



IMPACT REPORT 2019

SUSTAINABLE ENTREPRENEURSHIP



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KEY FIGURES
as of 31 December 2019

EUR 948.2 million	in investor commitments
106,415	active sub-borrowers
EUR 958.4 million	in outstanding sub-loans
EUR 9,006	average size of sub-loans distributed to micro and small enterprises and private households
> 6,000	direct beneficiaries of EFSE Development Facility projects in 2019
67	partner lending institutions
63 %	sub-loans facilitated in local currency
24 %	share of private capital invested in the fund (based on investor commitments)
76 %	share of public capital invested in the fund (based on investor commitments)

SINCE EFSE’S INCEPTION IN DECEMBER 2005

EUR 8 billion	volume of micro and small enterprise and housing loans disbursed
1,008,699	number of micro and small enterprise and housing loans disbursed
EUR 3 billion	invested in partner lending institutions
> 850,000	jobs supported through EFSE's contribution
473	EFSE Development Facility projects approved for capacity building, sector support, and applied research
EUR 28 million	in EFSE Development Facility projects approved for capacity building, sector support and applied research
45 %	contribution of partner lending institutions to project costs related to individual technical assistance

EFSE aims to foster economic development and prosperity in Southeast Europe¹ and the EU Eastern Neighbourhood region² through the sustainable provision of additional development finance, notably to micro and small enterprises and to private households, via qualified financial institutions.

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

¹ The Southeast Europe region in the context of this report comprises Albania, Bosnia and Herzegovina, Bulgaria, Croatia, North Macedonia, Kosovo³, Montenegro, Romania, Serbia, and Turkey.
² The European Eastern Neighbourhood region in the context of this report comprises Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine.
³ This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ISJ Opinion of the Kosovo Declaration of Independence.

LETTER FROM THE CHAIRPERSON OF THE EFSE BOARD OF DIRECTORS

Dear Reader,

The start of a new decade is usually filled with anticipation for the future. No matter what role we play in the economy – from the farmer in the field to the national bank governor, from the living room of an entrepreneur with an idea to the boardroom of an international impact fund – we all set goals and develop strategies to achieve them. We plot a course for the months ahead and envisage our next steps.

The first half of 2020, however, unfolded as few could have imagined. The unprecedented nature of the coronavirus threat, and the exponential speed of its spread, have meant taking swift new decisions in ever-changing circumstances. Uncertainty is high; plans need to be shifted, and goals realigned. Small businesses especially are vulnerable to the initial economic ramifications of the crisis. EFSE has been active in providing its partners with targeted consulting and funding to enable them to support entrepreneurs in confronting these challenges.

Yet there are some goals that the situation has not changed. The Sustainable Development Goals set out by the United Nations in 2016 still serve as the world's shared blueprint for overcoming social and environmental challenges. And at EFSE, we are more committed than ever to building resilient systems that enable sustainable development on a long-lasting, comprehensive scale.

In this report, we would like to present not only a year-in-review of EFSE's highlights from 2019. We would also like to show how EFSE has achieved them by elucidating EFSE's impact framework, including how we map our activities to the Sustainable Development Goals. Helping entrepreneurs succeed is directly linked to promoting decent work and economic growth – itself one of the SDGs – by empowering businesses to generate income, support jobs, and contribute to the economy. Yet sustaining entrepreneurship involves a whole host of factors that address more than employment.

By opening up access to financing for housing and businesses, we make available the basic resources needed to combat poverty and hunger. Expanded financial inclusion reduces inequalities, especially for marginalised groups such as women and rural populations. Bolstering local financial infrastructure through investments and technical assistance, fostering the development and adoption of financial technologies, and connecting players across the entrepreneurship ecosystem are key to supporting the



CHRISTOPH TISKENS

At EFSE, we are more committed than ever to building resilient systems that enable sustainable development on a comprehensive scale.

advancement of industry, innovation, and infrastructure. And to accomplish all of this, EFSE continues to rely on one of its key strengths since the fund was founded in 2005: building lasting partnerships to achieve impact goals.

Of course the economic environment looked much different in 2019 than it does at the time of this publication. And the tumultuous year 2020 is not yet over. But in times like these, our mission is more pertinent than ever. We will stay the course in promoting micro and small enterprises in Southeast Europe and the EU Eastern Neighbourhood Region and strengthening the infrastructures that support them. And with a tried-and-tested framework aimed towards clear goals for impact, we will continue laying the solid footing for sustainable entrepreneurship.

Kind regards,

CHRISTOPH TISKENS

Chairperson of the Board of Directors
of the European Fund for Southeast Europe

GREETINGS



Micro and small enterprises around the world are particularly threatened by the economic standstill resulting from the coronavirus crisis. Yet these local businesses are the cornerstone of income generation and employment for millions in regions like Southeast Europe and the EU Eastern Neighbourhood; their survival is of vital importance not only to individual livelihoods, but to the ability of entire economies to weather the current storm. Vehicles such as EFSE, with its flexible structure and long-term focus, are an important instrument in helping KfW channel much-needed liquidity not only to vulnerable entrepreneurs, but also the infrastructures that support them.

PROF. DR. JOACHIM NAGEL

Member of the Executive Board,
KfW Bankengruppe



In our global world, you are only as strong as your neighbours. The rapid spread of Covid-19 has stretched public health systems to their limits and beyond, causing widespread economic, social, and humanitarian challenges. Tackling this crisis therefore requires shared responsibility and solidarity within the European Union, among other European nations, and throughout the world. That is why we will continue to invest German development policy funding in EFSE, which is particularly designed to assist countries and regions in fostering economic stability, and therefore helps them now mitigate the economic and social consequences of the pandemic. In these critical times, such assistance is more important than ever.

DR. GERD MÜLLER

German Federal Minister
for Economic Cooperation
and Development (BMZ)



As countries around the world struggle to control the outbreak of the novel coronavirus, small local businesses are bearing the brunt of the pandemic's profound socio-economic effects. Especially in the more vulnerable economies of Southeast Europe and the EU Eastern Neighbourhood Region, entrepreneurs and institutions alike are facing unprecedented uncertainty. The European Commission is taking swift action to help them confront these challenges, including making a significant additional investment into EFSE to enable the fund to channel critical resources to our neighbours in need.

KATARÍNA MATHERIOVÁ

Deputy Director-General,
Neighbourhood and Enlargement Negotiations,
European Commission

INVESTORS

DONOR AGENCIES



European Investment Fund
and KfW as Trustees for the
European Commission



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra
Swiss Confederation

Federal Department of Economic Affairs,
Education and Research, EAII
State Secretariat for Economic Affairs SECO



Federal Ministry
for Economic Cooperation
and Development



AUSTRIAN
DEVELOPMENT
AGENCY

DANIDA



INTERNATIONAL FINANCIAL INSTITUTIONS



International
Finance Corporation
WORLD BANK GROUP



FMO
Entrepreneurial
Development
Bank



European Bank
for Reconstruction and Development



European
Investment
Bank



OeEB
Oesterreichische
Entwicklungsbank AG

PRIVATE INSTITUTIONAL INVESTORS



Steylethik Bank



GLS Bank
das macht Sinn



Democracy & Media
Foundation Stichting
Democratie & Media



Raiffeisen Bank
International

Deutsche Bank



financeinmotion
INSTITUTIONAL DEVELOPMENT



EFSE's Impact Strategy

SUSTAINABLE ENTREPRENEURSHIP





How EFSE Generates Impact and Contributes to the SDGs

EFSE's mission is to foster economic development and prosperity in Southeast Europe and the EU Eastern Neighbourhood Region by supporting the success of micro and small enterprises and improving living conditions for households.

That is why EFSE invests in the ability of local financial infrastructure to supply the resources entrepreneurs and families need to thrive. By enabling these groups' access to responsible financing, EFSE strives for long-term, systemic impact. The fund's investment activities are complemented by the nonfinancial support of the EFSE Development Facility, which builds capacities, facilitates knowledge exchange, and nourishes an environment for entrepreneurs to grow.

The following chapter reveals how the fund's impact strategy helps it to define and pursue these goals, as well as to measure its success in achieving them.

A COMPREHENSIVE APPROACH

EFSE takes a comprehensive approach to economic development that involves not only improving the situation of individual micro and small enterprises and households. The fund endeavours to strengthen the systems that surround and enable these local entrepreneurs and families, thereby generating deep, long-term impact at scale.

To achieve its mission, EFSE takes a three-pronged focus:

- **STRENGTHENING LOCAL FINANCIAL MARKETS**
By investing in and through local partner lending institutions, the fund expands its outreach and reaches its final target group efficiently. This also allows it to build the sustainability of its impact: The partner's capacities and practices are enhanced, and EFSE's lending priorities – such as a focus on

financial inclusion for rural borrowers, for example – are established as investable business cases. In addition to providing dedicated financing, EFSE is advancing strategic issues to strengthen local financial markets, such as local currency financing or digitalisation.

- **CHANNELLING TAILORED FINANCE TO MICRO AND SMALL ENTERPRISES (MSEs) AND HOUSEHOLDS**

MSEs are the backbone of local economies and a major driver of income generation and employment creation. To promote their stability and sustainable growth, EFSE facilitates tailored loans to micro and small enterprises through its network of selected local partner lending institutions. EFSE also supports access to housing loans, as good living conditions increase social security and resilience in addition to providing an asset for future development and prosperity.

- **BUILDING A CONDUCIVE ECOSYSTEM FOR ENTREPRENEURSHIP**

It takes more than financing for markets and individuals to prosper. That is why EFSE also aims to support the systemic factors that contribute to business development – such as a culture of entrepreneurship, a regulatory environment that prioritises financial inclusion, knowledge-sharing that encourages innovations like fintech, sustainable industry practices like local currency lending, and more. Our ecosystem work includes building up business support organisations that, together, create a solid infrastructure for entrepreneurs to succeed.

CONTRIBUTING TO THE SUSTAINABLE DEVELOPMENT GOALS

In 2015, governments, civil society, and the private sector agreed on the 17 Sustainable Development Goals (SDGs) as part of the Agenda 2030 as a joint commitment to end poverty, protect the planet, and ensure prosperity for all. The SDGs represent the fund's commitments to sustainability. In order to gauge its concrete contribution towards them, EFSE has mapped its activities against the SDG targets and is tracking this as an integral part of the fund's impact management framework.



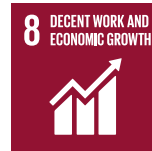
EFSE contributes to eradicating poverty by meeting the basic financing needs of micro and small enterprises (MSEs) and low-income households. The fund is working specifically towards SDG Target 1.4, which foresees equal rights for all men and women to economic resources as well as access to (amongst others) financial services, including microfinance.

Contributions to this target include, for example, facilitating >1,000,000 loans* to MSEs and low-income households in the fifteen years since the fund was established.



EFSE helps improve agricultural productivity and the livelihoods of small-scale food producers through secure and equal access to financial services. This particularly contributes to SDG Target 2.3, which aims, by 2030, to double the agricultural productivity and incomes of small-scale food producers through, for example, secure and equal access to knowledge and financial services.

Contributions to this target include the EUR 1.9 billion in loans* provided to rural enterprises complemented by nearly 80 technical assistance projects focused on increasing the business success of agricultural producers.



