



IMPACT REPORT 2018

CULTIVATING ENTREPRENEURSHIP

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IMPACT REPORT 2018

CULTIVATING ENTREPRENEURSHIP

KEY FIGURES

as of 31 December 2018

EUR 967.6 million	investor commitments
133,913	active sub-borrowers
EUR 867.3 million	volume of outstanding sub-loans
EUR 6,477	average size of sub-loans distributed to micro and small enterprises and private households
4,300	direct beneficiaries of EFSE Development Facility projects in 2018
69	partner lending institutions
57%	lending in local currency
23%	share of private capital invested in the fund (based on investor commitments)
77%	share of public capital invested in the fund (based on investor commitments)

SINCE EFSE'S INCEPTION IN DECEMBER 2005

EUR 7.0 billion	volume of micro and small enterprise and housing loans disbursed
960,949	number of micro and small enterprise and housing loans disbursed
EUR 2.7 billion	invested in partner lending institutions
> 806,000	jobs supported through EFSE's contribution
425	EFSE Development Facility projects approved for capacity building, sector support, and applied research
EUR 24.8 million	EFSE Development Facility projects approved for capacity building, sector support and applied research
41%	contribution of partner lending institutions to project costs related to capacity building

EFSE aims to foster economic development and prosperity in Southeast Europe¹ and the European 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,

In recent years, “disruption” has become the go-to term when discussing innovations in business.

“Disruptive” ideas or technologies challenge an industry’s assumptions. They circumvent traditional protocols and question established models at a fundamental level. The implication is that of a threat: Innovation is set at odds with tradition, the newcomer versus the incumbent.

But something is missing from this picture. It assumes an industry that is static, calcified, suspicious of change. As a fund that has been cultivating entrepreneurship for many years, however, we at the European Fund for Southeast Europe firmly believe that innovation means opportunity. Innovation is how industries and entrepreneurs alike adapt to an ever-changing, sometimes volatile environment. It means resilience, growth, turning a bump in the road into a launchpad. After all: Entrepreneurship is, at its core, turning inspiration into success.

We therefore not only enable sustainable financing to help micro and small enterprises reach their full potential; we are also always on the lookout for ways to scale up innovations in order to foster and benefit the wider community.

This can be seen in the multifaceted ways in which we engage with all players in the entrepreneurship ecosystem. Our efforts range from workshops that help participants grow their germ of an idea into a bud, to nationwide competitions that provide the exposure and resources necessary for them to flower. We work closely together with our partner lending institutions to create and develop customized financial products to feed and water these businesses. And we generate impact on a systemic level, by bringing together financial system decision-makers to survey the landscape, anticipate challenges, and adapt to changes in the business climate.

One significant change in recent years has been an explosion in new solutions provided by financial technology. Some industry commentators have fretted that these might be “disruptive”. Our approach has been to embrace these innovations – such as instant online credit assessments, or digital platforms offering educational materials for financial management – as a chance to extend financial inclusion to those in need of it. Financial technology can help streamline processes, expand outreach, share valuable information, and access new markets. Our initiatives such as the Fincluders Network or



CHRISTOPH TISKENS

At its core, entrepreneurship is turning inspiration into success.

fintech workshops for central banks inform, connect, and build the capacity of players across the financial system to take advantage of the promise fintech offers for development and growth.

In the following pages, you can read about EFSE’s own innovative approaches to cultivating entrepreneurship. After all, we are pioneers ourselves: As one of the first development finance vehicles to blend public and private capital to maximize impact, we are no strangers to shaking up the status quo. And with the support of forward-thinking partners and the trust of inspiring entrepreneurs, we intend to continue this fruitful combination of collaboration, innovation, and vision.

With kind regards,

CHRISTOPH TISKENS

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

GREETINGS



EFSE is a forward-looking fund. This can be seen not only in its long-term investment approach, but also in the innovative spirit that drives the fund: EFSE's pioneering blended finance structure allows it to tap the power of the private capital market. EFSE seeks out, promotes, and deploys new technologies that expand financial inclusion and enhance financial services. And EFSE brings together key stakeholders – such as central banks and policymakers – to creatively explore new ways to collaborate on a healthy entrepreneurial ecosystem.

PROF. DR. JOACHIM NAGEL
Member of the Executive Board,
KfW Bankengruppe



We are proud of EFSE's role in helping to create and sustain employment opportunities in the fund's target region. By supporting conditions that allow entrepreneurs to succeed – such as enabling financing in local currency – EFSE is contributing to local economic growth and is giving people incentives to remain and prosper in their home communities.

DR. GERD MÜLLER
German Federal Minister
Minister for Economic Cooperation
and Development (BMZ)

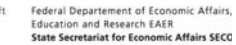
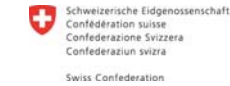


EFSE has been an integral partner for us in expanding responsible finance to Southeast Europe and the Eastern Neighbourhood. By investing in local financial infrastructure, the fund helps us pursue our goal of supporting economic prosperity in these regions. We are particularly pleased to have contributed to EFSE's ability to provide the local-currency financing that is crucial for protecting entrepreneurs from exchange rate risks and ensuring their sustainable growth.

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

INVESTORS

DONOR AGENCIES



INTERNATIONAL FINANCIAL INSTITUTIONS



PRIVATE INSTITUTIONAL INVESTORS





The European Fund for Southeast Europe takes a comprehensive approach to promoting economic development and prosperity in Southeast Europe and the Eastern Neighbourhood Region. Through sustainable financing, the fund supports the backbone of these regions' economy: micro and small enterprises. What is more, EFSE contributes to the conditions that help these local businesses thrive by implementing capacity-building measures through its Development Facility and providing on-the-ground training and mentorship through its Entrepreneurship Academy. The stories in this report highlight just a few examples of the multi-farious ways in which EFSE contributes to cultivating entrepreneurship.



Cultivating Entrepreneurship



The EFSE Entrepreneurship Tournament 2018

Entrepreneurship  Academy
powered by EFSE

What are the most daunting challenges faced by an entrepreneur with an idea?

Financing, for one thing. Getting a new business off the ground takes cash – as does growing an existing company. And in many places in the world, access to financial services suited to the needs of micro and small enterprises is not simply a matter of walking into a bank: Not all lenders specialize in the smaller-ticket credit lines required by this clientele.

Nonfinancial support is another crucial factor. Especially first-time entrepreneurs benefit considerably from the guidance offered by experienced mentors in setting up or accelerating their companies. Know-how, financial literacy, even access to potential investors can all be found within a solid entrepreneurship support network.

The 2018 EFSE Entrepreneurship Tournament aimed to tackle both of these challenges head-on. By holding a high-visibility competition for promising startups in Bosnia and Herzegovina, the EFSE Entrepreneurship Academy provided a cohort of the country's most high-potential entrepreneurs with the opportunity to win both financial and nonfinancial support to grow their businesses. What was more, in showcasing the contestants' entrepreneurial ingenuity, the event celebrated and promoted a culture of entrepreneurship in a region where locally owned businesses provide the strongest engine for economic growth and employment.

Joining the EFSE Entrepreneurship Academy in this endeavour were two on-the-ground partners: The Sarajevo Regional Development Agency, or SERDA, and the Mozaik Foundation have years of experience in boosting the skills and success of local entrepreneurs. Together, the organizers helped 22 contestants rigorously prepare to pitch their business models at the competition. These companies had already graduated from prior acceleration programs and were now ready to convince a panel of corporate and financial sector representatives of the value of investing in their future.

The variety among the participants was impressive. Business models ranged from traditional crafts and organic herbs to green energy renovations, educational platforms, and social enterprises. Among the competitors was local woodworker Damir Bajraktarević, whose innovative eyeglass designs were already gaining traction on the local market. "The EFSE Entrepreneurship Tournament is a chance for me to accelerate my



GOOD TO KNOW:

2,000 entrepreneurs received capacity-building support from EFSE in 2018

business,” he explained. “I could really use a new woodworking machine. It would allow me to introduce a new product line, and even hire some staff.”

Finally, they were ready. Over two hundred guests assembled in the elegant Sarajevo City Hall on the morning of November 20, 2018. They included representatives of industry as well as international financial institutions, investors, and other important players in the entrepreneurship ecosystem. Joining them were Governor Senad Softić of the Central Bank of Bosnia and Herzegovina, and Minister Amir Zukić for the Federal Ministry of Development, Entrepreneurship, and Crafts.

Energy was high and the pitches were inspiring. The judges analysed the candidates based on the potential of a financial prize to increase production, income, number of employees, or geographic outreach. Even the audience was invited to vote for the winner of an “Audience Award” for the business they found the most convincing.

In the end, fourteen cash prizes were granted in four categories. The Woman Entrepreneur Award of EUR 3,000 went to a cleaning company that focuses on providing employment to undereducated women over forty. Two Innovation Awards were granted for EUR 3,000 apiece, as were the two Social Impact Awards for businesses that made an especially positive difference in their communities. The Audience Award of EUR 1,000 went to a business focused on producing educational tools for children. And winners of the Business Acceleration Award received EUR 6,000 or EUR 10,000 – including the company of Damir Bajraktarević, who won the cash for his woodworking machine.

In addition, twelve candidates won 500 hours of mentorship to accelerate their fledgling enterprises with free business consulting, training, research, and analysis.



Damir Bajraktarević won a prize to accelerate his woodworking business

“It was a tremendous event,” remarked Markus Aschendorf, Chairperson of the EFSE Development Facility which runs the Entrepreneurship Academy. “Pitching competitions like the EFSE Entrepreneurship Tournament provide entrepreneurs not only with visibility, they also create direct impact by connecting these promising new businesses to the resources to help them succeed.”

