EBCI | Vienna Initiative

Working group on IFI financial products supporting investment in CESEE

Final report

March 2019

Disclaimer

This report summarises the conclusions of the Working Group on IFI financial products supporting investment, which was established in June 2017 in the context of the Vienna Initiative. The conclusions included in the report are, as any Vienna Initiative product, voluntary, public and nonbinding on the participating institutions. They are intended to inform market participants, policy makers and the general public about suggested approaches and best practices. They shall be in no way interpreted as a restriction on future policy options, including regulatory decisions.

Acknowledgements

The main editor of this report was Áron Gereben (European Investment Bank - EIB).

Main contributions were made by Viktoriia Denysova (Unicredit), János Ferke (Hungarian Venture Capital Association), Áron Gereben (EIB), Miroslav Kollár (EIB), Matija Laco (World Bank), Robert Pernetta (EIB), Marius Radu (Unicredit and EIB), Daniela Tsoneva (Raiffeisen Bank International - RBI), Dejan Vasiljev (European Bank for Reconstruction and Development - EBRD) and Kiril Velitchkov (KBC Group).

Inputs were received from international financial institutions, commercial banks, industry associations, and corporates represented in the working group. In particular, the authors would like to thank Kudret Akgun (International Finance Corporation - IFC), Mark Allen (Vienna Initiative), Laure Blanchard-Brunac (European Commission - EC), Miglena Dobreva (EIB), Christelle Fink (EBRD), Robert Oliver Fuerst (RBI), Filip Genov (UniCredit), Estelle Goeger (EC), Michal Gorzelak (Polish Banking Association), Andreas Hauer (Erste), Davor Indic (EBRD), Filip Keereman (EC), Benedikt Kempis (Erste), Paul Kocher (RBI), Ewa Kolodziej (EIB), Anna Krzyżanowska (EC), Rachel Lancry Beaumont (EC), Kristin Lang (EIB), Theresa Niederle (EBRD), Robert Pernetta (EIB), Debora Revoltella (EIB), Ines Rocha (EBRD), Serdar Sari (EIB), Olga Sclovscaia (Multilateral Investment Guarantee Agency), Robert Spišák (AZC a.s.), Miha Svent (EIB), Attila Szabó (EIB), Lara Tassan Zanin (EIB), Balázs Topor (RBI), Corina Weidinger Sosdean (EC) and Bernard Ziller (EIB) for their comments and other contributions.

The Full Forum of the European Bank Co-ordination (Vienna) Initiative endorsed the report on the 28th of March, 2019.

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Executive summary

The **objectives** of the Vienna Initiative Working Group on IFI financial products supporting investment were to: a) identify the markets gaps and priority policy areas for investment that are best served by financial products offered by international financial institutions (IFIs), b) support the development of appropriate combinations of instruments to meet investment needs of the region of Central, Eastern and South-Eastern Europe (CESEE) , c) assess the needs and characteristics of the local investor base, d) assess how to strengthen the cooperation amongst IFIs, and e) contribute to the debate on shaping the next generation of IFI products.[1]

The **key policy conclusions** of the group are the followings:

1. **IFIs have been playing an important role** in supporting access to finance of the private sector in CESEE.
2. Looking ahead, **IFIs could play a catalytic role in the transition of the region's economies towards a new growth model**, based on productivity growth through human capital development and home-grown innovation. IFIs could best contribute to this aim by tailoring their product palette appropriately.
3. **Better and more accessible data on IFI activity and product supply could help** IFIs to reach the clients and stakeholders of the region, and could promote better coordination among IFIs.
4. To support lending to SMEs and MidCaps, **capital relief products are at the moment more in need** than liquidity.
5. Compliance with the minimum requirement for own funds and eligible liabilities **(MREL) targets will pose challenges for the banks operating in the region** in the coming years. This is an area where the Vienna Initiative can play an important role.
6. Due to a shift in demand towards local currency products, **IFIs should consider further broadening their domestic currency-denominated product palette**.
7. **EU-funded venture capital programmes** boosted the entire VC ecosystem and start up world in the region. Similar initiatives **in the future would bring further benefits** by focusing increasingly on qualitative results.
8. **IFIs could provide a more attractive financing option** for the corporates of the region **by adapting their product offers to the specificities of CESEE**, potentially by providing smaller ticket sizes, more flexibility in the loan structures, quicker decision-making etc.
9. **Using grants in combination with financial instruments is an efficient way to support investments with high socio-economic impact**, and such combinations have a high potential for use in CESEE.
10. The framework for financial instruments proposed by the EC for **the next MFF (InvestEU) addresses a number of issues raised by the various stakeholders**. It is important that the fruitful regular dialogue between the Vienna Initiative and the relevant EC directorates should be maintained.

[1] The IFIs covered in this report do not include the International Monetary Fund (IMF), as the IMF provides financial assistance to governments only.

Background

On 22 April 2017, upon the proposal from the European Investment Bank, the Vienna Initiative Steering Committee decided to set up a Working Group on IFI financial products supporting investment. All interested Vienna Initiative members, i.e. representatives of both public and private institutions from the CESEE countries, as well as international institutions such as: EIB, EBRD, IMF, the World Bank and the European Commission were invited to take part in this Working Group. The European Investment Bank was assigned to coordinate the work.

Rationale

There are still significant gaps in the stock of capital in CESEE. While investment in CESEE has exceeded average EU levels over the last decade, it has mostly been below the levels required for economic convergence. After the crisis, the old model of capital accumulation - based on FDI inflows, imported technology and funds channelled through cross-border banking - is not operating as it did before. A complementary growth strategy could be to switch to more reliance on both sustainable internal savings and more efficient use of available domestic sources of funding. Investment in skills and innovation also needs to be enhanced.

International Financial Institutions can help to support this switch by providing support for the necessary investments. Apart from the direct application of publically-raised funds, IFI participation in financial transactions should be designed, whenever possible, to mobilise additional public and private co-investments in order to increase the current allocation of internal savings towards these domestic investments. They also provide a variety of incentives to better performance, including financial and technical discipline, as well as environmental, inclusion and other standards, at the level of supported projects.

Against this background, the key objectives of the Working Group were the following:

a) to identify the markets gaps and priority policy areas for investment that are best served by financial products offered by IFIs, building as much as possible on existing research by IFIs (e.g. the EIBIS survey); evaluate the experience and lessons learned with such products, including their efficiency in terms of the utilisation of EU funds, e.g. through highest outreach or incentives for private uptake;

b) to support the development of appropriate combinations of instruments to meet investment needs of the CESEE region, with an emphasis on sustainability, through including local funding / investment as part of, or in parallel to, the IFI funding instruments;

c) to assess the needs and characteristics of the local investor base so as to be able to structure IFI instruments to encourage their participation in investing their funds in the CESEE region;

d) to assess how to strengthen the cooperation amongst IFIs, as well as between IFIs and national entities in harmonising and streamlining of the supply of financial products supporting investment, and sharing the management of the financial instruments with commercial banks and promotional banks; and

e) to contribute to the debate on shaping the next generation of IFI products with a focus on sustainability and complementarity in the development of local capital markets.

The group has been working in parallel with the Vienna Initiative Working Group on the Capital Markets Union, with many overlaps and synergies between the two work-streams.[2]

Participating institutions

The working group held three physical meetings. The first one, hosted by the EIB, took place on 29 June 2017 in Brussels. The second meeting, hosted by Raiffeisen Bank International, took place on 27 November 2017 in Vienna. The final session was hosted again by EIB on 14 June 2018 in Luxembourg.

The following institutions participated at the various meetings:

1. AZC a. s.
2. Bank Gospodarstwa Krajowego
3. Erste Group Bank
4. European Bank for Reconstruction and Development
5. European Commission
6. European Investment Bank
7. Hungarian Venture Capital Association
8. International Finance Corporation
9. KBC Group
10. Ministry of Finance of the Slovak Republic
11. Multilateral Investment Guarantee Agency
12. Oesterreichische Nationalbank
13. Permanent Representation of Slovakia to the EU
14. Polish Banking Association
15. Raiffeisen Bank International
16. Unicredit Bank
17. World Bank

The structure of the report

Chapter 1 provides a brief overview of the development of investment and economic convergence of the economies of Central, Eastern and South-Eastern Europe. We argue that the pre-crisis model of economic growth is no longer a viable driver of convergence. The economic development of the region requires a stronger focus on human capital development, home-grown innovation and domestic savings. IFIs are encouraged to adjust their product portfolios accordingly.

Chapter 2 describes the activities of IFIs in CESEE. We present the list of currently available products, by product types and by IFIs, and then provide quantitative data on the scale and the composition of actual financing flows. Besides IFIs' activity, we also present the role of EU financial

[2] The report of the Vienna Initiative Working Group on the Capital Markets Union is available at http://vienna-initiative.com/wp-content/uploads/2018/03/VI-CMU-Working-Group-Final-Report-March-2018.pdf.

instruments in the region – including those delivered by IFIs – and the product palette of national guarantee institutions.

Chapter 3 summarises various stakeholders' feedback on IFI's financing products oriented towards the private sector in CESEE. These stakeholders include commercial banks, which act as intermediaries for IFI funding towards the SMEs, MidCaps and other corporate clients of the region, representatives of the private equity/venture capital investment community, and large privately owned corporates.

Chapter 4 focuses on a handful of selected issues that are in one way or another critical for the delivery of the IFI products. These include the potential for combining grants and IFI financial instruments, the role of national promotional banks and institutions, the impact of the MREL regulation, and the proposed framework for EU financial instruments post 2020.

Chapter 5 concludes the report and formulates its policy recommendations.

Chapter 1: Market needs for IFI intervention in CESEE

In this chapter we provide a brief overview of the development of investment and economic convergence of the economies of CESEE. We argue that the pre-crisis model of economic growth is no longer a viable driver of long-term convergence. The economic development of the region requires a stronger focus on human capital development, home-grown innovation and domestic savings. IFIs are encouraged to adjust their product portfolios accordingly.

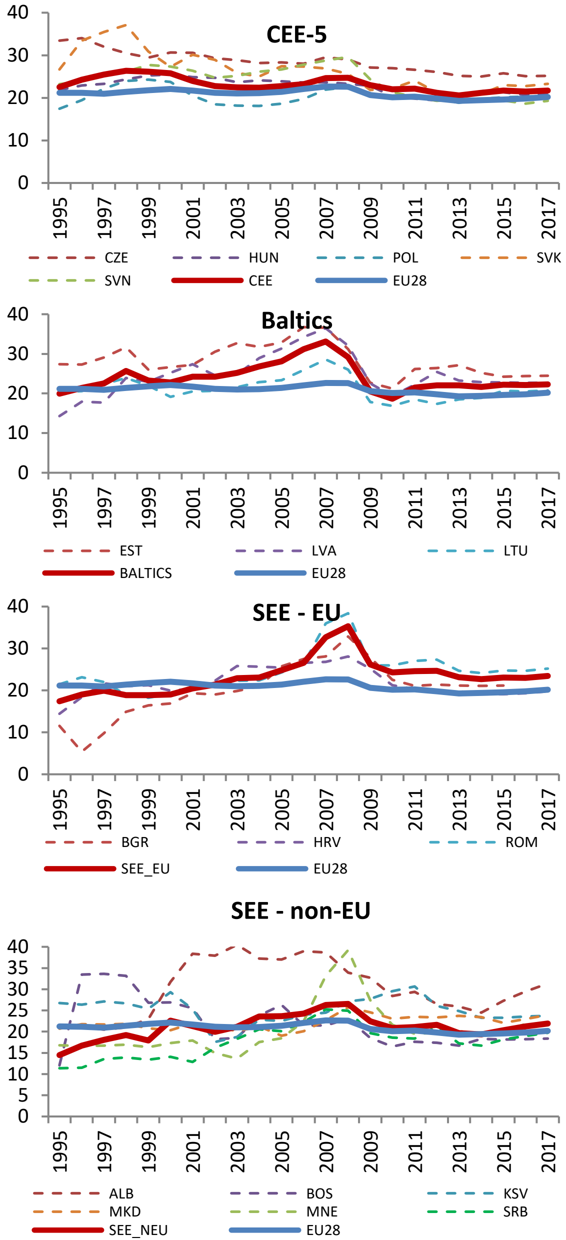
Investment and growth in CESEE

As part of their economic transition, the countries of CESEE went through an important period of capital accumulation during the last 20 years. During these years, the countries in the region have opened their economies and experienced capital inflows that supported investment, both directly, and through financial intermediation. Many of the countries have also been benefiting from EU structural funds to support both public infrastructure and private sector capital formation.[3]

The level of aggregate investment across Central, Eastern and South Eastern Europe generally exceeded the average levels observed in the EU. In the EU-28 the share of gross fixed capital formation (GFCF) in GDP hovered around 20% in the last 20 years. Although at a somewhat higher level, GFCF in the five countries of Central and Eastern Europe (CEE) has broadly followed the dynamics observed in the EU. Investment fluctuated between 20% and 25% of GDP, with somewhat higher levels recorded in the late 1990s, and before the 2008 crisis. Investment has followed a somewhat different, more volatile pattern in South-Eastern Europe (SEE) and in the Baltic region, with stronger cyclical fluctuations and a more pronounced fall since the 2007-2008 peak.

In almost all CESEE countries the share of investment in GDP has declined sharply as a

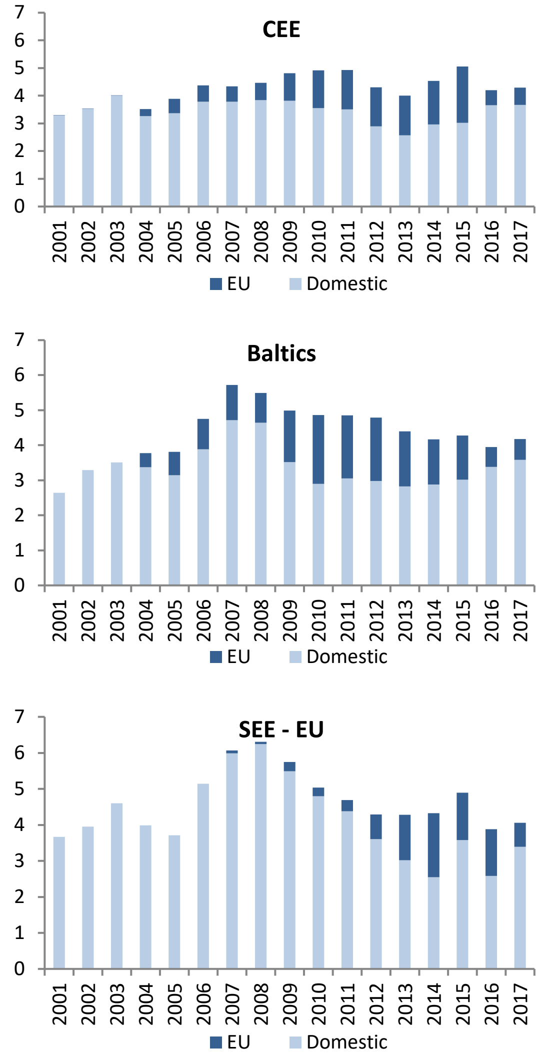
Figure 1: Gross Fixed Capital Formation as a share of GDP (in %, at current market prices)



Source: Eurostat and HIS (SEE non-EU apart from SRB forecasts for 2016).

[3] This section builds heavily on the analysis of Bubbico et al. (2017), complemented with the contributions from the members of the working group.

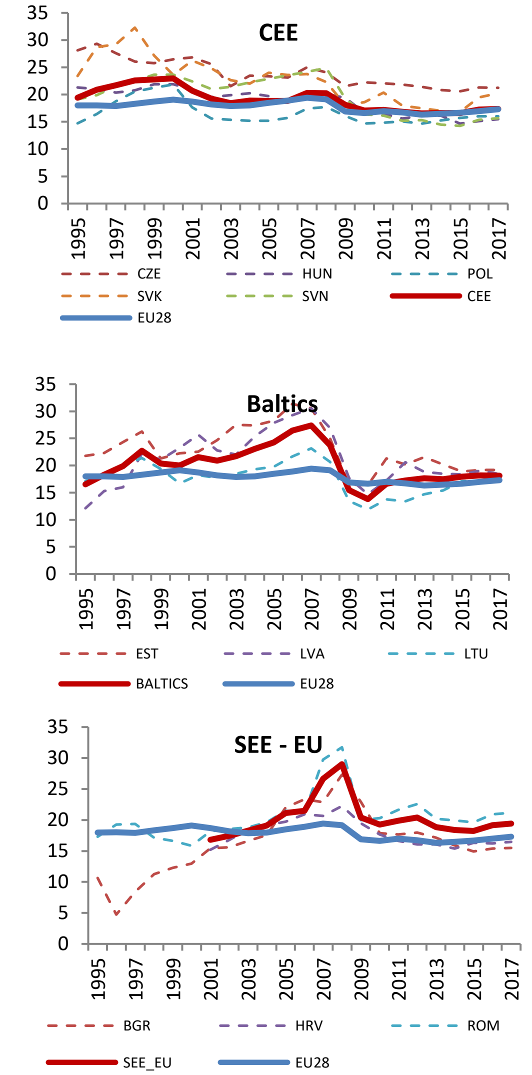
Figure 2: EU funds in public sector investment (GFCF) as a share of GDP (in %, at current market prices)



Note: The EU fund's share in public sector GFCF is represented here by capital transfers from the EU to member state governments.

Source: Eurostat, European Central Bank.

Figure 3: Private sector investment (GFCF) as a share of GDP (in %, at current market prices)



Source: AMECO

result of the crisis. The gap between the post- and pre-crisis average was the highest in the Baltics (some 6% of GDP), followed by the CEE (roughly 3.5% of GDP) and SEE-non-EU (around 2% of GDP). In the SEE-EU country group, nominal investment is some 1.6% of GDP below the pre-crisis average, with Croatia being particularly hard hit.

The post-crisis level of aggregate investment in the region appears to be below the level necessary for economic convergence towards the core of the EU.[4] Public and private investment in CESEE has been below levels experienced in countries that successfully graduated from middle income to high income status in the past. Furthermore, for most CESEE economies the current investment levels are not even sufficient to maintain the size of the capital stock relative to GDP under reasonable growth assumptions.