EFSE contributes to economic development and job creation by enabling entrepreneurs to establish and grow businesses through, for example, tailored financial services, mentorship, and strong ecosystems that support entrepreneurship. The fund particularly contributes to SDG Target 8.3, which aims to support productive activities, decent job creation, and entrepreneurship, and to encourage the formalisation and growth of MSEs through such means as access to financial services. EFSE's activities furthermore closely align with SDG Target 8.10, which calls for strengthening the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all.

*Figures refer to sub-loans disbursed by EFSE partner lending institutions.

Contributions to these targets include more than 850,000 jobs supported at the level of MSEs through EFSE's activities and the 133 institutions that have received loans since the fund was established in 2005, in addition to the more than 3,000 enterprises who have participated in the EFSE Entrepreneurship Academy (launched in 2016).



EFSE contributes to inclusive and sustainable industrialisation by upgrading small-scale enterprises through improved access to finance and innovative solutions. The fund particularly contributes to SDG Target 9.3, which aims to increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services.

Contributions to this target include the cumulative EUR 5 billion in loans* disbursed to MSEs in addition to multiple initiatives to promote fintech, local currency lending, and other innovations and practices that expand financial inclusion and responsible financing to underbanked groups.



EFSE contributes to the economic inclusion of all by sustaining and growing business income among marginalised entrepreneurs. The fund particularly contributes to SDG Targets 10.1 and 10.2, which aim to increase incomes of the bottom 40 per cent and promote their social, economic, and political inclusion.



Contributions to these targets include for example, the positive effect on income that 90% of microenterprises attributed to the loan they received (as reported in the latest EFSE impact study). Of the loans facilitated by EFSE, 82% are to MSEs with a loan size of below EUR 20,000.

As a pioneer in blended finance, EFSE contributes to bringing together public and private investors for sustainable development. In particular, the fund contributes to SDG targets 17.3 (mobilising additional financial resources for development countries); 17.9 (implementing effective and targeted capacity building); 17.16 (multi-stakeholder partnerships that mobilise and share knowledge, expertise, technology, and financial resources); and 17.17 (encourage and promote effective public, public-private, and civil society partnerships).

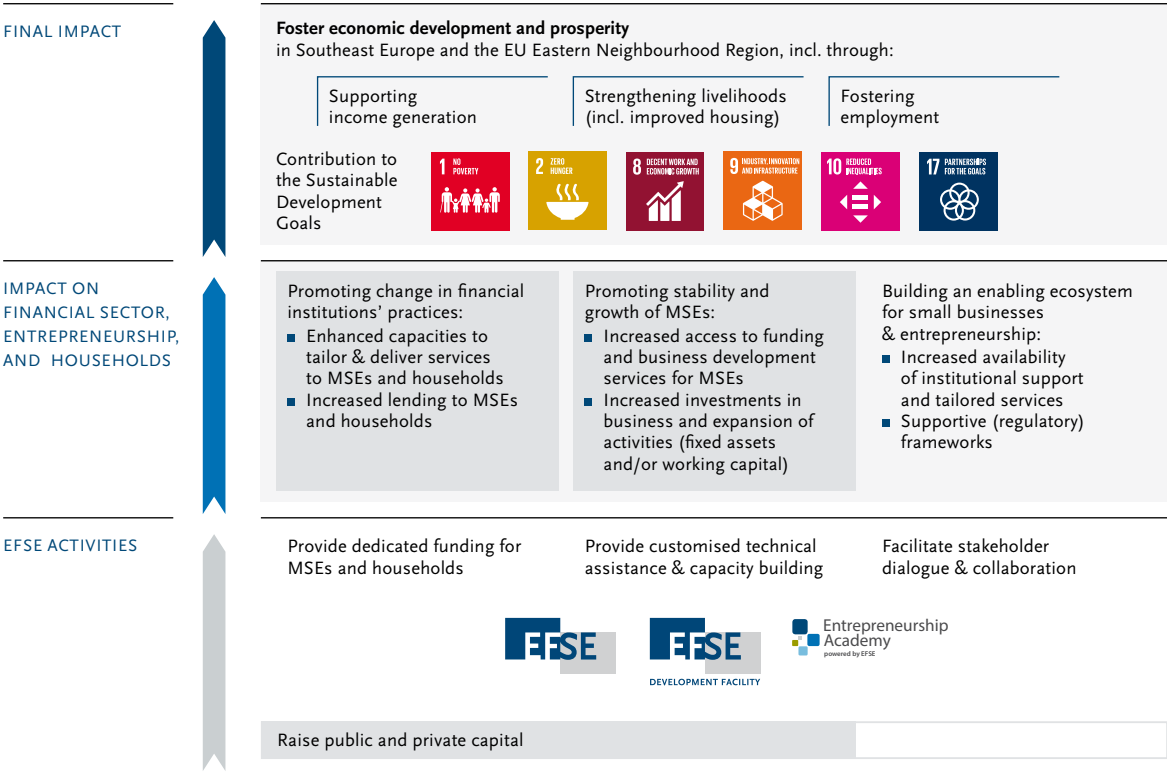
Contribution examples include the nearly EUR 2 billion in additional finance mobilised from private sources/ investors since EFSE was established in 2005, together with 473 technical assistance initiatives which have benefitted nearly 25,000 people.

PATHWAY TO IMPACT

EFSE leverages the power of blended finance to amplify its impact and outreach. In other words, the fund draws its capital from various layers: public investors provide a risk cushion to unleash the financial clout of private institutional investors. The fund then provides dedicated financing to local financial institutions, who channel this money to micro and small enterprises and households in line with the fund's eligibility criteria and target group focus. In addition, the EFSE Development Facility provides technical support, mentorship, and on-the-ground training to partner lending institutions, entrepreneurs, regulators, and other market players.

Together, these activities built a platform that enhances collaboration among a range of stakeholders, sharing of good practices and fostering an awareness for entrepreneurs and their needs across the fund's countries of operations. The impact pathway provides a high-level overview of how these activities work towards the fund's overall impact goal: fostering economic development and prosperity.

The impact pathway's underlying assumptions are continuously verified through the fund's impact management system. They are also backed by external studies and other impact evidence.



DELIVERING IMPACT IN TIMES OF COVID-19

Small businesses and low-income households are expected to be severely affected by the Covid-19 pandemic. Loss of income combined with limited or no savings can put extreme strains on households and put them at a real risk of moving into poverty. EFSE's work contributes directly to addressing current and upcoming challenges inflicted by Covid-19 including by providing stability, bridging the loss of income, supporting small enterprises in maintaining operations and facilitating recovery. As a first response, EFSE developed tailored packages to supporting its investees in upholding resilient systems, protecting the vulnerable, and providing them with guidance and resources to help navigate through this difficult time.

Once invested, EFSE combines mitigating and reducing negative impact and enhancing positive impact throughout the investment cycle.

EFSE endeavours to align its holistic impact management with international standards and good practices, including the Operating Principles for Impact Management, the IFC Performance Standards, and core responsible finance frameworks.

POSITIVE IMPACT MANAGEMENT

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

HOLISTIC IMPACT MANAGEMENT

The “what” and “how” of achieving impact – that is, the fund's impact objectives and approach through dedicated financing and technical assistance – are defined in EFSE's strategy documents. Prior to any investment, the fund undertakes a thorough screening of potential investees, their responsible finance practices, alignment with fund objectives and reach of EFSE's target group. Only if an investment meets the fund's requirements for financial return, development impact as well as sound environmental and social (E&S) management, will it proceed.

In order to track progress towards its impact goals, the fund engages in continuous impact assessment and monitoring. The fund combines a range of data sources to track progress against its key performance indicators, including reporting by the partner lending institutions on their financing activities to MSEs and households, and end-borrower studies periodically conducted by the fund. EFSE's close partnership with investees is facilitated by several representative offices across the region. This proximity to investees and stakeholders supports regular on-site visits and continuous dialogue, contributing both qualitative and quantitative impact information.



This provides EFSE with a feedback loop of insights and learnings that enable the fund to continuously fine-tune its strategy. It also allows EFSE to flexibly react to changing conditions in order to further enhance the reach and depth of its impact.

■ ENVIRONMENTAL AND SOCIAL (E&S) MANAGEMENT

At the core of EFSE's responsible investment approach is ensuring that potential environmental and social risks associated with the fund's investments are effectively managed and mitigated. This involves incorporating E&S considerations into all aspects of decision making and operations.

EFSE maintains, implements and continuously improves a formal Environmental and Social Management System (ESMS), including policies, procedures and practical tools that support the E&S policy's implementation throughout the investment cycle.

In 2019, the fund undertook a comprehensive review of its ESMS, subsequently fine-tuning the policy and procedures to ensure that EFSE's E&S management continues to be at the forefront of international best practice.

EFSE and the Sustainable Development Goals

SUSTAINABLE ENTREPRENEURSHIP



1 NO POVERTY



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

From a shoestring budget to the next size up

NAIM SADIKU, SHOE SALESMAN, PRISHTINA, KOSOVO¹

For Naim Sadiku, running his own business was not always a walk in the park.

It was not so long ago that the shoe salesman was struggling to make ends meet at his small kiosk in Prishtina, Kosovo. Business was too slow; income from sales was not always sufficient to cover the seemingly endless costs of keeping the booth running. It seemed he could barely make enough to resupply his meagre stock, much less gain any momentum.

“Honestly, there just wasn’t enough on offer,” says Sadiku. “Hardly any selection. If I didn’t have exactly the right shoe size or just the right design, customers would go somewhere else. But I didn’t have the money to expand. We needed the business to support my family, but it wasn’t going well.”

Sadiku was not alone in the endeavour to earn his living through self-employment. In 2016, the vast majority of businesses in Kosovo were micro, small, and medium-sized enterprises, accounting for over three-quarters

of jobs.² Access to suitable financing for entrepreneurs is therefore not only a matter of individual prosperity; the health of the economy at large depends on the ability of small local businesses to thrive.



¹ This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ISJ Opinion of the Kosovo Declaration of Independence.