Meet the contestants and catch the atmosphere of the tournament on EFSE’s YouTube channel.

<https://youtu.be/2LTIfTdz9t0>



“The EFSE Entrepreneurship Tournament creates direct impact by connecting promising new businesses to the resources to help them succeed.”

MARKUS ASCHENDORF

Chairperson of the
EFSE Development Facility

The Moldova Economic Forum 2018



Macro support for micro businesses

Small local businesses form the backbone of the economy in the Republic of Moldova. Over 90% of the country's workforce are employed at companies with a staff size under ten. In fact, this sector is so crucial to jobs and income generation that it is responsible for around one-third of overall GDP in Moldova¹.

But how does the financial sector measure up when it comes to meeting the needs of this important engine of the country's growing economy? What steps can policy and decision-makers take to best ensure an environment where entrepreneurs prosper? These and other questions were tackled at the Economic Forum held in Chişinău on 15 November 2018.

Organized and sponsored by the EFSE Development Facility – together with the non-profit Moldovan League of Bankers and supported by the EU4Business initiative – the forum gathered more than 100 influential players across the entrepreneurship ecosystem. High-level management from the country's top banks were joined by local business associations as well as micro, small and medium enterprises to discuss challenges and solutions in sustaining the vitality of businesses in Moldova. And true to EFSE's tradition as a connecting

agent, the forum crossed borders to include not only representatives from the Moldovan Central Bank, but also from the Central Banks of Armenia and Georgia, along with international experts, policymaking bodies, and journalists in business and finance.

“Our aim was to create an interactive platform that allowed the key players of the financial sector in the European Eastern Neighbourhood Region to learn from each other's successes and experiences,” said EFSE Regional Director Oxana Bînzaru of the event. “It is important to EFSE to not only facilitate sustainable financing to entrepreneurs, but also to have this kind of sector-level impact that creates supportive conditions for local businesses to grow and thrive.”



GOOD TO KNOW:

EFSE facilitated sub-loans to entrepreneurs and households in 12 different local currencies in 2018

¹ Moldovan National Statistics Bureau: “The activity of small and medium enterprises in the Republic of Moldova” (7 July 2017)



Enjoy the event video for a glimpse into the discussions and themes of the Economic Forum.

<https://youtu.be/DL7ESzMjAas>



Chief among the forum's topics was the importance of advancing lending in local currency. Speakers highlighted the value of involving regulators, industry players, investors, and cross-national expertise to achieve sustainable results. Best practices in this endeavour were showcased by the National Bank of Georgia, who has undertaken massive efforts to promote local currency lending in the country, as well as the Bank of

Georgia, which shared its experiences and approaches in responsible lending. The discussion was further enriched by the Central Bank of Armenia, who led the way as the first investor into EFSE to create a dedicated investment window for funding in local currency, and the hedging fund TCX, which has played a significant role in hedging exchange risks for EFSE's local currency investments.



"These discussions confirmed that embracing a collaborative and responsible spirit is worth the effort, as lending in local currency definitely pays off," remarked Oxana Bînzaru. "It is especially meaningful to have held the Economic Forum in Moldova, as this was incidentally the first country in the Eastern Neighbourhood Region that EFSE entered in 2006 and the one where EFSE provided its first local currency loan."

Vladimir Munteanu, First Deputy Governor of the National Bank of Moldova, has very much welcomed the event. "Moldova is closing a difficult chapter in its banking sector history. Our banks are emerging stronger and more resilient, and as modest but persistent growth takes hold, learning from the experience of our peers in promoting local currency lending with EFSE support is very timely and valuable."

"Learning from the experience of our peers in promoting local currency lending with EFSE support is very timely and valuable."

VLADIMIR MUNTEANU

First Deputy Governor
of the National Bank of Moldova

Prolisok Farmhouse



An entrepreneurial spirit for a blooming community

“Prolisok.” The name means “snowdrop”, the first spring flower to appear after a long winter. Prolisok Farmhouse founder Stadnik Neonila Myhaylivna chuckles when she recalls how her company came to be named after the plant: “My son suggested it when he was ten years old,” she reminisces. “For us, it symbolized strength and resilience in a difficult environment.”

Prolisok Farmhouse certainly lives up to its name. In 1992, finding work in Ukraine was not easy. Myhaylivna was a trained nurse and her husband was a driver, but their income was too unstable to support a family. That was when the couple decided to establish their own farm. “It was hard at the beginning,” says Myhaylivna. “We were harvesting beets by hand. I had to learn everything from scratch: agronomy, accounting, farming equipment, all the aspects of running a business. There weren’t many friends or family who supported us. People were used to the way things were before, and were cautious about starting something new.” She winks. “Fortunately, I have a stubborn character.”

Like the snowdrop, Myhaylivna’s stubborn character was the key to her company’s blossoming. She and her husband grew their farming skills, took out a loan, and bought a tractor. Soon, what began as a plan to support her family quickly grew to need a few more hands, and

Myhaylivna and her husband began hiring the neighbours to help. At first, finding staff was a challenge: “People were seeking work in bigger cities or moving abroad.” But the more the farm grew, the more the family was able to invest in new technologies, increase their productivity, and create new jobs.

In 2018, Prolisok Farmhouse badly needed to upgrade their farm vehicles. That is when the family approached Agroprosperis Bank, a partner of EFSE in supplying sustainable financing to agricultural entrepreneurs in Ukraine – entrepreneurs like Myhaylivna. “We were looking for a good lending program. It can be difficult to purchase new equipment sometimes, but the loan officers at Agroprosperis Bank were very helpful and



GOOD TO KNOW:

30% of sub-loans facilitated by EFSE are provided to the agricultural sector



Prolisok Farmhouse founder Stadnik Neonila Myhaylivna with her son-in-law (left) and loan officer (right)

flexible. With the two loans we were provided, we were able to buy the new equipment, and are now able to work better and increase our productivity.”

Today, Prolisok Farmhouse employs 50 workers from the local community. Myhaylivna has passed on operations to her son-in-law, who is now company director. “It’s important for me to see happy people around,” she says. “When my son and husband died, it was very difficult for me not to give up – it was very hard to get back to work. But my son-in-law reminded me how many people depend on me and our company. Not only employees, but also their families, as they no longer need to go abroad for work. They can see their children grow and stay with them. Knowing that my work helps to keep families together is the greatest motivation.”

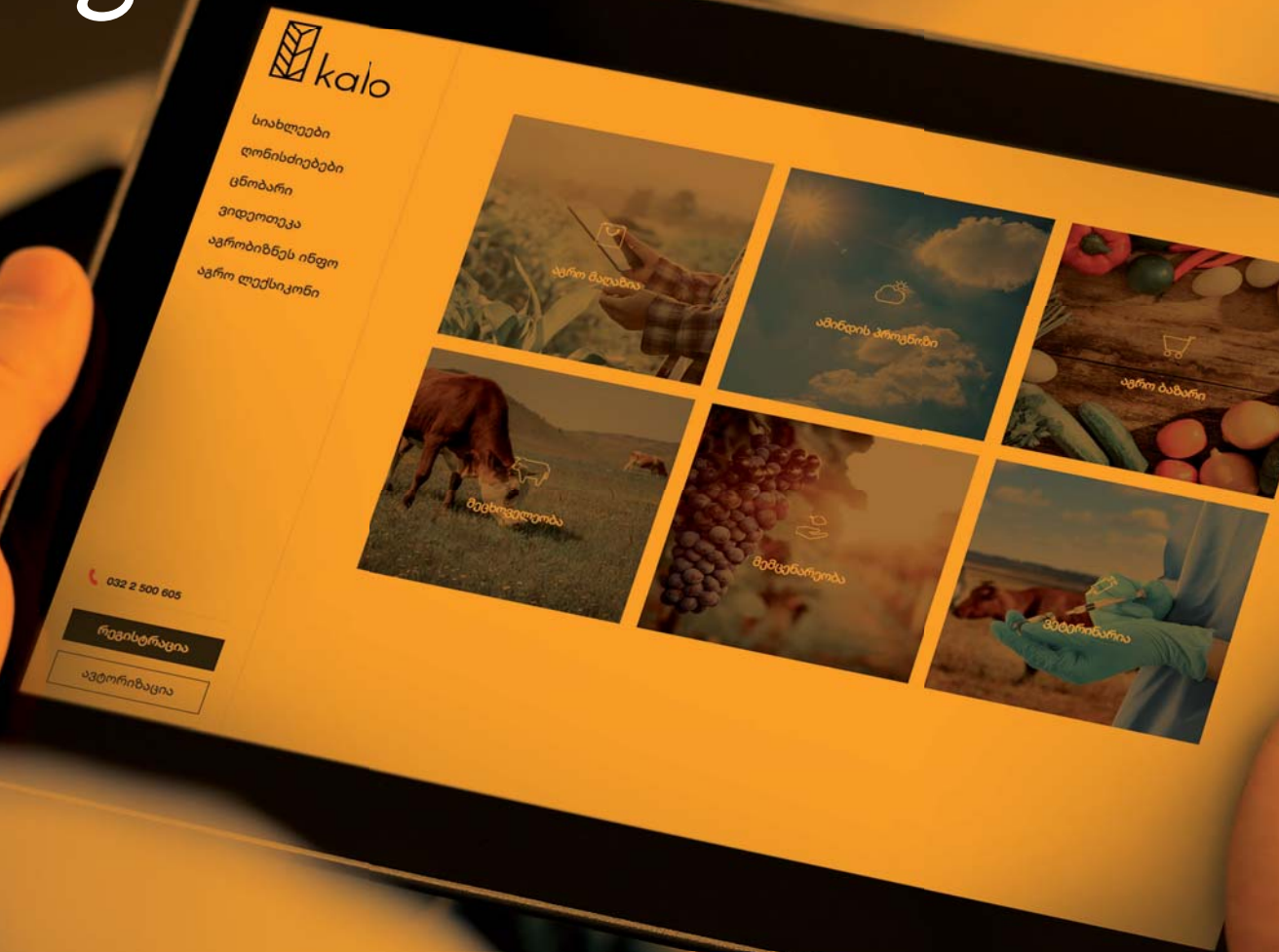
“Knowing that my work helps to keep families together is the greatest motivation.”

