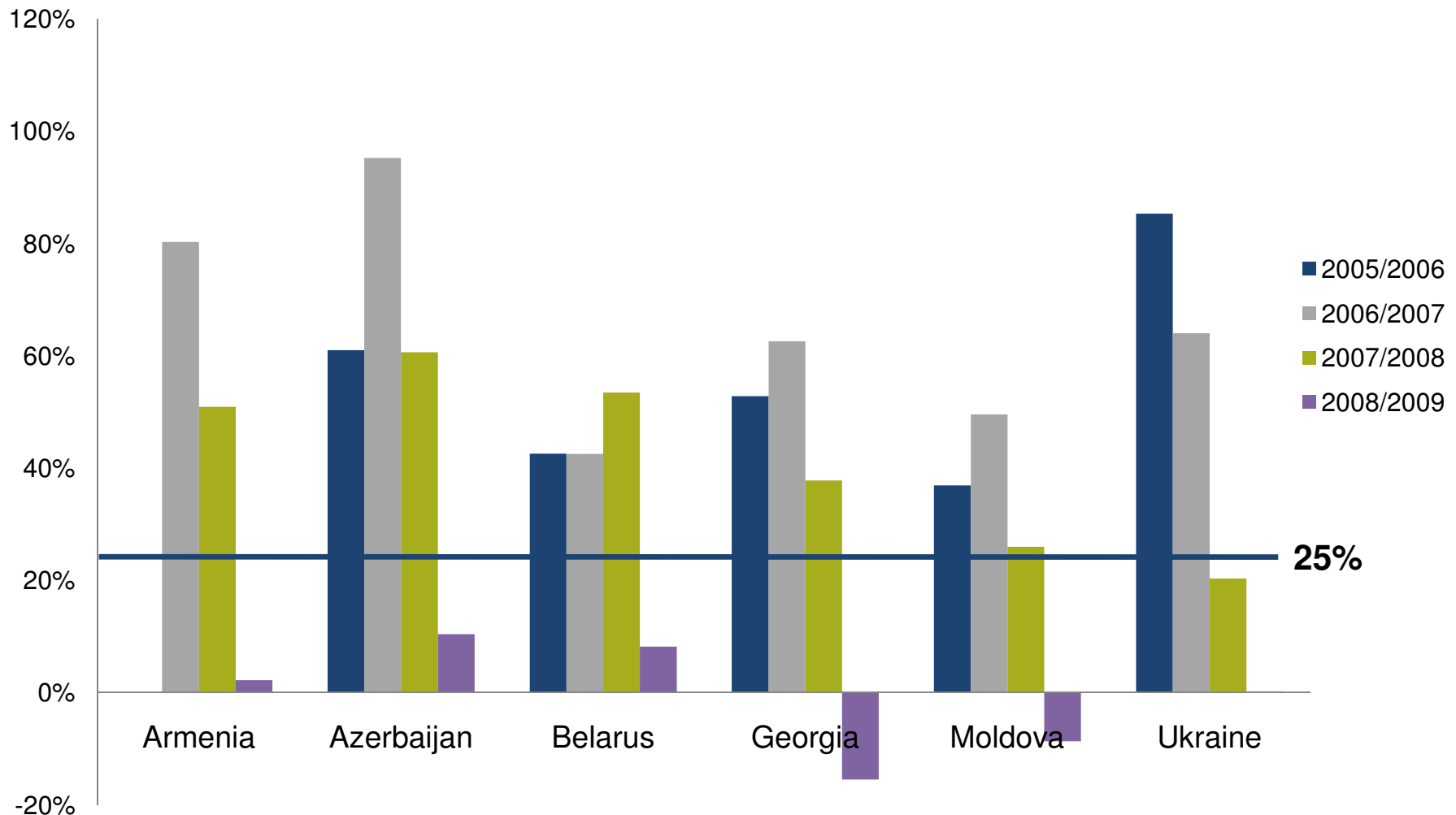
Change in percent 2005 - 2009



Source: Central Bank Publications, April 2010

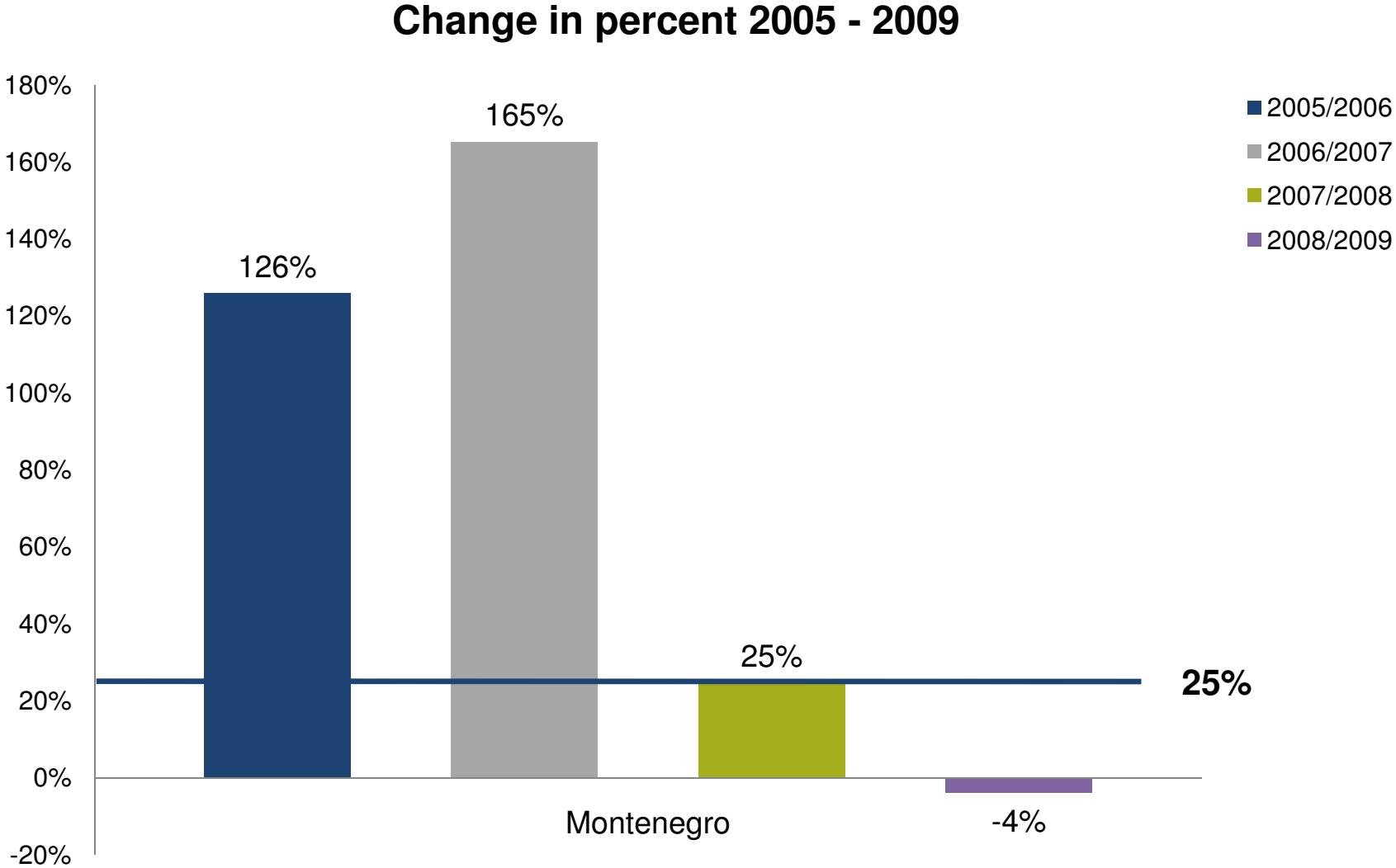
# Banking Sector Loan Growth Rate European