² European Commission, SBA Fact Sheet Kosovo: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/sba-fs-2019_kosovo.pdf



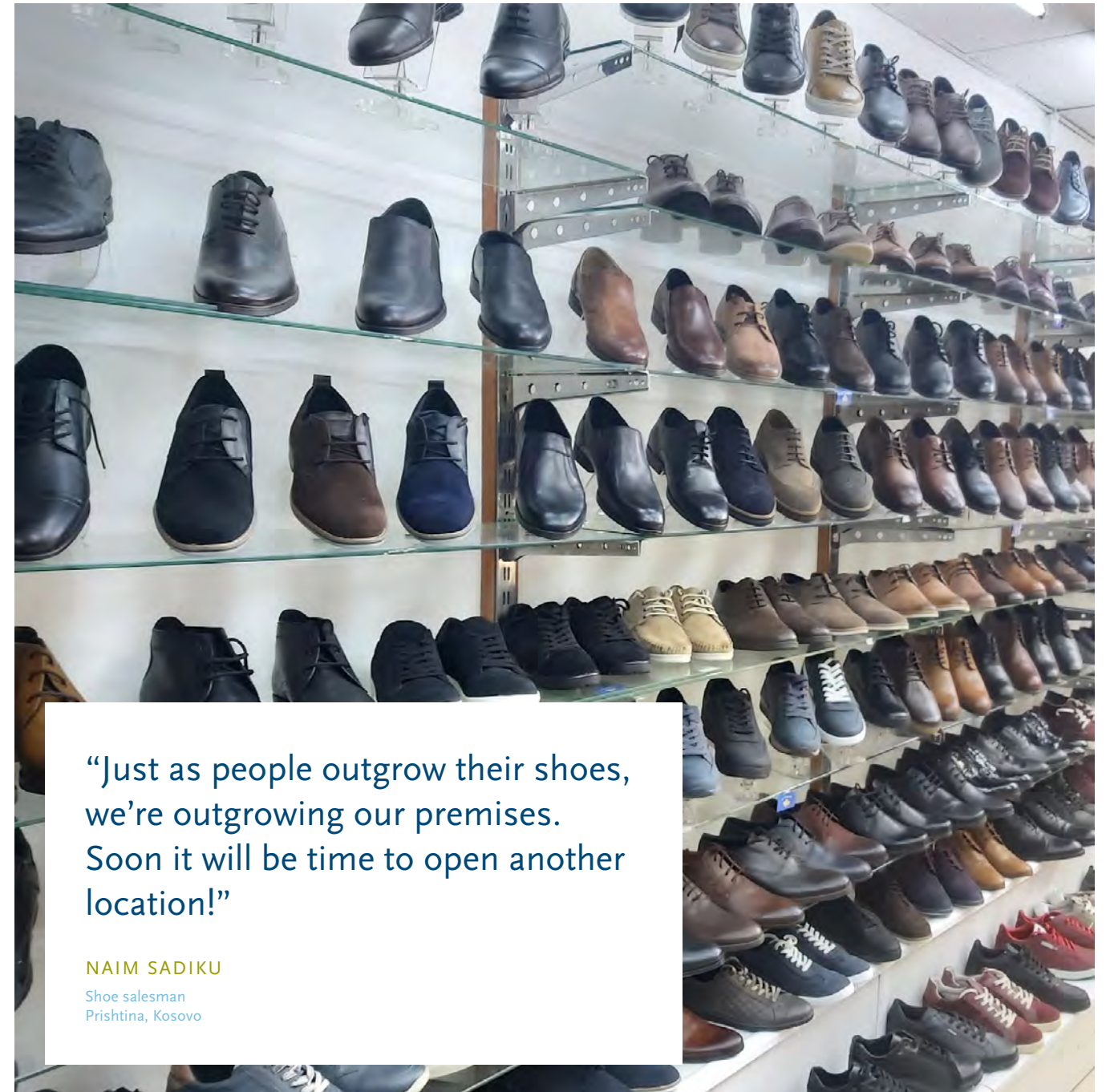
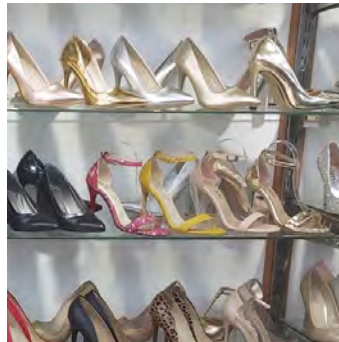
That is why EFSE invests in on-the-ground partners like KEP Trust, Kosovo's leading microfinance provider. The institution's extensive branch network helps EFSE channel funding to clients who may otherwise have difficulty obtaining the resources they need to sustain their businesses.

These include clients like Naim Sadiku, whose first loan enabled him to expand his supply and gain traction among his customers. "The difference was huge," he

says. "I was able to stock up, and started having return customers. Soon I needed to rent out premises for a proper shop. Before I knew it, I couldn't even keep up with the sales by myself. I had to hire help. Now my shoe store employs three people!"

Today, Sadiku's challenge is crafting a brand for his shop, Genti Shoes. "I have learned that there's more to business than filling shelves. You also need to find the best opportunities to communicate with customers. You need to have a separate budget for marketing." Sadiku has a plan for that, of course. "KEP staff have been so fast and professional in helping me expand my company," he says. "I'm using the latest loan to boost my marketing efforts – especially online, which will help me expand my outreach."

When asked about the future, Sadiku knows what he wants. "Just as people outgrow their shoes, we're outgrowing our premises," he laughs. "Soon it will be time to open another location!"



"Just as people outgrow their shoes,
we're outgrowing our premises.
Soon it will be time to open another
location!"

NAIM SADIKU

Shoe salesman
Prishtina, Kosovo

2 ZERO HUNGER



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

Nourishing the roots of family farms

TRANSFORMING FED INVEST IN ALBANIA

According to the Food and Agriculture Organisation (FAO) of the United Nations, in Albania “family farms are the most important contributor to food security by producing food for self-consumption as well as for the market... The majority of individual farms serve as a main, if not only, income source for the self-employed in this sector. Around 50 per cent of the population in Albania lives in rural areas.” In fact, agriculture contributes over 20% of the country’s GDP and accounts for nearly half of employment. The local production of food is therefore vitally linked to the secure livelihood and nourishment of many Albanians.

Yet for this sector to prosper, it must overcome certain challenges to scale and profitability. These include, according to the FAO, “the lack of a suitable financial environment in the form of credits and other financing tools for the development of agricultural family enterprises.” Indeed, despite their importance to the economy, smallholder farmers struggle with access to financing; at less than 5%, agriculture is highly underrepresented in the loan portfolio of the Albanian financial sector.

It is against this background that the EFSE Development Facility joined forces with the Dutch government and Rabo International Advisory Services (RIAS) to tackle financial challenges for the Albanian rural community. Starting in 2015, the partners undertook a

major, multi-tiered project to transform the country’s main source of agricultural finance: the Albanian Savings and Credit Union, or ASCU.

Established in 1992 as a pilot project to the World Bank, ASCU had grown to become the leading provider of rural financing in Albania. Mostly comprising members of local savings and credit associations (SCA), the organisation by 2015 had gathered together members of 93 individual SCAs and was serving over a thousand villages to cover one-third of Albania’s rural geography.

ASCU had a number of advantages for offering financing to its members. Its roots in local SCAs gave it profound agricultural knowledge, proximity to clients, outreach to otherwise underserved communities, and a wide and loyal customer base. But a highly fragmented infrastructure and very limited product offering were impeding ASCU’s ability to scale its operations and become the robust financial partner needed to strengthen financial inclusion among rural borrowers.

The large-scale technical assistance project led by the EFSE Development Facility aimed to address these issues by professionalising ASCU’s structure and business processes. The project marked a milestone in 2016, when the partners successfully merged 70 of the institution’s SCAs into one consolidated financial service provider. Now renamed FED Invest, the new institution was licensed by the Bank of Albania in



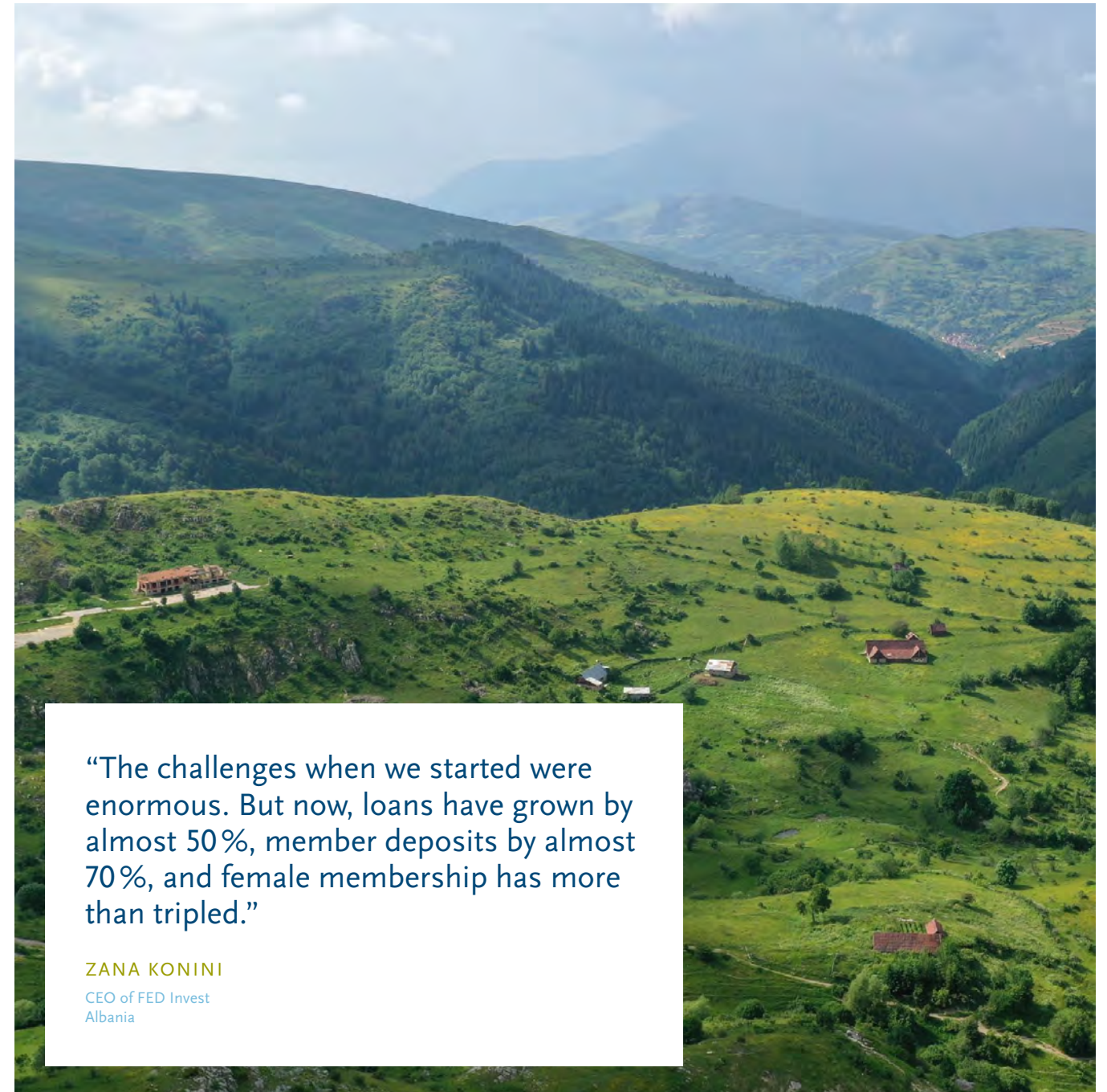
February 2016, with a cooperative governance structure combined into a one-tier operational model. EFSE then provided FED Invest with an injection of fresh liquidity, equipping the institution to increase its lending to its core client base of small-scale farmers.

But a new, strengthened organisational and operational infrastructure was just the beginning. In 2018 and 2019, the EFSE Development Facility and its partners were able to implement further steps in the transformation of FED Invest into a commercial-scale financial lender. These included establishing clear portfolio segmentation and dedicated departments in order to hone the institution's services and products according to target group; enhancing functions like risk management and auditing;

setting up a credit scoring model for micro-loans; and developing IT systems, including new hardware and state-of-the-art software. The new institution has created nearly 50 new staff positions, including an experienced finance and operations manager.

"We have come a long way in this project so far," says Venera Hoxha, the responsible investment officer at Finance in Motion, advisor to EFSE, and a member of the project's steering committee. "But we also still have quite a lot planned. FED Invest is a strategic partner for EFSE: Its unique foundation and network make it an ideal channel for expanding financial inclusion to rural Albanians, especially in the crucial sector of agriculture. We want to bolster the ability of smallholder farmers – but also other micro and small enterprises in rural areas – to invest in their future. By supporting their income generation and agricultural productivity, we strengthen both food security and the economy in Albania."