STADNIK NEONILA MYHAYLIVNA

Prolisok Farmhouse founder



Let's get digital



Financial technology is transforming the ways in which individual clients access financial services.

And financial technology is also helping existing financial institutions streamline their processes and expand their capacities to meet the needs of micro and small enterprises. As a connector of players in the entrepreneurship ecosystem, EFSE has been active in helping both private lenders and policy-makers tap the potential of fintech to increase their efficiency and outreach.

One example is EFSE's partner Credo Bank. Credo specializes in providing microfinance in Georgia, especially to smallholder farmers. Many of these farmers are largely involved in subsistence agriculture – producing enough to support their families, but with little left over for growth or investment.

In 2018, Credo and EFSE teamed up to help these clients improve their productivity, efficiency, and income through an online agricultural information exchange platform. Developed together with a local consultant and customized for a wide array of local needs, this “agroportal” provides farmers with access to a comprehensive set of pertinent informational, educational, and business management materials. Users can, for example, share news and events; see local weather predictions; read expert articles on crop

growing, stock breeding, and greenhouse farms; find agricultural service providers; manage plots using an interactive map; calculate and forecast expenses; access a virtual marketplace; and more. Today, the platform is serving more than 35,000 users across Georgia, and has enabled Credo to extend its outreach to farmers beyond the bank's physical branch network.

But EFSE is helping increase awareness and receptiveness of new technologies across the financial sector, as well. Regulatory bodies also need to keep pace with rapid developments in the financial industry, including central banks. That is why EFSE helped organize a financial technology workshop for the National Bank of

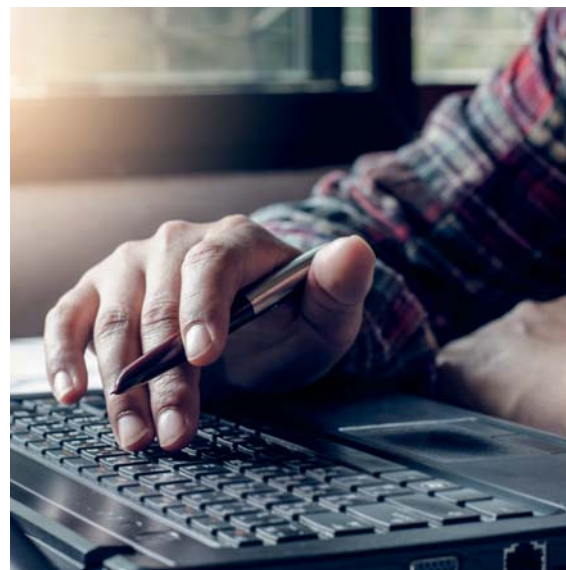


GOOD TO KNOW:

EFSE partners with 69 local financial service providers to channel sustainable financing to nearly 135,000 active end-borrowers



the Republic of North Macedonia in June 2018 to provide the bank's senior leadership and further relevant staff with insights into the latest fintech trends across Europe. Conducted by renowned fintech consultant Jay Tikam, the day-long event aimed to lay down concrete steps for the central bank to create an enabling environment for fintech in North Macedonia – and ensure that the local market stays prepared for the impact of international developments.



“This is one of the areas in which EFSE shines: We are a connector,” says Elvira Lefting, Managing Director at EFSE advisor Finance in Motion. “We create an environment that connects entrepreneurs to resources and financial institutions to opportunities. By fostering the adoption of new technologies, we

future-proof local financial infrastructure and ensure that all ecosystem players can take full advantage of the exciting developments in fintech.”

“By fostering the adoption of new technologies, we future-proof local financial infrastructure and ensure that all ecosystem players can take full advantage of the exciting developments in fintech.”

ELVIRA LEFTING

Managing Director at EFSE advisor Finance in Motion

Rising to the challenge

Technological innovations are transforming the way we live, work, and connect.

The financial sector is no exception: As the ability to conduct financial transactions has spread beyond brick-and-mortar institutions and into the digital universe, so too has the ability of entrepreneurs to access financial services that may otherwise have been available to them only with difficulty.

TBC Bank in Georgia is well aware of the potential for financial technology, or fintech, to expand financial inclusion to the underserved. A leading provider of micro and small enterprise (MSE) financing in Georgia, TBC Bank has long been a partner of EFSE in the joint effort to promote entrepreneurship through the provision of sustainable financing. And contrary to some sector anxieties that rising fintech companies could pose a disruptive threat to traditional banking, TBC Bank recognized early on that the two approaches have much to gain from mutual collaboration.

For one thing, fintech's ability to reach untapped markets means an increased customer base for banks. On the client end, fintech can enable local business owners to better organize, simplify, and automate their processes. This enhancement in business operations and cost efficiency has a multiplicative effect: It not only supports the ability of micro and small enterprises to grow and contribute to their communities – by, for example, providing further employment – it also increases their capacity to repay loans to the bank.

That is why TBC and the EFSE Development Facility joined forces to offer a series of fintech support services to Georgia's MSEs. The project began in 2014 with the creation of an online platform – tbcbusiness.ge – that provides an array of educational information, videos, blogs, and tools for entrepreneurs on how to run, grow, and sustain their businesses. This is further enhanced by TBC Bank's complementary activities, including tailored training, topical conferences, mentorships, and individual consultancies. Since then, more than 25,000 entrepreneurs have benefited from dedicated training and information sessions. In addition, videos showcasing success stories have inspired participants and contributed to a culture of entrepreneurship in the country.



GOOD TO KNOW:

EFSE provided technical assistance to 33 partner lending institutions and sector bodies in 2018



SystemJet, the first-place winner of the “AppsChallenge” software competition

In 2018, TBC Bank and the EFSE Development Facility continued this success with a national contest to promote up-and-coming tech entrepreneurs. The “AppsChallenge” software competition first selected the top six startups from among 73 applicants across Georgia to present their prototypes at the final round in Tbilisi in September. There, they convinced a panel of experts, along with an audience of industry representatives and the interested public, of the value of their innovations for Georgia’s business sector.

The first-place winner was SystemJet, a comprehensive business solution for beauty salons and aesthetic centres. Through one program, users can make reservations in multifunctional calendars, create a

customer database, and monitor cash flows. The comprehensive software also provides a product management system, analytics, statistical diagrams, and other useful data. The EFSE Development Facility awarded a cash prize of GEL 30,000 (EUR 12,200) to SystemJet for the further development of their software.

Finally, all finished products introduced at the competition were posted on TBC Bank’s new online platform, businesstool.ge. Users can now search, compare, and select the right IT solutions for their business from among the currently 60 software tools available for various purposes.

Marianne Sulzer, EFSE Development Facility Manager and leader of the collaboration, commented: “TBC Bank is outstanding in offering extensive, free-of-charge, non-financial services to entrepreneurs across the country. Its commitment to enhancing the success of micro and small enterprises by taking advantage of the potential of fintech has already shown demonstrable, positive impact on the sector – and thus on the wider economy. TBC Bank and the EFSE Development Facility have developed a strategic partnership in this regard to encourage innovation, inspiration, and entrepreneurial drive.”

For more information on TBC’s Business Development Program, visit: tbcbusiness.ge



TBC Bank and EFSE joined forces to offer a series of fintech support services to Georgia’s micro, small, and medium enterprises.

Back to BusinessCool

Entrepreneurship  Academy
powered by EFSE

The BusinessCool: supporting social startups in Moldova

When she heard about the “BusinessCool” in 2018, Tatiana Seul was working with hospital patients using occupational therapy. The patients had been honing their focus and creative energies by engaging in expressive projects, and the results were beautiful. From one-of-a-kind bag designs to painted greeting cards and elegant baskets, the artists were proud of their work and eager to show it off. Seul had already taken some of the items to a social exhibition, where they were met with delight.

That gave her the idea for a social business. What if, Seul thought, people in therapy could find an appropriate market to sell their creations? What if there was a self-supporting local workshop that allowed them to earn an income with their therapy outcomes? “I didn’t even know where to get started,” she recalls. “But when I heard about the BusinessCool, I knew it was the opportunity I needed.”

The BusinessCool program was specially developed to support ambitious young entrepreneurs like Seul in building stable, impactful enterprises in Moldova. Implemented by startup accelerator EcoVisio and powered by the EFSE Entrepreneurship Academy together with the EU4Business initiative, the training series focused on rural micro entrepreneurs, organic farmers, and social enterprises. Participants brought in their

proposals at all stages of development: Some already had a minimum viable product. Some simply came in with a great idea.

Four interactive modules were held over the course of six months. Topics ranged from access to finance and funding to product design, financial management, marketing, and more. Knowledgeable trainers and an enthusiastic, supportive environment ensured that the instruction was hands-on and relevant for the participants. Over 70 budding business owners took part. “The most valuable part of the program were the people I met,” says Seul. “We shared a vision and knew how to motivate each other. I especially learned a lot about promotion and financial planning, skills which will be very useful for me.”



GOOD TO KNOW:

The EFSE Entrepreneurship Academy implemented 12 new programs for entrepreneurs in 2018



“We are leveraging the potential of local talent to establish future prospects for employment and community building.”