Neighbourhood Region (ENR)

Change in percent 2005 - 2009



Source: Central Bank Publications , April 2010

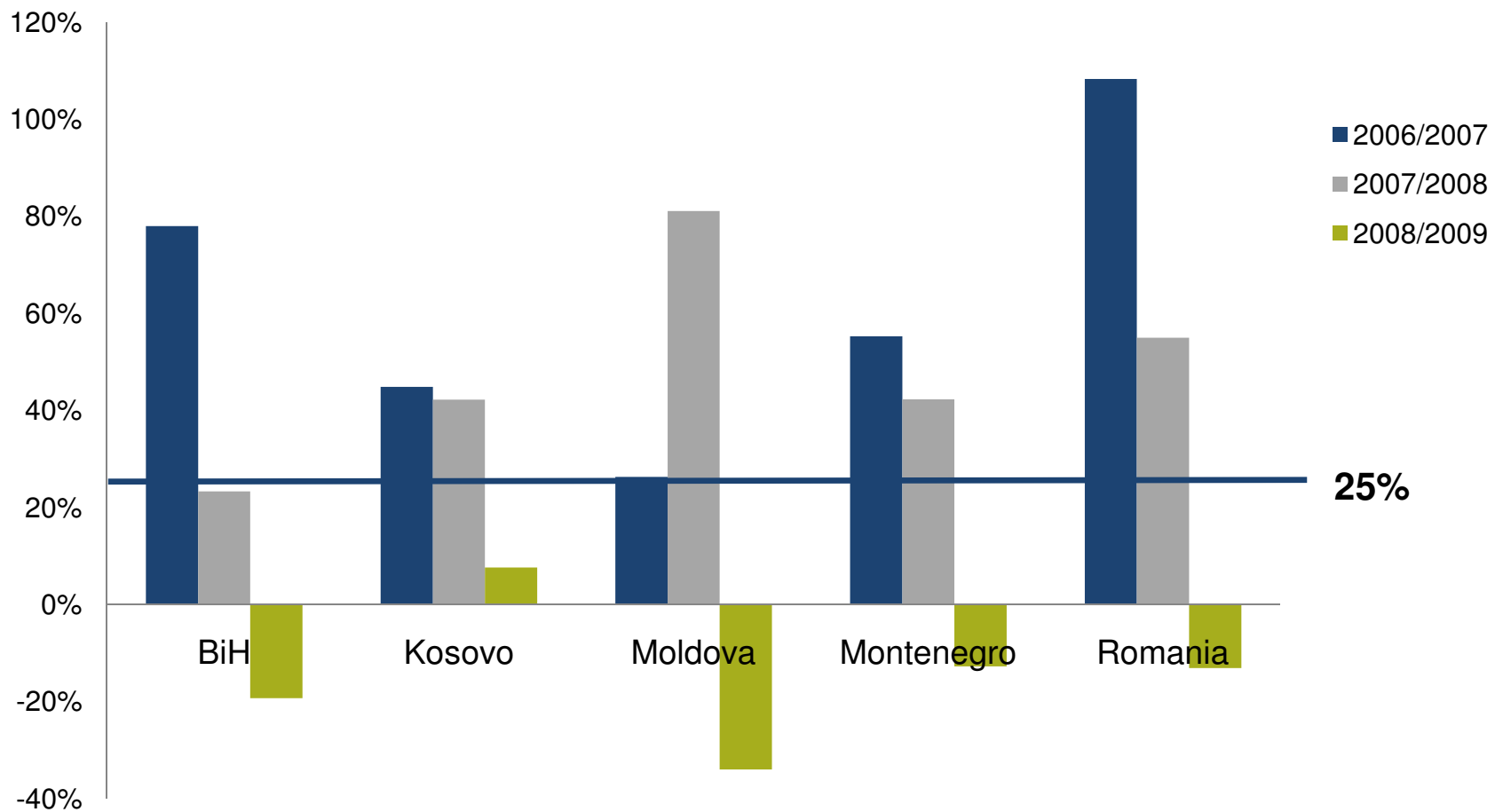
# Banking Sector Loan Growth Rate Montenegro