4 See IMF (2016) and Bubbico et al. (2017) on various estimates of the "benchmark" investment rate.

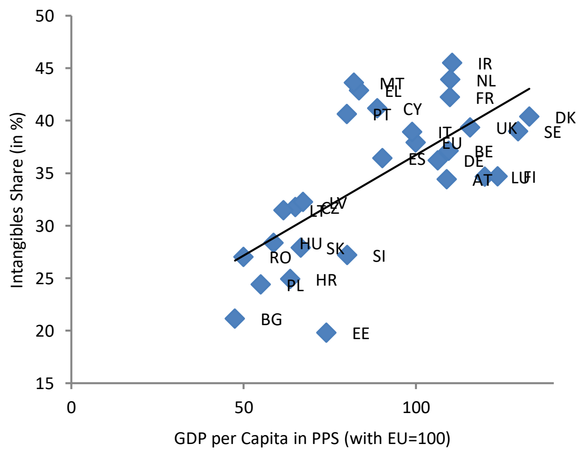
Public investment as a share of GDP has been significantly higher in the CESEE than in the EU-28. Average public GFCF as a share of GDP between 2001 and 2015 exceeded the EU level – just above 3 per cent of GDP on average – by 30% in the CEE, by 40% in the Baltics, and by 50% in the SEE-EU country groups. European structural and investment funds (ESIF) have contributed significantly to sustaining public investment. Even if full additionality in terms of volume was not achieved, EU funds played a crucial role in maintaining a healthy level of public investment during the post-crisis downturn in capital availability.

Private investment, however, declined sharply after the crisis along with foreign private capital inflows, and still has not fully recovered. Until the outbreak of the financial crisis, private investment - to a large extent in the form of foreign direct investment - flourished in most CESEE countries. This investment was largely fuelled by economic and political transition, privatisation, the prospect of EU accession, financial deepening and a credit boom. These investments helped build up the capital stock in the CESEE countries and facilitated export growth. The post-crisis decline in private investment, while varied in terms of magnitude and impact across the countries, reflected the increased risk aversion of financial markets, certain regulatory changes affecting cross-border banking, as well as the substantial deterioration in external and domestic demand. The share of private investment in GDP declined in all countries, in many of them dramatically by as much as 15 percentage points. Moreover, its recovery is still sluggish: in almost all countries the share of private investment in GDP still hovers at – or a few percentage point below – the EU average. The economic and financial crisis has thus had a major and enduring impact on the region's investment- and export-led growth model.

Investment in intellectual property has been much lower than in the rest of the EU. During the economic transition, investment in CESEE focused mainly on machinery and non-residential construction. This is because the economic transition required massive investment in renewing vastly outdated, underdeveloped or non-existent infrastructure and production capacities. In addition, investment in machinery formed part of the process of integrating a number of CESEE economies into western European supply chains, making use of the relatively cheap and largely skilled labour in the region. In contrast, investment in R&D and intangible assets has been relatively underrepresented and the gap with the EU average has amounted between 5 and 10 percentage points of total investment.

Innovation capacity in CESEE is lagging despite the relatively good educational attainment in several countries, particularly in the northern tier. Besides low investment into R&D and intellectual property in general, one reason for the weak link between education and innovative capacity is the fact that the economic growth model has largely relied on foreign investment in sectors with low to medium value added taking advantage of low labour costs. Investors' business

Figure 4: Correlation between GDP per capita and the share of intangible investment in the EU



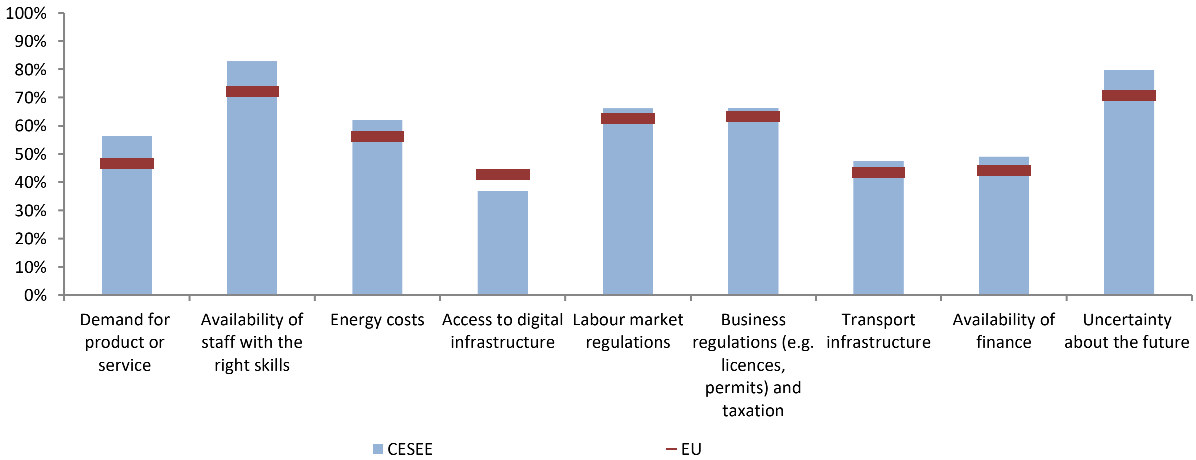
Source: EIBIS survey 2017.

strategies have thus typically focused on producing manufactured goods for export rather than developing local innovation capacities.

With the advent of the financial crisis, capital flows to the region, both gross and net, collapsed and have remained at a low level. The largest decline came from inward FDI, which was reduced to a third (EIB, 2016). This decline contributed significantly to the decline of corporate investment, not only through its direct effect but also through an indirect impact: FDI has a catalytic effect on domestic investment that has been reduced with this decline. Large foreign banks changed their strategies for the region, too. They reduced cross-border loans and intra-firm financing for their subsidiaries, switching to a domestically financed banking model for the region. While international banks remained committed to keep their subsidiaries well-capitalised, they started to repatriate profits and in some cases sold their participations to national or international investors. Portfolio investment in the region halved.

Credit to the corporate sector is recovering, but at a relatively slow pace, hampered by the lack of collateral. Capital markets are often not developed enough to provide an alternative to bank financing. Despite significant improvements, the level of non-performing loans is still considered to be an important constraint of credit supply. When it comes to access to finance, one of the main sources of dissatisfaction of firms relates to their difficulty in meeting collateral requirements. Furthermore, in many cases funding in local currency is not available on a sufficient scale, creating significant foreign currency exposures in the corporate sector, increasing financial vulnerability.

Figure 5: Corporate perception about long-term barriers to investment in CESEE



Note: Share of responses in per cent: Q. Thinking about your investment activities, to what extent is each of the following an obstacle? Is a major obstacle, a minor obstacle or not an obstacle at all?

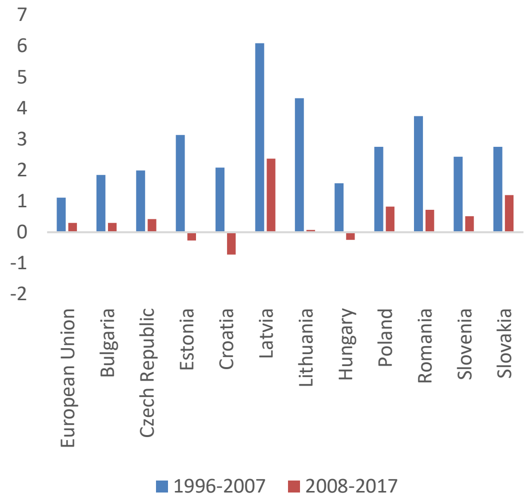
Source: EIBIS survey 2017.

In parallel, as a result of rapid aging and outward migration, the median age of the CESEE population has increased, and the decline of the working age population is limiting the growth of GDP per capita. Changes of GDP per capita between 2002 and 2009 were driven by increased labour productivity and by increases in employment rates, with a neutral impact of the change of working age population. However, between 2009 and 2016 the change in the employment rate has become a drag on GDP per capita growth. As a consequence, GDP per capita has increased less than labour productivity in a number of countries, and has been supported mainly by higher employment rates. Looking ahead, however, natural change and ageing are expected to play a more important role.

Already, the EIB investment survey indicates that lack of skilled staff is currently the key barrier to investment for firms in the region.

While the countries of the region are currently showing a robust cyclical upturn, it is generally believed that longer-term potential growth is still significantly lower than it was prior to the crisis. This is reflected, among others, in the marked slowdown of total factor productivity growth (TFP). As other components of long-term economic growth – capital and labour – appear to be constrained, TFP could be an important source of growth in the region. Relaunching productivity is therefore crucial for the longer-term convergence of the region towards the EU.

Total factor productivity growth before and after the crisis



Source: AMECO.

Need for a new growth model?

The pre-crisis growth model of the CESEE is not operating the way it did before:

- First, with the slowdown of FDI and bank-based capital inflows, domestic savings need to play a stronger role. While the countries in CESEE region would naturally continue attracting foreign capital, a more balanced growth and financing model would support the continuation of a steady convergence process.
- Second, lower FDI has also slowed down the pace of technology import, which was a key factor behind productivity improvements and higher growth before.
- Third, while convergence in CESEE was supported in the past by the possibility of tapping pools of skilled, yet inactive or less productive labour, now the region is facing increasingly unfavourable demographics, therefore more emphasis should be placed on increasing productivity.

A successful post-crisis model of economic convergence and growth for the CESEE region could include the followings elements:

- **Stronger role for home-grown innovation to increase productivity**. While building on the already existing strong manufacturing base, it is time for CESEE economies to begin to move upwards on the value chain. The momentum of economic growth can only be maintained with a stronger role of innovation, switching from manufacturing/industrial production towards the – increasingly tradable – services.
- **Preservation and development of the productive labour force.** A skills-based growth model can only be successful when supported by policies that enable reversing the brain drain, and help to preserve and develop a skilled labour force. Also, policies should address the low participation of certain parts of the population at the labour market. These could include dedicated programmes for the inactive population in underdeveloped rural regions, or

programmes aiming at increasing the currently often low female participation in the labour force.

- **A system of financial intermediation that supports domestic savings**. While the region will continue to be a strong potential target for capital inflows, domestic savings should play an increasing role, by providing a stable, local-currency funding source that supports investment.
- **Efficient use of available EU and IFI resources to close the remaining gaps in infrastructure and effective mobilisation of private investment.** There are still areas where significant gaps exist in the infrastructure. These include transport, energy, digital infrastructure. Developing these capacities is a necessary enabling factor for future growth.

Areas for potential IFI involvement

IFIs can support the transition of the region's economies towards this new growth model by tailoring their product palette appropriately. Rather than offering "plain vanilla" financing products, tailor-made products that are complementary to the offer of market-based financial institutions and other public resources are more likely to generate value added and additionality. The following, non-exhaustive list of possible areas of intervention could be strongly supportive of the economic development of the CESEE region:

- **Products supporting R&D, innovation, and innovative firms.** The supply of equity, risk-sharing products, venture debt and other funding sources for innovation and research that the market is willing to supply is generally below the social optimum on a pure market basis. IFIs can have a strong catalytic role in this area, especially in crowding in potential private investors, such as pension funds and insurance companies.
- **Development and preservation of human capital.** Supporting investments in education, healthcare, infrastructure are crucial to developing and maintaining a competitive labour force. Funding in these areas has also lagged behind the EU levels in many of the CESEE economies. Besides infrastructure, however, stronger incentives for entrepreneurial activities can also important to develop and preserve human capital.[5]
- **Addressing the remaining infrastructure gaps such as transport, energy, digital infrastructure**. Beyond providing simple funding, IFIs could also play an additional role by supporting private sector participation as co-investors in projects.
- **Supporting capital markets development to provide alternatives to bank financing.** Capital market development has a lot of potential in the region, and IFIs can help smaller local capital markets grow and overcome the issues of economies of scale at the early stage of their development.
- **Overcoming the issue of collateral shortage through providing credit guarantees.** Credit guarantees and other risk-sharing products provided through IFIs can help small- and medium-size enterprises in the region to overcome the scarcity of available loan collateral.
- **Supporting the region's banking system to overcome the legacy of the crisis, and to adjust to the changes of the regulatory environment.** Potential areas of intervention include participation in the resolution of non-performing loans, targeted risk-sharing and capital

[5] See Annex 2 for an example of an IFI product supporting female entrepreneurs.

relief products, , investment in MREL-eligible instruments, the support of smooth changes of ownership of financial institutions. Capital optimisation is a key element of this demand.

- **Enabling businesses to finance themselves in local currency.** IFIs can have a catalytic role in developing local currency capital markets and products.
- **Increasing financing reach to underserved segments** such as agriculture, women-led businesses, micro-businesses.
- **Expanding the availability PE and VC supply** for enterprises beyond the sectors usually targeted to date (such as IT and telecommunications).

There is scope for better alignment among various IFIs. Coordination is necessary to avoid situations where IFIs are crowding each other out. Cooperation both in analytical work and operations has clear advantages and potential for developing synergies.

Chapter 2: The existing supply of IFI products

In this chapter we describe the current activities of IFIs in CESEE. We present the list of currently available products, by product types and by IFIs, and then provide quantitative data on the scale and the composition of actual financing flows. We also elaborate on the role of EU-funded financial instruments, and include an analysis of the national credit guarantee programmes based on a country-by-country mapping of such initiatives.

The composition of the IFI product palette

In general, it is difficult to find consistent data on the activity of IFIs in CESEE. Already the list of products available is challenging to compile, as there are very few comprehensive sources.[6] As different IFIs use different geographical classifications, aggregating the data from country or project-level information is the only viable option.

Between 2012 and 2015, a relatively consistent dataset on IFI activity was produced under the Joint IFI Action Plan for Growth in Central and South Eastern Europe (JIAP). The JIAP was launched in November 2012 by the Presidents of the EIB Group, the World Bank Group, and the EBRD. The three institutions committed themselves to providing at least EUR 30 billion of new resources to the region over the subsequent two years to rekindle growth by supporting private and public sector initiatives, including infrastructure, corporate investment and the financial sector. The implementation of the JIAP has been described in periodic reports, which contained aggregate data on the IFIs. Unfortunately, this data collection stopped after 2014 (see EBRD et al., 2015).

The working group initiated a unique data collection on the scale of IFI product offer in the CESEE region. Financing volumes have been divided by policy priorities and instrument types. This allows us to see in what policy priorities and instruments are the activities of the IFIs concentrated in the region, where they overlap and support each other and, lastly, where there are possible financing gaps.

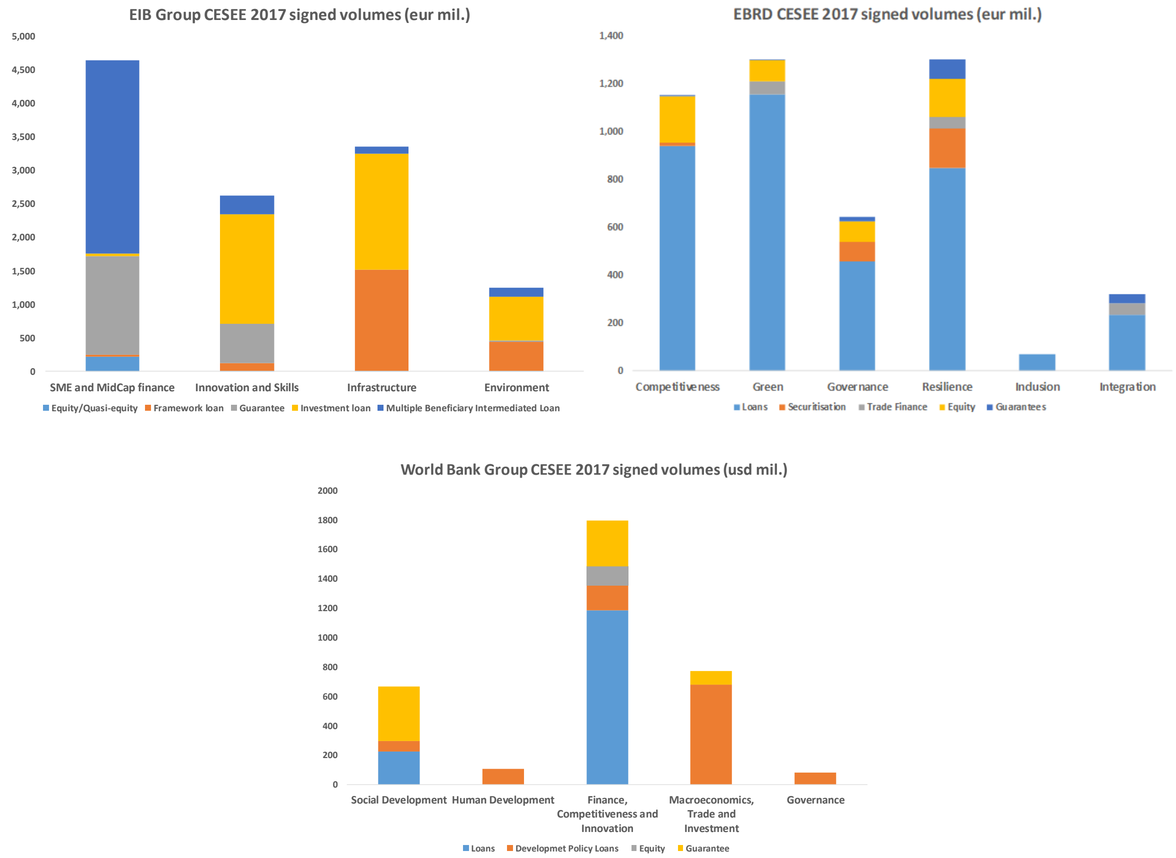
The IFIs covered in this exercise are the European Investment Bank Group (including the European Investment Fund), the European Bank for Reconstruction and Development and the World Bank Group. The country coverage includes both the EU members and non-EU countries from CESEE. The data covers signed volumes for 2017.[7]

Comparative data collection is made difficult by the different objectives and methodologies of the IFIs. Each IFI has its own set of policy objectives, and product classification categories, which they use for data reporting purposes. As these categories are generally non-overlapping, we decided to report these data separately for each IFI.

[6] The inter-institutional Global Toolbox initiative, hosted by the International Finance Corporation (IFC), provides a one-off data collection list of product by IFIs by continents, with the idea of regular updates. However, the data does not allow to restrict the geographical scope to CESEE.

[7] Countries include the Czech Republic, Hungary, Poland, Slovakia, Slovenia, Bulgaria, Croatia, Romania, Estonia, Latvia, Lithuania, Albania, Bosnia-Herzegovina, North Macedonia, Kosovo, Montenegro, Serbia.