MARKUS ASCHENDORF
Chairperson of the
EFSE Development Facility

Markus Aschendorf, Chair of the EFSE Development Facility which runs the Entrepreneurship Academy, expressed his satisfaction with the BusinessCool: “By identifying and supporting the next generation of promising social entrepreneurs, we are leveraging the potential of local talent to grow Moldova’s economy and establish future prospects for employment and community building.”

The experience was certainly a success for Tatiana Seul. In May 2019, she was able to register her new business and lease a space outside of Ialoveni for her shop. She says proudly: “Now, we are preparing to sell the most original handmade gifts made by people with great spirit.”



Hear more from the trainers and participants in the program video produced by EcoVisio and the EFSE Entrepreneurship Academy:

<https://youtu.be/2hel4kJNAiE>



In the green



“There is a proper way to grow tall tomato plants.”

Farmer Bratislav Obradović indicates a fragrant branch climbing a sturdy wire. “Obviously the higher the plant grows, the more fruits it can produce. But it needs proper support in order to achieve its full potential.”

Obradović could easily have been talking about himself as a business owner. With four greenhouses filled with robust tomato plants, the family farm runs a thriving wholesale trade throughout the year. And their success is due in no small part to the support they have received from Opportunity Bank Serbia (OBS), a partner lending institution of EFSE.

“After I lost my job in the oil industry, I needed to find a new direction,” Obradović explains. He already had a piece of land a few kilometers outside of Belgrade and some training in agriculture, so growing vegetables seemed the natural choice. But the freshly established farmer needed more than just soil and skills. He needed capital. “The loan officer from OBS was so helpful,” says the entrepreneur. “He encouraged me to invest in greenhouse production and assisted us through the whole loan process. I have nothing but praises for the bank.”

What is more, Obradović and his wife were able to finance their new greenhouses using local currency. This is crucial for small enterprises like the Obradović farm: When businesses make their income in one currency but borrow in another, their cash flows can be hit hard by even small fluctuations in the exchange rate. EFSE has hedging instruments in place to absorb exchange rate risk, protecting small businesses by facilitating local currency loans through on-the-ground partners such as OBS.



GOOD TO KNOW:

EFSE has unleashed more than EUR 1.5 billion in sub-loans to agricultural micro and small enterprises since the fund was established

That leaves Obradović with the peace of mind to focus on tomato plants. He adjusts a support wire and smiles. “Vegetable growing has helped me achieve financial security,” he says. “And it is so satisfying to see the results of my own work.”

Local currency financing is crucial for small enterprises like the Obradović farm in Serbia.



“Obviously the higher the plant grows, the more fruits it can produce. But it needs proper support in order to achieve its full potential.”

BRATISLAV OBRADOVIĆ
Farmer

The Fincluders



Advancing financial inclusion through technology

The Fincluders initiative was established by the EFSE Development Facility in 2016 to identify and accelerate promising startups according to their potential to use financial technology – or “fintech” – to boost financial inclusion. Through a careful program of business development, training, and connection building, the initiative has contributed to the success of 12 new fintech companies.

Read below about how the Fincluders helped two such startups develop their good ideas into impactful enterprises.

Tarfin: Feasible financing for farmers in Turkey

A successful farm needs inputs – and not only in the form of seeds. But for many farmers in Turkey, accessing affordable financing is at best cumbersome and time-consuming, and at worst hardly possible due to lack of significant collateral. As a result, they often rely on expensive loans or vendor financing to keep their harvests going from one year to the next.

In 2016, Mehmet Memecan believed that financial technology could offer a solution. To help farmers access sustainable financing, Memecan began designing an online platform, Tarfin, whose aim was to offer users a comprehensive overview of the many financial products available to farmers. There was just one problem. “Our platform was trying to gather leads for banks and factoring companies,” says Memecan, “but we were

finding it difficult to promote all these vastly different credit products from different financial institutions with wildly varying terms.”

Fortunately, Tarfin was the perfect candidate for EFSE’s Fincluders initiatives. A portmanteau of “financial technology” and “financial inclusion”, the Fincluders series of competitions and training modules were designed to help promising fintech entrepreneurs like Memecan optimize their business models for expanding financial inclusion to underserved groups.

Participating in the first Fincluders event in 2016 gave Memecan and his two team members the idea to change their approach. “We decided to pivot toward selling the inputs and financing the farmer from our own balance sheet, fully controlling the financing terms end-to-end,” he explains. “Discussions with other entrepreneurs and debt investors we met at the Fincluders event convinced



GOOD TO KNOW:

EFSE Development Facility and Entrepreneurship Academy projects spread their impact to 19,200 indirect beneficiaries in 2018



Tarfin: helping farmers access sustainable financing

us that there was sufficient capital in the space for sustainable growth. In short, we had planted the seed of our product-market fit at the Fincluders Challenge in Berlin.”

Now, Tarfin is a fully incorporated business employing 15 full-time team members. Since its founding in February 2017, Tarfin has sold and financed over TRY 23 million (nearly EUR 3.5 million) of fertilizers, seeds, and feed-stuffs through thousands of digital transactions. Tarfin’s tech solution – based on proprietary algorithms – has helped nearly three thousand farmers in over a thousand villages across the country access better-performing farm inputs with cheaper financing terms, enabling them to operate their businesses more profitably and sustainably.

Optio.Ai: Intelligent banking in Georgia

In 2016, long-time friends Giorgi Mirzikasvhili and Shota Giorgobiani were attempting to manage their personal finances by tracking their spending manually. How much did they spend on food each month? How much for

household expenses? Keeping meticulous notes for every transaction was laborious, and the two entrepreneurs wondered if there was a solution that could automatically categorize their past spending based on where they used their bank cards or even where they transferred money.

That is what inspired Mirzikasvhili and Giorgobiani to establish Optio.Ai, a fintech startup offering a range of sophisticated, plug-and-play solutions for banks to categorize transactions based on merchant names. The high-precision data then allows clients to converse with an integrated chatbot to manage their personal spending and plan future budgets, while banks gain broad insights into retail trends and customer needs.

But there were a range of challenges along the road from original inspiration to established fintech company. Fitting the product to the market and finding the first customers, for example, required a year and a half of hard work.



Optio.Ai: offering solutions to manage spending

Fortunately, Optio.Ai did not need to navigate the road alone. “Most important to our development was the sustainable support provided by the Fincluders initiative over these last 2.5 years,” says Mirzikasvhili. “Fincluders has helped our startup in many ways, from the beginning of the initial idea to today. Financial assistance, validation, mentoring, exposure to international networks – we were even able to sign one of the first sales agreements for our company after an exposure meeting organized and supported by the Fincluders initiative.”

Today, Optio.Ai is gaining solid traction on the market and a growing customer base. What started as a part-time endeavour has now blossomed into a successful fintech startup hiring eight employees, with two partner banks and more than 10 million transactions categorized monthly.

“Innovations in financial technology are already changing the face of financial services,” says Marianne Sulzer, who

oversees the Fincluders Network of the EFSE Development Facility. “EFSE provides a platform to accelerate fintech entrepreneurs who are filling gaps in the financial inclusion infrastructure. In so doing, we not only aim to take advantage of the great potential for digital solutions to help expand financing to small business owners; we are also helping create the next generation of highly investable financial businesses in the long term.”

