

EFSE Meeting 2017 – Enabling Financial Inclusion, Start-ups and Entrepreneurship

Script to accompany the Prezi presentation on “Creating opportunities – How EFSE fosters the entrepreneurship Ecosystem” by Elvira Lefting, Managing Director of Finance in Motion

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Good morning everybody and a very warm welcome from all of us at Finance in Motion. It is very nice to have you all here. We would like to share with you some examples of EFSE’s work that illustrate its broad range and the angle we take to foster the entrepreneurship ecosystem. It is not an exclusive list yet will hopefully do justice to the many partners and efforts involved.

MSMEs for jobs and prosperity

For a start let us briefly remind ourselves why EFSE and so many of you have MSME in their focus. What is the role of MSME in employment and progress? Not surprisingly nearly 100% of registered companies in the EFSE region fall into the MSME category. Key is their continued large contribution to employment, reaching nearly 70% in SEE and almost 50% in ENR. The lower levels for the ENR correlate with the traditionally larger companies there as also reflected in the different size of contribution to GDP – while overall MSMEs’ contribution is nevertheless substantial and essential.

The economic and social challenge

Let us turn to the other side of the coin to see the relevance of this even more pronounced. Let us look at the economic and social challenges.

And start with a concrete issue: Marija, a fashion designer from Zagreb graduated and even one year later was unemployed. Like so many other young people in Croatia and the EFSE region. The high youth unemployment rates of even 50% in various EFSE countries leaves scarce not only on an entire generation but also on the economy as the potential, talent and dynamism of these important people is not build up, not realized.

This situation – namely the important role of MSMEs and the challenges the regions face – require a very fine tuned and locally applicable response by EFSE. We need to understand the ecosystem that defines and decides the success and progress of entrepreneurship in each given context. We need to address the key dimensions where EFSE can contribute. Our offices in almost all of the EFSE countries are an important ingredient for achieving this.

Unpacking the entrepreneurship ecosystem – EFSE’s role

EFSE follows a holistic approach via a very broad range of activities in the different ecosystem dimensions, addressing enterprises along their life cycle from innovative startups to more mature businesses. Let us look at the key dimensions of EFSE’s work:

Inclusive Finance

Providing and enabling Inclusive Finance to develop and support entrepreneurship is a key component of the ecosystem and of our work.

Liquidity up and private credit down

Yet, let’s first look at the big picture: liquidity levels in banks [Southeast Europe] are rising while in particular private credit is declining for years. In other words cash levels don’t seem to translate into satisfactory access to finance.

Over 50% of firms are credit-constrained

Evidence is clearly seen by the vast number and share of businesses that find themselves credit-constrained. In the majority of EFSE countries more than 50% of businesses say they are credit-constrained. Thanks to EBRD for compiling such hard to get by data. Naturally there are many nuances to this highly simplified picture – yet, something is not working.

EFSE – Strong Flow of Finance to MSEs

This is why EFSE has always and will focus on MSEs with smaller financing needs – typically the first client group that gets punished in down turns. EUR 6 billion to MSEs have been refinanced by EFSE over 12 years. So far 860.000 enterprise loans have been enabled and when we meet in two years again we will have surpassed 1 million loans thanks to our committed partner lending institutions – most of them here in this room.

Inclusive and responsible Finance – these are nice terms – delivering on them is much harder as we all know:

EFSE – Increasing Local currency for responsible finance

EFSE therefore does not want to stop where established market mechanisms fail.

Ukraine is a case in point where the German Development Ministry provided the required funding to EFSE to take local currency risk. Through this bold step the EFSE is the only larger-scale lender in local currency in the Ukraine. Results are very noteworthy with nearly EUR 100 million in UAH equivalent having been provided to Ukrainian MSEs so far. One of the many enterprises demanding and receiving

long term and fair priced finance is shown here [a manufacturing company specialized in flexible packaging]. Most of the funding has actually been provided to the agricultural sector.

Wherever feasible and often hedged by TCX, EFSE provides LC financing to its partners. Yet, to be able to have more than half of the sub-loans disbursed by PLIs in local currency we depend on their own hedging capacities as well. It is noteworthy that also regulators have taken an active stance to push local currency lending to smaller businesses and households.

Inclusive finance to us also means to work with our partners to build up their capacities and skills to meet this objective.

Inclusive Finance through partnerships

The Development Facility of the Fund has carried out over 340 projects investing EUR 17 million plus raising high cost shares by its partners. Wherever we see value in supporting partners we try to make it work: is it in Product Development, IT Systems, Regulation, Risk Management – whatever supports our partners to provide better access to finance.

We measure and aim for tangible results such as shown in this example. As agriculture and in particular smallholder finance is typically associated with high transaction costs and risks we are happy to share these results with you: a significant increase in agriculture lending in a given branch due to a smart combination of trainings, products and tech solutions.

Finance and its delivery is only one dimension. An equally important but hard one to impact is the entrepreneurial culture.

Entrepreneurial Culture

With the above portrayed high youth unemployment rates, it's key to boost youth confidence in their entrepreneurial potential and prospects and to improve in general the perception of entrepreneurship across the region.