Zana Konini, CEO of FED Invest, says: "The challenges when we started were enormous, but the partners we collaborated with – EFSE, the Dutch government, and RIAS – have empowered us to set the bar high and boosted our confidence to move forward in the right direction. In less than four years from the project baseline, we significantly enhanced our corporate governance framework, transformed our IT architecture, sharpened our vision for the future, introduced new products, overhauled our risk framework and financial reporting, and grew our membership by more than 85 %. Loans have grown by almost 50 %, member deposits by almost 70 %, and female membership more than tripled. And all while staying true to the social mission of FED Invest."



"The challenges when we started were enormous. But now, loans have grown by almost 50 %, member deposits by almost 70 %, and female membership has more than tripled."

ZANA KONINI

CEO of FED Invest
Albania

8 DECENT WORK AND ECONOMIC GROWTH



EFSE contributes to economic development and job creation by enabling entrepreneurs to grow businesses, including through tailored financial services, mentorship and promoting a culture of entrepreneurship.

The challenge of a gherkin

RAMIZ DŽAFIĆ, FARMER, BOSNIA AND HERZEGOVINA

Bosnia and Herzegovina was on the road to recovery from the conflicts that had torn through the Balkan states, and new beginnings were in the air. Džafić, too, was recovering from that turbulent time, but he felt too young to be pensioned already. He needed to stay active for both his physical and mental health. That was when his entrepreneurial mind saw opportunity in the cow that his family had always kept to supplement their income with occasional breeding.

“My wife and I started selling the milk,” explains Džafić. “And then we began using it to make other dairy products like cream and cheese, which are even higher in value. After a while, we had a tidy little business going. That led to the addition of another cow. And another one after that.”



Soon, the couple were driving from their small home-stead in Visoko to sell their dairy products at the market in Sarajevo. The other vendors inspired them to turn their attention to the land beneath the feet of their small herd. Could they also grow vegetables to sell?

“We decided to give it a try,” Džafić reflects. “We planted tomatoes, gherkins, you name it. But when





it came time to build a greenhouse, we realised we needed to get serious about investing. This was a real business now. We needed capital.”

The Džafić family found their match in EKI Microcredit Company, a microfinance institution strongly committed to serving rural small enterprises. It is also one of



EFSE’s staunchest partners, having distributed EFSE funding to entrepreneurs in rural Bosnia and Herzegovina for nearly fifteen years. The organisation’s commitment and expertise quickly came to be appreciated by Džafić. “EKI staff were very personable and really seem to care,” he says. “Getting a loan is always a very quick process, too. They simply understand me and my job.”

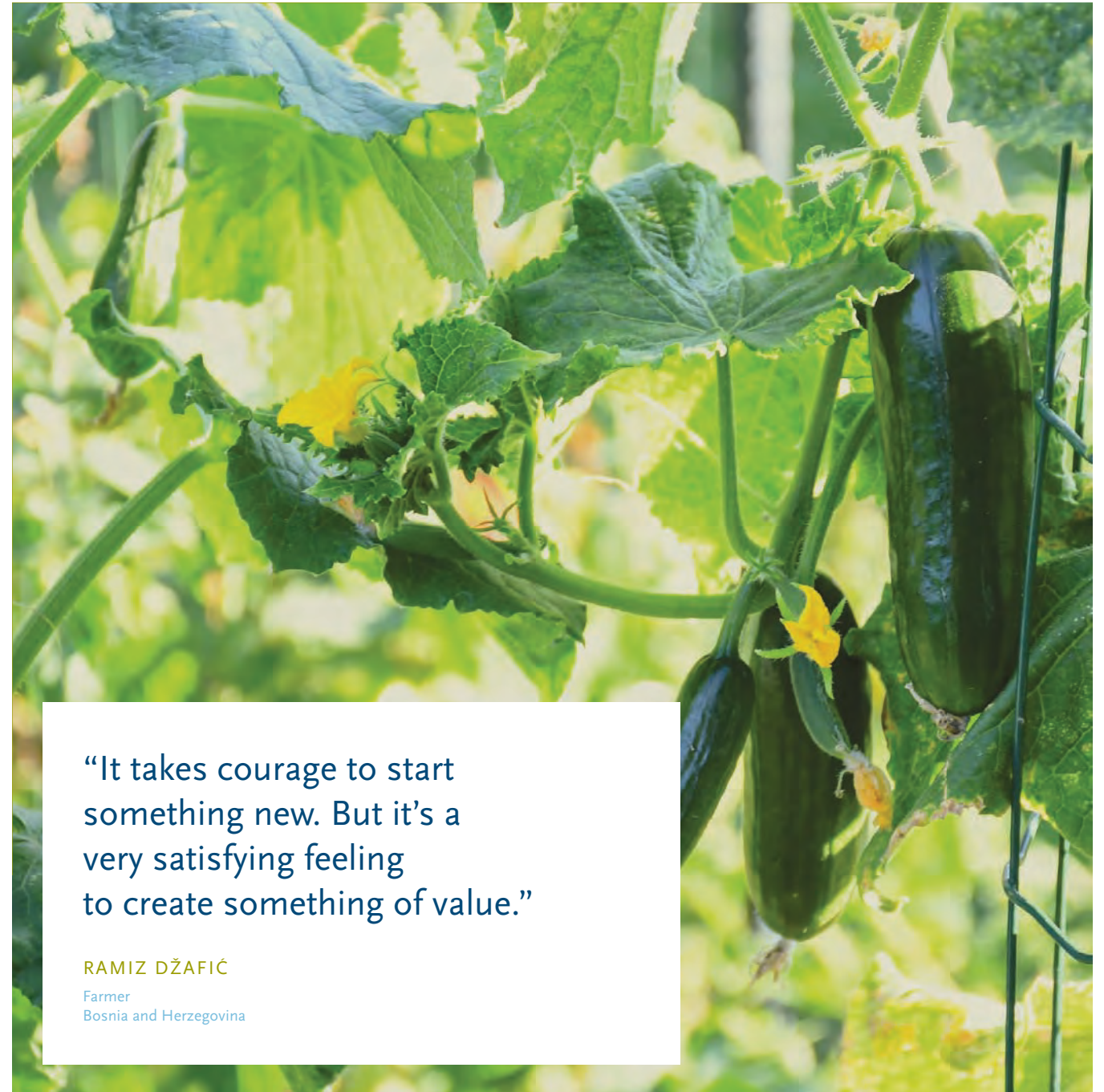
It is this trusting relationship that has led Džafić to confidently expand his business with a new loan each year since 2017. The financing has helped the family build a modern barn and greenhouse, with entirely organic production processes – from feeding the cows to planting and harvesting the vegetables. “We sell everything we produce,” Džafić says proudly. “It’s a very satisfying feeling to create something of value. When I pick a ripe tomato, and know that this healthy fruit is the result of our hard work from start to finish – well, it just doesn’t get any better than that.”

Today, the couple’s two grown sons are agricultural experts, with plans to expand to additional farms of their own. What started as an idea for a little extra money has developed into a thriving business supporting two generations. “It takes courage to start something new,” says Džafić. He raises his eyebrows knowingly. “Do not underestimate the challenge of a gherkin! Whoever succeeds with those finicky vegetables can do anything.”

“It takes courage to start something new. But it’s a very satisfying feeling to create something of value.”

RAMIZ DŽAFIĆ

Farmer
Bosnia and Herzegovina



9 INDUSTRY, INNOVATION AND INFRASTRUCTURE



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

Building solid foundations for local growth

POWER OF LOCAL CURRENCY CAMPAIGN, EU EASTERN NEIGHBOURHOOD REGION

The sustainable development of micro and small enterprises is inseparable from the health of the financial infrastructures that support them. By investing in the ability of local financial sectors to remain robust and resilient, EFSE ensures that entrepreneurs retain access to the resources they need to grow their businesses, generate employment, and secure the economic future of their communities.

Local currency financing plays an integral role in this. Especially in the regions where EFSE is active, exchange rate fluctuations can threaten the liquidity of small businesses that have taken out a loan in a different currency than the one in which they earn their income.

That is why EFSE places high value on promoting lending in local currencies. In 2019, the fund launched a new instrument – thanks to substantial contributions from the European Union and the German Federal Ministry for Economic Cooperation and Development – that enables it to absorb exchange rate fluctuations. This innovation expanded EFSE's ability to extend loans to its investees in their local currency.

It was against this background that EFSE kicked off the “Power of Local Currency” campaign in autumn 2019. Focusing on the European Eastern Neighbourhood Region, the cross-national initiative seeks to advance local currency financing in the six countries of the region – Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine – and raise awareness of this key aspect of responsible finance.



EFSE issued several new loans in local currency at a special signing ceremony



The campaign began with a launch event on 10 October 2019 in Chişinău, Moldova. There, in the historic hall that once housed the country's first local bank, 70 representatives of financial institutions, central banks, international investors, and other key sector players gathered to discuss the role of local currency financing in driving sustainable growth. Interactive panels, exper-

ience sharing, and expert presentations emphasised how financial institutions and regulators can expand the availability and practice of local currency financing in their own markets.

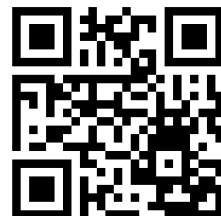
The European Commission's Head of Sector Economic Development EaP, DG NEAR, Hoa-Binh Adjemian commented in an opening address: "This partnership with EFSE has brought about a lot of innovation in expanding access to finance for micro and small enterprises – whether through fintech or new instruments for local currency lending. Today, we are here to discuss how we can continue our regional partnerships to keep up this success and improve on our own practices."

The event also included a dedicated signing ceremony to confirm several new EFSE investments in local banks for on-lending to borrowers in the region – including EFSE's first loan in Belarusian roubles. "Having strong partners and building trust-based cooperation is what drives our business," remarked Oxana Binzaru, Regional Director for EFSE advisor Finance in Motion, who is spearheading the Power of Local Currency Campaign. "By bringing together industry leaders to exchange best practices and tackle practical challenges, we are strengthening the foundational infrastructures to foster responsible impact investments in local currency."

Watch the video to learn more about the campaign:
<https://youtu.be/BLnwRKvsDg0>



Watch the video for a glimpse into the atmosphere of the event:
<https://youtu.be/-kliMDla0bM>



10 REDUCED INEQUALITIES



EFSE contributes to the economic inclusion of all by sustaining and growing business income among marginalised entrepreneurs, such as women, youth, and rural populations.

Empowering those who empower others

WOMEN ENTREPRENEURSHIP PROGRAM, ARMENIA

Natacha Kalfayan is highly experienced in turning vision into reality. After all, that is what an artist does: form a tangible product out of creative plans.

But Kalfayan's imagination extends beyond her own workshop. She is the founder of MADE, a social enterprise established in 2018 that promotes artisanal talent in rural areas of Armenia. MADE provides budding creatives with a platform to develop their skills and bring them to market. "We want to endow artists with the ability to start their true careers," says Kalfayan. "We teach, enhance, and ultimately help our participants use their talent to generate income."

Yet when it came to gaining business traction for MADE, Kalfayan realized she could use a little help, too. Getting the word out to both participants and potential financial backers proved to be a challenge. Like any startup, Kalfayan needed a network.