Figure 6: IFI activity in CESEE by policy objective



IFIs have been pursuing a heterogeneous set of policy objectives in the region. Figure 6 summarises these for each of the 3 IFIs:

- For the EIB Group, *SME and midcap finance* has been the objective with the largest financing volume in 2017. This was followed by *Infrastructure*, and *Innovation and Skills*, which are also important EIB priorities in CESEE in signed volume terms.
- For the EBRD, the objectives of *Resilience, Competitiveness* and *Green* have the largest signed volume in the region.
- Finally, the World Bank Group has most of its activities in CESEE in terms of signed volume centred on *Finance, Competitiveness & Innovation*, followed by *Macroeconomics, Trade and Investment* as well as *Social Development*.

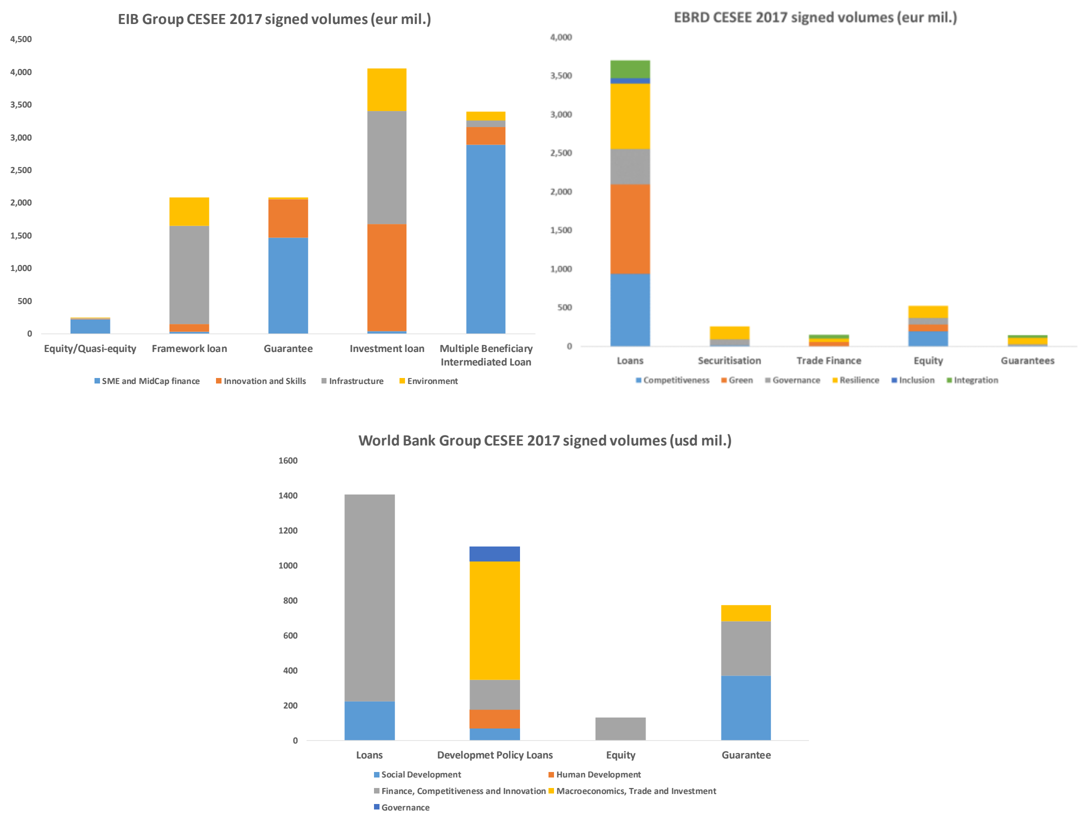
The data also allows us to see what type of instruments have financed each of the priorities. In particular:

- The EIB Group is using predominantly *Multiple Beneficiary Intermediated Loans* and *Guarantees* to support SMEs. *Investment Loans* are used to finance the *Innovation and Skills* priority, while a combination of *Investment Loans* and *Framework Loans* to finance Infrastructure and Environment.
- The EBRD is using predominantly *Loans* to finance its priorities, but also undertakes *Equity Investments* in most of them. In addition, capital market investments are used for the

Governance and *Resilience* priorities of the EBRD, and *Trade Finance* is used for *Resilience* and Integration.

- The World Bank Group is financing Social Development with Loans and Guarantees, Human Development with Guarantees, then Finance, Competitiveness and Innovation predominantly with Loans, and finally Macroeconomics, Trade and Investment as well as Governance priorities with Guarantees.

Figure 7: IFI activity in CESEE by type of instrument



Not surprisingly, loans are in the forefront of IFIs activity in the region, but guarantee activity is also significant. Figure 7 shows the breakdown of IFI activity by types of financial instrument. Loans are the most prevalent type of instruments, but guarantees are also an important part of the activities of the EIB Group and the World Bank Group. Equity takes only a small share of the overall product share – this is a category where an increase could be necessary as there is potentially a need for more IFI equity finance in in CESEE in order to boost innovation.

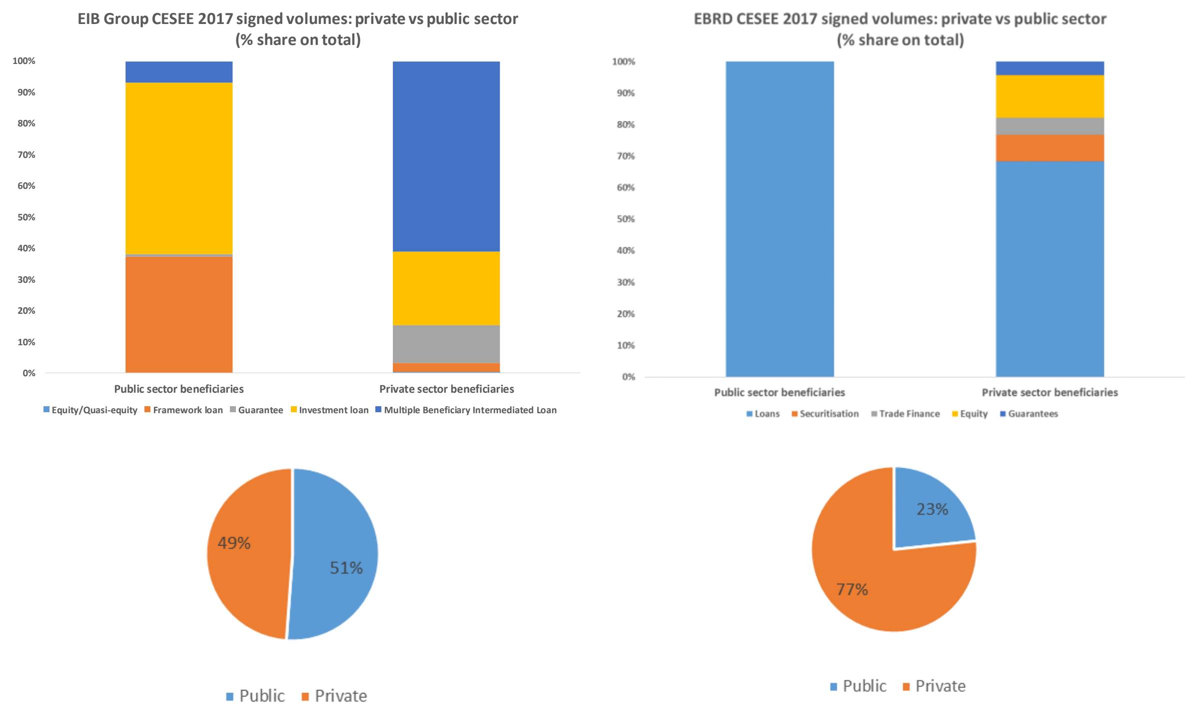
Using figure 7, we identify what policy priorities are pivotal for individual financing instruments for each of the IFIs. In particular:

- for the EIB Group the *Equity and Quasi equity* is used predominantly for *SME and MidCap Finance*. *Framework loans* are dominated by the *Infrastructure* and *Environment* priorities. *Guarantees* are used for *SME and MidCap Finance*, but to a smaller extent also to support the *Innovation and Skills* prioritiy. *Direct investment loans* are spread among *Infrastructure*, *Innovation and Skills*, and *Environment* priorities, and *Multiple Beneficiary Intermediated*

Loans – products intermediated by commercial banks – are financing mostly the *SME and MidCap Finance* priority.

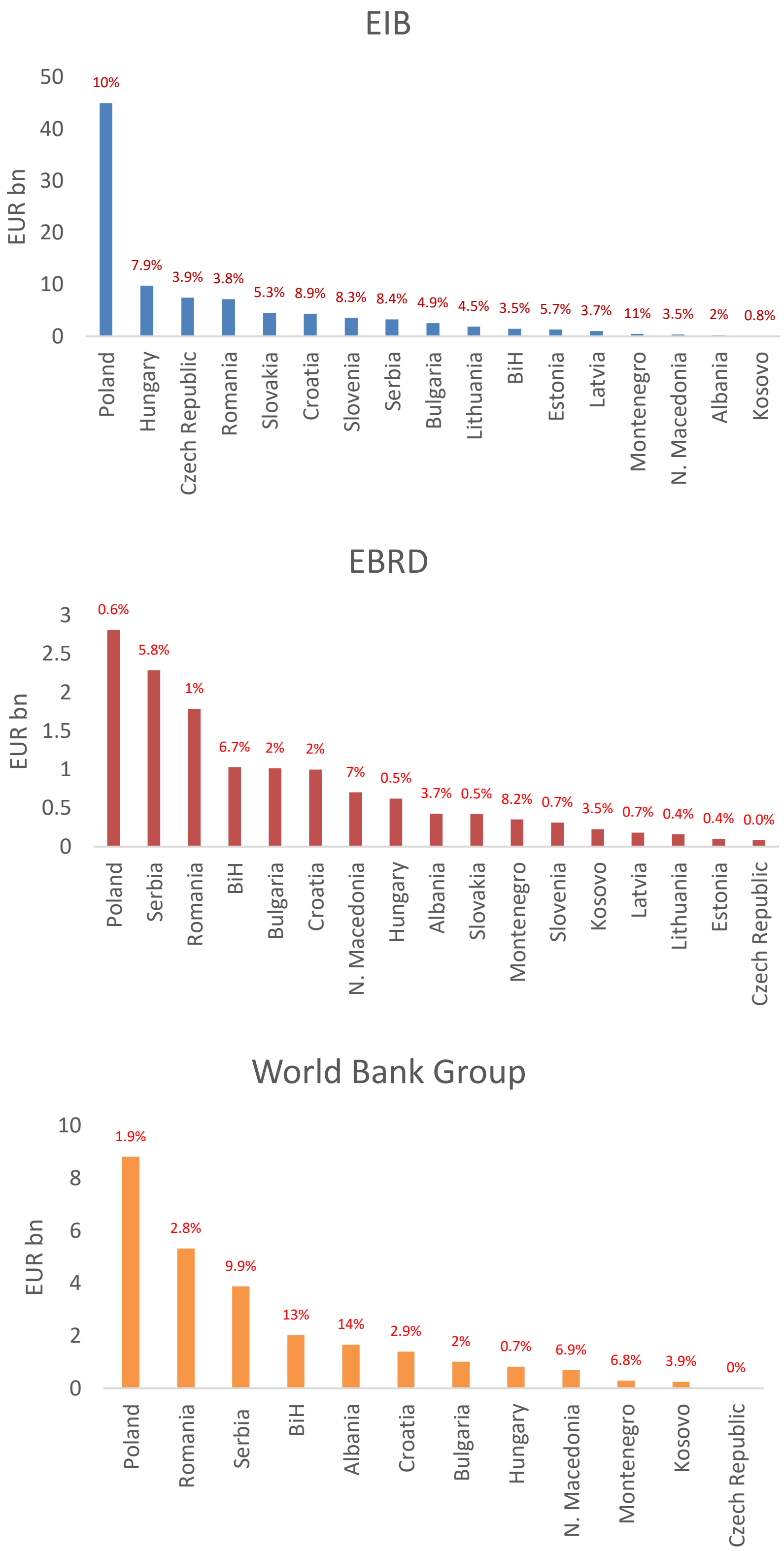
- For the EBRD *Loans* are the key instrument for supporting all of the priorities. *Trade finance* is used to finance the *Resilience* and *Integration* priorities. *Equity finance* is used to support mostly the *Resilience* and *Competitiveness* priorities.
- In case of the World Bank, *Loans* are used for the *Finance, Competitiveness and Innovation* priorities and *Social Development*. *Development policy loans* are used to finance all World Bank priorities but are more heavily tilted towards financing the *Macroeconomics, Trade and Investment* priorities. *Equity* is used for the *Finance, Competitiveness and Innovation* priorities, and *Guarantees* are spread among the *Finance, Competitiveness and Innovation* priorities, *Social Development* as well as the *Macroeconomics, Trade and Investment* priorities.

Figure 8: IFI activity in CESEE by private and public sector beneficiaries



Another perspective that the mapping of IFI instruments could provide is the beneficiaries' differentiation between private and public beneficiaries. Figure 8 above shows for the EIB case in terms of EIB and EBRD signed volume in CESEE in 2017 by beneficiary type. *Multiple Beneficiary Intermediated Loans* are the predominant tool to address private sector needs by the EIB group. These loans are intermediated by commercial banks in the individual countries, and are targeted at SMEs. *Direct Investment Loans* – targeted at larger companies – and *Guarantees* represent the second and third most important instruments for private sector beneficiaries.

Figure 9: IFI total exposures in CESEE by country, end-2017 (EUR bn, and % GDP as data labels)



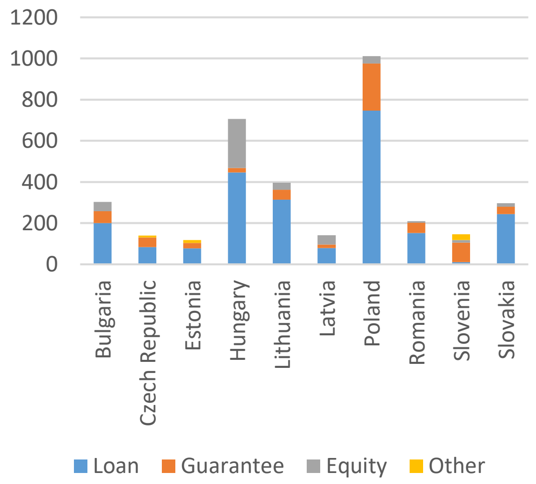
The role of EU financial instruments, and their overlap with IFI activity

In parallel with the self-funded activity of IFIs in easing access to finance, EU funds have been also used in CESEE to create various types of financial instruments specifically established to deliver EU policy objectives.[8] The pertinence of using financial instruments in complementarity with grants for EU funding has been growing. As a consequence, financial instruments have been used more and more extensively with each new EU budgeting period.

Financial instruments have some appealing characteristics relative to grants. They increase the sustainability of public investment in the sense that they can re-cycle capital for future use (as opposed to the one-off nature of non-repayable grants). They have a leverage effect that enables them to unlock greater levels of public- and private-sector resources, thereby increasing the capital available for policy purposes. Financial instruments incorporate private-sector participation in project selection, decision-making, management of commercial operations and thus increase efficiency and the ability to achieve commercial returns. They can ensure greater commitment by project promoters to the quality and credibility of investment plans, by sharing the risks involved.

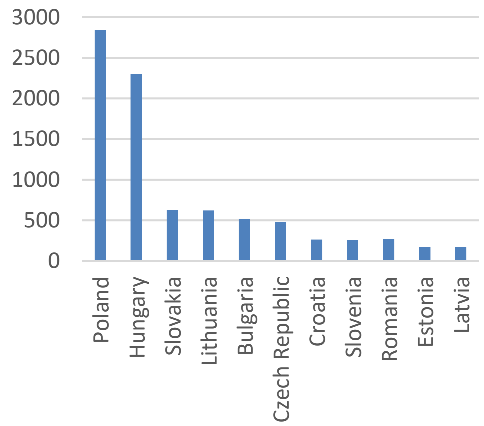
Within ESIF, financial instruments are used as a delivery mechanism under the European Regional Development Fund (ERDF), and to a lesser extent under the European Social Fund (ESF). Since the 2014-2020 programme period, however, FIs can also be used for the Cohesion Fund (CF). These instruments are implemented within the framework of operational programmes (OP) which are negotiated between the European Commission and the MS authorities and implemented by the managing authorities responsible for these programmes in the context of shared management. Furthermore, FIs are also used under the European Agricultural Fund for Rural Development (EAFRD) and the European Maritime and Fisheries Fund (EMFF). The scale of financial instruments under deployment as part of ESIF in CESEE are shown on figures Figure 10 and Figure 11.

Figure 10: Contribution from ESIF to financial instruments between 2007 and 2013 (EURm)



Source: European Commission

Figure 11: ESIF amount committed to financial instruments for the 2014-2020 budgeting period (EURm)

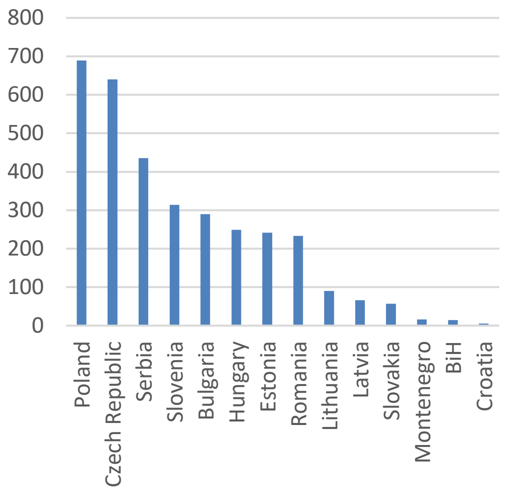


Source: European Commission (January 2019)

[8] In the context of the EU budgetary framework, Financial Regulation No 966/2012 defines financial instruments as "measures of financial support provided on a complementary basis from the budget in order to address one or more specific policy objectives of the Union. Such instruments may take the form of equity or quasi-equity investments, loans or guarantees, or other risk sharing instruments, and may, where appropriate, be combined with grants."