EFSE DF survey 2016

To illustrate this need, a survey among 18-24 years-old - conducted by the EFSE DF in 5 countries - revealed that over 50% of respondents viewed starting a business as difficult or almost impossible in their region or country. This figure is also mirrored by reality: While across the EU28, the number of MSMEs per thousand inhabitants amounted to 45, the same number in Serbia for example amounted to only 12.

Low trust of youth in financial institutions

We have collected further input that we need to be aware of: low trust of youth in financial institutions. The angle was not only for financing a startup but who would you see as a finance partner for your business: only 1 in 6 persons said they would choose a financial institution as their funding source.

EFSE: Early lessons in entrepreneurship

With this in mind we developed a concept together with the NBM to provide early lessons in entrepreneurship. In a sizeable multidisciplinary effort we organized a role play aimed to teach 80 pupils between the age of 8 - 10 during one-day activities about money, spending and saving in a playful and interactive way and at creating awareness on the importance of taking part and making clever money-management decisions as an entrepreneur. Please see for yourself ... A rewarding project with great learnings also for the adults. Special thanks go to our Moldovan team and the National Bank.

We now leap by 10 years or so and see what EFSE does for young entrepreneurs.

EFSE: Nourishing the next generation of entrepreneurs

The EFSE DF initiated various business competitions in six countries to incentivize young entrepreneurs to come forward with their concepts and business proposals. Interest was significant from all strata of the economy and mostly of surprising quality. A total of more than 6.000 applications were received so far. From these various competitions 270 young start-ups and young people were chosen for further mentoring or business acceleration.

Wide media coverage was achieved aimed at raising awareness and interest in entrepreneurship.

One example shown here is Dawood from BiH, supported by SERDA over several months to elevate the business onto a sustainable track. Today, Dawood is creating jobs by meeting the demand for trendy wooden eyeglass frames – a success story featured in the EFSE Annual Report 2016. A similar mentorship programme has taken place also in Croatia. Maybe you can guess which of the Croatian startups was participating in the programme?

Creating awareness for responsible finance

The EFSE DF in cooperation with the regulators organized trainings for 70 journalists in Ukraine, Kosovo and Macedonia so far to increase awareness of the regional press on responsible and inclusive finance. As the response by the journalists is very positive we are already planning the next repeat event in Kosovo, this time jointly with the Kosovo Banking Association.

Effective Support System

Entrepreneurs need a strong and effective support system in order to turn their bright and ambitious ideas into successful and sustainable businesses.

Strong partnerships with various incubators and accelerators

For this we need a broad range of cooperation with different players from the entrepreneurship ecosystem such as accelerators and incubators who have both public and private initiators. Examples

are the cooperation with MOZAIK and SERDA in Bosnia and Herzegovina, the Innovation Centre in Kosovo, CEPOR in Croatia or Smart Kolektiv in Serbia. While expanding the EFSE partnership network we are continuing naturally to closely work with our other important stakeholders such as PLIs, Central Banks, financial and business sector organisations etc.

Agricultural information platform development together with Credo in Georgia

There is a clear need among Georgian farmers for better access to agricultural information in order to improve their production, sales, and hence their overall economic situation and sustainability. More specifically, farmers currently lack reliable and current information on modern technologies, agricultural inputs, efficient farming production, relevant intermediary and processing channels and sales techniques which could improve their operations within the local market. Credo / Georgia together with the EFSE DF are developing such an agricultural exchange platform for Credo's clients with the aim to increase their productivity and therefore profitability in the long run.

An important tech driven project and a good illustration of the power that data and technology holds to foster inclusion and responsible finance is Fintech.

Fincluders Startup Competition and Bootcamp

For some time now EFSE is engaged in the fintech landscape with the goal to identify and support innovative financial technology to provide more inclusive, fair and efficient financial services. The EFSE DF organized a successful 2-day mentoring, pitching and networking event in Berlin, during November 2016. Following a global call for submissions, nearly 100 pitches were screened of which 14 innovative startups were selected to pitch their idea in front of a diverse audience of investors, IFIs, banks and other startup ecosystem players. You will see more of this event later. Let me only say for now that we will continue and organize a BootCamp for 8 selected Fincluders startups to provide intense and very targeted mentorship and training over a period of 1.5 years to bring their financial inclusion services to the required level.

Developing Entrepreneurship Skills

Education and entrepreneurial skills is another important dimension in which EFSE plays a key role.

High outreach of relevant information

Financial education is a major pillar of the EFSE DF's work. The EFSE DF developed various educational and awareness raising materials which cover a broad range of target groups with an increasing focus on agriculture. More than 1 million educational training material has been disseminated among entrepreneurs.

EFSE: Developing skills in resource-efficient farming

The EFSE DF has conducted seminars for 622 farmers in 8 regions of Turkey to increase their financial and business acumen as well as expertise in resource-efficient farming.

Designing your future

CEPOR, the SME and Entrepreneurship Policy Centre in Croatia together with the EFSE DF have strengthened the capacity of 20 young entrepreneurs through dedicated training and mentorship to successfully go through the first year of operation.

Marija, now a successful entrepreneur, was one of the participants and she is with us today showing what a well-integrated ecosystem in general and tailor made mentoring can achieve.

Which brings us to today and the comprehensive agenda of this year's EFSE Meeting with hopefully interesting and fruitful discussions about key components needed to enable an ecosystem, conducive for prospering and sustainable entrepreneurship.