That is why she answered the call to join the Women Entrepreneurship Program launched by Impact Hub Yerevan and the EFSE Entrepreneurship Academy. According to the World Bank, women's under-

representation in Armenian employment and entrepreneurship translates into an economic loss equivalent to 14% of the country's GDP.¹ Together with the EU4Business initiative, the nine-month



Natacha Kalfayan, founder of MADE

¹World Bank Armenia country gender assessment, 2016: "The State of Gender Equality in Armenia"



Shogher Atanesyan, founder of Ardook

program is connecting women entrepreneurs to peers, mentors, and philanthropic investors in order to accelerate business ideas that seek to close social gaps in their communities.

MADE supports artisans from rural Armenia



One other such business is Ardook, founded by Shogher Atanesyan. Upon becoming a mother two years earlier, the former fashion industry executive became keenly aware of the difficulties of balancing work and family obligations. “The struggle is especially difficult for mothers of disabled children,” Atanesyan observes. “Often they cannot work outside the home at all, but public financial support is barely enough to cover basic needs.” Atanesyan’s startup Ardook – which means “iron” in Armenian – aims to help these parents supplement their income by enabling them to do paid ironing work at home. She continues: “I feel tremendous hope coming from the mothers who join this project. That is very motivating, but also creates a huge sense of responsibility to make this company successful. I am grateful for the support of the Women Entrepreneurship project offered by Impact Hub and the EFSE Entrepreneurship Academy. We’ve been polishing our business concept, and so far already have one partner and five employees.”

Kalfayan shares this sense of responsibility to her clients. “We do more than just sell art. We want to change lives. We assist people in finding a design identity, establishing consistency, and increasing the profitability and sustainability of their work. In return, we hope they eventually become change makers in their communities.”

Meet other social enterprises supported by the EFSE Development Facility at:
www.efse.lu/news-events/multimedia/



“We do more than
just sell art.
We want to change lives.”

NATACHA KALFAYAN

Founder of social enterprise, MADE
Armenia

17 PARTNERSHIPS
FOR THE GOALS

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

Partnering for Impact

AN INTERVIEW WITH DR. LUKAS ADAMS, GLS BANK

EFSE promotes partnerships on multiple levels by bringing together agents from all corners of the entrepreneurship ecosystem. This involves creating dialogues – with, for example, central banks, local financial institutions, entrepreneurship organisations, and business owners themselves – to work towards increased financial inclusion and economic growth within EFSE's target regions.

But EFSE is also specially equipped to foster collaboration on the “supply side”: In other words, as one of the first international development vehicles to utilise a public-private partnership model, the fund leverages public contributions as a risk cushion to mobilise private capital. This blended finance structure thus paves the way for further inroads into topics that need resources to develop – such as rural agriculture or financial inclusion of underbanked groups – but which might otherwise be perceived by private investors alone as untested or risky. By creating a partnership between public and private funding sources, EFSE thus opens up opportunities to unleash more overall means for positive change and achieve impact at scale.

One private institutional investor into EFSE is GLS Bank. Germany's first social and ecological bank, GLS Bank, has pursued its goal of generating beneficial impact for over forty years. Dr. Lukas Adams, Head of Institutional Clients at GLS Bank, weighs in on the bank's partnership with the fund.

EFSE: Both EFSE and GLS Bank emphasise financial inclusion as a means to achieve SDG 8, “Economic growth and decent work”. What are GLS Bank's impact goals in this regard?

Dr. Adams: Indeed, GLS Bank places high importance on financial inclusion. By giving otherwise underbanked groups the chance to obtain business and personal loans, open up a savings account, or take out insurance, we create future prospects and help local communities invest in their future. But it's about more than SDG 8 only. Decent work and economic growth also mean equal opportunities and sustainable operations. That is why we focus particularly on the empowerment of women, the implementation and enforcement of labour laws, and resource-friendly means of production.

What are the biggest challenges you face in achieving these goals?

Advancing financial inclusion is closely associated with pioneering. There can be many reasons why someone may not have access to financial services: Perhaps they are located in a rural area with no geographical proximity to formal banking representatives. Perhaps they run a small business with limited collateral to offer in exchange for a loan. Bridging these gaps often means being the first to reach out; and investors can be wary when it comes to “firsts”. There is a perception



Dr. Lukas Adams, Head of Institutional Clients at GLS Bank

of risk. Plus, there is the difficulty of the task itself: By their very nature, identifying and accessing appropriate investment targets in these markets takes quite a bit of work.

How does investing in EFSE help GLS Bank pursue its mission?

Broadly speaking, EFSE's structure and set-up is the perfect solution for the challenges outlined above. The fund is already deeply embedded in its target region, with an on-the-ground network that gives it first-hand insight into the local market. These partnerships are valuable for seeking out and assessing investment opportunities for financial inclusion. And EFSE is practiced at undertaking stringent due diligence for

these. What is more, the risk cushion provided by public investors makes EFSE attractive for impact-minded private investors.

GLS Bank has been investing in EFSE since 2015. We distribute these investments across our qualified investor clients, effectively allowing them to share in our joint mission to promote economic development and prosperity.

In your opinion, what role does partnership play in unlocking the resources for sustainable development?

Partnership is absolutely key. GLS Bank cannot pursue and realise its goals all by itself. That is why we maintain long-standing, robust collaborations with reliable partners both within Germany and in all regions across the globe where GLS is active on behalf of its clients.

EFSE's publicly funded risk cushion is the perfect incentive for private investors who might otherwise hesitate to get involved in EFSE's target markets. The public-private partnership enables these investors to take full advantage of EFSE's expertise, track record, and risk management while channelling funding to those who need it. And we're talking more than straight-up money, here, too: EFSE uses its Development Facility to expand capacities that also open up further opportunities for private investment down the road.

Overall, EFSE's structure and approach provide a very concrete example of how, together, we achieve so much more than each individually.

"EFSE's publicly funded risk cushion is the perfect incentive for private investors."

DR. LUKAS ADAMS

Head of Institutional Clients
GLS Bank

Cultivating Entrepreneurship

EFSE MEETING 2019, BELGRADE, SERBIA

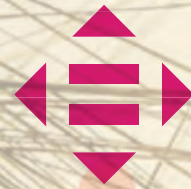


The EFSE Meeting 2019 brought together nearly 300 representatives of international and regional financial institutions, investors, central banks, entrepreneurship organisations, and more under the banner of “Cultivating Entrepreneurship”. For two days in September 2019, these key players from across the financial ecosystem in Southeast Europe and the EU Eastern Neighbourhood discussed how to close gaps in financial inclusion and expand access to crucial resources for micro and small enterprises.

Watch the event video at:
https://youtu.be/smV_Ppo-uc4



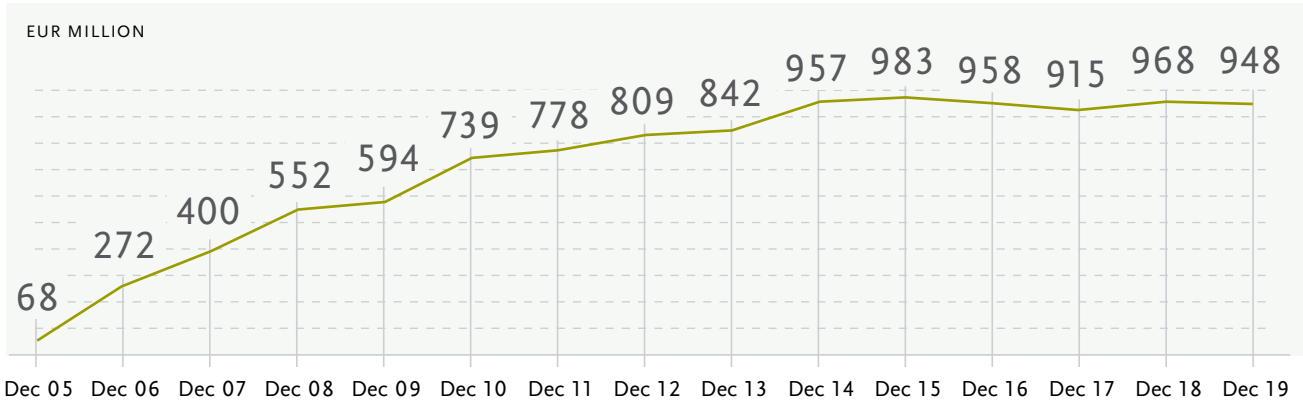
Operational Results



INVESTMENTS

COMMITTED INVESTMENT PORTFOLIO

Since inception in December 2005

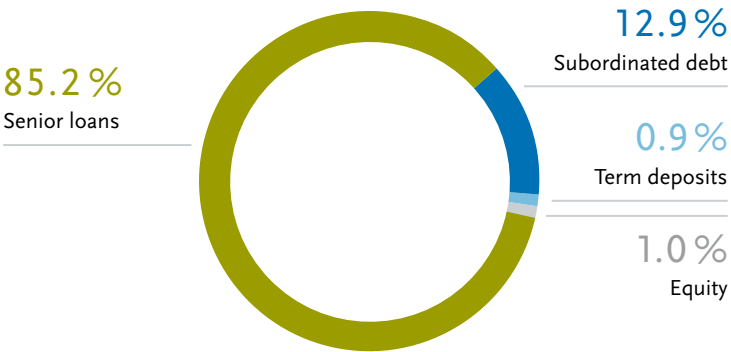


Total committed investment portfolio as of 31 December 2019: EUR 948.2 million

COMMITTED INVESTMENT PORTFOLIO BY FINANCIAL INSTRUMENT

Based on total committed investment portfolio

EUR MILLION



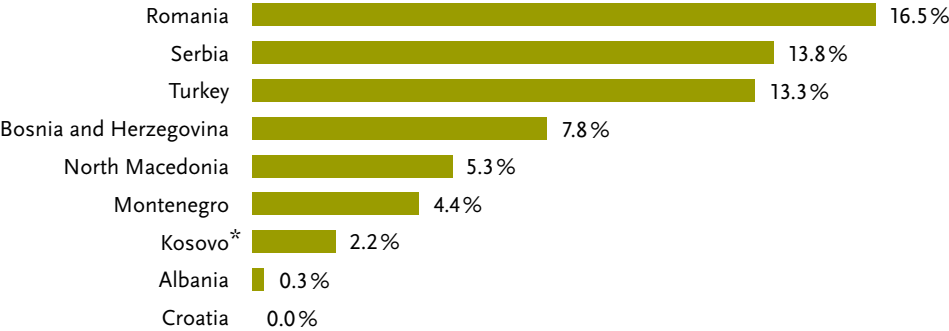
Total committed investment portfolio as of 31 December 2019: EUR 948.2 million

COMMITTED INVESTMENT PORTFOLIO BY COUNTRY

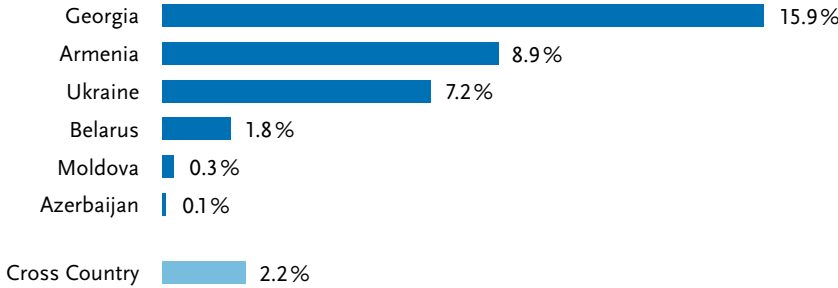
Based on total committed investment portfolio