Learn more about the Fincluders Network at: www.fincluders.com



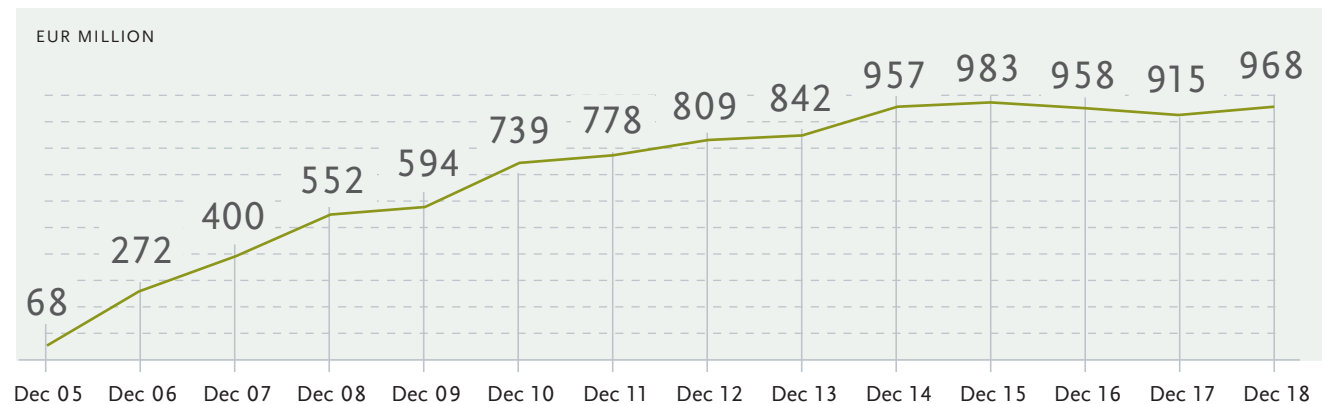
Operational Results



INVESTMENTS

COMMITTED INVESTMENT PORTFOLIO

Since inception in December 2005

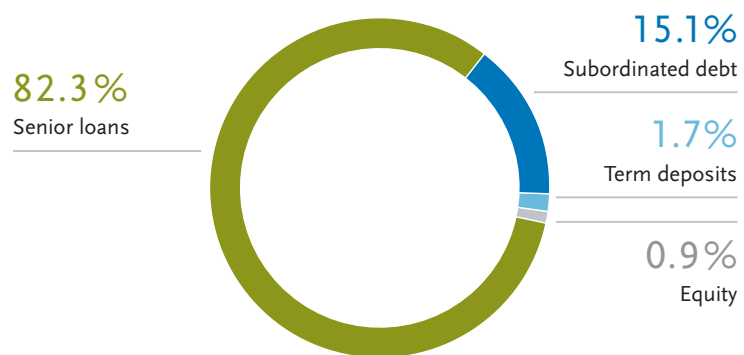


Total committed investment portfolio as of 31 December 2018: EUR 967.6 million

COMMITTED INVESTMENT PORTFOLIO BY FINANCIAL INSTRUMENT

Based on total committed investment portfolio

EUR MILLION



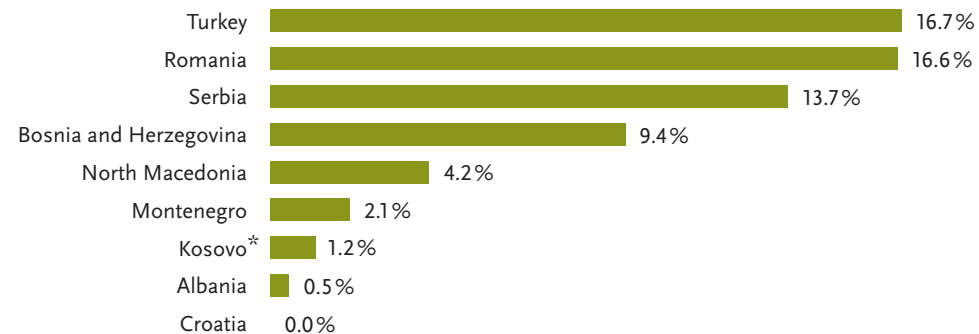
Total committed investment portfolio as of 31 December 2018: EUR 967.6 million

COMMITTED INVESTMENT PORTFOLIO BY COUNTRY

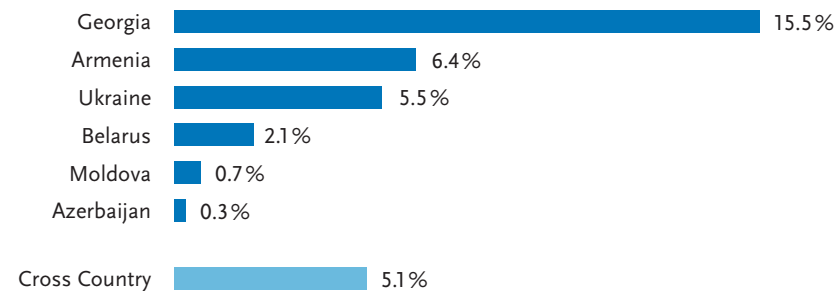
Based on total committed investment portfolio

Total committed investment portfolio as at 31 December 2018: EUR 967.6 million

Southeast Europe



European Eastern Neighbourhood Region

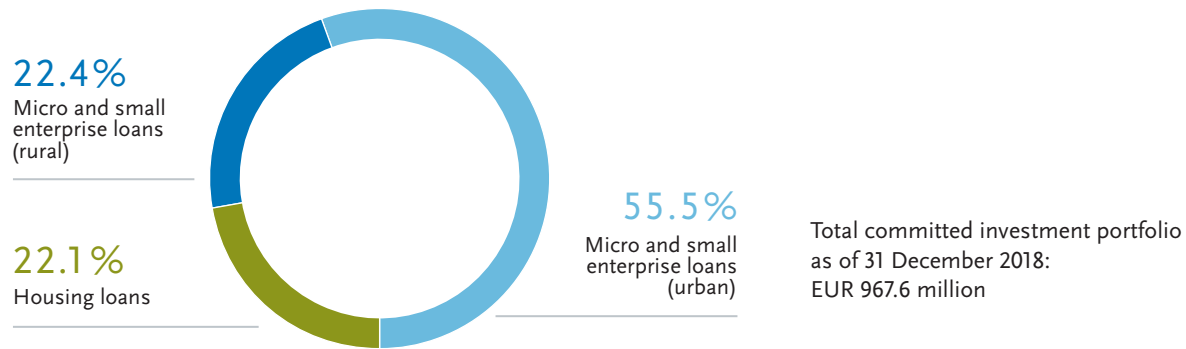


*This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ISJ Opinion of the Kosovo Declaration of Independence.

COMMITTED INVESTMENT PORTFOLIO BY PRODUCT

Based on total committed investment portfolio

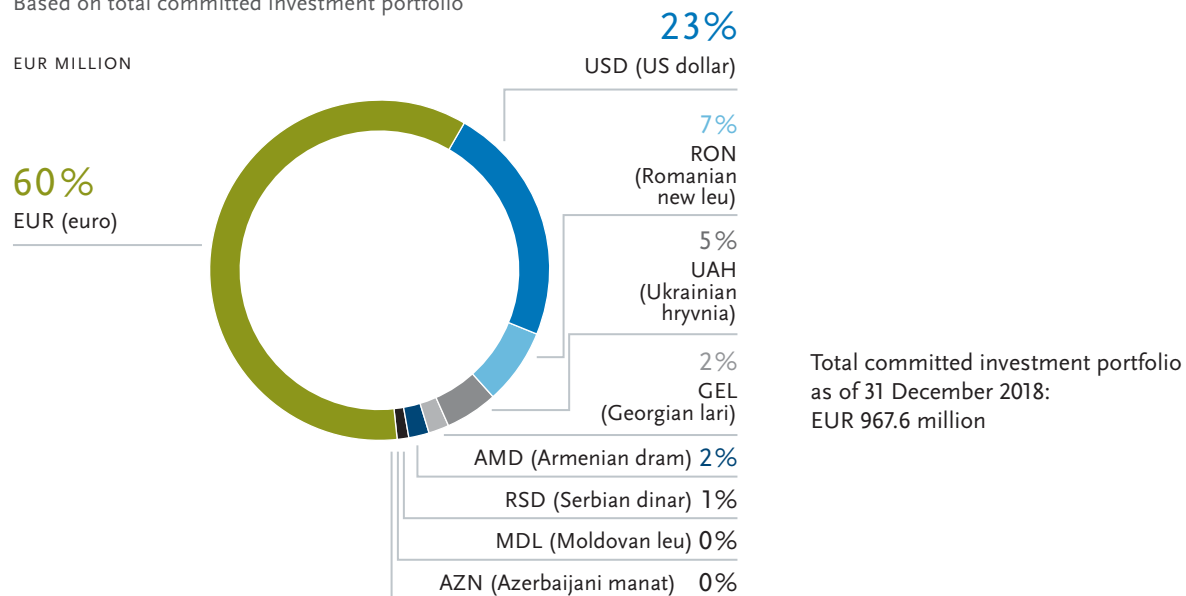
EUR MILLION



COMMITTED INVESTMENT PORTFOLIO BY CURRENCY

Based on total committed investment portfolio

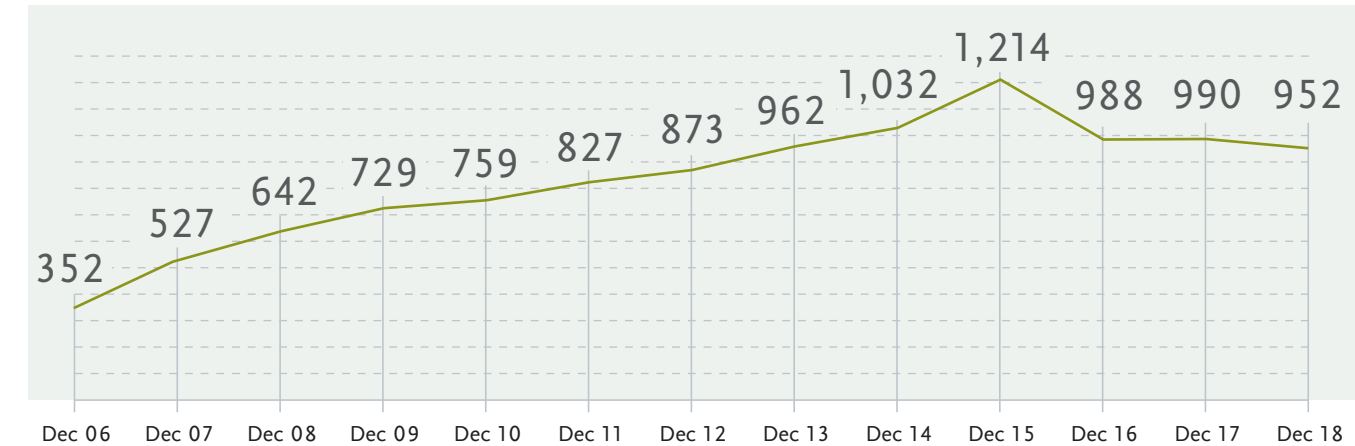
EUR MILLION



FUNDING

COMMITTED FUNDS FROM INVESTORS

VOLUME OF INVESTOR COMMITMENTS (EUR MILLION)



Total volume of committed funds from investors as of 31 December 2018: EUR 951.7 million

AVAILABLE BY INVESTMENT CLASS

As of 31 December 2018

INVESTMENT CLASS*	VOLUME (EUR)	SHARE (%)
Notes	216.4 million	23
A shares	278.4 million	29
B shares	71.0 million	7
L shares	11.7 million	1
C shares	381.8 million	40
Total subscribed (NAV)	959.4 million	100

100% of the fund's capital commitments were subscribed at the end of 2018. Private investors were responsible 23% of committed capital at the end of 2018.

*All commitments are shown as gross commitments.