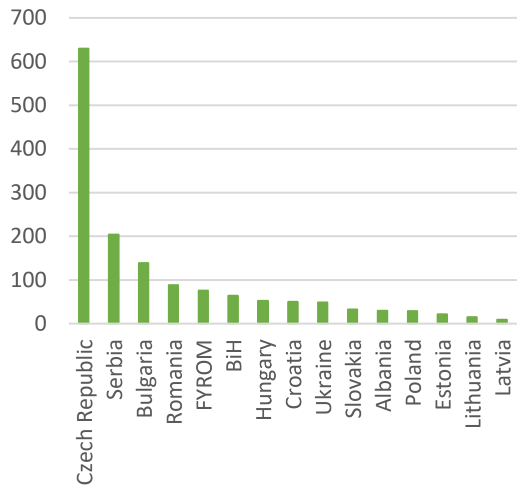
Besides ESIF, financial instruments under centrally managed programmes (COSME, InnovFin, EFSI) are also available in CESEE countries (see figures Figure 12 and Figure 13).[9] Some of the centrally managed instruments are also available for CESEE countries outside the EU. Furthermore, some specific financial instruments for non-EU countries also exist as part of the EU's external actions.

Figure 12: Amounts committed as guarantees to final recipients in CESEE under COSME (EURm)



Source: EIF, 2018

Figure 13: Amounts committed as guarantees to final recipients in CESEE under InnovFin (EURm)



Source: EIF, 2018

The IFIs product palette also includes some of these instruments, in particular that of the EIB group. The EIB has been entrusted with the implementation of certain financial instruments under shared management, and most of the financial instruments under central management. While the majority of the financial instruments under ESIF are implemented by domestic entities, the EIB group has been involved as financial intermediary in many cases in the deployment of guarantee and equity products. In case of the centrally managed financial instruments currently in operation, their implementation is entrusted to the EIB or the EIF, although in most cases through local intermediaries.[10]

Overview of the national credit guarantee programmes[11]

All IFI products in general co-exist with the toolkit of national institutions aiming at better access to finance, such as national public guarantee schemes. Ideally, IFI products should complement, rather than compete with the instruments already available at a national level. It is therefore important for the IFIs to learn about the existing toolkit, and develop their own instruments to address those areas which are not covered sufficiently by already existing ones.

With that in mind, we initiated a detailed mapping of the offer from the side of local guarantors in CESEE. The objective was to create a country-level dataset, which, beyond being a repository of information on national guarantee products, can also serve as a tool to identify gaps in the market,

[9] COSME is the EU programme for the Competitiveness of Enterprises and Small and Medium-sized Enterprises running from 2014 – 2020. InnovFin is a joint programme by the European Commission and the EIB Group that provides finance for research and innovation to entities that may otherwise struggle to access financing. The European Fund for Strategic Investment (EFSI) is one of the three pillars of the Investment Plan for Europe and aims to overcome current market failures by addressing market gaps and mobilising private investment. Technically EFSI is a trust fund, yet it closely resembles to centrally managed financial instruments.

[10] The role of financial instruments in the post-2020 EU budgeting framework is discussed in Chapter 4.

[11] The analysis behind this section and the corresponding data collection shown in Annex 3 has been provided by UniCredit.

i.e. those financial needs within the CESEE economies which are not covered by the local guarantors. The country-by-country overview can be found in Annex 3.

We found that the supply of guarantee products is quite heterogenous across the region. In Bosnia and Herzegovina, Bulgaria, Hungary and Croatia the supply of guarantee products is strong and diverse. In the Czech Republic, Serbia, Slovakia and Slovenia, the supply is more limited and the market is served by a single institution.

Figure 14: Overall offer of local credit guarantee institutions

√√√ **Outstanding**	√√ **Medium**	√ **Low**
Bosnia and Herzegovina	Moldova	Czech Republic
Bulgaria	Romania	Serbia
Croatia		Slovakia
Hungary		Slovenia

In general, the following gaps in the supply of guarantee products could be identified across the region:

- There is a lack of products dedicated to mid-caps. Most national guarantee programmes focus mainly on SMEs. However, many mid-size companies of the CESEE region suffer from collateral shortages and as a consequences, difficulties to access external finance.
- There is a lack of instruments targeting working capital, especially with longer maturities. This is particularly important in certain segments, such as high-growth export-oriented companies.
- Products dedicated to public or semi-public entities are still rather limited – the current offer is focused more on private sector lending.
- National programmes are often focusing on debt instruments, however, in many cases, equity instruments are better serving the companies' financing needs.

In addition, the following lessons would be beneficial to be taken into account during the development of further new financial instruments in the future:

- New financial instruments should be designed with the already available instruments in mind, and should address the existing gaps on the CESEE market. It is important to avoid creating overlaps; rather, the instruments should suit the local needs in order to create value and additionality.
- Portfolio-based guarantees have an advantage in terms of simplicity and speed, which allows financial intermediaries to better serve clients' needs in the case of smaller companies.
- In some countries parallel programmes create complexity to both banks and clients. This can be avoided if programmes are complementary rather than competing with each other.

Chapter 3: The private sector's view on IFI products

This chapter summarises various stakeholders' feedback on IFI financing products towards the private sector in CESEE. These stakeholders include commercial banks, which act as intermediaries for IFI funding towards the SMEs, MidCaps and other corporate clients of the region, representatives of the private equity/venture capital investment community, and large privately owned corporates.

Views from the region's commercial banks[12]

Commercial banks operating in the region generally view their cooperation with IFIs as a success story. They acknowledge the active role IFIs played in the development of the banking markets in CESEE region, as providers of funding, liquidity, instruments of risk transfer, and even equity in certain cases. The strong and lasting relationships between banks and IFIs provide a solid basis for continuous diversification of financial instruments and coordination of activities.

Commercial banks are more than intermediaries: through financial instruments, they are also key partners in implementing the IFIs' policy objectives. Nevertheless, when designing instruments, IFIs need to be aware that not all policy objectives are suitable to be implemented through instruments intermediated by banks. In principle, the projects and sectors that are targeted by financial instruments should be "bankable", otherwise the incentives are misaligned. The objectives and conditions of eligibility of products should reflect the trade-off between reaching the highest possible leverage, and targeting the riskier segments of the corporate sector. In addition, the intervention of IFIs should respect the principle of additionality: they should act as the commercial banks' partner rather than as their competitor.

Under the current market circumstances, IFIs' capital relief products are more suited to support the lending activity of commercial banks than products that provide liquidity. Currently the banks operating in the region have liquidity buffers, while funding costs are at record low. At the same time, they face capital limitations that may hinder their risk-taking ability. This scarcity of capital is partly a legacy of the crisis, and partly induced by the tightening of the regulatory environment.

In such an economic environment, credit guarantee and securitisation products add particular value. They increase the private companies' access to finance by reducing the cost of finance and through alleviating the collateral constraints. For the banks, they bring partial capital relief, decreased credit risk and shorter recovery periods.

Credit guarantee products could be improved in several areas. Firstly, inclusion of working capital in a wider set of guarantee programmes could increase the ability of banks to reach a wider set of SMEs. In many countries, there is a strong demand for such products – e.g. overdrafts – by small, credit-constrained firms. Secondly, IFIs should consider allowing the repricing of credit guarantees at least once mid-term. Market conditions change during the lifetime of the guarantee agreement, and changes in the pricing may be necessary to keep the products attractive for SMEs in a rapidly changing interest rate environment. Thirdly, further simplification is needed, as currently the additional administrative work, such as eligibility checks, reporting duties may outweigh the

[12] This section is based on a note jointly drafted by KBC Group, Unicredit, Erste Bank and Raiffeisen Bank, and on various interventions of these banks during the working group's meetings.

benefits, particularly in case of programs of smaller volume. The standardization and simplification of the reporting structure could significantly reduce compliance costs. In this respect, financial institutions have high hopes for the InvestEU framework envisaged for the next Multiannual Financial Framework, and the potential simplification that it could bring for the next generation of financial instruments.

Combination of various FIs, as well as FIs with EU grant programmes and with domestic funding programmes has a large, currently untapped potential. However, the legal and practical implementation of such combinations can be rather opaque, mainly from the viewpoint of ensuring regulatory compliance, from the perspective of ESIF, State aid and also in some instances procurement regulations. The path of combining IFI financial instruments with EU grants and national sources for funding investment should be further streamlined in the next MFF, building on some of the principles introduced in the recent Omnibus Regulation. Commercial banks would appreciate the dissemination by IFIs of information on best practice and tried and tested and models of such financial instrument and grant combinations through, for example, the EU-wide *fi-compass* advisory platform.

The demand for local currency funding has increased compared to the pre-crisis period. The vulnerabilities associated with foreign currency borrowing in CESEE during the crisis led to a shift in demand. Clients are much more aware of the exchange rate risk embedded in FX-denominated loans, while their advantage in terms of lower nominal interest rates is much lower now than it used to be. Furthermore, due to the legacy of the crisis, national regulatory and supervisory authorities have introduced a tighter prudential treatment of FX-denominated financial instruments. .

To reflect this shift, IFIs should consider further broadening of their domestic currency-denominated product palette. There have been a positive shift in this direction in the last years. Nevertheless, the supply of products in local currency could be further increased.

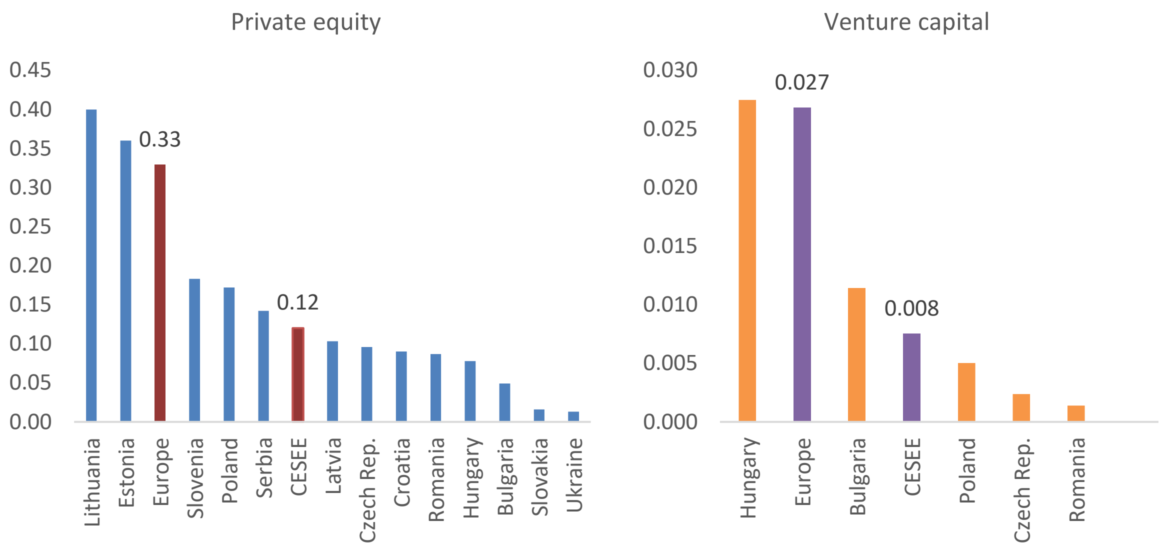
The compliance with the minimum requirement for own funds and eligible liabilities (MREL) will pose challenges for the banks operating in the region. The low level of development or even the lack of capital markets for private debt securities can hinder the issuance of MREL-eligible instruments. As to the investor base, potential foreign investors are often not familiar with the CESEE markets, while potential local investors are limited. For these practical reasons, a long transition period will be necessary to implement the legislation fully. It is important to highlight that the policy purpose of the provisions on MREL is to take the burden of bank resolution off the shoulders of the public sector. Nevertheless, IFIs may consider playing the role of door opener for other investors, on a temporary basis, in those markets where the current level of capital market depth and development struggles to absorb the issuance of MREL-eligible securities.

In some cases, the definitions of eligibility prevent commercial banks from using IFI products to support business with otherwise financially constrained clients, such as MidCaps. For financial institutions, the definition of SMEs will gain further importance when the new EU securitisation framework comes to effect. The European Commission has launched a process of (possible) revision of the current SME definition. The external consultants appointed by the Commission are conducting a joint evaluation and an impact assessment for the revision. Commercial banks active in the CESEE are strongly welcoming this initiative, and are willing to share their experience and actively contribute to this work.

Views from the private equity/venture capital sector[13]

Private equity (PE) and venture capital (VC) activity in CESEE is still well below the EU average. According to data from InvestEurope, as a proportion of GDP, PE and VC investments in the region are only a third of the EU average. The annual volume of PE investments in CESEE in 2016 was around EUR 1.5bn, 45% of which has been directed to Poland. VC investment account for 6% of total PE volume, with 70% of the recipients being start-ups. Hungary accounted for 31% of the regional VC investment in 2016. Almost half of the overall volume has been targeting the ICT sector.

Figure 15: Private equity and venture capital investments in CESEE (%GDP, 2016)



Source: InvestEurope

The relatively low level of PE and VC financing can be a barrier to private sector innovation. Relative to the EU average, companies in CESEE put a higher share of their investment spend into tangible assets – machinery and equipment in particular - , and invest significantly less into intangibles, such as research, innovation and training.

Before 2011, the CESEE market was dominated by a handful of regionally-focused venture capital funds. In many CESEE countries, the public sector took an important role in setting up institutions or programs for providing equity financing to the market, but this happened only selectively into particular investment stages, especially into the early pre-seed, seed or start-up phases. These programs and products had – and still have – many limitations and constraints. In the meantime, professional equity financing was available only for a limited number of companies.

Major changes happened during the 2007-2013 programming period due to the increased use of equity as a tool to deliver the European Regional Development Fund (ERDF), including through JEREMIE, 'Joint European Resources for Micro to Medium Enterprises'.[14] This increased use of ERDF in the equity field resulted in an increased number and weight of venture capital funds financing early-stage businesses (start-ups) and the infrastructure for supporting start-ups strengthened.

[13] This section is based on a contribution of the Hungarian Venture Capital Association (HVCA).
[14] JEREMIE 'Joint European Resources for Micro to Medium Enterprises', was an initiative of the European Commission developed together with the European Investment Fund. It promoted the use of financial engineering instruments to improve access to finance for SMEs via Structural Funds interventions.

This increased use of equity funds as a tool to deliver ERDF was characterized by significant differences among the CESEE countries. The fund size, the number of funds and the fund management selection process were different from country to country. For example in Hungary, by the end of the period, there were 28 publicly co-financed venture capital funds looking for investment opportunities in the Hungarian market, resulting in abundant funding from time to time on the market, while no or very limited available funds at certain (interim) periods.

This inevitably boosted the entire VC ecosystem and start-up world in the region. It provided available VC fundswith abundant funding compared to earlier periods. Increased the visibility of this type of equity financing and fostered the market pointing out the need for more venture capital financing in the CESEE. All in all, this use of ERDF gave a strong boost to the VC ecosystem, and also increased its visibility.

While in most CESEE countries ERDF-supported VC funds delivered a clear quantitative impetus to the market, improvements in the qualitative aspects of the VC industry and ecosystem have been somewhat slower. This ERDF funding provided – often unequally in time and development stage – sources for equity financing, but management practices were often lagging behind the more mature Western European professional VC market. Nevertheless, the implementation – tendering, the investment scheme (private LP requirements and fund setup), management selection – differed significantly from one country to another.

This experience showed certain limitations that could have been observed in several of the countries involved. For instance:

- First, in many cases, many funds were set up at the same time, with very similar focus and size. In some cases his led to funds looking for similar investment opportunities at the same time. With the benefit of hindsight, a more gradual build-up, with staggered launches of the various funds, would have been better.
- Second, the new funds have been facing the same size limits due to "*de minimis*" rule. A more diversified fund structure accross industries or investment stages would have helped.
- Third, often the bureaucratic barriers were found to be cumbersome, yet operationally ineffective at the same time as they offered workarounds (an example is the narrow geographical areas for eligibility)**.**
- Fourth, involving international expertise along with the national bureaucracies in the public procurement and tendering procedures would have led to better outcomes. This problem was particularly visible in the countries where the programme was fully managed by the national authorities. This structure has been considered less successful relative to those countries where EIF was more closely involved in the selection process.

In principle, VC funds supported by IFIs or the EU should provide incentives for best practices of the professional VC industry, with the appropriate incentive structures in place –yet at the moment it is not always the case. Local institutional investors – such as insurance companies and pension funds – have only very marginal participation in the VC market, ant there are basically no corporate limited partners (LPs) among the investors.

Many ERDF-supported funds have a very narrow investor base – usually one local high new worth individual per fund. The decision-making is kept or controlled by the single high net worth investor in many cases. Consequently , the management teams are typically not strongly positioned. They tend to make proposals only rather than decisions. They typically do not have stakes into the funds, which weakens their incentives to achieve strong performance. Within the ERDF delivered by the JEREMIE model in particular, typically one single investor per fund provided the requested private sources – at cca. 30% on average. Beyond weakening the role of the management team, these structures limited the funds to build and participate in any international or European network of limited partners. All in all, the JEREMIE programme often provided equity sources to high net worth local entrepreneurs to finance business, but in many cases it had only very limited success in developing the ecosystem in some qualitative terms.

Future IFI-supported PE/VC programmes should aim at broadening the local investor base. To support the long-term self-sustainability of the market, it is important to engage available local private sources. This can be done, for example, by involving local institutional investors – insurance and pension funds – and corporations into LP positions with tax incentives or supportive regulatory framework. One way to achieve this objective is through providing stronger incentives to fund managers, e.g. via loan products for equity participation.

Future IFI provided VC programmes and products should have an increased focus on the qualitative results beyond the quantitative terms. The new generation of products and services should build more on fund management teams, as the management is the key for changing and developing the CESEE VC ecosystem. There are a few particular challenges of managing VC funds in CESEE. First, the market is less mature and teams have less track record or good exits. Second, the funds are smaller and usually do not reach the threshold of international professional limited partners. Third, management teams are often not able to provide significant commitments as general partners into the fund, as loan products for management to support such commitments are not available.

Feedback from corporate clients[15]

Larger companies in the CEE4 countries seem to be sufficiently familiar with the product offer of the three IFIs (namely the EIB Group, the World Bank Group and the EBRD). The majority of the surveyed firms have at least considered taking a loan or another financing instrument from an IFI. However, many of them have never actually taken a loan from any of the three IFIs.