Source: Central Bank Publications, April 2010

# EFSE Partner Micro-Credit Organisations (MCO) Loan Growth Rate

## Change in percent 2006 - 2009

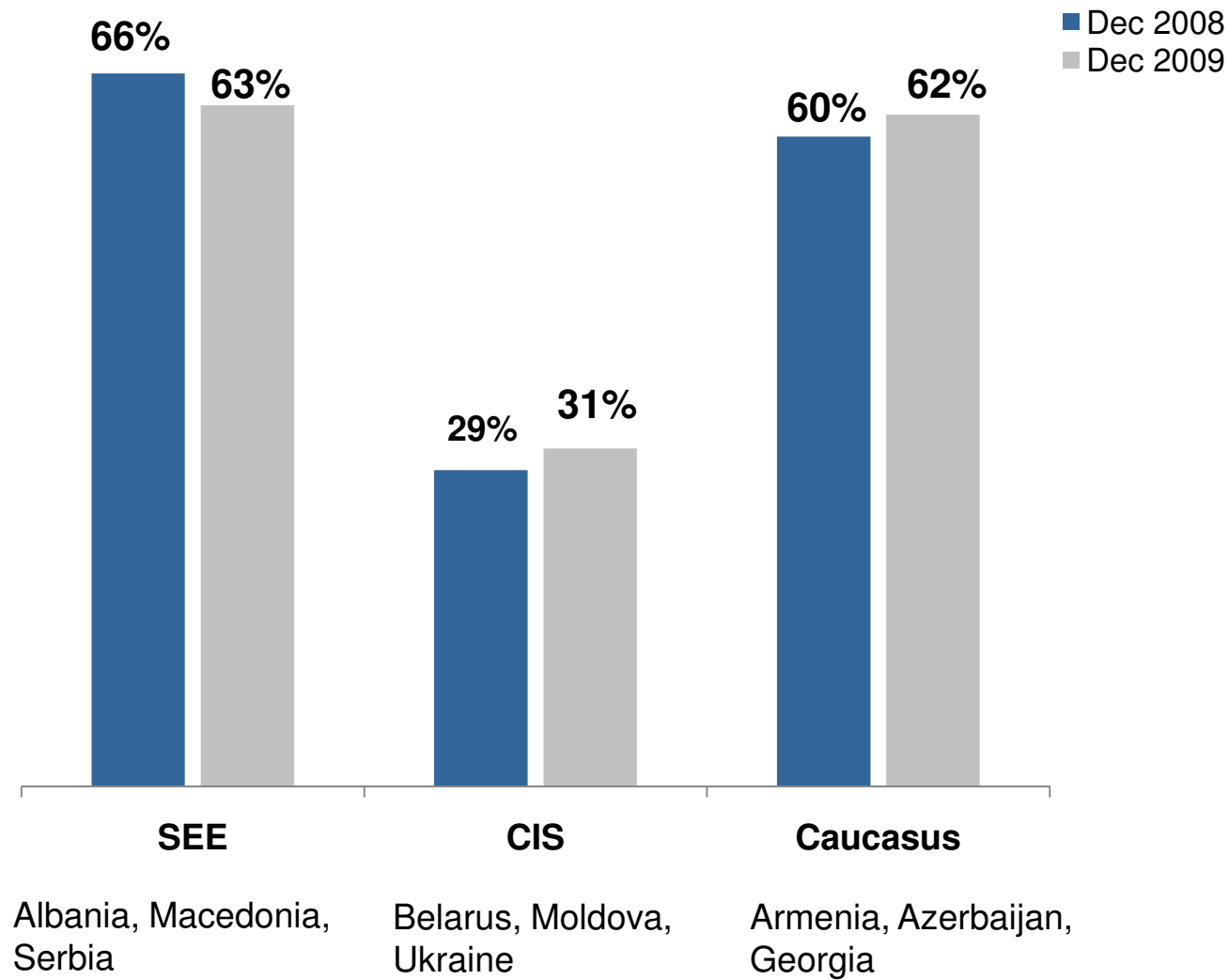


## Take-Aways

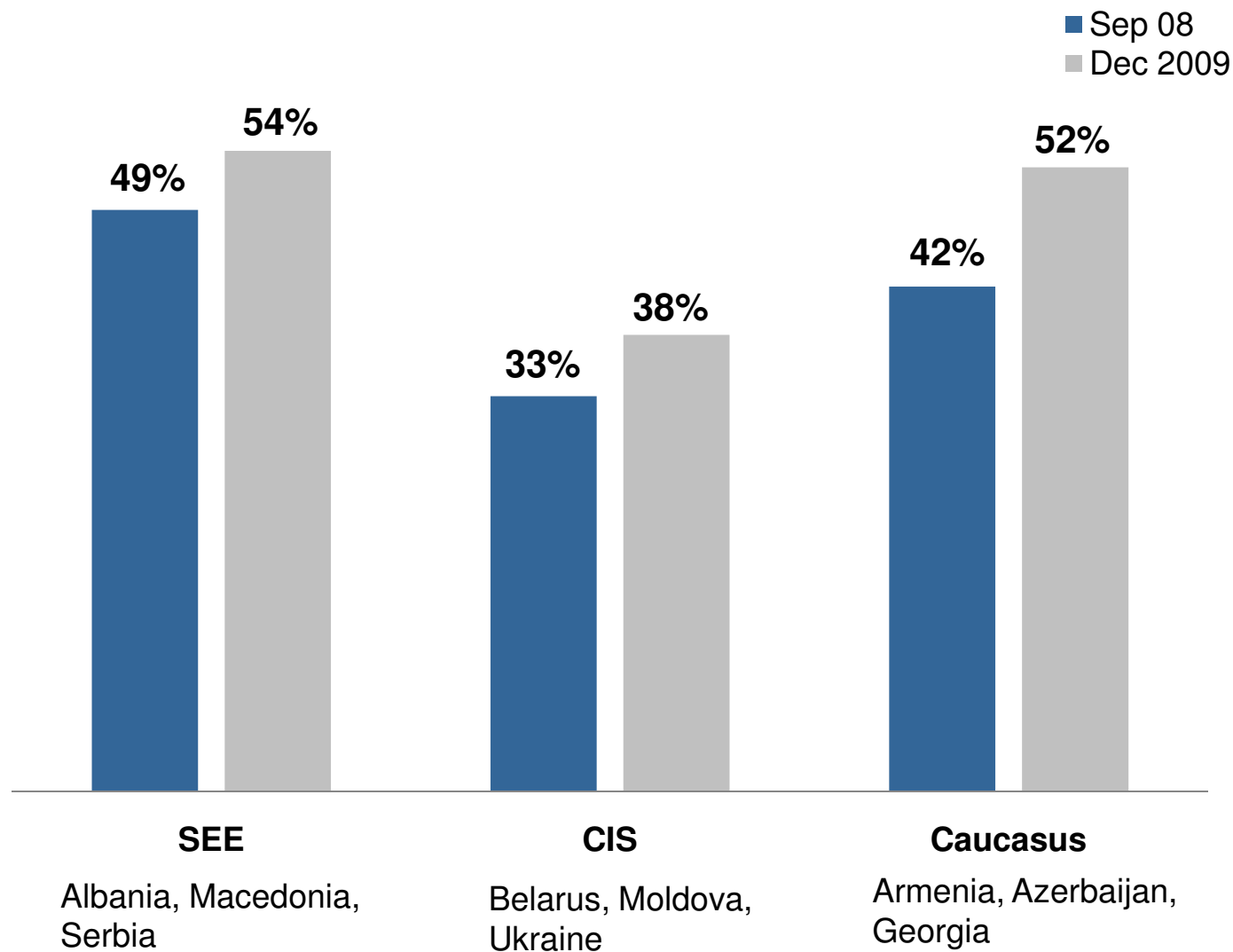
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- Bonanza years with very high growth rates of well above 50% came to a sudden halt in 2009
- Global recession triggered an increase of non-performing loans
- Current level of non-performing loans is only partly a reflection of the deteriorating macroeconomic environment
- It revealed also the limited or lack of long-term sustainability of this **growth model** which emphasized **quantity before quality**
- Microcredit organizations did not constitute a general exception from this rule
- Several markets experienced a very hard landing in 2009 with significant loan portfolio contraction