INVESTORS BY TYPE OF INVESTMENT CLASS

As of 31 December 2018

NOTES	B SHARES – MEZZANINE TRANCHE
Crédit Coopératif	Central Bank of Armenia
European Bank for Reconstruction and Development (EBRD)	European Bank for Reconstruction and Development (EBRD)
GLS Gemeinschaftsbank eG	European Investment Bank (EIB)
Steyler Bank	Finance in Motion
Versorgungsfonds des Ministeriums der Finanzen Land Brandenburg	The Netherlands Development Finance Company (FMO)
Raiffeisen Bank International AG	International Finance Corporation (IFC)
Private investors via Deutsche Bank	Kreditanstalt für Wiederaufbau (KfW)
Other investors	
A SHARES – SENIOR TRANCHE	L SHARES - FX RISK TRANCHE
European Bank for Reconstruction and Development (EBRD)	Government of Germany (BMZ) (with KfW as Trustee)
European Investment Bank (EIB)	
International Finance Corporation (IFC)	C SHARES – JUNIOR TRANCHE
Kreditanstalt für Wiederaufbau (KfW)	Central Bank of Armenia
Oesterreichische Entwicklungsbank (OeEB)	European Commission (with European Investment Fund and KfW as Trustees)
	Government of Austria (ADA)
	Government of Denmark (DANIDA)
	Government of Germany (BMZ)
	Government of Switzerland (SDC)
	Oesterreichische Entwicklungsbank (OeEB)
	Republic of Albania

EFSE DEVELOPMENT FACILITY

TOTAL SCOPE OF ACTIVITIES

Based on total project volume

	CUMULATIVE (AS OF 31 DECEMBER 2018)		2018 APPROVAL	
	Volume (EUR)	Share (%)	Volume (EUR)	Share (%)
Micro, small, and medium enterprise lending	7,562,494	30.5%	–	0.0%
Entrepreneurship and micro and small enterprise development	4,201,843	17.0%	2,827,058	52.0%
Agricultural and rural finance	2,958,136	11.9%	–	0.0%
Innovative financial product development	543,713	2.2%	543,713	10.0%
Core capacity building for partner lending institutions	1,627,540	6.6%	826,578	15.2%
Housing finance	157,832	0.6%	–	0.0%
Financial technology	1,686,067	6.8%	930,208	17.1%
Local currency lending	480,390	1.9%	–	0.0%
Mobile financial services	112,423	0.5%	–	0.0%
Responsible finance	4,074,464	16.5%	304,000	5.6%
Other	1,350,836	5.5%	–	0.0%
Total	24,755,738	100.0%	5,431,557	100.0%

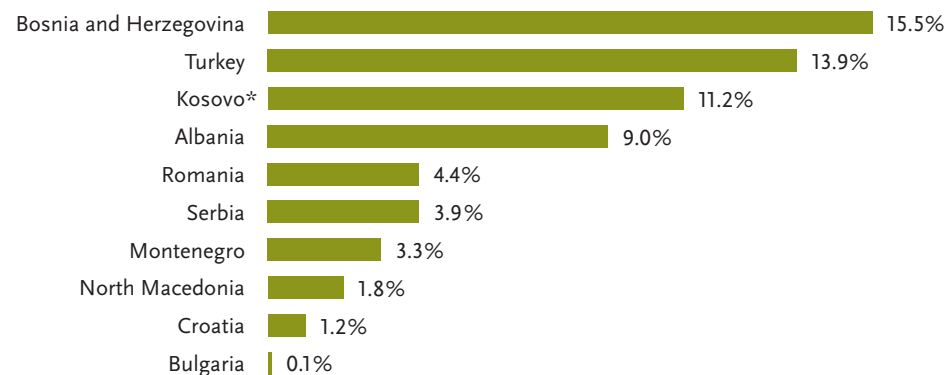
The Development Facility of the European Fund for Southeast Europe deploys effective, targeted, and innovative technical assistance to maximise the impact and extent of the fund's development finance mandate. The Development Facility also runs the EFSE Entrepreneurship Academy, which specifically focuses on providing entrepreneurs with resources, training, opportunities for financial backing, and other means for success.

TECHNICAL ASSISTANCE PROJECT DISTRIBUTION BY COUNTRY

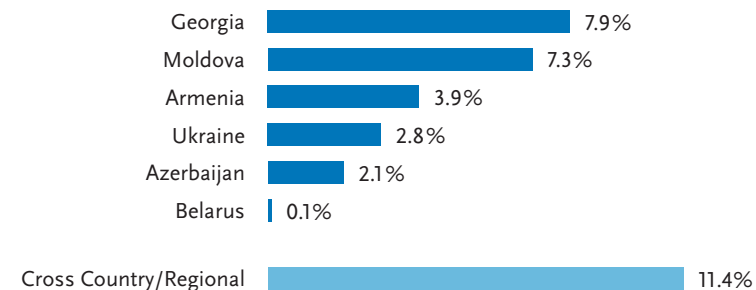
Based on number of projects

Cumulative, from 2006 to 31 December 2018

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.

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 2018

	IN EUR	SHARE
TOTAL PROJECTS: 425		
Total project budget	24,755,738	100%
Partner contribution (partner lending institutions and sector institutions)	8,073,800	33%
EFSE DF contribution	15,622,936	63%
EFSE DF donors (and third parties)	1,059,002	4%

Since inception, partner lending institutions and third parties have contributed approx. 33% of the costs towards project budgets.

Individual technical assistance projects only

Cumulative, from inception of the EFSE Development Facility in 2006 to 31 December 2018

	IN EUR	SHARE
TOTAL PROJECTS: 247		
Project budget	14,962,427	100%
Partner lending institution contribution	6,109,719	41%
EFSE DF contribution	7,974,466	53%
EFSE DF donors (and third parties)	878,242	6%

Since inception, partner lending institutions have contributed approx. 41% of the costs relating to project costs for individual technical assistance projects.