Very few privately owned local corporates in the CESEE region have access to IFI loans directly. This is mostly due to the size issue. Private, domestically owned companies in the region tend to be smaller than their Western European peers. Even those companies that count as large by local standards would count as SME or MidCap by EU classifications. Large domestic companies are usually found only in the state-owned sector. As a consequence, corporates are typically accessing IFI funding through local commercial banks as intermediaries. Our survey respondents, when asked about factors that led them to decide not to take loans from IFIs, quoted mostly the following: bureaucratic burden and long decision-making process, inflexible conditions, little or no financial advantage over other offers by commercial banks or national promotional banks, or, finally, the

[15] This section is based on views from individual corporate sector participants in the working group. To complement that, the working group also conducted a brief survey with larger corporations in the Czech Republic, Slovakia, Poland and Hungary regarding their experience with the IFI instruments. The survey was processed by the local industry associations. While low number of responses do not allow for statistical analysis, some tentative conclusions can be summarised.

availability of non-refundable EU grants for the same project. This suggests that both the process of granting a loan by an IFI as well as the availability of competing offers matter. For those who actually took a loan from an IFI, the satisfaction with the service provided by a particular IFI was positive, but only partially.

Those privately owned corporates that had experience with IFI lending report mixed experience with IFI products. While in many cases IFIs and private lenders have cooperated and supported each other's activities for the benefit of the clients, in other cases there is competition between private lenders and IFIs for the same business.

When it comes to negotiating a loan, IFIs are less flexible than commercial banks. First, IFIs do not market their products well. It is very difficult to obtain information on the various different loan options, therefore even the financing options that have clear economic benefits get hidden from potential corporate clients. Furthermore, compared to private financial institutions, the decision-making process is slow: it does not take the importance of speed in business into account. In addition, the legal requirements –the use of non-national legal frameworks etc. - can be discouraging as well as the outdated fee structures, such as upfront costs. All in all, IFIs are lagging behind the more pro-active approach of private lenders.

Nevertheless, IFIs can really add value in ground-breaking projects, often involving higher risk, which would not have been possible to finance through commercial banks only. In many cases, IFIs and commercial banks complement each other. Working together with local banks, IFIs are able to overcome the size and risk limitations of the local commercial lenders. Furthermore, IFI funding is particularly suitable when entering new markets, riskier business segments, or when longer-than-usual maturity is needed. The price of accessing these conditions for the corporates is the higher overhead cost of compliance.

IFIs could provide a more attractive option for the corporates in CESEE by adapting their product offers to the specificities of the region. First, smaller ticket sizes (starting from EUR 25-50m) would be more suited to the project sizes of the region. Second, more flexibility in the loan structures – e.g. longer grace periods, quicker decision-making – would also help to make the IFI products more desirable. Third, as a product category, refinancing products for strategic assets are needed to release equity for new investment. In addition, our surveys' respondents would like to see more local currency products among the IFIs' loans and guarantees. They also revealed strong interest towards combination of grants and loans. In terms of what policy priorities could be enhanced in the IFIs' product offer, firms suggested competitiveness and export promotion, infrastructure, smart technology, e-government and energy sector enhancement.

Chapter 4: Selected issues

This chapter focuses on a handful of selected issues that are in one way or another critical in the delivery of the IFI products. These include the potential for combining grants and IFI financial instruments, the role of national promotional banks and institutions, the impact of the MREL regulation, and the proposed framework for EU financial instruments post 2020.

The potential for combining grants and financial instruments

Combinations of different forms of support to private investment exist in various forms. These are capital grants, loans with write-offs/capital rebates, interest rate subsidies, guarantee subsidies or technical assistance. The type of combination depends on the objective of the support.

The rationale for using capital grants in combination with financial instruments is that the investment is not generating sufficient net-revenue to repay the loan. This is primarily used to support investments with high socio-economic impact or projects experiencing specific market failures and/or abnormal costs.

- In the case of loans with capital rebates (or write offs) the grant is conditional to specific result indictors that go beyond the eligibility. For example, a write of off the loan is given when a higher energy performance class is reached than required or when people belonging to marginalised groups are employed.
- Interest rate subsidies or guarantee subsidies are used to reduce the cost of financing and thus facilitate the access to finance. This is a very common form of support in the SME or agricultural sector. These soft loans (or soft guarantees) are often used to provide aid to final beneficiaries that is significant lower than in grant schemes.
- Financial instruments combined with technical support/assistance are used to facilitate the investment. This support can be used to support the preparation of business plans in the area of micro finance or also supporting project preparation in physical investments.

The combination of different forms of support aims at providing additional incentives to final recipients. Nevertheless, often the complexities associated with combination can also generate disincentives to final recipients, to financial intermediaries and public administration and the results may be counterproductive. The most common problems are compliance with the EU regulatory framework of grants and financial instruments, State aid and the problem of coordination.

The Common Provision Regulation (CPR) regulating the European structural and investment funds (ESI) has specific rules regarding combination, and differentiates between combination in one operation and in two operations. In the first case, the financial instrument and the grant element are combined already at the level of the public authority or financial intermediary and come as a single product to the final recipient and in the latter case the combination only happens at the level of final recipient. The CPR establishes the principles that grants cannot be used to repay financial instruments and financial instruments cannot be used to pre-finance grants and that there can be no double financing of the same operation from EU budget.

Final recipients often find themselves in the situation that without the grant the project is not viable and without the bank funding the project cannot be implemented. In an ideal situation, both forms of support should be in place at the same time, which entails some organisational challenge as grants are usually provided through calls, and bank financing follows its own procedures.

For financial intermediaries the combination of support is often associated with additional administrative burden. There is the need to keep separate records for different forms of support, to check the cumulative state aid provided to final recipients and in some cases also different eligibility or audit rules need to be observed. This is a significant administrative burden resulting in higher management costs and higher complexities.

The complexity is even larger when ESIF support is combined with grants or financial instruments from EU level - such as COSME, LIFE or Horizon 2020 or support from the European Fund for Strategic Investments. ESIF grants require national co-financing, which is often provided through bank lending to final recipients, but due to the rules described above it cannot come from EU Financial Instruments or EFSI. There have been several cases of double financing and subsequently financial corrections in the past.

It is recommended to move from the current form of combination of two different forms of support to genuine blending. Blending would involve the financial intermediary providing the final recipient with one financial product where grants and FI are already integrated. In addition, the eligibility rules and state aid rules between the different EU funds should be aligned in a single set of rules.

There should also be a higher degree of flexibility on the grant intensity of the blended product. The percentage of support should not be prescribed in a high-level document, such as the Operational Programme, but it should be possible to adjust it to the current market situation, such as changing interest rates in the market.

In the European Commission proposal for post-2020 Common Provision Regulation, which was published in May 2018, several of the recommendations above have been taken up. The proposal introduces the possibility of having an ancillary grant integrated in a financial product, which only needs to comply with the rules on financial instruments. This is allows banks to be the single entry point for the combined/blended support. In addition, the CPR mentions an alignment of eligibility rules with Horizon Europe, which will facilitate the support. Further work is still needed to develop the possibilities to combine the proposed new InvestEU fund with financial instruments and grants under shared management for post-2020.

Uncertainty still exists on how to use capital rebates in post-2020. The principle that grants cannot be used to repay financial instruments and financial instruments cannot be used to pre-finance grants was retained in the new CPR. Regarding InvestEU the successor to EFSI and other existing EU level financial instruments, it is not clear if financing from this instrument can be used as co-financing of ESIF grants. Clarification on this point should be obtained from the European Commission.

MREL: a challenge for CESEE banking

After the large costs of bank restructuring to tax-payers during the financial crisis, regulators across the globe have introduced a number of new measures aimed at strengthening the banking

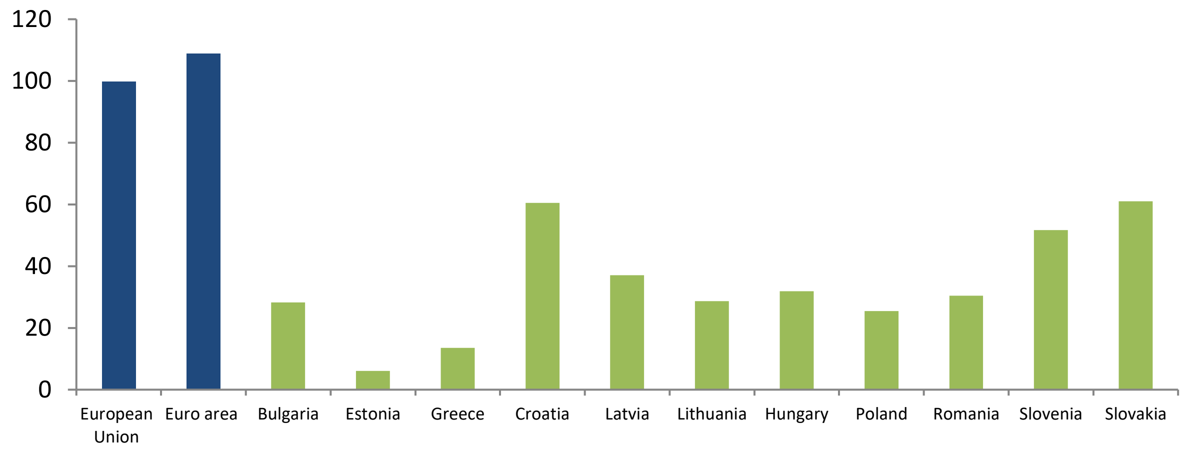
sector. One of the most important objectives was to resolve the „too-big-to-fail" problem through improving the loss absorption capacity of the banks. On one hand, capital requirements were tightened, which has led to better-capitalised banks. But the concept of loss absorption stretched beyond the „going-concern"; it was essential that banks hold enough such liabilities that can be used to either absorb losses of a struggling institution or allow for its recapitalisation, thus, ensuring smooth resolution process.

The Financial Stability Board (FSB) determined requirements that global systemically important banks need to fulfil to ensure sufficient loss-absorbing capacity (Total Loss Absorbing Capacity, TLAC). In the EU, a regulatory framework for bank resolution was introduced the through Bank Recovery and Resolution Directive (BRRD), together with the Minimum Requirement for Own Funds and Eligible Liabilities (MREL). Member states were required to set up national resolution authorities responsible for determining the amount of loss-absorbing or „bail-in-able" instruments to be held by banks under their supervision, on an individual basis. The EC delegated regulation on MREL entered into force on 23 September 2016. The national resolution authorities may determine an appropriate transitional period to reach the final MREL.

While it is clear that the new EU bank resolution regime is a welcome development, aspects that require further clarification still exist. This is particularly relevant at national level, with questions ranging from defining MREL-eligible instruments, calibrating MREL requirements, to challenges in implementation in countries with less developed capital markets. The latter issue in particular merits further attention in the context of CESEE.

While finance in the EU is generally bank-centric, with capital markets playing a less prominent role, there are still significant differences in capital market development among member states. The 11 new EU member states exhibit significantly lower reliance on debt capital markets relative to the EU or Euro area average. The situation is, if anything, even more challenging for the candidate and potential candidate countries in Western Balkans.

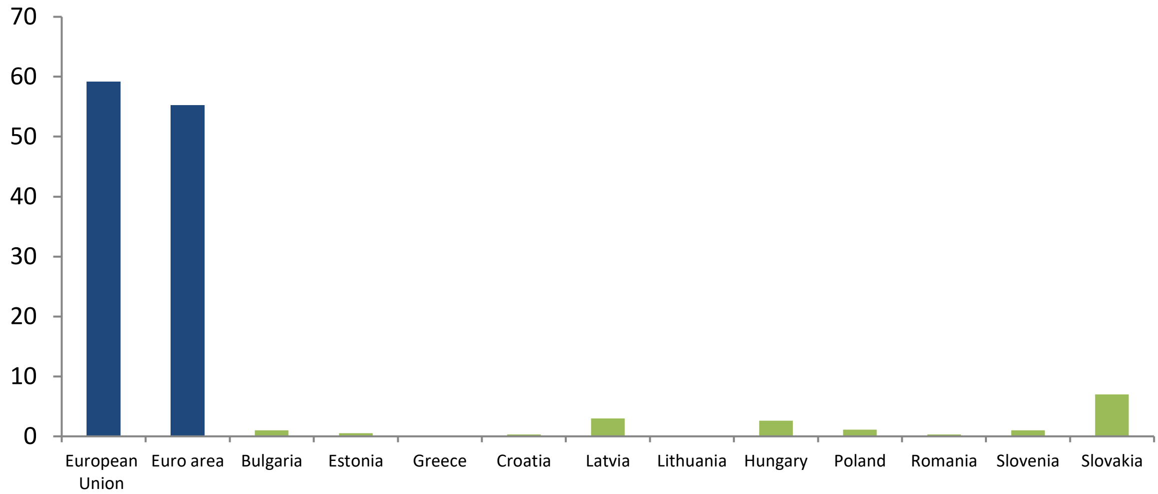
Figure 16: Outstanding amount of debt securities, sovereign included (% of GDP, 2016)



Source: Eurostat

It is also worth pointing out that bond markets in both the EU members and the (potential) candidate countries of CESEE are dominated by sovereign issuances. Once sovereign issuances are accounted for, and we focus on bank bonds, the difference is even more pronounced. Muted activity in the bond market, at least in some countries, is partially a result of deleveraging; with assets on the declining path and excess liquidity, there was no need to engage in bond issuances. But there are also structural challenges, such as small domestic markets, which limit the size of potential bond issues, lack of diversified or in some cases any investor base, unfamiliarity of investors with the new and relatively untested framework, including the lack of adequate pricing benchmarks.

Figure 17: Outstanding debt securities issued by financial institutions (% of GDP, 2016)



Source: Eurostat

Against this background, the Vienna Initiative could potentially play an important role to ensure that the compliance with MREL targets does not impact bank lending in the region. It is necessary to continue the consultation and coordination with the participation of IFIs, commercial banks, national and EU-level regulatory authorities, and the credit rating agencies on the potential impact of the MREL on the region's banking systems. Policies need to put in place to ensure that meeting MREL targets does not lead to an unwarranted adverse impact on lending.

The possibility of IFIs to invest in MREL-eligible securities could be considered as part of the solution – but only under special circumstances and on a temporary basis. One has to bear in mind that the purpose of the provisions on MREL was to protect public funds and to take off the burden of bank recapitalisations from the public sector. Nevertheless, IFIs could – and some already do – play the role of „door openers" and mobilise other institutional investors in MREL instruments through co-investments.[16] Mobilisation of private sector participants remains crucial, so investments by IFIs should not be seen as defeating the purpose of BRRD and MREL. IFIs, could help in scaling-up the amount of MREL eligible instruments, and supporting regulatory alignment of financial institutions with the EU resolution framework.

The role of national promotional banks, and co-operation with IFIs

National Promotional Banks and Institutions (NPBIs) are back in vogue. Although the theoretical and empirical debate on the role of public support in investment finance continues to sway back and

[16] EBRD invested in MREL instruments in Poland and Romania in 2018.

forth, the 2007–08 global financial crisis renewed policy makers' interest in NPBIs as a policy instrument to fill perceived gaps or complement the public policy toolkit.

NPBIs, and development banks in particular, play an important role in supporting economic growth. Following the financial crisis there has been a renewed interest in development banks and other public institutions of similar functions. Essentially, a NPBI serves as a vehicle for mobilizing and channeling medium- and long-term capital into the economy and addressing market failures under the strategic direction of the government. In carrying out their public mission, NPBIs can engage in financing both public and private sectors, delivering financial support to infrastructure, municipalities, healthcare, social housing and enterprises of all sizes, ranging from start-ups to large corporations, with usual particular focus on SMEs or innovation and export-oriented companies.

Almost all EU countries have now established NPBIs, reflecting their growing role and value in channelling financial resources. Some are long-established and have significant experience in implementing financial instruments, such as KfW (Germany), Cassa Depositi e Prestiti (Italy), HBOR (Croatia) and BGK (Poland). Others were only established recently, such as the Strategic Banking Corporation of Ireland (SBCI), Malta Development Bank and the Portuguese Development Financial Institution (IFD), which were set up in the last few years. Most institutions source parts of their funding on capital markets by issuing bonds – and some are quite important issuers. Funding from other IFIs, particularly the EIB Group and other European and global IFIs (such as EBRD, CEB or World Bank) remains significant.

European governments have been increasingly utilizing NPBIs to use public funds more efficiently in countercyclical and structural policies during and after the crisis. NPBIs have been reformed to better support economic policies, while at the same time ensuring that their operations do not break competition law thus acting by addressing market failures and sub-optimal investment situations. NPBIs in Europe are being used to act counter-cyclically, to address market failures, to crowd-in private sector investments by taking more risk/longer tenors, to support creation of new markets etc.

This growing importance has been recognized in the 2015 EC Communication in the context of Investment Plan for Europe that outlines best practices, and suggests that NPBIs should be established. The same EC communication also stresses that cooperation between NPBIs and EIB Group should be enhanced. As part of EC's economic policy agenda, the EC advocates for a greater role of NPBIs. The principal economic rationale for having a NPBI are market failures and sub-optimal investment situations. Typical examples include

i. credit rationing and high return requirements due to banks' high transaction costs for identifying viable investment projects (e.g. in the SME sector),
ii. underinvestment in areas such as research & development, infrastructure, education and environmental projects, where the benefits of investments can accrue also to competitors, and
iii. under-supply of financial services resulting from market concentration due to mergers, exits of competitors or other impediments to effective competition.

EU member states differ with respect to how these activities are organized and to what extent a dedicated national NPBI performs them. In terms of regional patterns, many Central and Eastern European countries (similar to Germany, Italy or Spain) tend to have integrated national NPBIs which perform several tasks such as promoting investment in infrastructure, providing financing to regional authorities or supporting SMEs etc. The Czech Republic, Slovakia and Hungary have two institutions each: a more domestic-oriented promotional bank and the other one, supporting export and export-oriented enterprises. In contrast, Scandinavian countries and the Netherlands tend to have municipal credit institutions, which provide financial services to public entities and for instance help to finance public infrastructure development with a dedicated local focus. In addition, there are "sector-specific" institutions, for instance to promote SMEs, financial institutions with a specific sector focus (agriculture, housing) and joint regional initiatives (e.g. the Nordic Investment Bank) to promote investment in infrastructure.