## Share of FX Loans

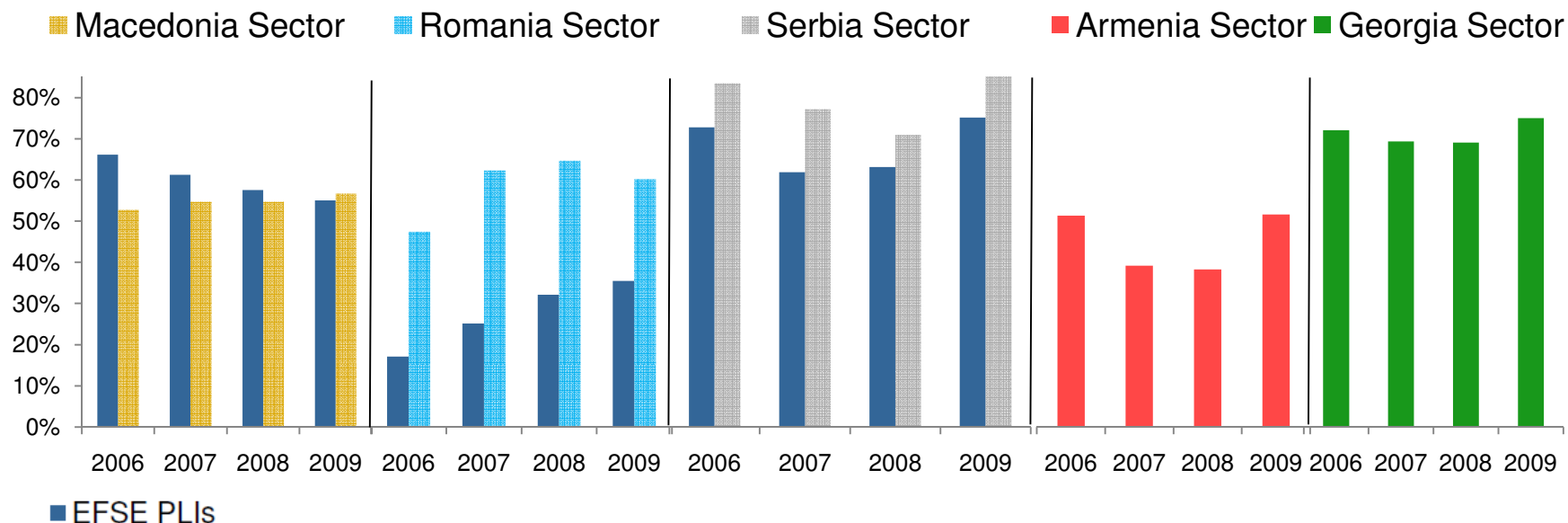


## Share of FX Deposits



Source: Central Bank Publications

## Foreign Currency Lending as Percent of Gross Loan Portfolio



### Currency Depreciation (positive change indicates depreciation)

	MKD - USD	MKD - EUR	RON - CHF	RON - EUR	RSD - CHF	RSD - EUR	AMD - USD	AMD - EUR	GEL - USD	GEL - EUR
APR 08 - MAR 09	19.4%	1.6%	19.3%	14.1%	21.5%	16.2%	17.4%	0.5%	-4.6%	-30.6%
OCT 08 - SEPT 09	-12.5%	-0.2%	12.3%	15.6%	6.8%	9.2%	26.0%	40.9%	17.8%	31.7%
APR 09 - MAR 10	-2.0%	-0.3%	2.4%	-2.6%	10.6%	5.1%	7.0%	8.9%	6.0%	7.9%

## Bank Loan Portfolios under the Microscope: Romania

Indicator	2007	2008	2009	Mar-2010
Consumer Loans / Total Loans <sup>1</sup>	29.6%	29.2%	28.3%	27.8%
FX Consumer Loans <sup>2</sup>	43.3%	48.6%	50.5%	50.2%
Non – € FX Consumer Loans <sup>3</sup>	7.2%	10.2%	11.2%	11.4%

1 Consumer Loans / Total Gross Loan Portfolio

2 FX Consumer Loans / Total Consumer Loans

3 Non – € FX Consumer Loans / Total Consumer Loans

Source: National Bank of Romania

## Take-Aways

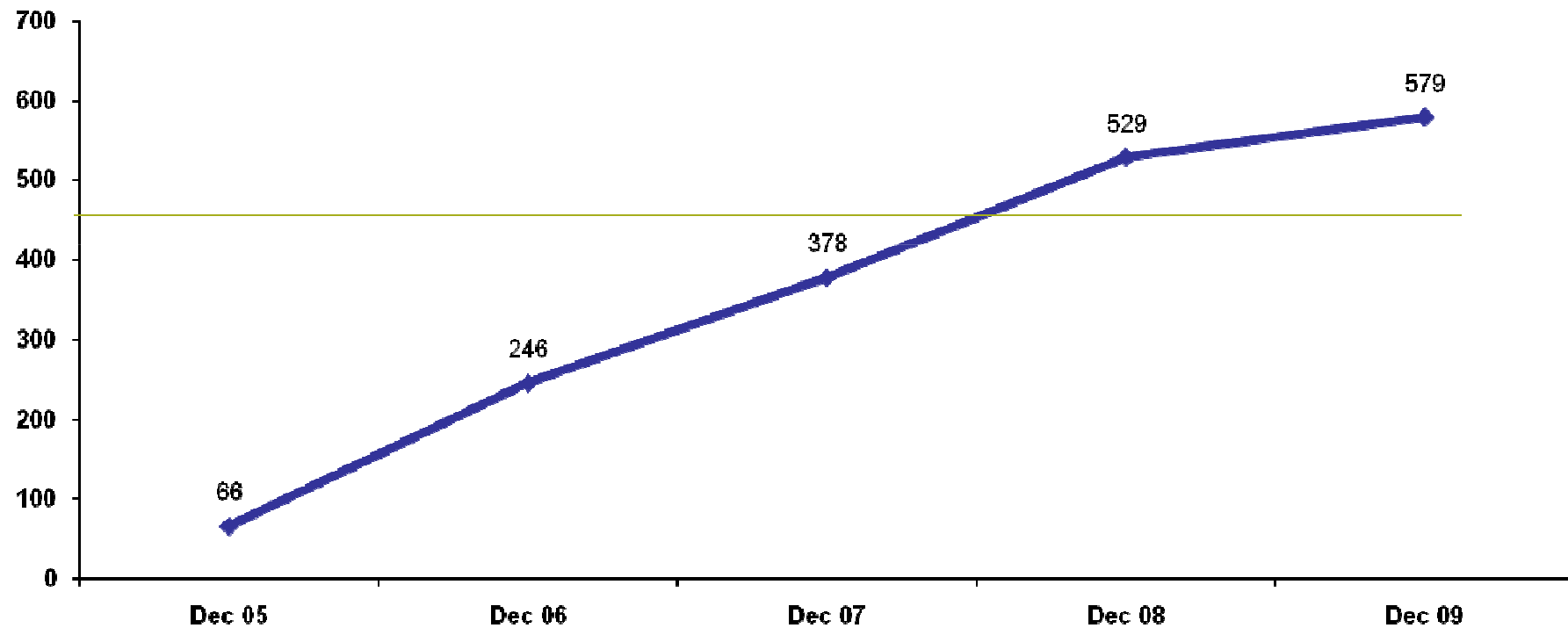
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- High portion of FX denominated loans throughout the region
- Portion of FX denominated loans higher than FX denominated savings, though trend towards a more balanced structure
- Considerable FX portion of household loans, including loans in exotic currencies
- Strong depreciation pressures on local currency in some markets throughout 2008/2009
- This has challenged the long-term sustainability of this **growth model** associated with transferring FX risks to end-borrowers, reflected in **FX-induced credit risk**

