

Press Release

For immediate release

EFSE Annual Meeting 2012 in Tbilisi:

EFSE looking back at a successful year 2011

New MSE loan agreements signed

OeEB commits additional funds to the EFSE

Results of first EFSE Stakeholder Survey presented

Tbilisi (Republic of Georgia), 31 May 2012 - The 6th Annual Meeting of the European Fund for Southeast Europe (EFSE, the Fund) opened in Tbilisi today. The two-day event, co-hosted by the National Bank of Georgia, kicked off with a review of the EFSE's achievements in 2011 and announcements of new loan agreements. These new loan agreements, which will boost the availability of financing to micro and small enterprises (MSEs) in the target regions of Southeast Europe¹ (SEE) and the European Eastern Neighbourhood Region² (ENR), include MF Banka (EUR 5.0 million for MSE lending) and Microcredit Foundation EKI (EUR 4.0 million for rural MSE lending), both in Bosnia and Herzegovina, and Megabank in Ukraine (US dollar 7.0 million for rural MSE lending). Furthermore, at a signing ceremony held during the meeting, the Development Bank of Austria (OeEB) committed itself to investing an additional amount of up to EUR 15.0 million in the EFSE to stimulate MSE financing within the Fund's target regions. Also on the agenda: the discussion of key findings of a survey the EFSE conducted among its stakeholders in SEE¹ and ENR² to the potential risks and medium-term market opportunities and capture views on the level of Responsible Finance practices in the various markets.

Review of 2011 – a strong performance in an usually challenging environment

The EFSE looks back at another very successful year:

- Disbursements of subloans to MSEs and private households for home improvement via local partner lending institutions (PLIs) were up markedly from 2010: by 56% to EUR 429 million.
- With more than 300,000 subloans totalling EUR 1.8 billion since the EFSE's inception in 2005, the Fund has made a major impact in terms of securing and generating employment throughout the target region – 315,000 jobs to date.
- Total funding provided to partner lending institutions for on-lending to MSEs and private households since the Fund's inception in 2005: EUR 1.13 billion.
- With investment activity picking up in the Western Balkans, strong market fundamentals helped Serbia to overtake Bosnia and Herzegovina in terms of share of the Fund's investment portfolio (24.2% vs. 16.4%).
- Only two years since beginning operations in the ENR², investments there account for over one fifth of the EFSE's total outstanding investment portfolio (EUR 158.1 million).
- Turkey, which officially joined the EFSE's target regions in mid-2011, is also showing a strong growth dynamic with EUR 10 million in EFSE investments (1.4% of portfolio outstanding).
- As in previous years, the Fund registered no investment defaults and the level of impairment allowances have remained low.
- Current investors renewed their commitment and three new investors joined the Fund, increasing overall capital commitments to EUR 827 million – a development facilitated by the reform engaged in the

beginning of the year to streamline the Fund's shareholding structure. Private capital accounted for 63% of overall capital commitments.

Following through with targeted technical assistance and training

In addition to providing funding, the EFSE remained committed to supporting its PLIs through technical assistance and training:

- Since inception, EUR 6.7 million have been allocated to 161 capacity building projects and towards financial sector support.
- In 2011, a total of EUR 1.3 million (up almost 30% from 2010) was invested in 22 projects, including four studies, with 20 PLIs (13 PLIs in 2010).
- Capacity building at PLIs focused on both liquidity and credit risk management, and microcredit organisations benefitted from strategic consulting services in adjusting to new market challenges.
- Applied research centred on foreign currency lending in Romania and Serbia, and agriculture finance opportunities in Ukraine
- At the sector level, technical assistance took the form of studies and advisory services for PLIs in support of mergers as well as awareness campaigns targeted at MSEs on the risks of foreign currency loans.

Shielding the economic backbone of the region from currency risks

With the EFSE's support, the Central Bank of Armenia, through its subsidiary, Small and Medium Business Credit Support CJSC, provided dedicated funds to a newly established local currency window to support dram-denominated loans. In addition, the EFSE closed another nine local currency investment transactions with PLIs, increasing the share of these investments to 21.4% of the Fund's outstanding investment portfolio of EUR 735.6 million at year-end 2011.