As far as lending operations are concerned, there are different business models. Most institutions cooperate with the commercial banking sector, i.e. they channel promotional (cheaper) funding through other financial institutions that then lend-on to final beneficiaries. This type of lending tends to be particularly dominant in countries where relationship banking is strong. Other may provide finance directly or are operating within mixed models, adjusting model of intervention to the size of project and enterprise supported. In terms of products, they typically offer guarantees and loans as well as several additional services beyond and around these "traditional" products, including for instance advisory services and training. Many NPBIs have set up instruments to particularly support young firms such as seed funds or venture capital as well as mezzanine financing. Despite the heterogeneity of institutions and different local market conditions, however, two issues that most NPBIs currently seek to address are supporting innovation and promoting internationalization of SMEs with a view to improving their competitiveness and potential for export.

Funding from European programs that is channelled via NPBIs plays an important role. NPBIs are strongly involved in channelling the delivery of EU financing to the European markets.

- When it comes to the EU budget, they are participating in the implementation of the financial instruments under shared management, financed from *European Structural and Investment Fund*s. They do that usually in their role of financial intermediaries selected by Managing Authorities and delivering financial instruments, also via financial intermediaries.
- They also play important role in the intermediation of *centrally managed financial instruments*, such as COSME, InnovFin or Cultural and Creative Sector initiatives. This cooperation has been further enhanced by introduction of the European Fund for Strategic Investment under which around 25% of financing is delivered in the cooperation with NPBIs. A new form of cooperation introduced with EFSI are risk-sharing agreements and investment platforms which are being set up in cooperation with NPBIs.
- The European Investment Advisory Hub (EIAH), part of the Investment Plan for Europe, also serves as a cooperation platform for NPBIs, facilitating both direct advisory service to project promoters as well as sharing of knowledge among NPBIs and building their capacity to provide localised investment advisory services. The EIAH support for NPBIs includes grant funding for localised advice as well as direct assistance in developing new projects or financial instruments.

IFIs cooperate with NPBIs extensively when it comes to their own operations, either by providing them with funding which is then further on-lent by NPBIs on national markets, or by co-financing

projects on national markets. IFIs and NPBIs may also invest together in equity funds for various types of projects. Examples may include VC funds targeting SMEs, innovative companies, as well as infrastructure, and projects mitigating climate change. IFIs and NPBIs can also have joint initiatives.

Recognising the importance of NPBIs in the CESEE region, IFIs intend to enhance their cooperation with them even further in the future. Besides building on the existing areas of cooperation in lending and advisory, strengthening cooperation in the provision of equity – and venture capital in particular – could be highly suitable for the economic development of the CESEE region, and could contribute towards the successful implementation of the new growth model envisaged for the region.

Financial instruments in the post-2020 Multiannual Financial Framework: the InvestEU programme

Financial instruments are going to be an increasingly important part of EU support in the next Multinational Financial Framework (MFF). Financial instruments have proven their usefulness and attractiveness during the previous budgeting periods. Furthermore, in case of limited budgetary resources, they allow for a higher impact for a same input through leverage, through reusability of funds, and through crowding in private investors.

The European Commission has proposed the InvestEU programme as a general framework for providing EU-funded financial instruments under central management for the post-2020 budgeting period. Its overall objective is to mobilise public and private investment within the EU for operations addressing market failures and investment gaps that hamper the achievement of EU goals regarding sustainability, competitiveness and inclusive growth. Other specific objectives include the crowd-in of private capital and the provision of project development assistance to build more capacity for developing projects, platforms and programmes. Further specific objectives can also be defined at the level of the four policy areas – and corresponding investment windows – of the programme.

The InvestEU Fund will support four policy areas: sustainable infrastructure; research, innovation and digitisation; small and medium-sized businesses; and social investment and skills. The programme is planned to mobilise around EUR 700bn across the EU in additional investment. The idea is to expand the successful model of the Juncker Plan – i.e. using guarantees from the EU budget to crowd-in other investors. The programme will encompass 3 key elements: (1) the InvestEU fund, (2) a dedicated advisory hub, and (3) a portal consisting of a comprehensive database that helps bringing investors and projects together.

The programme aims to bring together the various EU financial instruments currently available under central management in order to benefit from economies of scale. It will bring together under one roof the multitude of EU financial instruments currently available– such as equity, guarantee and risk sharing instruments under COSME, InnovFin, EFSI etc. – to support investment in the EU. While the EIB group will have a privileged role among the implementing partners that manage InvestEU-backed financial products, the EC intends to cooperate with additional partners, too, including other IFIs.

The key principles behind the establishment of the single fund include:

- A single regulation.

- A policy driven approach implemented through the thematic investment windows.
- The use of budgetary guarantees to freeze less budgetary resources than other financial instruments.
- The use of blending, i.e. harmonising rules to combine various funding sources
- The complementarity between InvestEU and ESIF.
- Simplification and flexibility.

Besides InvestEU, financial instruments under ESIF will also be available as a delivery tool for ESIF policy objectives. The CPR provisions have also been streamlined and updated to ensure better and easier implementation. Areas with significant simplifications include ex-ante assessments, combination of various funding sources, programme implementation options, eligibility rules, the payment conditionalities, and reporting.

ESIF can also use InvestEU as a delivery tool for ESIF policy objectives. On a voluntary basis, the member states can contribute amounts from ERDF, ESF+, EMFF or EAFRD up to 5% to an InvestEU financial instrument, if this way there is scope to achieve their policy objectives with a better leverage, better coverage of risks, higher economies of scale, lower administrative burden etc. Countries would benefit from the EU guarantee and its high credit rating. Under this option, the CPR regulates the contribution arrangements to Invest EU and the contribution is subject to a bilateral contribution agreement between the Member State and the Commission, but from then onwards InvestEU rules apply.

Chapter 5: Conclusions and lessons for policy

1. **IFIs have been playing an important role in supporting access to finance of the private sector in CESEE.** They have been providing various types of loans, guarantees, equity products, and hedging instruments to private sector entities in the CESEE, supporting a wide range of policy objectives. Representatives of the private sector participating in the working group acknowledge the active role the IFIs played in the development of the banking and venture capital markets in CESEE region, and that their participation adds value in many business areas – often involving higher risk – which would not have been possible to finance through private sources only.

2. **Looking ahead, IFIs could play a catalytic role in the transition of the region's economies towards a new growth model, based on productivity growth through human capital development and home-grown innovation**. IFIs could best contribute to this aim by tailoring their product palette appropriately, focusing on the following areas:
    - Products supporting R&D, innovation, and innovative firms.
    - Development and preservation of human capital.
    - Addressing the remaining infrastructure gaps such as transport, energy, digital infrastructure.
    - Supporting capital markets development to provide alternatives to bank financing.
    - Overcoming the issue of collateral scarcity through providing credit guarantees.
    - Supporting the region's banking system to overcome the legacy of the crisis, and to adjust to the changes of the regulatory environment.
    - Enabling businesses to finance themselves in local currency.

3. **Better and more accessible data on IFI activity and product supply (both at CESEE level and country-by-country) could help IFI products to reach the clients and stakeholders of the region, and could promote better coordination among IFIs.** Since the conclusion of the Joint IFI Action Plan (JIAP), comprehensive information on IFI activity in the region is very limited. Our own, simple data collection exercise has proven that such a database could provide useful strategic insight.

    The Vienna Initiative is a potential platform to launch such a data collection exercise. The working group suggests the Vienna Initiative to launch an annual exercise on a) collecting an update on the product list of IFIs in CESEE, and b) collecting quantitative data on IFI activities (by IFIs, by policy objective, and by type of instrument, by private/public nature of the beneficiaries), c) country-by-country information on IFI exposures.

4. **To support lending to SMEs and MidCaps, capital relief products are at the moment more in need than liquidity support**. While banks' liquidity is currently ample, capital is a scarce resource partly as a legacy of the crisis, and partly induced by the tightening of the regulatory environment. Credit guarantee and securitisation products add particular value. They increase the private enterprises' access to finance by reducing the cost of finance and alleviating the collateral constraints. For the banks, they bring partial capital relief, decreased credit risk, shorter recovery periods, and they allow more efficient exposure management.

Credit guarantee and securitisation instruments bring significant and tangible benefits, but they could be further tailored to suit the needs of the CESEE region. Further potential areas of improvements include a) more flexible repricing of guarantees, b) simplification and standardisation of the reporting structures of these instruments, and c) broadening the eligible clients towards mid-caps.

5. **The compliance with the minimum requirement for own funds and eligible liabilities (MREL) will pose challenges for banks operating in the region in the coming years.** The low level of development or even the lack of capital markets for private debt securities can hinder the issuance of MREL-eligible instruments. The consultation on this issue within the framework of the Vienna Initiative should continue, in order to ensure that the compliance with MREL targets does not adversely impact lending to the private sector in the region. IFIs could play the role of „door openers" and mobilise other institutional investors in MREL instruments through co-investments, but investments by IFIs should not be seen as defeating the purpose of BRRD and MREL: protect public funds and take off the burden of bank recapitalisations from the public sector. The members of this working group supported the organisation of a dedicated workshop, with the participation of IFIs, commercial banks, national and EU-level regulatory authorities, and the credit rating agencies.

6. **The negative experience with foreign currency borrowing in CESEE during the crisis led to an abrupt shift in demand towards local currency products.** After the negative experience with FX based borrowing, in particular with Swiss franc loans, clients are now much more aware of the exchange rate risk embedded in FX-denominated products. At the same time, there is a much tighter control of FX-denominated financial instruments by the local regulatory and supervisory authorities. To reflect this shift, IFIs should consider further broadening of their domestic currency-denominated product palette, and ensure that their local currency products are similarly attractive as the EUR-denominated ones. Through their local currency product offer, IFIs can play an important role in the development of local currency financial markets.

7. **EU support to venture capital funds boosted the entire VC ecosystem and start up world in the region.** Looking ahead, to match the development of the markets, similar initiatives in the future would bring further benefits by focusing increasingly on qualitative results of building the local markets, too, beyond increasing it in terms of quantities. For instance:

   - IFI-supported PE/VC programmes could aim at broadening the local investor base, by involving local insurance and pension funds and corporations into limited partnership positions. Products and services should also build more on fund management teams.
   - Programmes with a more gradual build-up, with staggered launches of the various funds, could avoid many similar funds chasing similar investments at the same time.
   - The participation of international expertise – along with the national authorities – in the public procurement and tendering procedures could support ensuring the desired policy outcomes.

8. **IFIs could provide a more attractive financing option for the corporates of the region by adapting their product offers to the specificities of CESEE.** While IFIs have already been responsive by adapting their product offer to specific market needs and policy objectives (e.g.

agriculture or energy efficiency), untapped potentials still exist. Due to their smaller size, very few privately owned local corporates in the CESEE region have direct access to certain IFI loans. By providing ticket sizes suitable to the specificities of the region, together with more flexibility in the loan structures, quicker decision-making and refined marketing, direct IFI financing could provide a more viable alternative for the corporate sector of the region. At the same time, complementarity with the offer of local institutions is important for the success of future financial instruments.

9. **Using grants in combination with financial instruments can be an efficient way to support investments with high socio-economic impact, and such combinations have a high potential for use in CESEE.** Nevertheless, putting such instruments in practice is often cumbersome due to the complex regulatory and legal framework that governs their usage. In the future, it is recommended to pave the way for easier combination, i.e. when a financial intermediary and the final beneficiary deal with one financial product where grants and FI are already integrated. In addition, eligibility and state aid rules between the different EU funds should be aligned in a single set of rules. Furthermore, a higher degree of flexibility is required on the grant intensity of the combined product to adjust products to changes in the market situation, such as changing interest rates. Advisory services of IFIs can play a catalysing role in the successful combination of various funding sources.

10. **The proposed framework for financial instruments for the next MFF (InvestEU) addresses a number of issues raised by the various stakeholders; the fruitful regular dialogue between the Vienna Initiative and the European Commission should be kept open.** The members of the working group acknowledged and welcomed that many of the concerns raised by the various stakeholders – regarding the lack of standardisation and simplicity, administrative burden, lack of flexibility – are likely to be addressed by the proposed new framework. The discussions between the Vienna Initiative and the EC have been fruitful in the past for both sides. It is important to continue this information exchange in the future.

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Annex 1: Terms of reference

EBCI Vienna Initiative

European Commission

European Investment Bank The EU bank

European Bank for Reconstruction and Development

International Monetary Fund

WORLD BANK GROUP

Terms of reference – Vienna Initiative Working Group on IFI financial products supporting investment

Background

While investment in CESEE has exceeded average EU levels over the last decade, it has mostly been below the levels required for economic convergence. This is particularly true for private investment. Slow capital accumulation has contributed to the slowdown of potential growth after the crisis, particularly in the Baltics, Hungary, Slovakia and Slovenia. Investment in innovation has been much lower than elsewhere in the EU, and there was a notable reluctance to address high corporate non-performing loans (NPLs), which absorbed companies' and banks' managerial time, undermined their risk appetite and ability to raise new capital. The financial crisis brought about a reversal of FDI and bank-based inflows, but firms in CESEE are now expecting to invest more than they did last year, with some 20 percent believing they invested too little in the past. However, more firms, especially SMEs, believe they are credit-constrained, (in part due to the above-mentioned NPL burden), and this is particularly the case in Bulgaria, Croatia and Hungary.[17]

All in all, there are still significant gaps in the stock of capital in the CESEE. The pre-crisis model of financing capital accumulation - based on FDI inflows and funds channelled through cross-border banking - is not operating as it did before. At the same time, a shortage of skilled labour force is increasingly becoming a constraint in the region. A complementary growth strategy could be to switch to more reliance on both sustainable internal savings and more efficient use of available domestic sources of funding and on investment in skills and innovation. Strengthened investment in digital infrastructure, R&D, energy efficiency, domestic capital market infrastructure, education, and healthcare could underpin this approach.

International Financial Institutions (IFIs) can help by continuing to support infrastructure development and by supporting sustainable improvements in energy efficiency, domestic

[17] Source: L. Gattini, Á. Gereben, A. Kolev, M. Kollár, T. Slacik (2017*), Winds of Change: Investment in Central, East and South-East Europe*, EIB.

capital market deepening, innovation, business development, and the development and preservation of human capital. They can provide support for investments by way of loans, guarantees, equity and other risk-bearing mechanisms, possibly combined with technical support and blended grant based funding within the same operation. Besides the advantages of re-using public funds over the long term, IFI participation in financial transactions should be designed, whenever possible, to mobilise additional public and private co-investments in order to increase the current allocation of internal savings towards these domestic investments. They also provide a variety of incentives to better performance, including financial and technical discipline, as well as environmental, inclusion and other standards, at the level of supported projects.

The CESEE region has been an important beneficiary of various loans and other financial products provided by IFIs and the EU. It is of crucial importance to collect the existing experience and accumulated knowledge in the region on the use of these financial products, and channel this knowledge into the development of the next generation of financial products provided by IFIs, e.g., those designed to promote development of the local capital markets in a sustainable way or green economy products. This can ensure that the product offer is targeting relevant market needs, takes into account ways to encourage local investment and broaden the local investor base, and is in line with the structural, economic and regulatory environment of the CESEE countries. Where local structural, economic and regulatory environment of the CESEE countries is holding back development of local capital markets, the IFIs should in parallel, actively encourage adoption of best practices and regulation.

<u>Key objective</u>

The key objective of the Working Group will be to:

a) identify the markets gaps and policy priority areas for (private and public) investment that are best served by financial products offered by IFIs, building as much as possible on existing research by IFIs (e.g. the EIBIS survey); evaluate the experience and lessons learned on such products, including their efficiency in terms of best allocation of EU money, e.g. through highest outreach or incentives for private uptake;
b) support the development of appropriate combinations of instruments to meet investment needs of the CESEE region, with an emphasis on sustainability through including local funding / investment as part of, or in parallel to, the IFI funding instruments;
c) assess the needs and characteristics of the local investor base so as to be able to structure IFI instruments that will encourage their participation in the investment needs of the CESEE region;
d) assess how to strengthen the cooperation amongst IFIs, as well as between IFIs and national entities on the harmonisation and streamlining of the supply of financial products supporting investment, a balanced allocation of the management of the financial instruments between commercial banks and promotional banks; and
e) contribute to the debate on shaping the next generation of IFI products with a focus on sustainability and complementarity development of local capital markets.

Topics to be covered

The Group will look into the following topics.

- Collect and summarise the experience of the various stakeholders with the existing IFI products supporting investment through targeted questionnaires.
- Identify business areas with significant demand and high potential for additionality for such products and the capacity in which local investors can also contribute to the funding needs.
- Examine the still-existing regulatory barriers that prevent the more wide-spread use of financial instruments provided by IFIs, including the treatment of regulatory capital relief for risk-sharing instruments, while at the same time ensuring private investors are not crowded out.
- The room for standardising definitions and creating a more uniform set of conditions for the multitude of instruments.
- The possibilities to open IFI products towards MidCap companies and infrastructure projects.
- The use of IFI financial products to attract long-term investors, such as insurance companies and pension funds as co-investors into infrastructure projects, and to support innovation.
- Examine the possibilities and potential of IFIs to invest in (regional) bank issues, especially those eligible for MREL, to allow for further funding of SMEs and innovations by those banks.
- Evaluate cross-border aspects and identify potential synergies.

Output

The Working Group will produce a report presenting the most important points of the discussion, highlighting the experiences, and proposing solutions for the development of financial products (loans, guarantees, equity instruments etc.) for IFIs, with a view of IFIs considering introduction of the proposed instruments over the subsequent period. Given the different legislative context and state aid rules, the analysis and proposals will be sub-clustered in EU Member States in CESEE and non-EU Member States in CESEE.

Deadline

April 2018

Composition

Each Vienna Initiative member will nominate one or two representatives having a relevant background and experience. The European Investment Bank will chair the working group and provide its temporary secretariat. The group's membership should not exceed 40 participants.

Communication

The report will be presented for endorsement at the 2018 Full Forum meeting and will be published on the VI website.

Next steps

The first meeting, hosted by the European Investment Bank, will be held in June 2017 in Brussels. Its objective will be to launch the work stream and agree on main subject and the methodology of the report. The follow-up will be also decided with a view to finalizing the draft report by early 2018.