# Performance

## Outstanding Investment Portfolio

EUR million



Outstanding Portfolio invested in PLIs as of December 31, 2009:

**EUR 578.9 million**

# Group of First Class Investors

## Public Investors



European Investment Fund  
as Trustee for  
European Commission



Federal Ministry  
for Economic Cooperation  
and Development



Schweizerische Eidgenossenschaft  
Confédération suisse  
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Swiss Agency for Development  
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## International Finance Institutions



## Private and Institutional Investors

SAL. OPPENHEIM



OMIDYAR-TUFTS  
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## EFSE Outstanding Investments by Markets

### As Share of Total Gross Loan Portfolio per Country

in percent

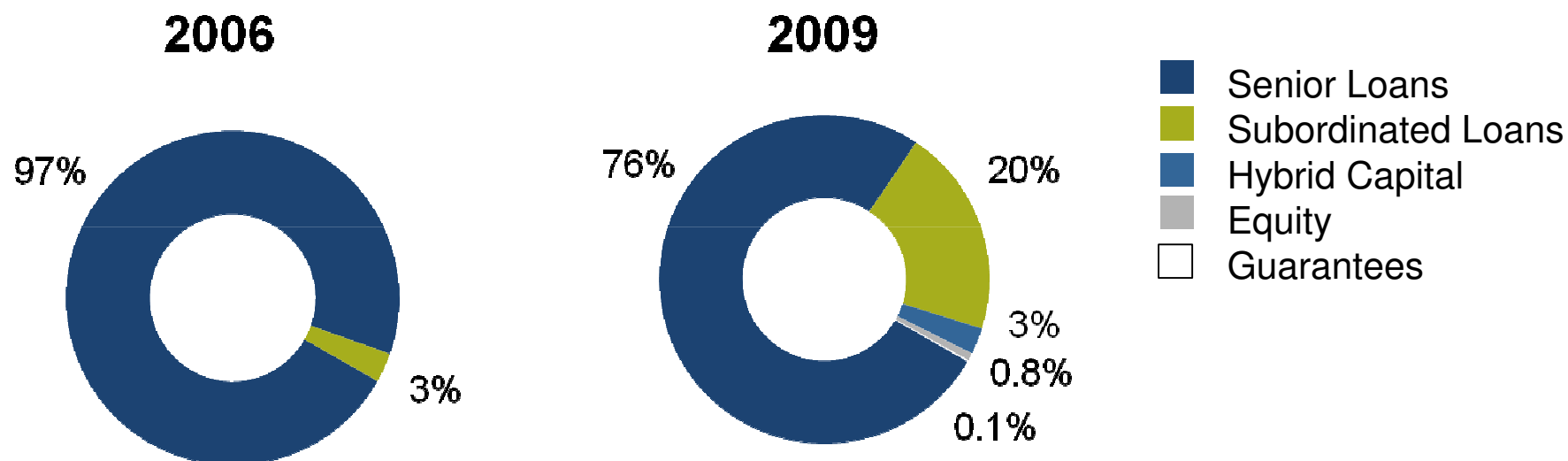
Country	2006	2009
<b>"Old" EFSE Markets</b>		
Bosnia and Herzegovina	1.5%	1.2%
Kosovo	4.3%	2.5%
Montenegro	2.6%	2.0%
Serbia	0.8%	0.7%
<b>"New" EFSE Markets</b>		
Albania	0.0%	0.7%
Macedonia	0.7%	1.3%
Moldova	0.2%	3.4%
Bulgaria	0.0%	< 0.1%
Romania	0.0%	< 0.1%
Ukraine	0.0%	< 0.1%

- In “old” markets: modest growth below growth rate of the total financial sector loan portfolio
- In “new” markets: stronger growth pace, but dependent on actual market needs and availability of local deposits and other funding sources