Total committed investment portfolio as of 31 December 2019: EUR 948.2 million

Southeast Europe



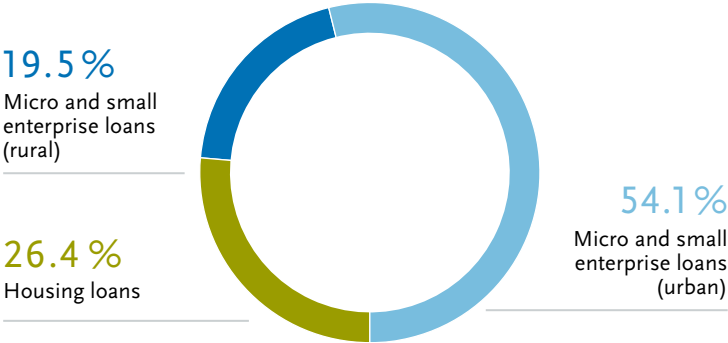
European Eastern Neighbourhood Region



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

COMMITTED INVESTMENT PORTFOLIO BY PRODUCT
Based on total committed investment portfolio

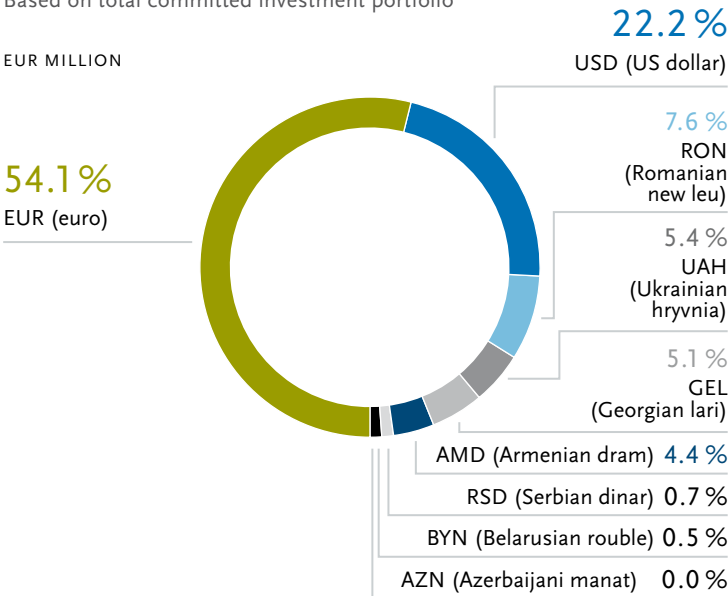
EUR MILLION



Total committed investment portfolio
as of 31 December 2019:
EUR 948.2 million

COMMITTED INVESTMENT PORTFOLIO BY CURRENCY
Based on total committed investment portfolio

EUR MILLION

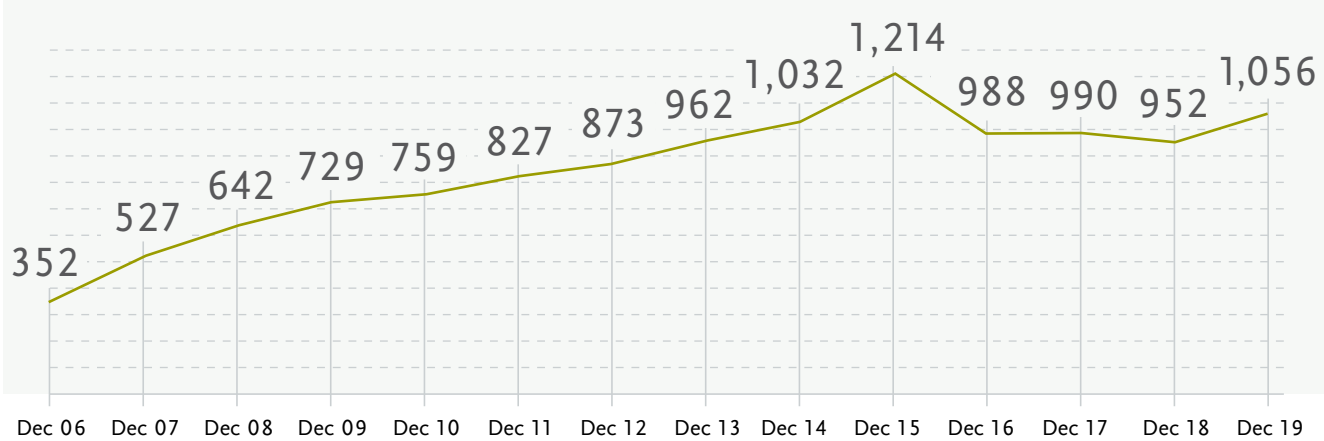


Total committed investment portfolio
as of 31 December 2019:
EUR 948.2 million

FUNDING

COMMITTED FUNDS FROM INVESTORS

VOLUME OF INVESTOR COMMITMENTS (EUR MILLION)



Total volume of committed funds from investors as of 31 December 2019: EUR 1,056 million

AVAILABLE FUNDING BY INVESTMENT CLASS
As of 31 December 2019

INVESTMENT CLASS *	VOLUME (EUR)	SHARE (%)
Notes	247.2 million	23.4
A shares	271.6 million	25.7
B shares	71.0 million	6.7
L shares	66.0 million	6.3
C shares	400.1 million	37.9
Total subscribed (NAV)	1056.0 million	100.0

99% of the fund’s capital commitments were subscribed at the end of 2019.
Private investors were responsible 24% of committed capital at the end of 2019.

*All commitments are shown as gross commitments.

INVESTORS BY TYPE OF INVESTMENT CLASS
As of 31 December 2019

NOTES
Crédit Coopératif
European Bank for Reconstruction and Development (EBRD)
Stichting Democratie & Media
GLS Bank
Steyler Bank
Ministerium der Finanzen Land Brandenburg
Raiffeisen Bank International AG
Private investors via Deutsche Bank
Other investors
A SHARES – SENIOR TRANCHE
European Bank for Reconstruction and Development (EBRD)
European Investment Bank (EIB)
International Finance Corporation (IFC)
Kreditanstalt für Wiederaufbau (KfW)
Oesterreichische Entwicklungsbank (OeEB)

B SHARES – MEZZANINE TRANCHE
Central Bank of Armenia
European Bank for Reconstruction and Development (EBRD)
European Investment Bank (EIB)
Finance in Motion
The Netherlands Development Finance Company (FMO)
International Finance Corporation (IFC)
Kreditanstalt für Wiederaufbau (KfW)
L SHARES - FX RISK TRANCHE
KfW for the account of the Federal Republic of Germany (BMZ)
KfW for the account of the European Commission (EC)
C SHARES – JUNIOR TRANCHE
Central Bank of Armenia
European Commission (with European Investment Fund and KfW as Trustees)
Government of Austria (ADA)
Government of Denmark (DANIDA)
Government of Germany (BMZ) (with KfW as Trustee)
Government of Switzerland (SDC)
Development Bank of Austria (OeEB)
Republic of Albania

EFSE DEVELOPMENT FACILITY

TOTAL SCOPE OF ACTIVITIES
Based on total project volume

	CUMULATIVE (AS OF 31 DECEMBER 2019)		2019 APPROVAL	
	Volume (EUR)	Share (%)	Volume (EUR)	Share (%)
Micro and small enterprise lending	7,562,603	27.1 %	–	0.0 %
Entrepreneurship and micro and small enterprise development	6,135,330	22.0 %	1,995,455	50.8 %
Agricultural and rural finance	2,958,136	10.6 %	–	0.0 %
Innovative financial product development	835,538	3.0 %	330,891	8.4 %
Core capacity building for partner lending institutions	2,827,984	10.1 %	1,233,778	31.5 %
Housing finance	157,832	0.6 %	–	0.0 %
Financial technology	883,585	3.2 %	53,997	1.4 %
Local currency lending	480,390	1.7 %	–	0.0 %
Mobile financial services	112,423	0.4 %	–	0.0 %
Responsible finance	4,425,234	15.9 %	310,198	7.9 %
Other	1,487,532	5.4 %	–	0.0 %
Total	27,866,587	100.0 %	3,924,319	100.0 %

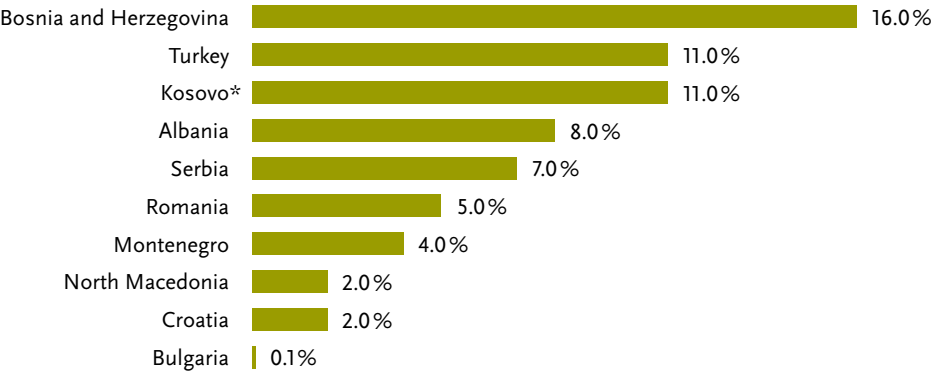
The EFSE Development Facility offers tailored technical assistance and training to the fund's partner lending institutions, conducts high-level research that includes development impact assessment, and contributes to strengthening the region's financial sector through advisory support at the governmental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

TECHNICAL ASSISTANCE PROJECT DISTRIBUTION BY COUNTRY

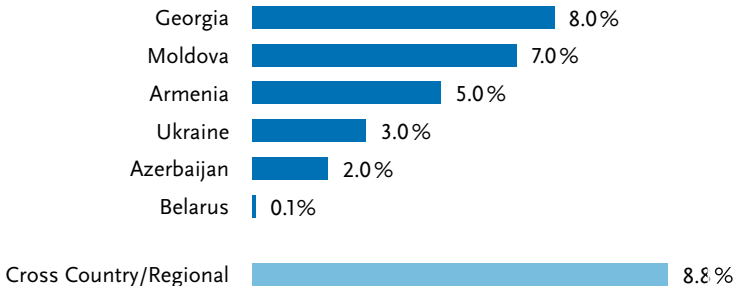
Based on number of projects

Cumulative, from 2006 to 31 December 2019

Southeast Europe



EU Eastern Neighbourhood Region



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

TECHNICAL ASSISTANCE FUNDING CONTRIBUTIONS BY FUNDING SOURCE

Based on amount approved

All projects

Cumulative, from inception of the EFSE Development Facility in 2006 to 31 December 2019

	IN EUR	SHARE
TOTAL PROJECTS: 473		
Total project budget	27,866,587	100.0%
EFSE DF contribution	17,581,564	63.0%
Partner contribution (partner lending institutions and sector institutions)	8,424,796	30.0%
EFSE DF third parties	1,860,227	7.0%

Since inception, partner lending institutions and third parties have contributed approx. 37 % of the costs towards project budgets.