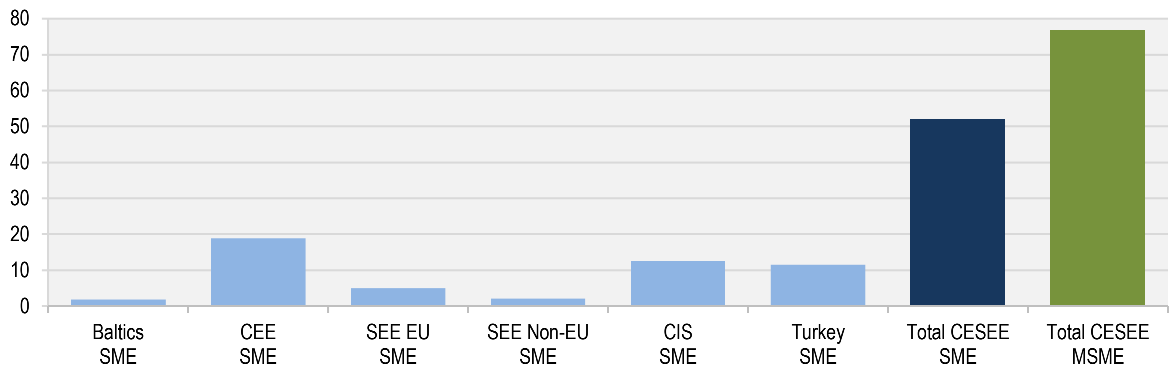
Budget

Each participant institution covers its own costs.

Annex 2: The funding gap for female entrepreneurs - EBRD Women in Business programmes

Across the CESEE region, women-led businesses face barriers in accessing finance and entrepreneurial know-how. Data from the 2011 IFC Enterprise Finance Gap Database suggests that out of an estimated one million women-owned SMEs across the CESEE region, nearly two-thirds are unserved or underserved by financial institutions. One in four women-owned SMEs cites access to finance as a major constraint to their operations.

Total estimated credit gap for women-owned SMEs and MSMEs across CESEE (USD billion)



Source: IFC Enterprise Finance Gap Database (2011), based on WB Enterprise Survey 2009. Estimates only. Women-owned enterprises comprise (i) those with at least one women owner, (ii) a female sole proprietor, or (iii) with women as top manager and at least one women owner.

Both supply and demand-side barriers of access to credit by women SMEs, which are often interlinked, contribute to these gaps.

On the demand side, the number of women-led SMEs is limited, and they are often smaller and operate in lower value-added sectors (typically services) than their male counterparts. They rarely grow beyond the micro segment due to a number of factors, including limited access to finance. Limited access to capital, limited opportunities to acquire business management skills and knowledge, together with women's need to reconcile business and family responsibilities are some of the reasons behind the observed differences. One of the most critical barriers faced by women-led SMEs is lack of collateral.

On the supply side, financial institutions across the CESEE region have rarely strategically developed women-specific products. For example, there is limited availability of long-term loan products for women entrepreneurs with reduced collateral requirements. In some countries non-bank microfinance institutions (NBMFIs) have played an important role in providing financing to women-led SMEs. However, the share of the NBMFIs in the financial sector is limited. Consequently the needs of women-led SMEs are not sufficiently met.

The size of the funding gap suggests that incentives are needed to encourage financial institutions to introduce specific products and adapt lending practices tailored to the needs of women-led SMEs. Across the CESEE region, banks continue to apply cautious and strict credit standards because of the high share of non-performing loans. This discourages them from entering into the untested women-led SME segment. Accordingly, incentives are required to overcome PFIs' initial reluctance while ensuring the creation of sustainable and good quality portfolio of loans to women-led SMEs in order to fully demonstrate the credit worthiness of women-led SMEs and the profitability of lending strategies aimed at this market segment.

The EBRD's Women in Business (WiB) programmes offer an integrated response addressing critical supply and demand side factors at the core of the women-led SME financing gap. Across the CESEE region, WiB programmes are currently active in the Eastern Partnership countries, the Western Balkans, and Turkey. A new programme is also planned for Romania this year. In total, the EBRD's WiB programmes provide financing and business advice in 18 countries, with nearly EUR 500 million invested to help over 35,000 female entrepreneurs build up their businesses.

EBRD WiB programmes combine dedicated credit lines to partner financial institutions (PFIs) for on-lending to eligible women-led SMEs with a risk sharing mechanism and advice to both PFIs and women-led SMEs. The programmes are available to commercial banks and non-bank financial institutions, including leasing companies and non-bank microfinance institutions. Financing is provided through a range of different instruments, and includes the option of local currency loans.

Annex 3: List of IFI products for the private sector in the CESEE region[18]

European Investment Bank Group

Institution	Product type	Product name	Short description
EIB	Loan	**Project Loan**	Direct loans to finance projects or investment programmes promoted by private sector counterparts (Large Corporates, Mid Caps as well as Project Finance). Senior and subordinated.
EIB	Loan	**Intermediated Loan**	Loans to a financial intermediary for on-lending to small scale projects and investments, promoted by multiple beneficiaries such as Micro SMEs, SMEs, Mid-Caps or other eligible entities (e.g. small projects from Corporates). In some occasions, and depending of jurisdiction and market development, the loan can be implemented through the subscription of a security (typically Covered Bonds or Senior & Mezzanine tranches in ABSs; including Look-Through non-granular ABS).
EIB	Quasi-equity	**Venture debt**	Growth finance to innovative SMEs and Midcaps with financing needs between EUR 7.5m and EUR 50m. Term loans with both debt and equity characteristics.
EIB/EIF	Equity	**Debt Fund**	Equity-type investment, alongside third party investors, into investment funds or other investment vehicle with an investment strategy to provide debt. Co-investments are also possible. Eligible sectors: EIB focuses on Infrastructure and Environment (including Energy efficiency and renewable); EIF targets generalist funds with a special focus in SMEs and Mid-Caps .
EIB/EIF	Equity	**Equity Fund**	Equity-type investment, alongside third party investors (Venture capital, Private Equity and Mezzanine Funds), into investment funds or other investment vehicle with an investment strategy to provide equity. Co-investments are also possible. Eligible sectors: EIB focuses on Infrastructure and Environment (including Energy efficiency and renewable); EIF targets generalist funds with a special focus in SMEs and Mid-Caps.
EIB	Guarantee	**Risk sharing products**	- Guarantee or (funded) risk participation granted to a financial intermediary to cover up to s certain amount of the losses of a portfolio of loans. The financial intermediary commits to generate a new portfolio of eligible loans, for an amount at least equal to the EIB guaranteed amount. Trade finance and Supply chain finance also possible. - Guarantee or (funded) risk participation granted to a corporate/financial intermediary to cover a certain amount of losses of a single risk.
EIF	Guarantee	**InnovFin SME (counter-) guarantee programme**	*Uncapped portfolio guarantee.* Under the InnovFin SME (Counter-) Guarantee Facility Programme ("InnovFin SMEG"), EIF provides uncapped portfolio (counter-) guarantees to financial intermediaries for their (senior and subordinated) debt financing to innovative SMEs and small Mid-Caps. The (counter-) guarantee provides up to 50% cover on a loan-by-loan basis.
EIF	Guarantee	**COSME Loan (Counter-) Guarantee Facility**	*Capped portfolio guarantee.* Under the COSME Loan (Counter-) Guarantee Facility ("COSME LGF"), EIF provides capped portfolio (counter-) guarantees to financial intermediaries for any type of debt financing to SMEs. The (counter-)guarantee provides up to 50% cover on a loan-by-loan basis, subject to a cap amount at the expected loss level, max. 20%.
EIF	Guarantee	**EaSI (Counter-) Guarantee Facility**	*Capped portfolio guarantee.* Under the EaSI (Counter-) Guarantee Facility, EIF provides capped portfolio (counter-) guarantees to financial intermediaries for their debt financing to micro-enterprises and social enterprises, with up to 80% cover on a loan-by-loan basis and subject to a cap amount of max. 30%.
EIF	Guarantee	**First Loss Portfolio Guarantee ("FLPG")**	*Capped portfolio guarantee.* Under Regional Mandates, EIF provides capped portfolio (counter-) guarantees to financial intermediaries for their debt financing to SMEs in the relevant target sectors. The (counter-) guarantee provides up to 80% cover for a granular portfolio on a loan-by-loan basis, subject to a cap amount at the expected loss level to be determined (typically up to 25%).
EIF	Guarantee	**Portfolio Risk Sharing Loan ("PRSL")**	Under Regional Mandates, EIF provides portfolio risk sharing loan to financial intermediaries for their debt financing to SMEs in the relevant target sectors. The product provides funding and credit risk sharing up to 80% of the underlying granular portfolio to be originated by the financial intermediary.
EIB/EIF	Guarantee	**SME Initiative Option 1**	*Uncapped portfolio (counter)-guarantee.* Under the Joint SME Initiative Option 1, the EIF provides uncapped guarantees for granular portfolios of new SME loans/leases/guarantees in EU Member States. Separate portfolios are built up for each participating Member State, originated by selected financial intermediaries over a defined ramp-up period. The risk cover provided varies by portfolio, and is up to a maximum of 80%.
EIB/EIF	Guarantee	**SME Initiative Option 2**	*SME Initiative Securitisation Instrument.* Under the SME Initiative Securitisation Instrument (SISI), the EIF provides a guarantee for (or purchases) senior or mezzanine tranches of true-sale or synthetic granular ABS transactions. The securitised portfolio must contain existing debt finance to SMEs and other enterprises with less than 500 employees and/or new debt finance to SMEs (revolving period).
EIB/EIF	Guarantee	**Granular ABS Credit Enhancement**	*Portfolio (counter)-guarantee through securitisation Instrument.* Guarantee for a senior or mezzanine tranche of granular Asset Backed Securities ("ABS"). The financial intermediary commits to generate, within a certain period, a new portfolio of eligible loans (for an amount that is a multiple of the guarantee).

[18] As of end-2018.

European Bank for Reconstruction and Development[19]

Institution	Product type	Product name	Policy objective	Targeted sector	Short description
EBRD	Loan	**Loans**	- to improve financial intermediation and access to finance, - making economies in the region competitive, well-governed, green, inclusive, resilient and integrated.	Any** (See the (non-exhaustive) list of specialised financing frameworks)	The EBRD's loans are structured with a high degree of flexibility to provide loan profiles that match client and project needs. Key loan features: • Fixed or floating rate. EBRD loans are based on current market rates and are priced competitively. The bank does not subsidise projects, nor does it offer soft loans. • Senior, subordinated, mezzanine or convertible debt. • Denominated in major foreign or local currencies. • Short to long-term maturities, usually from 5 to 15 years. • Project-specific grace periods may be incorporated. Loans for larger private sector projects are usually in the rage of €5 million - €250 million with average amount of €25 million. Projects that are too small to be financed directly by the EBRD can still benefit from the Bank's investments, through financial intermediaries or through special programmes for smaller direct investments in the less advanced countries.
EBRD	Loan	**Syndications**	- to mobilise domestic and foreign capital	Any**	Most frequently used syndication techniques include: • the A/B loan syndication structure, where the EBRD remains the lender of record for the entire loan and the commercial banks derive benefit from the EBRD's preferred creditor status; • assignments of part of EBRD loans to domestic commercial banks in countries of operations to promote their cooperation in medium-term lending; • co-financing with other international financial institutions; • parallel or joint financing with commercial banks.
EBRD	Guarantee	**Risk sharing products**	- to improve financial intermediation and access to finance, - making economies in the region competitive, well-governed, green, inclusive, resilient and integrated.	Any**	Funded and/or unfunded risk sharing on a single loan basis (Risk Sharing Facility).
EBRD	Guarantee, Loan	**Trade facilitation programme**	to promote foreign trade to, from and amongst the EBRD countries of operations	Any**	EBRD provides guarantees to international confirming banks, taking the political and commercial payment risk of international trade transactions undertaken by banks in the countries of operations (the issuing banks). EBRD also provides short-term loans to selected banks and factoring companies for on-lending to local exporters, importers and distributors. Guarantees may be used to secure payment of the following instruments issued or guaranteed by issuing or confirming banks for trade transactions to, from, or between, the EBRD's countries of operation: • letters of credit and standby letters of credit from the issuing bank; • deferred payment and "red-clause" letters of credit; • advance payment guarantees and bonds, and other payment guarantees; • bills of exchange and trade-related promissory notes; • bid and performance bonds and other contract guarantees.
EBRD	Debt	**Bonds and structured finance, including securitisation**	to develop local capital markets and strengthen the resilience of financial systems	Any**	
EBRD	Equity	**Equity and quasi-equity instruments, convertible loans**	to develop local capital markets and strengthen the resilience of financial systems; to make economies in the region competitive, well-governed, green, inclusive, resilient and integrated.	Any**	EBRD invests equity ranging from €2 million to €100 million in industry, infrastructure, and the financial sector. The Bank takes only minority positions and will have a clear exit strategy. Types of EBRD equity and quasi-equity instruments: • Ordinary shares; • Preference shares; • Subordinated loans; • Debentures and income notes; • Redeemable preference shares; • Listed and unlisted; • Underwriting of share issues by public or privately-owned enterprises; • Financing the transfer of shares in existing enterprises (only in specific cases of privatisation; • Other forms can be discussed with EBRD banking staff. The EBRD also participates in investment funds, which in turn invest in medium-sized companies. Equity funds are focused on a specific region, country or industry sector, have local presence and are run by professional venture capitalists. Their main investment criteria are consistent with the EBRD's overall investment policy.

[19] All EBRD projects must be located in an EBRD country of operations. No EBRD project can be in defence-related activities, tobacco, substances banned by international law or gambling facilities. No EBRD project can relate to subsidies, sponsorship or donations. Projects may be considered for EBRD assistance if they: a) have good prospects of being profitable; b) have significant equity contributions in cash or in kind from the project sponsor; c) would benefit the local economy; d) satisfy the EBRD's environmental standards as well as those of the host country.

World Bank Group

Institution	Product type	Product name	Short description
IFC	Loan	**A-Loan**	IFC A-Loan are loans from its own account to private sector projects in developing countries. Most IFC loans are issued in leading currencies, but local currency loans can also be provided. Loans from IFC finance both early-stage companies and expansion projects in developing countries. The Corporation also makes loans to intermediary banks, leasing companies, and other financial institutions for on-lending. The credit lines are often targeted at small and medium enterprises or at specific sectors.
IFC	Loan	**B-Loan**	B-loan (third parties) allows participants to enjoy the advantages of IFC's status as a multilateral institution. By participating in a B Loan transaction, participants benefit from IFC's preferred creditor status. As a result, IFC cannot be paid in full until all participants are paid in full. Similarly, a default to a participant would be a default to IFC.
IFC	Loan	**Syndicated Parallel loans**	In response to international banks' retrenchment from cross-border emerging market lending during the recent global financial crisis, IFC began syndicating parallel loans to financial institutions that are not eligible B Loan participants such as Development Finance Institutions (DFIs) and local commercial banks. Under this approach, IFC acts as arranger (and can also act as administrative agent) by using its existing syndication platform, deal-structuring expertise, and global presence to identify investments, perform due diligence, and negotiate loan documents in cooperation with parallel lenders. Lenders under this structure enjoy cost and time savings through this streamlined approach. Borrowers benefit from enhanced access to financing and time and cost savings throughout the life of the loan.
IFC	Loan	**Trade and Supply-Chain Finance**	Trade and Supply-Chain Finance guarantees trade-related payment obligations of approved financial institutions. The program extends and complements the capacity of banks to deliver trade finance by providing risk mitigation on a per transaction basis.
IFC	Quasi-equity	**C-Loan**	Quasi-equity Finance with both debt and equity characteristics to private sector projects in developing countries. These products are called C-loans. Among other instruments, IFC provides convertible debt and subordinated loan investments, which impose a fixed repayment schedule. It also offers preferred stock and income note investments, which require a less ayment schedules. Quasi-equity investments are made available whenever necessary to ensure that a project is soundly funded.
IFC	Equity	**Equity finance**	Equity finance provide developmental support and long-term growth capital that private enterprises need. IFC invests directly in companies' equity and also through private-equity funds. IFC's equity investments are based on project needs and anticipated returns. The Corporation does not take an active role in company management.
IFC	Guarantee/Credit enhancement	**Direct Debt Substitute**	Credit guarantees (partial, full and credit-linked), risk participations and risk sharing facilities covering credit risk on private borrowers
IFC	Guarantee/Credit enhancement	**Commercial Operation:**	Credit enhancement guarantees and risk sharing facilities covering commercial risks or combination of commercial and credit risks (e.g. guarantees of performance bonds)
IFC	Guarantee/Credit enhancement	**Global Trade Finance Program**	Covering non-payment by banks in the markets for trade-related transactions
IFC	Guarantee/Credit enhancement	**Guaranteed Offshore Liquidity Facility**	Covering currency transfer and convertibility risk
IFC	Guarantee/Credit enhancement	**Client Risk Management Guarantees**	Covering counterparty credit risk on private borrowers in derivatives transactions
IFC	Hedging	**Currency swap**	
IFC	Hedging	**Interest rate swap**	
IFC	Hedging	**Interest rate cap and collar**	
IFC	Hedging	**Commodity price swap**	
IFC	Hedging	**Swap guarantee**	
IFC	Hedging	**Carbon delivery guarantee**	
IFC	Hedging	**Weather hedge**	
MIGA	Guarantee/Credit enhancement	**Non-Honoring of Financial Obligations**	Non-Honoring of Financial Obligations is a product that protects lenders and bondholders against losses resulting from a failure of a sovereign, sub-sovereign, or state-owned enterprise to make a payment when due under an unconditional financial payment obligation or guarantee related to an eligible investment. Coverage can be provided for up to 95% of the payment obligation for a tenor of up to 20 years. No government counter-guarantee to MIGA is required.
MIGA	Guarantee/Credit enhancement	**Currency Inconvertibility and Transfer Restriction**	Currency Inconvertibility and Transfer Restriction is a product that protects against losses arising from an investor's inability to legally convert local currency (capital, interest, principal, profits, royalties, and other remittances) into hard currency and/or to transfer hard currency outside the host country where such a situation results from a government action or failure to act. Currency depreciation is not covered.
MIGA	Guarantee/Credit enhancement	**Expropriation**	Expropriation is a product that protects against losses arising from certain government actions that may reduce or eliminate ownership of, control over, or rights to the insured investment. In addition to outright nationalization and confiscation, "creeping" expropriation—a series of acts that, over time, have an expropriatory effect—is also covered.