## EFSE Outstanding Investments by Instruments

### Share of Different Financial Instruments (by Volume)

in percent

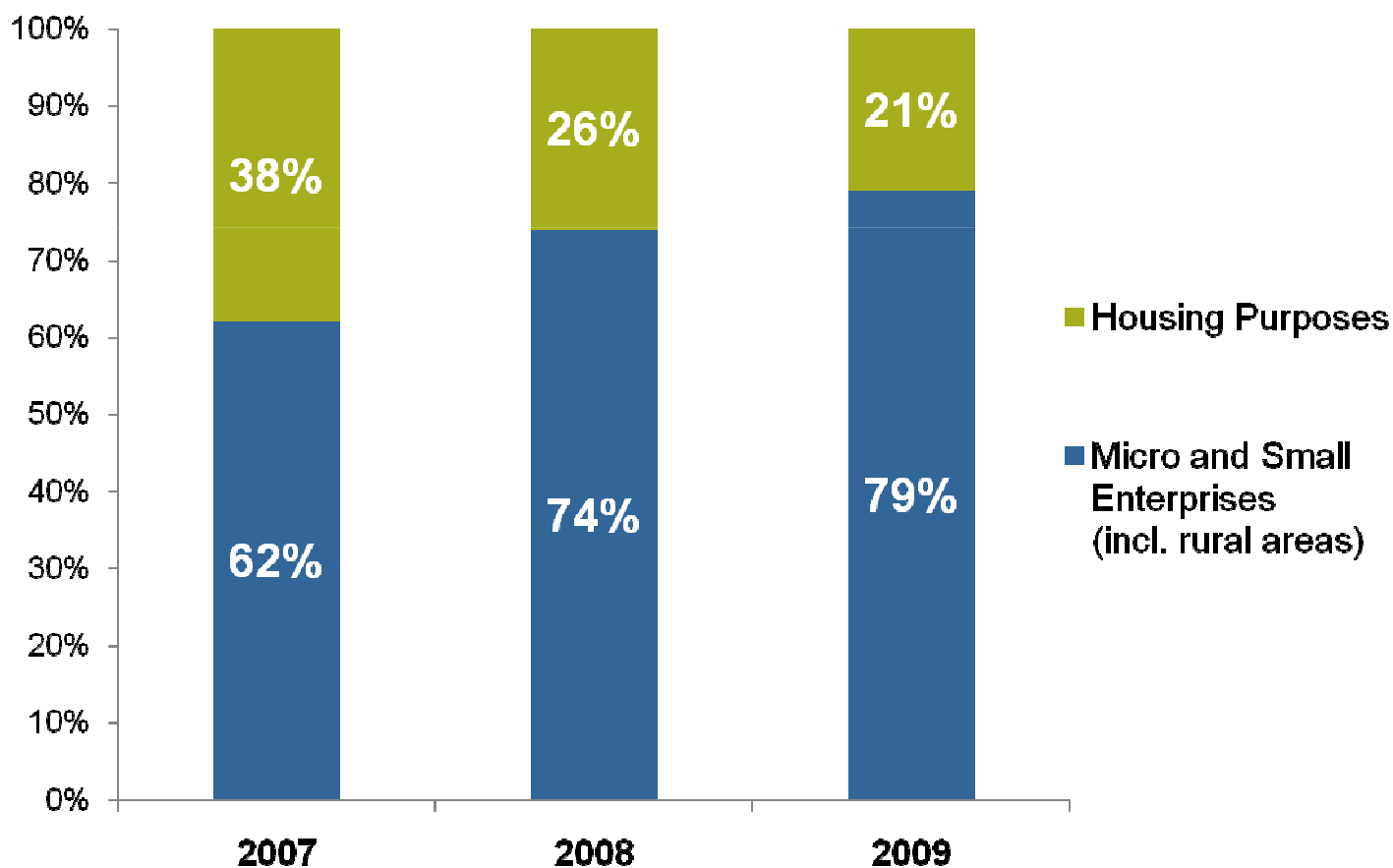


- Increasing diversity of financial instruments
- Expansion of the risk frontier, providing sub-debt and hybrid equity instruments, particularly in times of crisis and also in very stressed markets