Commenting on the EFSE's performance, Monika Beck, Chairperson of the EFSE Board of Directors, said: *"The EFSE closed the year standing on firmer foundations, and strengthened in scope and resources. We do not stop here as we look to the years ahead with confidence, eager to contribute, together with our partners, towards job creation and prosperity in the EFSE's target regions in the spirit of Responsible Finance. In addition to our on-going investment activities, we have launched a series of initiatives to better understand the financing and technical assistance needs of our partner institutions, enabling us to more finely adjust the scope of our services. We are also keen to push the development finance frontier through financial innovation, and applied research projects are already underway in this area. And finally, we started a major initiative to attract further funding, with an emphasis on private investors."*

Key findings of the 2012 EFSE Stakeholder Survey presented

The EFSE conducted a Stakeholder Survey in the target regions throughout March and April 2012 to illuminate the potential risks and medium-term market opportunities and capture views on the level of Responsible Finance practices in the various markets. 71 respondents from 14 countries in SEE¹ (68%) and in the ENR² (32%), including top and senior management from the Fund's PLIs (69%) – commercial banks (75%) and microcredit organisations (25%) – as well as from central banks, microfinance and banking associations, credit bureaus, debt counselling centres and auditing companies participated in the survey based on a qualitative and quantitative methodology. Among the findings presented and discussed at the Annual Meeting:

- Client over-indebtedness and unfavourable macroeconomic trends rated as the greatest obstacles to economic development, followed by financing gaps/funding constraints, weak credit risk management and competition and/or market overheating.

- While client over-indebtedness is perceived as a major risk by SEE¹ and ENR² respondents, the impact of competition and/or market overheating is especially felt in the ENR², and this is expected to continue in the medium term.
- The two main opportunities for growth in the respondents' view are the capacity of IT/technology innovations to create new markets and distribution channels, and the ability of the small and medium enterprise (SME) market segment to generate employment and bolster consumer demand.
- With regard to the outlook for 2012, more than a quarter of all financial institution respondents foresee increased activity in rural/agricultural lending, followed by energy efficiency/renewable energy funding, and SME financing.

More than 300 international experts and local delegates from 30 countries are attending this year's EFSE Annual Meeting, which was jointly opened by Nika Gilauri, Prime Minister of the Republic of Georgia, Dirk Niebel, Minister of the German Federal Ministry for Economic Cooperation and Development (BMZ), Philip Mikos, head of the unit in charge of the regional programmes for the Neighborhood East Region at the European Commission, and Giorgi Kadagidze, Governor of the National Bank of Georgia. As a special participant, the Green for Growth Fund, Southeast Europe (GGF) is hosting a panel discussion on energy efficiency and renewable energy finance in addition to a series of technical workshops on the topic. The EFSE Annual Meeting is held each year in a different country in the EFSE's target regions to promote dialogue and cooperation across country borders as well as stimulate the debate on cutting-edge topics in development finance among the Fund's stakeholders.

About the European Fund for Southeast Europe

The European Fund for Southeast Europe (EFSE) aims to foster economic development and prosperity in Southeast Europe¹ and in the European Eastern Neighbourhood Region² of the European Union. The EFSE focuses on assisting local financial sectors in strengthening their ability to ensure adequate and sustainable financing for micro and small enterprises (MSEs) as well as for private households in the form of home improvement loans. The funding the EFSE provides is channelled through local partner lending institutions (PLIs). In addition to funding, the EFSE provides PLIs with technical assistance, consulting and training services to build operational capacities and professional management. Initiated by the KfW Entwicklungsbank (The German Development Bank) with the financial support of the German Federal Ministry for Economic Cooperation and Development (BMZ) and the European Commission – in 2005, the EFSE is the first public-private partnership of its kind and the first privately managed fund in development finance. The capital is provided by the BMZ, the European Commission, the Government of Albania, Small and Medium Business Credit Support CJSC (SMBSCS), a subsidiary of the Central Bank of Armenia, the Development Bank of Austria (OeEB), the Swiss Agency for Development and Cooperation, the Danish International Development Agency (Danida), KfW Entwicklungsbank, the IFC, the Netherlands Finance Company (FMO), the European Bank for Reconstruction and Development, the European Investment Bank, and Sal. Oppenheim and Deutsche Bank. Oppenheim Asset Management Services S.à r.l, Luxembourg, and Finance in Motion GmbH, Germany, are, respectively, the EFSE's Fund Manager and Fund Advisor.

For more information about EFSE, please visit: <http://www.efse.lu>

Media contact / To obtain a summary of the key findings of the EFSE Stakeholder Survey 2012:

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¹ Southeast Europe (SEE): Albania, Bosnia and Herzegovina, Bulgaria, Croatia, FYR Macedonia, Kosovo, Montenegro, Romania, Serbia, Turkey

² European Eastern Neighbourhood Region of the European Union: Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine