

Press Release

For immediate release

EFSE expanding to four more countries of the European Eastern Neighbourhood Region

- EFSE to include Armenia, Azerbaijan, Georgia and Belarus
- The European Union and governments of Germany and Austria commit significant contributions to the European Eastern Neighbourhood region
- EFSE to provide financing for 70,000 micro and small enterprise loans in the new target countries

Frankfurt am Main, December 17, 2009 – In an agreement reached at yesterday's general meeting, the shareholders of the European Fund for Southeast Europe (EFSE) approved an expansion of the Fund's target region to include four new countries of the European Eastern Neighbourhood region: Armenia, Azerbaijan, Georgia and Belarus. This paves the way for the EFSE to provide financing for micro and small enterprises (MSEs) and home improvement in these countries, in addition to Ukraine and Moldova, two other European Eastern Neighbourhood countries, and further eight countries in Southeast Europe, where the EFSE has operated since 2005.

The expansion will enhance the level of financial intermediation in the new target countries and will bring much-needed financing, especially to MSEs in rural areas and to the private small-scale agriculture sector.

Over the next five years, the EFSE is expected to provide financing to banks and microfinance institutions in a total amount of EUR 300 million in the new target countries in addition to up to EUR 1 billion envisaged for the region of Southeast Europe. In doing so, the Fund will provide financing for approximately 70,000 loans to MSEs in the new target countries.

The decision made at EFSE's General Meeting of Shareholders has received immediate backing from the Fund's shareholders to commit significant contributions to the European Eastern Neighbourhood: The European Union, through the Neighbourhood Investment Facility (NIF), which was launched by Commissioner Benita Ferrero-Waldner mid 2008, has contributed today an amount of EUR 10 million to benefit all six countries of the European Eastern Neighbourhood through the ENBF, a dedicated European Neighbourhood Window under the EFSE. An additional EUR 15.75 million has been made available by the German government, represented by the Federal

German Ministry for Economic Cooperation and Development (BMZ), for the South Caucasus (of which EUR 4.75 million are dedicated for Azerbaijan). The Development Bank of Austria (OeEB) has currently committed a total of EUR 3 million C Shares (first-loss tranche of the Fund) for investments in the European Eastern Neighbourhood countries, with increased investments foreseen in the near future.

"The ENBF we are launching today is fully in line with the objectives of the Neighbourhood Investment Facility – NIF – since the ENBF improves access to finance for micro, small and medium enterprises and supports the development of local capital markets in the region", said Richard Weber, Deputy Director General of EuropeAid (EU Development Cooperation Office), "The ENBF is another example for the added value the NIF provides by pooling together grants with loans from European Finance Institutions. With the ENBF, we strongly support the objectives of the Eastern Partnership, especially regarding economic and social development and we further strengthen the cooperation and coordination in the Eastern Neighbourhood region in general."

Dirk Niebel, Federal Minister for Economic Cooperation and Development (BMZ), Germany, said: "The new German government is committed to modernising and de-ideologising Germany's development policy. Its top priority is to enable people in our partner countries to take their lives into their own hands and to build sound prospects for themselves for decent living conditions and prosperity. I firmly believe that microcredit is one of the best ways of triggering such self-sustaining, self-reliant development. I will therefore make microcredit a strong focus of my term in office. We consider the expansion of the European Fund for Southeast Europe to include the Caucasus region and the provision of additional budget funds of EUR 15.75 million the first step towards that goal. We will soon take further steps in the form of microfinance initiatives for Africa and for the MENA region."

"The Development Bank of Austria – OeEB – has already invested EUR 33 million in EFSE, which has an excellent track record. The new EFSE region attracts the interest of the Austrian government, corresponds to one of OeEBs focal areas, and reflects the growing interest of Austrian companies in the region. All these aspects led to the additional investment decision", explained Josef Pröll, Finance Minister of Austria.

"Micro and small enterprises play a crucial role in the growth of developing and transition countries due to the employment opportunities they create", said Dr. Norbert Kloppenburg, Member of the Managing Board of Directors of KfW. "The EFSE helps to counteract the current post-crisis downward trend in lending to these businesses, and ensures that they continue to act as a job engine, enabling poor people to access finance and escape the poverty trap."

This has become an increasingly important topic, especially in rural and semi-urban areas in the new target countries where the financial crisis has caused banks to close branches in an effort to cut costs. In Azerbaijan, for example, almost two thirds of all MSEs are located outside urban areas, and operate in the agricultural field. The financing gap in these areas has been increasing and has implied negative consequences for these segments of the economy.

Dr. Klaus Glaubitt, Chairman of EFSE's Board of Directors, commented: "The regional expansion is another significant milestone for the EFSE and demonstrates the German, Austrian and other donor governments', the European Commission's as well as international finance institutions' and private investors' confidence in the Fund. The Public-Private Partnership model of the Fund has proven its strength and robustness, particularly throughout the financial crisis, and is generating a clear development impact."

About the European Fund for Southeast Europe (EFSE)

With an investment portfolio of EUR 559 million (as of 30 September, 2009), the EFSE is the world's largest microfinance investment fund. Aimed at fostering economic development and prosperity in the region of Southeast Europe and European Eastern Neighbourhood countries, the Fund offers long-term funding instruments to qualified local financial institutions for on-lending to micro and small enterprises (MSEs) and low-income private households. Since its inception in December 2005, the Fund has facilitated approximately 200,000 loans to MSEs and private households, totalling over EUR 1 billion. EFSE also runs a Development Facility whereby grants enable technical consulting and training measures to institutionally strengthen the partner finance institutions. Initiated by KfW, the EFSE is a closed-ended investment company that falls under the jurisdiction of the Grand Duchy of Luxembourg in the form of a public limited company, qualifying as a société d'investissement à capital variable ("SICAV-SIF"). As the first Public-Private Partnership of its kind, combining public funding and private investment, the Fund has a strong investor base of donors, international finance institutions and private institutional investors, including: European Commission, Federal German Ministry for Economic Development and Cooperation (BMZ), the governments of Austria, Switzerland, Denmark and Albania, KfW, International Finance Corporation, FMO Netherlands Development Bank, European Bank for Reconstruction and Development, European Investment Bank, OeEB Oesterreichische Entwicklungsbank (Development Bank of Austria), Sal. Oppenheim, Deutsche Bank, Crédit Coopératif, BN&P Good Growth Fund, Finance in Motion and other private investors.

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