# EFSE Outstanding Investments by Product

## Share of MSE portfolio vs. housing portfolio (by volume)

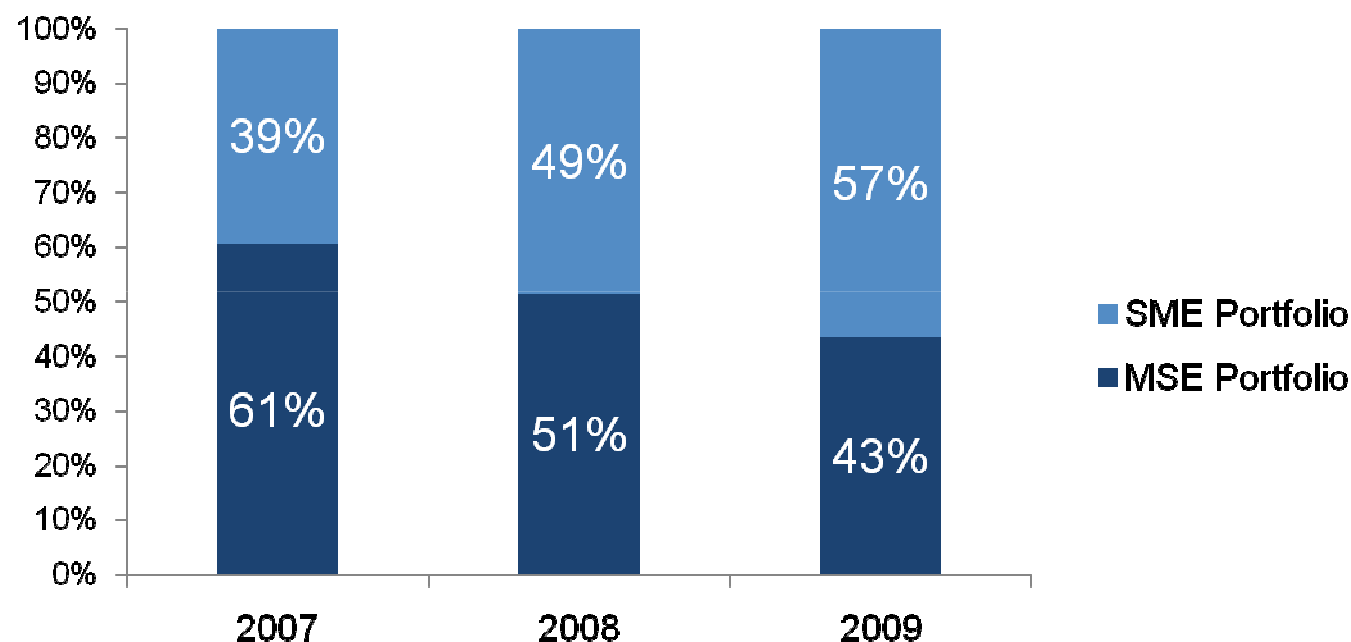
in percent



# EFSE Outstanding Investments by Sub-Product

## Share of MSE vs. SME Portfolio Disbursed by Partner Financial Institutions per year

in percent

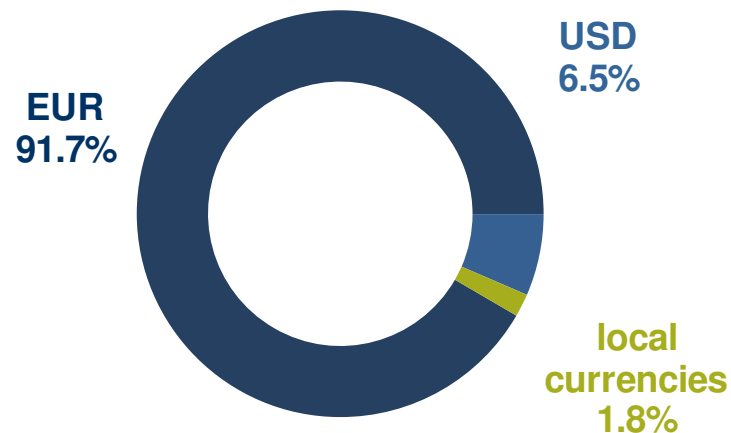


- Increase of small enterprise loans (> 10,000 EUR) as a portion of total enterprise loans
- Reflecting the graduation of enterprises in the region and increasing share of loans provided to the production sector

# ESFE Outstanding Investments by Currency

## Investment Portfolio by Currency

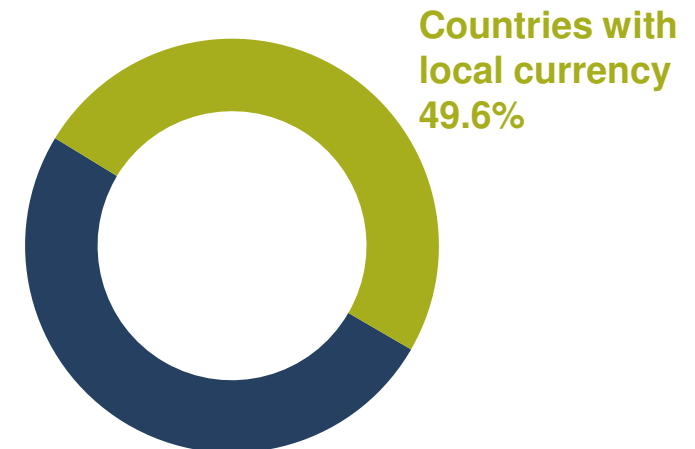
based on loan amount outstanding as of Dec 2009



... a development frontier still  
to be worked on ...

## Investment Portfolio by Currency Regime

based on loan amount outstanding as of Dec 2009



Countries with EUR or  
EUR currency board  
50.4%

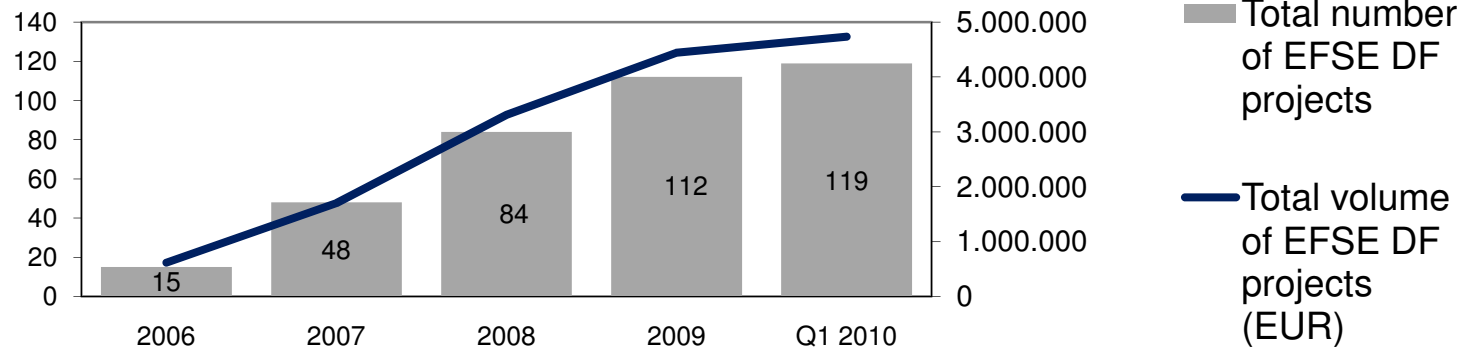
## EFSE as Responsible Investor

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1. No funds for consumer lending
2. Focus on complementarity and additionality vis-a-vis other funding sources
3. Long-term partnership
  - Group of like-minded investors with long-term investment objectives and non profit maximization approach
  - Holistic business approach towards Partner Finance Institutions
  - Evolution of partnership with Partner Finance Institutions
4. Promotion of local currency lending
5. Promotion of financial sector dialogue in the EFSE region and internationally

# EFSE's Technical Assistance Commitment

1. Technical assistance to support quality growth at Partner Finance Institutions (EUR 4.4 million, 113 projects)



2. About 50% of the technical assistance funds have been generated out of the net income of EFSE's investment activities
3. Promotion of financial literacy and client education
4. Studies and research on access to finance and investment impact

# Thank you for your attention!



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as Trustee for  
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Federal Ministry  
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