Individual technical assistance projects only

Cumulative, from inception of the EFSE Development Facility in 2006 to 31 December 2019

	IN EUR	SHARE
TOTAL PROJECTS: 266		
Project budget	15,667,022	100.0%
Partner lending institution contribution	6,285,458	40.0%
EFSE DF contribution	8,553,322	55.0%
EFSE DF donors (and third parties)	828,242	5.0%

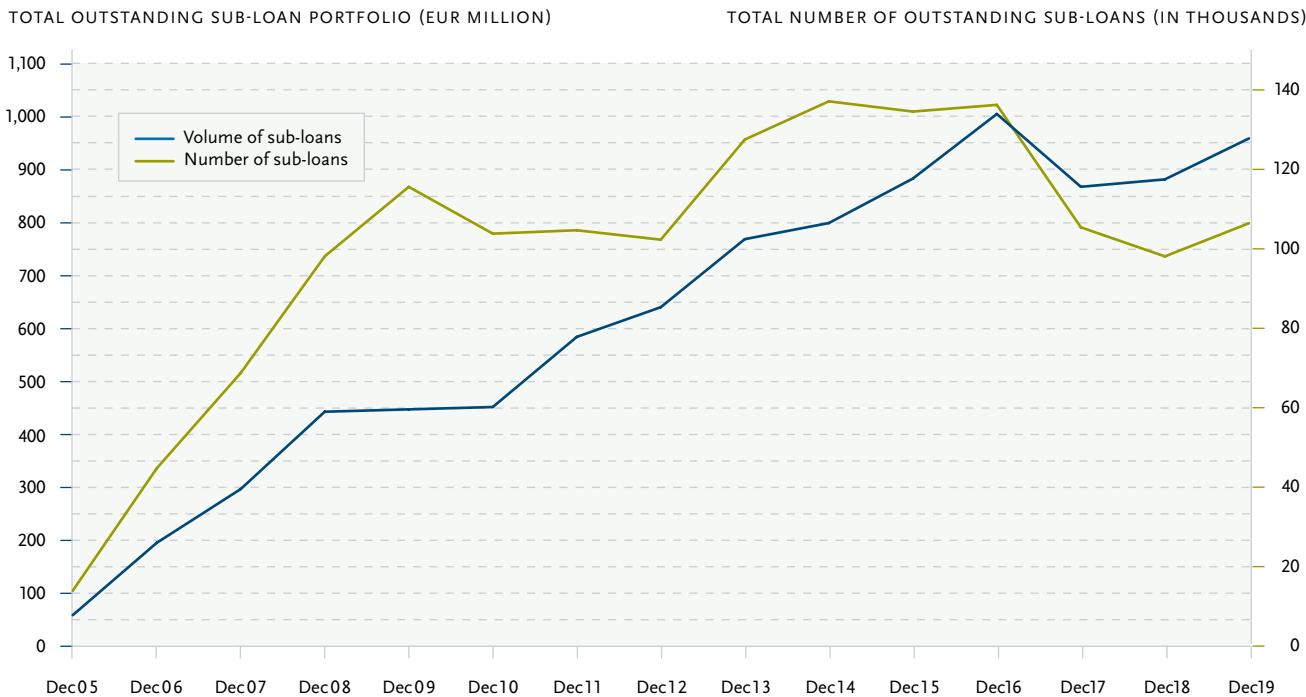
Since inception, partner lending institutions have contributed approx. 45% of the costs relating to project costs for individual technical assistance projects.

DEVELOPMENT IMPACT

OUTSTANDING SUB-LOAN PORTFOLIO

As of 31 December 2019

Total outstanding number of sub-loans as of 31 December 2019: 106,415
Total outstanding sub-loan portfolio as of 31 December 2019: EUR 958.4 million

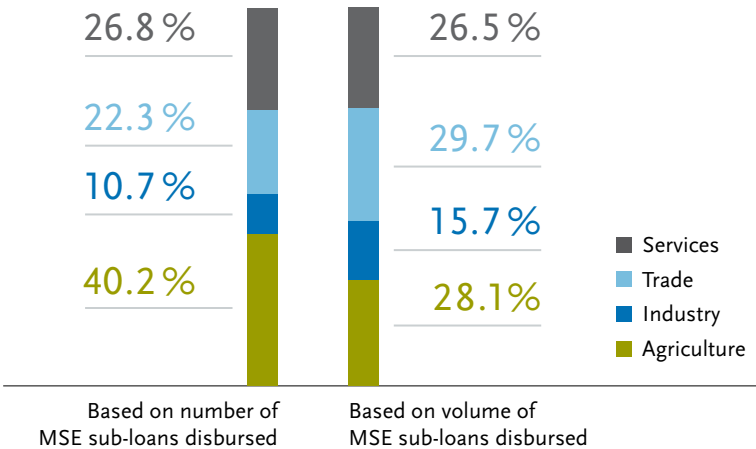


OUTSTANDING SUB-LOAN PORTFOLIO BY PRODUCT

As of 31 December 2019

	2019	2018
Outstanding sub-loan portfolio to end-borrowers (EUR million)	958.4	881.1
Micro and small enterprise loans – urban/rural	712.6	622.8
Housing loans	245.8	258.3
Number of active end-borrowers	106,415	98,076
Micro and small enterprise loans – urban/rural	93,988	84,565
Housing loans	12,427	13,511
Average outstanding sub-loan amount (EUR)	9,006	8,983
Total sub-loan volume disbursed in 2019 (EUR million)	594.1	545.0
Micro and small enterprise loans – urban/rural	562.1	518.0
Housing loans	32.0	27.0
Total number of sub-loans disbursed	48,014	48,236

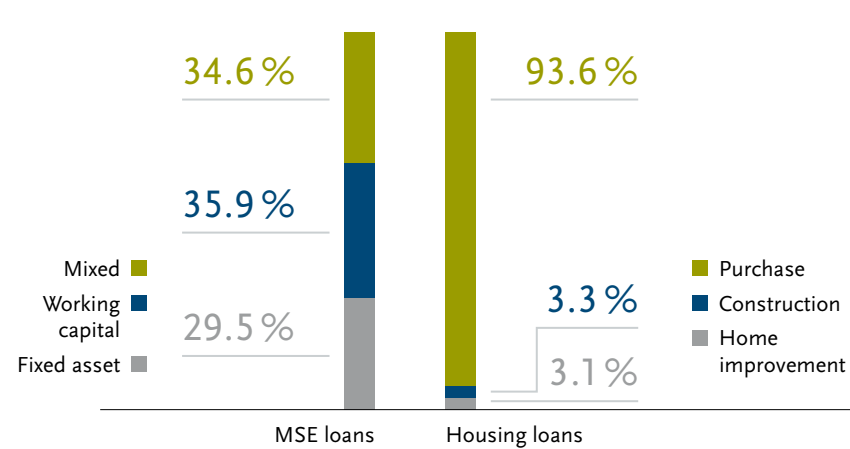
SUB-LOAN DISBURSEMENTS BY ECONOMIC SECTOR IN 2019
MICRO AND SMALL ENTERPRISE (MSE) LOANS ONLY



Total number of MSE sub-loans
disbursed in 2019: 45,841

Total volume of MSE sub-loans
disbursed in 2019: EUR 562.1 million

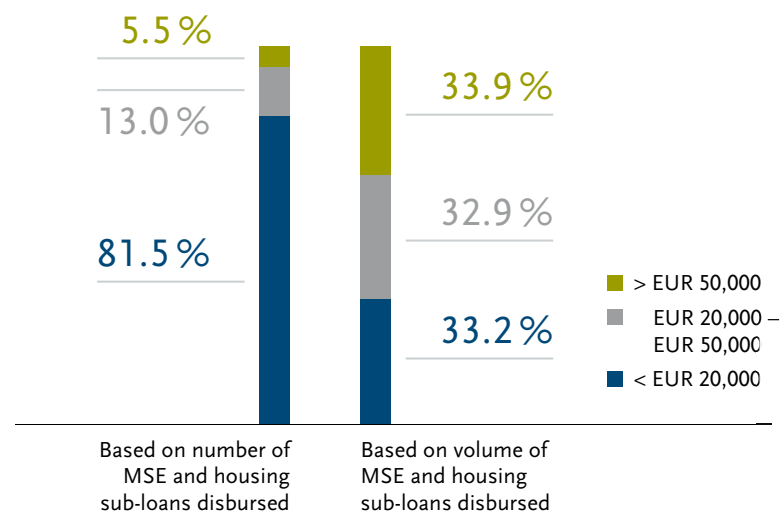
SUB-LOAN DISBURSEMENTS BY PURPOSE IN 2019
MICRO AND SMALL ENTERPRISE (MSE) AND HOUSING LOANS



Total volume of MSE sub-loans disbursed as of 31 December 2019: EUR 562.1 million

Total volume of housing sub-loans disbursed as of 31 December 2019: EUR 32.0 million

SUB-LOAN DISBURSEMENTS BY SIZE IN 2019
MICRO AND SMALL ENTERPRISE (MSE) AND HOUSING LOANS



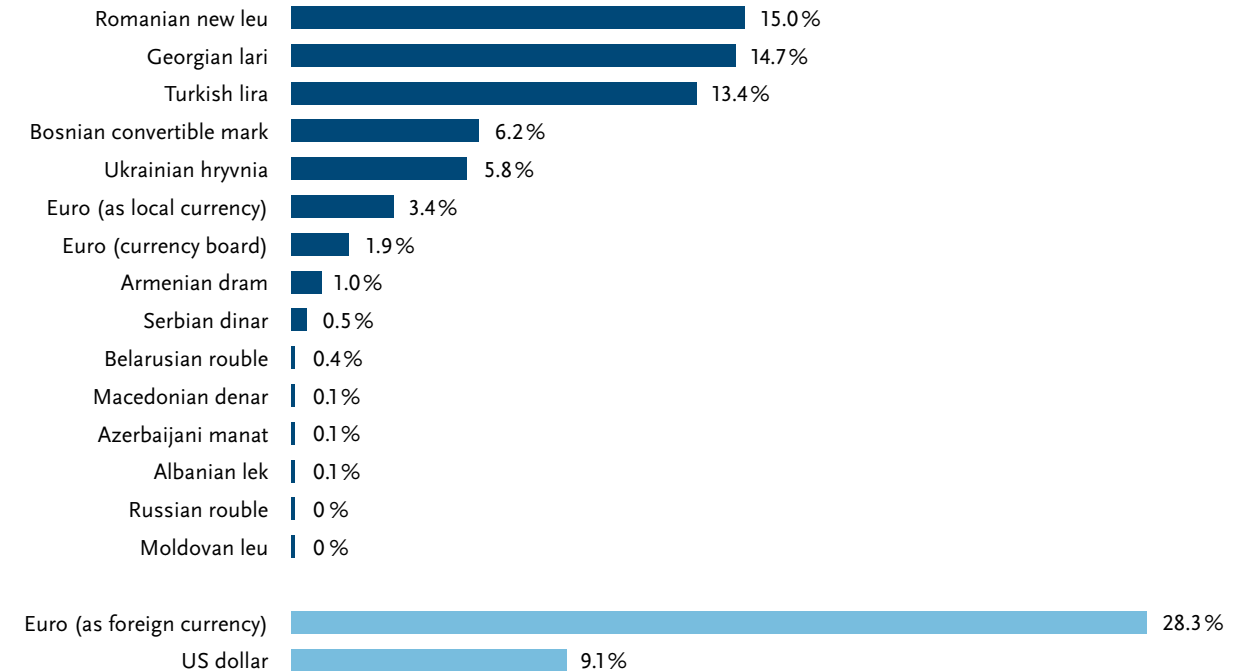
Total number of MSE and housing sub-loans disbursed for the year to date as of 31 December 2019: 48,014