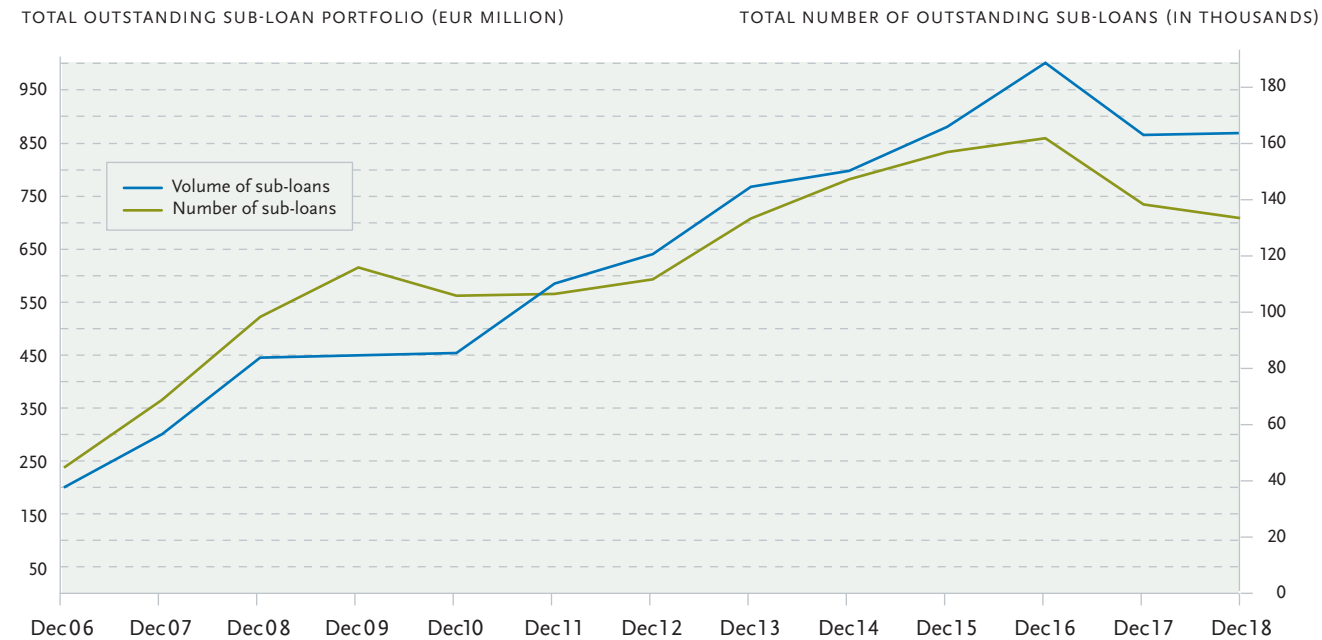
DEVELOPMENT IMPACT

OUTSTANDING SUB-LOAN PORTFOLIO

As of 31 December 2018

Total outstanding number of sub-loans as of 31 December 2018: 133,913

Total outstanding sub-loan portfolio as of 31 December 2018: EUR 867.3 million

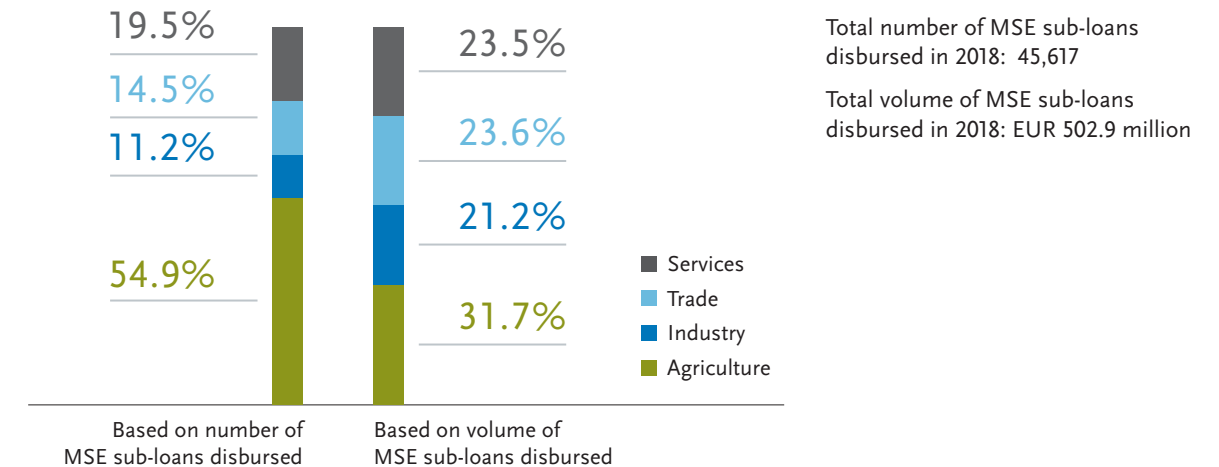


OUTSTANDING SUB-LOAN PORTFOLIO BY PRODUCT

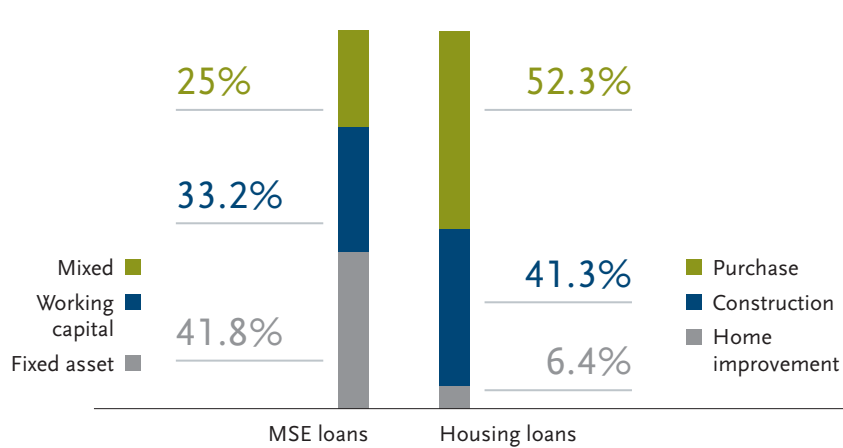
As of 31 December 2018

	2018	2017
Outstanding sub-loan portfolio to end-borrowers (EUR million)	867.3	867.1
Micro and small-enterprise loans – urban/rural	609.0	591.9
Housing loans	258.3	275.1
Number of active end-borrowers	133,913	137,924
Micro and small-enterprise loans – urban/rural	120,402	124,087
Housing loans	13,511	13,837
Average outstanding sub-loan amount (EUR)	6,477	6,287
Total sub-loan volume disbursed in 2018 (EUR million)	529.9	605.8
Micro and small-enterprise loans – urban/rural	502.9	495.9
Housing loans	27.0	109.8
Total number of sub-loans disbursed	48,080	52,623

SUB-LOAN DISBURSEMENTS BY ECONOMIC SECTOR IN 2018 MICRO AND SMALL ENTERPRISE (MSE) LOANS ONLY



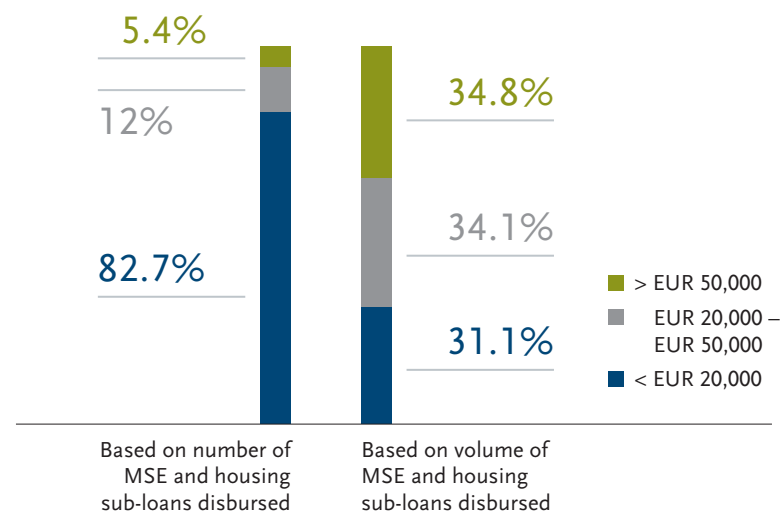
SUB-LOAN DISBURSEMENTS BY PURPOSE IN 2018
MICRO AND SMALL ENTERPRISE (MSE) AND HOUSING LOANS



Total volume of MSE sub-loans disbursed as of 31 December 2018: EUR 502.9 million

Total volume of housing sub-loans disbursed as of 31 December 2018: EUR 27.0 million

SUB-LOAN DISBURSEMENTS BY SIZE IN 2018
MICRO AND SMALL ENTERPRISE (MSE) AND HOUSING LOANS

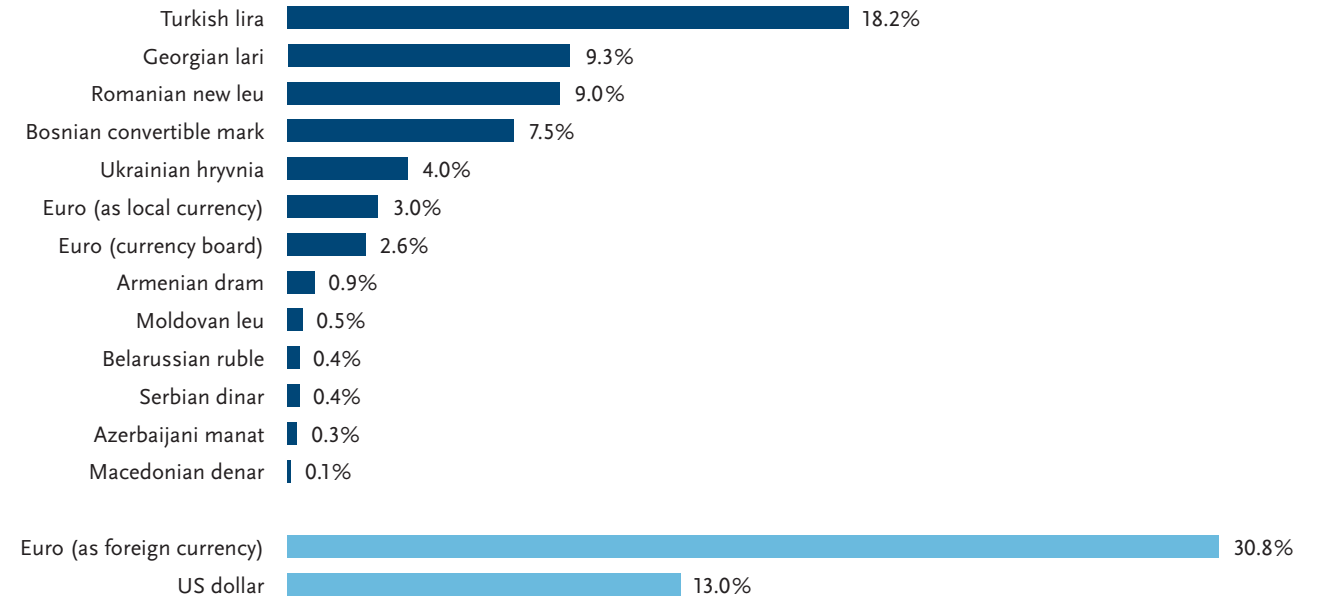


Total number of MSE and housing sub-loans disbursed for the year to date as at 31 December 2018: 48,080

Total volume of MSE and housing sub-loans disbursed for the year to date as of 31 December 2018: EUR 529.9 million

OUTSTANDING SUB-LOAN PORTFOLIO BY CURRENCY
Based on total outstanding sub-loan portfolio

Total outstanding sub-loan portfolio as at 31 December 2018: EUR 867.3 million



PARTNER LENDING INSTITUTIONS

OVERVIEW BY COUNTRY

ALBANIA	Commercial banks	Banka Kombetare Tregtare, Kosovo Branch
		SLC FED Invest
ARMENIA	Commercial banks	ARARATBANK OJSC
		CJSC ACBA – CREDIT AGRICOLE BANK, ARMENIA
		Inecobank CJSC
	Microcredit organisations	Farm Credit Armenia UCO CC
		SEF International Universal Credit Organisation LLC
Non-bank financial institutions	ACBA Leasing CO CJSC, Armenia	
AZERBAIJAN	Microfinance banks	AccessBank CJSC
BELARUS	Commercial banks	Belorussian-Russian Belgazprombank Joint Stock Belarusian Bank for Development and Reconstruction “Belinvestbank” Joint-Stock Company
BOSNIA AND HERZEGOVINA	Commercial banks	Intesa Sanpaolo Banka d.d.
		NLB Banka a.d. Banja Luka
		NLB Banka d.d., Sarajevo
		Raiffeisen Bank d.d. Bosna i Hercegovina
		Sberbank BH d.d. Sarajevo
		Addiko Bank a.d. Banja Luka
	Microcredit organisations	“PARTNER MIKROKREDITNA FONDACIJA”, Tuzla
		MCF MI-BOSPO
		Microcredit Company “Mikrofin” LCC
		Microcredit Company EKI LLC Sarajevo
	Microfinance banks	Microcredit Foundation EKI
MF Banka a.d. Banja Luka		
Non-bank financial institutions	Raiffeisen Leasing D.O.O.	

COUNTRY

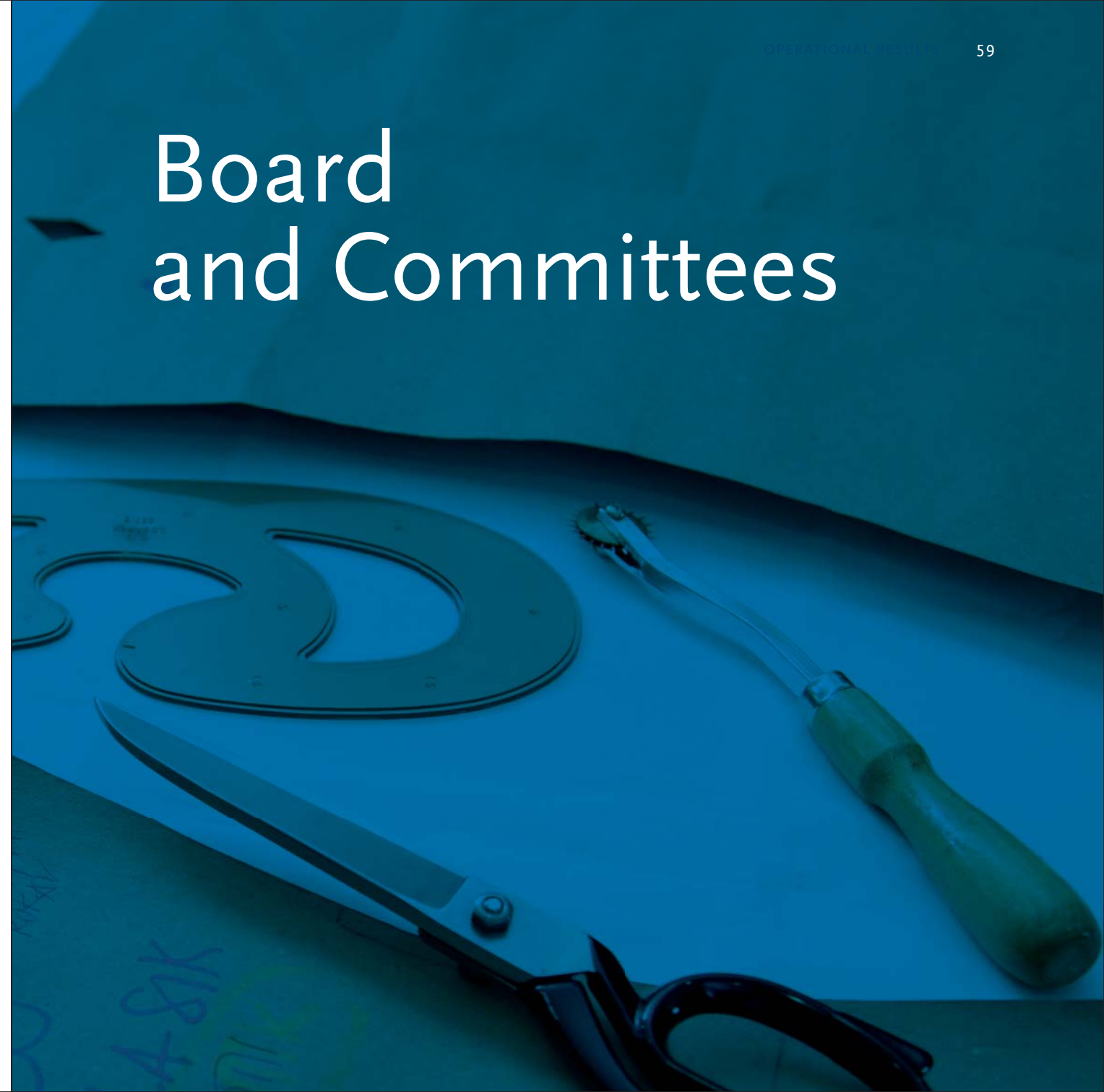
CROSS COUNTRY	Non-bank financial institutions	ProCredit Holding AG & CO. KGAA
	TCX	TCX
NORTH MACEDONIA	Commercial banks	Halkbank a.d., Skopje Ohridska Banka a.d., Skopje
	Microcredit organisations	Mikrokreditna Fondacija HORIZONTI Skopje
GEORGIA	Commercial banks	Joint Stock Company BGEO Group
		JSC Bank of Georgia
		JSC TBC Bank, Georgia
	Microcredit organisations	JSC Microfinance Organization “Crystal” Micro Finance Organization Credo LLC
KOSOVO*	Microcredit organisations	Agjencioni për Financim në Kosovë
		KEP Trust
		Kreditimi Rural I Kosoves LLC
MOLDOVA	Microfinance banks	CB ProCredit Bank S.A.
	Non-bank financial institution	I.C.S. “BT LEASING MD” S.R.L.
MONTENEGRO	Commercial banks	NLB Banka a.d. Podgorica Societe Generale Banka Montenegro AD
	Microcredit organisations	MFI Alter Modus DOO Podgorica
ROMANIA	Commercial banks	Banca Transilvania S.A.
		Alpha Bank Romania S.A.
	Microcredit organisations	Patria Credit IFN S.A.
		BT Microfinantare IFN S.A.
	Non-bank financial institutions	AGRICOVER CREDIT IFN S.A. BT Leasing Transilvania IFN S.A. Motoractive IFN S.A.

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COUNTRY

SERBIA	Commercial banks	Halkbank akcionarsko drustvo Beograd Raiffeisen Banka a.d., Beograd UniCredit Bank JSC		
	Microfinance banks	Opportunity Bank a.d., Novi Sad ProCredit Bank a.d., Belgrade		
	Non-bank financial institutions	Intesa Leasing d.o.o., Beograd		
TURKEY	Commercial banks	Alternatifbank A.Ş. Burgan Bank A.Ş. Denizbank A.Ş. Fibabanka A.Ş. Finansbank A.Ş., Turkey Odea Bank A.Ş.		
		Non-bank financial institutions	Finans Finansal Kiralama A.Ş. Garanti Finansal Kiralama A.Ş. Yapı Kredi Finansal Kiralama A.O.	
		Commercial banks	Megabank, PJSC PJSC West Finance and Credit Bank Joint Stock Company "Agroprosperis Bank" Public Joint Stock Company "Kredobank"	
			Microfinance banks	JSC ProCredit Bank, Ukraine

Board and Committees



INVESTMENT COMMITTEE



FROM LEFT TO RIGHT

- Syed Aftab Ahmed
- Madhu Dutta-Sen
- Sylvia Gansser-Potts
- Esther Gravenkötter (Chairperson)
- Markus Aschendorf

DEVELOPMENT FACILITY COMMITTEE



FROM LEFT TO RIGHT

- 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.

LETTER FROM THE FUND MANAGER AND ADVISOR

Dear Reader,

It takes a special kind of dedication to run your own business.

For one thing, an entrepreneur's workday does not end when the shop doors close. And the impacts of actions and decisions feel immediate and personal. The challenges inherent to being your own boss are manifold: You must determine how to adapt to a changing market, finance the next year's plans, manage your supply chain. For many, it is a first-time endeavour fraught with questions: How do I scale up my business? Where can I find funding? How do I even get started?

The European Fund for Southeast Europe has been helping entrepreneurs surmount these challenges for well over a dozen years. As "The Entrepreneurship Fund", EFSE takes a multipronged approach that is closely aligned with the on-the-ground concerns of micro and small enterprises. What is more, EFSE goes beyond immediate needs to nourish the roots of entrepreneurship – not only by creating an environment in which small businesses can thrive, but also by inspiring and encouraging the next generation of aspiring business owners with examples of success.

This last year was no exception. Through its Development Facility, EFSE conducted 45 technical assistance projects across Southeast Europe and the Eastern Neighbourhood Region in 2018. These programmes for capacity building, sector support, and applied research directly benefited well over 4,000 recipients; indirectly, that number rises to nearly 20,000. Thanks to the Development Facility, 2,000 startups were supported through the EFSE Entrepreneurship Academy, a platform that provides entrepreneurs with customized training, mentorship, and access to funding opportunities. And that is not counting the systemic impact of EFSE's role as a thought leader in organizing cross-sector, cross-border conferences and roundtables on topics like fintech and financial inclusion.

The stories in this report provide a glimpse into just some of this impact – on both an individual and structural level.

And of course, responsible financing has always been at the core of EFSE's mission. Micro and small enterprises are the key to prosperity and economic development in the fund's target regions, and it is by investing in the success of these local businesses that we secure future prospects for jobs and growth. By the end of the year, EFSE's investment activities had facilitated a total of 961,000 loans to micro and small enterprises and private households across the region, supporting well over 800,000 jobs. In terms of volume, EFSE has unleashed a cumulative total of more than EUR 7 billion in small business financing since the fund was established in 2005.



Significantly, over half of loans provided in 2018 were in local currency. The ability to obtain local currency financing can be of considerable importance for a small enterprise's cash flows: When borrowers are protected from ups and downs in the exchange rate, they can better manage their finances and plan for the future. EFSE uses special instruments to hedge against currency risk so that entrepreneurs do not have to. You can meet two of these hardworking business owners on the pages of this report.

Access to sustainable finance, practical training, network building, a healthy financial infrastructure, role models – there are a variety of elements that contribute to a robust entrepreneurship ecosystem. By channelling resources to existing and hopeful entrepreneurs alike and providing them with a healthy support environment that ensures their future viability, EFSE helps entrepreneurs to grow and flourish.

This, for us, is Cultivating Entrepreneurship.

We would like to extend our thanks to the many dedicated partners and players who make this significant, widespread impact possible. To both our public and private investors for their trust and belief in positive change; to the EFSE Board and Committees who have steered the fund successfully through thirteen years of growth and success; to our local partner lending institutions who, whether through smart funding or innovative capacity-building, are at the forefront of making a difference in the lives of entrepreneurs and their families. We look forward to many more years of cultivating entrepreneurship together, and watching our endeavours bear fruit.

With kind regards,

HAUCK & AUFHÄUSER FUND SERVICES S.A.
AND FINANCE IN MOTION GMBH

Fund Manager and Advisor to the European Fund for Southeast Europe

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