Total volume of MSE and housing sub-loans disbursed for the year to date as of 31 December 2019: EUR 594.1 million

OUTSTANDING SUB-LOAN PORTFOLIO BY CURRENCY

Based on total outstanding sub-loan portfolio

Total outstanding sub-loan portfolio as of 31 December 2019: EUR 958.4 million



PARTNER LENDING INSTITUTIONS

OVERVIEW BY COUNTRY

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

COUNTRY

GEORGIA	Commercial bank	Joint Stock Company BGEO Group
		JSC Bank of Georgia
		Basisbank
		JSC TBC Bank, Georgia
KOSOVO*	Commercial bank	BKT Kosovo
	Microcredit organisation	Agjencioni për Financim në Kosovë
		KEP Trust
		Kreditimi Rural I Kosoves LLC
	SME bank	BpB
MOLDOVA	Non-bank financial institution	I.C.S. “BT LEASING MD” S.R.L.
MONTENEGRO	Commercial bank	NLB Banka a.d. Podgorica
	Microcredit organisation	MFI Alter Modus DOO Podgorica
	SME bank	Erste Bank Podgorica
NORTH MACEDONIA	Microcredit organisation	Mikrokreditna Fondacija HORIZONTI Skopje
	SME bank	Halkbank a.d., Skopje
		Ohridska Banka a.d., Skopje
ROMANIA	Commercial bank	Banca Transilvania S.A.
	Microcredit organisation	BT Microfinantare IFN S.A.
		Patria Credit IFN S.A.
		Vitas Romania
		BT Leasing Transilvania IFN S.A.
	Non-bank financial institution	Garanti Leasing RO
		AGRICOVER CREDIT IFN S.A.
		Alpha Bank Romania S.A.
	SME bank	

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

COUNTRY		
SERBIA	Commercial bank	Raiffeisen Banka a.d., Beograd
		UniCredit Bank JSC
	SME bank	Halkbank akcionarsko drustvo Beograd
	Microfinance bank	Opportunity Bank RS a.d., Novi Sad
TURKEY		ProCredit Bank RS a.d., Belgrade
	Commercial bank	Denizbank A. Ş.
		Finansbank A. Ş., Turkey
		Garanti Bank Finansal Kiralama A. Ş.
	Non-bank financial institution	Garanti Leasing TR
		QNB Finans Leasing
		Yapi Kredi Leasing
	SME bank	Alternatifbank A. Ş.
		Fibabanka A. Ş.
		Odea Bank A. Ş.
UKRAINE	Non-bank financial institution	OTP Leasing
	SME bank	Joint Stock Company Agroprosperis Bank
		CreditWest Bank
		Public Joint Stock Company Kredobank
	Microfinance bank	ProCredit Bank UA



Board and Committees

BOARD OF DIRECTORS



Syed Aftab Ahmed

Hubert Cottogni

Andrea Hagmann

Nico Pijl

Christoph Tiskens
(Chairperson)

Jana Sivcova

Christoph Achini

Stephan Opitz

Dominik Ziller

INVESTMENT COMMITTEE



Syed Aftab Ahmed Madhu Dutta-Sen Sylvia Gansser-Potts Andrea Hagmann Markus Aschendorf (Chairperson)

DEVELOPMENT FACILITY COMMITTEE



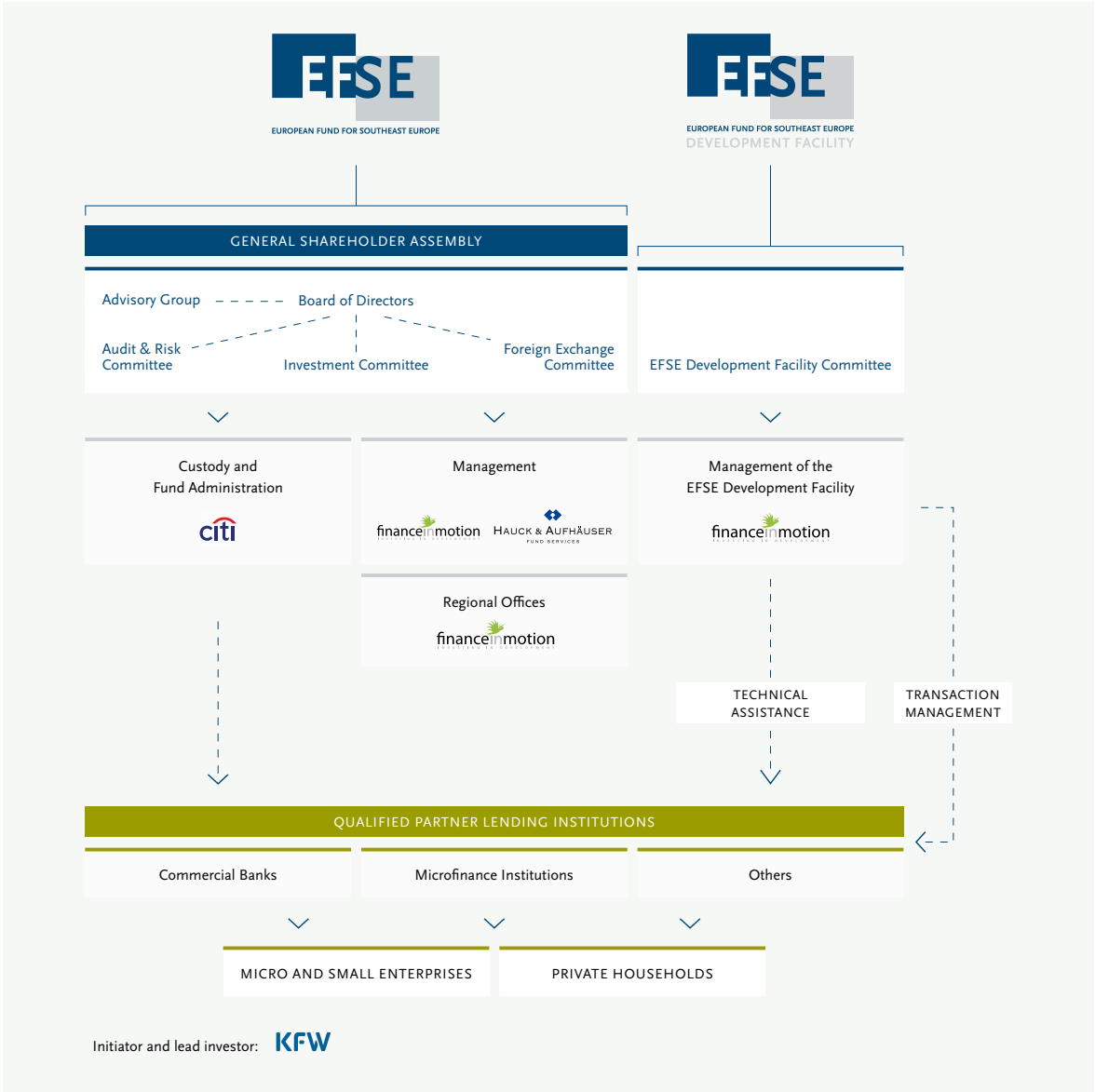
Kristin Duchâteau Markus Aschendorf (Chairperson) Gerbrich Salverda

ADVISORY GROUP



The Advisory Group to the EFSE Board of Directors comprises high-ranking representatives from central banks in the regions the fund serves. With unique perspectives on local realities, concerns and needs, the members meet to share their views and make recommendations about fund policies and operations. The Advisory Group plays a pivotal role in forging successful regional cooperation.

ORGANISATIONAL STRUCTURE



Letter from the
Manager and Advisor

LETTER FROM THE MANAGER AND ADVISOR

Dear Reader,

In times of uncertainty, a clear strategic focus becomes more important than ever.

EFSE has always placed high value on creating concrete, tangible impact. With its roots in targeted development finance; its in-region proximity to partners and investees; a hands-on approach to technical assistance and market building; and an active role in connecting key market players across borders and industries, EFSE has always been right on the ground to make sure that resources get where they are needed to drive long-term, healthy growth in local communities.

As more and more investors recognise the value of directing capital towards sustainable development, it becomes increasingly necessary to ensure we are all “speaking the same language” of impact. Measuring progress towards a better future begins, for example, with agreeing on common goals. The United Nations made a great stride forward in this endeavour by declaring the 17 Sustainable Development Goals in 2016. EFSE has been consistently advancing employment and economic growth, combating poverty and inequality, and promoting partnerships since 2005, and we are now pleased to reveal in this Impact Report 2019 the framework behind how the fund pursues its impact agenda.

The year 2019 was as busy as ever for “The Entrepreneurship Fund”. EFSE made 31 new investments in micro and small enterprise and household finance in Southeast Europe and the EU Eastern Neighbourhood, bringing the fund’s total cumulative investment volume to over EUR 3 billion by year-end. Of the more than 1 million sub-loans these investments have unleashed, well over half were facilitated in local currency. This is no incidental side note: Local currency lending is a key aspect of responsible finance, and one that EFSE – with the strong support of the EU and the German Federal Ministry for Economic Development and Cooperation (BMZ) – is keen to continue advancing in these regions. It was in fact in 2019 that the EU and BMZ played a significant role in EFSE launching a brand-new, innovative fund layer specifically aimed at facilitating local currency financing.

In the meantime, the EFSE Development Facility and its associated Entrepreneurship Academy initiated 51 new projects to deepen the fund’s impact in 2019. Such ecosystem-building is integral to providing entrepreneurs not only with skills and opportunities, but also with a solid financial infrastructure that they can continue to rely upon in times of stability and in crisis.

When Covid-19 reached Southeast Europe and the EU Eastern Neighbourhood in the first half of this year, micro and small enterprises were especially hard hit by the socioeconomic fallout of containment measures. But the EFSE community are no strangers to adversity; after all, we have



our roots in weathering conflict, political turbulence, and economic tremors. EFSE was a stalwart partner to the region’s microfinance providers in spring 2020, swiftly providing both financing and technical assistance to steady the ground under our partners’ feet. A special thank-you to the EU and BMZ for their steadfast partnership in these efforts. They have once again shown their commitment to our shared belief that collaboration is essential to stability and progress.

We would also like to extend thanks to the EFSE Board of Directors, the Investment Committee, the Development Facility Committee, and all integral supervisory agents not only for their guidance, but especially for their unflagging confidence and trust that continued EFSE’s spirit as a leader of sustainable finance in Southeast Europe and the EU Eastern Neighbourhood in 2019 and into 2020. Thank you as well to the partners of the fund – the financial institutions and entrepreneurship organisations who are working hard to continue serving the micro and small enterprises that form the backbone of income generation and employment. And thank you to our investors for their commitment to making a difference in the lives of hundreds of thousands. As we enter EFSE’s fifteenth year, we are prouder than ever to be a part of this unique, pioneering community.

With best regards,

FINANCE IN MOTION

Advisor

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

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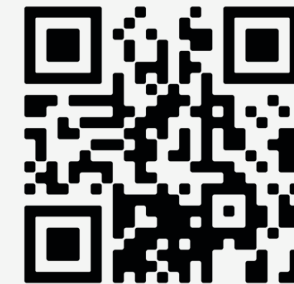
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