Institution	Product type	Product name	Short description
MIGA	Guarantee/Credit enhancement	**War, Terrorism, and Civil Disturbance**	War, Terrorism, and Civil Disturbance is a product that protects against loss from, damage to, or the destruction or disappearance of, tangible assets or total business interruption (the total inability to conduct operations essential to a project's overall financial viability) caused by politically motivated acts of war or civil disturbance in the country, including revolution, insurrection, coup d'état, sabotage, and terrorism.
MIGA	Guarantee/Credit enhancement	**Breach of Contract**	Breach of Contract is a product that protects against losses arising from the government's breach or repudiation of a contract with the investor (e.g., a concession or a power purchase agreement). Breach of contract coverage may be extended to the contractual obligations of state-owned enterprises in certain circumstances.
MIGA	Guarantee/Credit enhancement	**Protection against non-payment of obligations under cross-currency and interest rate swaps and other eligible instruments**	
MIGA	(other)	**Capital optimization product**	Insures mandatory reserves held in central banks by the subsidiaries.

Annex 4: National credit guarantee programmes – country by country

This annex contains country-specific summary information on credit guarantee institutions, the available guarantee programmes and their conditions. The data was collected in the first half of 2018.[20]

Bosnia and Herzegovina

4 national guarantors:

- GFBD – Development and Guarantee Fund of Brcko District;
- NERDA – Development Association;
- LiNK – The Association of Entrepreneurship and Busines
- Guarantee Fund of the Republic of Srpska

10 available guarantee programmes (all financed through national sources), and 19 programmes offering subsidised interest rates

Local Guarantor	Development and Guarantee Fund of Brčko District	Regional Development Agency for the North-East BiH - NERDA	The Association for Entrepreneurship and Business LiNK		
Type of Institution	**Mixed** - Brčko District and UNDP	**Public** - B&H Ministry of Justice	**Public - civil association**		
Resources	**National**				
Description	Support **SMEs development** through guarantees	**Stimulating economic development** of the North-East B&H	**Supporting the development and establishment** of productive and skilled service companies in Herzegovina		
Product	Guarantee	Guarantee	Project LINK	Project CISP	Project UCODEP
Type of Product	**Guarantee**				
Target Group	SME, entrepreneurs, agricultural enterprises and registered farms	SMEs	micro and small entrepreneurs members of LiNK Mostar	micro and small entrepreneurs (18-35 years) intending to run a start-up or develop entrepreneurial activity	stock companies, Ltd, independent craftsmen and agricultural producers in Herzegovina and North East B&H
Target Sectors	agriculture, purchase of fixed assets and investments, craft funds	production, qualified services, handicrafts, export, innovative and high tech activities	economy, agriculture	economy, agriculture, tourism, environment, innovation	production and production-service activity
Guarantee Rate	50% of the individual loan value	N/A	50% of loan value		
Guarantee Fee	N/A	1%	N/A		
≥ Value ≤	SMS - max EUR 25K Agricultural entreprises - max EUR 7,5K	max EUR 50K	max EUR 25K	max EUR 15K Start-ups - EUR 10K	max EUR 15K
≥ Maturity ≤	up to 5 years	up to 5 years, with 6 months grace period	up to 5 years, with 6 months grace period		
Process	**Bank is in charge for the approval process → Bank request the guarantee from the guarantor**				

Local Guarantor	Guarantee Fund of Republic of Srpska				
Type of Institution	**Public**				
Resources	**National**				
Description	Supporting entrepreneurship development in the area of Republic of Srpska by facilitating access to the financing to local **SMEs and Entrepreneurs**				
Product	Line for **companies and entrepreneurs**	Line for **agriculture**	Line for **realization of assets of the Fund** Partner of the Ministry of Agriculture, Forestry and Water of the Republic of Srpska	The guaranty line for implementation of the project **Rural Development (IFAD) Project**	The guarantee line for **start-up activities**
Type of Product	**Guarantee credit line**		**Guarantee**		
Target Group	legal entities registered in the Republic of Srpska	SMEs	SMEs and Large companies	SMEs	
Target Sectors	all	agriculture			
Guarantee Rate	N/A		50% of loan value		
Guarantee Fee	up to 3.2%	up to 2.3%	4% p.a.		N/A
≥ Value ≤	Entrepreneurs – max EUR 150K Legal entities – max EUR 700K	Individuals/farms - max EUR 3K Companies – max EUR 10K	max EUR 75K	max EUR 40K	max EUR 38K
≥ Maturity ≤	up to 15 years	Individuals/farms – up to 10 years Companies – up to 15 years	up to 6 years		up to 10 years
Process	**Bank is in charge for the approval process → Bank request the guarantee from the Fund**				

[20] This annex is a contribution by UniCredit Bank. Data on Poland was provided by the Polish Banking Association. Data on the Municipal Guarantee Fund for SMEs of Sofia was provided by KBC Bank.

Bulgaria

3 national guarantors:

- Bulgarian Development Bank;
- National Guarantee Fund;
- Fund Manager of Financial Instruments in Bulgaria.
- Municipal Guarantee Fund for SMEs of Sofia.

21 available guarantee programmes (7 financed through national sources) and 3 portfolio guarantee programmes in preparation with the EBRD and the EIF.

Local Guarantor	**Bulgarian Development Bank**			
Type of Institution	**Public -** Bulgarian Development Bank (BDB) is a financial institution 99.9%-owned by the Bulgarian state.			
Resources	**National**		**International sources**	
Description	Its focus is to support small and medium-sized enterprises. It is the only Bulgarian bank to provide financing via other credit institutions as well as direct financing. Its subsidiary, the National Guarantee Fund, issues guarantees for bank loans to the non-financial sector.			
Product	**On-lending programme FORWARD -** BDB to take part of the risk on business loans granted by partner banks amounting to up to 30% of the value of the separate subloans.	**Leasing line -** Under the program for indirect financing „Leasing line", non-banking financial institutions are able also to apply.	Program of the Bulgarian Development Bank for indirect financing of small, medium and MidCaps - Deadline for absorption Until 01.10.2019; Financing budget: Up to 300 million euros	**COSME+. EIF, Junker Plan**
Type of Product	indirect funding of micro, small and medium-sized businesses	on-lending program	Financing via commercial banks /intermediaries; Short-term loans	BDB Program for indirect financing of SMEs with guarantee facility and counter-guarantee under the EIF COSME Program with the support of the European Fund for Strategic Investments
Target Group	micro, small and medium-sized enterprises meeting the eligibility conditions within the meaning of the Small and Medium Enterprises Act, registered and conducting their business in the Republic of Bulgaria.	Beneficiaries to lease terms related to purchasing of machinery and equipment for micro, small and medium enterprises.	small, medium and intermediate enterprises, according to the EIB definition (MME)	Program for indirect financing of small and medium enterprises
Target Sectors	all	all	All sectors, excl. the restricted	All sectors, excl. the restricted
Guarantee Rate	Maximum rate of the security provided by SME: up to 110 % of the loan amount Interest rate: It is determined individually by commercial banks but may not be higher than: 3M EURIBOR + up to 4,7 % with risk shared by BDB 3M EURIBOR + up to 4,9 % if BDB has not undertaken a guarantee commitment	The interest rate for the final beneficiaries – lessees, along with the management fees and for assessment of requests for funding, may not exceed 6.5%.	up to 100%; + undertaking of a BDB guarantee commitment to pay up to 100% of the principal of the Sub-Funds. Interest rate: up to 6M EURIBOR + 2% to 4% surplus, which is transferred to BDB after deduction of 1 percentage point of it in favor of the intermediary. Interest rate on past due and / or other default on sub-leas, after deduction of 1 percentage point of it in favor of the intermediary.	60%
Guarantee Fee	n.a	n.a	CAP rate up to 30% of the guaranteed portfolio	n.a
≥ Value ≤	Maximum loan amount: BGN 3 million of its equivalent in EUR	The maximum amount of the credits for leasing of machinery and equipment for a company is EUR 500 000 or the equivalent in BGN.	up to 50 000 000 for a Intermediary	loans up to BGN 293 thousand at twice lower collateral
≥ Maturity ≤	**n.a**	**n.a**	up to 15 years	**n.a**
Process	BDB partner banks which have already entered agreements for the implementation of the programme: Bulgarian American Credit Bank, D Commerce Bank, Eurobank Bulgaria,Investbank Bulgaria, Piraeus Bank	There are deadlines for submitting applications to BDB	bank sends the documentation to the Guarantor	bank sends the documentation to the Guarantor after the conducted assessment

Local Guarantor	**Bulgarian Development Bank**		
Type of Institution	**Public -** Bulgarian Development Bank (BDB) is a financial institution 99.9%-owned by the Bulgarian state.		
Resources	**International sources**		
Description	Its focus is to support small and medium-sized enterprises. It is the only Bulgarian bank to provide financing via other credit institutions as well as direct financing. Its subsidiary, the National Guarantee Fund, issues guarantees for bank loans to the non-financial sector.		
Product	**On-lending Program Progress/European Progress Microfinance Facility, EIF -** financing of microenterprises with portfolio of micro-transactions with a total amount of EUR 6.25 mio. Availability period (Deadline to form portfolios): 24th October 2017.	**Program for refinancing of microcredits under Progress, EIF**	**Invest in Europe #investEU -** funding under the scheme is jointly provided by BDB and EIB within the framework of the "Investment Plan for Europe".
Type of Product	loan facility under the European Progress Microfinance Facility, financing of micro-loans and micro-leases to micro-enterprises via Intermediaries;	Scheme for refinancing	new investment, project and related working capital financing via commercial banks shall receive loans of up to EUR 50 million to be further on-lent following their individual internal regulations. BDB is ready to bear up to 100% of the risk under the loans.
Target Group	a. micro-enterprises employing fewer than 10 persons and having an annual turnover and/or annual balance sheets not exceeding EUR 2 million; b. self-employed persons and persons wishing to start an enterprise; persons who have lost their jobs, persons with difficulties to receive a banking loan and who want to develop some business activities;	Eligible Intermediaries: commercial banks, leasing companies, JOBS Micro-finance institution.	micro, small, medium and mid-cap enterprises with up to 3 000 employees.
Target Sectors	All, excl. the restricted	micro enterprises up to 10 people employees, assest up to 2 MEUR	All sectors, excl. the restricted
Guarantee Rate	Interest rate for the Intermediary: Fixed interest rate – basic interest of 1.75% + Margin of 0.5% p.a.	BDB will provide the resource to financial institutions at a fixed interest rate of 1.8% per year.	The interest rate shall not exceed 6M EURIBOR plus 2% to 4% margin. Thus, the maximum interest rate on a loan extended today shall not exceed 3.7% per year.
Guarantee Fee	n.a	n.a	n.a
≥ Value ≤	up to EUR 24 999 including per Beneficiary, new transactions;	up to EUR 24 999;	from BGN 3 to 24 million, while refinancing of loans shall be excluded.
≥ Maturity ≤	**n.a**	**n.a**	The maximum repayment period is until 2032.
Process	Partners/Intermediaries under the Program: D leasing, BL Leasing, TBI bank, Transleasing, JOBS MFI	until now BDB has 6 commercial banks and financial institutions, which have funded nearly 200 micro-enterprises amounting to EUR 1.6 million.	BDB is partnering with 10 financial institutions - Allianz Bank Bulgaria, Bulgarian American Credit Bank, DSK Bank, Piraeus Bank Bulgaria, Investbank Bulgaria, UBB-CIBANK (united), Municipal Bank, First Investment Bank, Dbank and Eurobank Bulgaria.

Local Guarantor	National Guarantee Fund			
Type of Institution	**Public** - part of the Bulgarian Development Bank Group			
Resources	National			International sources
Description	The Fund issues guarantees, required by the commercial banks in order to approve loans for the Bulgarian business. The NGF facilitates the access to finance for SMEs and contributes to the decrease of the interest rates of the loans granted to them			
Product	**NGF**	**NGF-PRSR** Guarantees for projects in the **Agricultural sector**	Guarantees for projects in the **Fisheries sector**	**NGF COSME 2017**
Type of Product	Guarantee			COSME counter-guarantee
Target Group	SMEs Existing firms and start-ups	Beneficiaries with an approved project under one of the measures of the Rural Development Program	Beneficiaries who have approved projects under one of the measures of the Operational Program For Development of the Fisheries Sector	SMEs
Target Sectors	all	agriculture		all, excluding sectors restricted by COSME
Guarantee Rate	up to 50% of the loan value, but not over EUR 500K	up to 80% of the loan value		50% of the loan amount
Guarantee Fee	up to 0.7% p.a.	0.80% p.a.		N/A
≥ Value ≤	N/A	**max EUR 1,5M**		
≥ Maturity ≤	**up to 10 years**			
Process	assessment done by the bank	bank sends the documentation to the Guarantor	bank sends the documentation to the Guarantor	bank sends the documentation to the Guarantor after the conducted assessment

Local Guarantor	Fund Manager of financial Instruments in Bulgaria	
Type of Institution	**Public -** Fund Manager of Financial Instruments in Bulgaria EAD has a two-tier governance system. The governing bodies of the company are the Management Board, Supervisory Board and the sole owner of the capital, i.e. the State, which decides on matters within the competence of the general meeting of shareholders.	
Resources	**National sources**	
Description	The FMFIB will provide portfolio guarantees to financial intermediaries to cover credit default losses from the designated target groups of final recipients. Most products designed by the FMFIB in that respect envisage guarantees that would cover up to 70-80% of losses incurred at the level of the individual credit facility but not more than 25% at the level of the loan portfolio (loss cap). Within the scope of the newly established Fund Manager are four operational programs „Human Resources Development", „Innovations and Competitiveness", „ Regions in Growth" and „Environment ", which will provide grant financing through financial instruments for the programme period 2014-2020 r. The total amount for financial instruments under the above programmes is 777 mln. euro.	
Product	**Risk-sharing Micro-Finance facility**	**Urban Development Fund**
Type of Product	Risk Sharing Microfinancing under „Human Resources Development", Loan type: investment, w/c (overdraft, revolving, leasing (financial and buy-back)	financial instrument Urban Development Fund, financed by Operational programme "Regions in growth", Investment loan, working capital financing, leasing, incl. combination thereof
Target Group	Start-ups and physical persons	Municipalities and Other Public Authorities; Public-Private Partnerships; Legal Entities; Individuals
Target Sectors	All sectors	Municipalities and Other Public Authorities; Public-Private Partnerships; Legal Entities; Individuals
Guarantee Rate	Co-financing: 70%-80% depending on the borrower	The intermediaries should attract additional funding of minimum 30% of the total UDF size either on fund or on individual project level. Co-financing: 3m SOFIBOR + fixed allowance (according to the financial intermediary tender offer) FMFIB financing: % from the co-financing rate (according to the financial intermediary tender offer)
Guarantee Fee	n.a	The guarantee covers up to 80% of the additional co-financing above the required minimum on a individual loan level. The FMFIB exposure is capped at 25%
≥ Value ≤	working capital Loan amount: from 2 500 EUR to 25 000 EUR	Urban Development and Energy Efficiency: up to EUR 20 M
≥ Maturity ≤	**up to 120 months**	**Term** **From 12 to 240 months (depending on the sector)**
Process	the Bank does the assessment	Bank sends the documetation to the Guarantor

Local Guarantor	Municipal Guarantee Fund for SMEs of Sofia	
Description	**Public** - Launched and developed by the Sofia Municipality in support of the entrepreneurship and innovation ecosystem. It aims at raising the competitiveness and access to finance of SMEs in Sofia applying the "Think Small First" principle.	
Product	**Financing program for Innovative and start-up enterprises**	**Main guarantee scheme**
	A guarantee of 50% (without cap) or up to 30 000 BGN; for ILs, WCLs and Bank guarantees with maturity up to 84months for Innovative and start-up enterprises;	A guarantee up to 50% (without cap) or up to 100 000 BGN; for ILs, WCLs and Bank guarantees with maturity up to 84 months for SMEs.
Basic requirements	• The enterprise must meet the SME criteria • Enterprise established less than 3 years before; • An enterprise providing innovative products, services and/or processes; • Enterprise situated on the territory of Sofia Municipality or the business pproject to be implemented on the territory of the municipality; • Eligible are Product, Production process, Marketing and Organizational Innovations; • Applicable for projects financed by EU programs; • De Minimis is not calculated;	• The enterprise must meet the SME criteria • Enterprise situated on the territory of Sofia Municipality or the business project to be implemented on the territory of the municipality; • The other collaterals included in the loan should have a discount value not less than 60% of the amount of the loan • Applicable for projects financed by EU programs; • De Minimis is not calculated;

Croatia

1 national guarantor:

- HAMAG-BICRO.

3 available guarantee programmes (1 financed through national sources) and 3 portfolio guarantee programmes in preparation from international sources.

Local Guarantor	Croatian Agency for SMEs, Innovations and Investments HAMAG-BICRO		
Type of Institution	**Public** - 100% owned by Republic of Croatia		
Resources	National	International sources	
Description	HAMAG-BICRO provides guarantees to SMEs for loans approved by credit institutions and other legal entities With the help of HAMAG-BICRO Guarantee Programs, SMEs have easier access to credit funds		
Product	Guarantee **Programme Growth**	Guarantee Programme EU **Start-Up**	Guarantee Programme **Individual guarantees from ESIF** (for investment and working capital loans)
Type of Product	Guarantee		guarantee financed via ESIF subsidized interest rate
Target Group	SMEs		
Target Sectors	Investments in tourism and manufacturing		Manufacturing, Passenger transport, Accommodation and food service, Culture and Art, Entertainment and Recreation
Guarantee Rate	up to 80% of the loan value		up to 80% of the loan amount for investment loans and up to 65% for WC loan amount
Guarantee Fee	up to 1% on the approved value of the guarantee		up to 0,5% on the approved value of the guarantee for investment loans up to 1,0 % on the approved value of the guarantee for working capital loans
≥ Value ≤	max EUR 2,4M	max EUR 1,3M	Investment loans - max EUR 2M Working Capital Loans - max EUR 1 M
≥ Maturity ≤	up to 10 years		Investment loans - up to 10 years Working capital loans - up 5 years
Process	SME contacts the bank → bank approves the loan with the HAMAG-BICRO guarantee and submits the request to HAMAG-BICRO → HAMAG-BICRO processes the application → if positive, HAMAG-BICRO submits the guarantee to both bank and SME		

Czech Republic

1 national guarantor:

- Českomoravská záruční a rozvojová banka.

2 available guarantee programmes (1 financed through national sources).

Local Guarantor	Českomoravská záruční a rozvojová banka	
Type of Institution	100% owned by Czech Republic	
Resources	National sources	International sources
Description	The bank offers only this product for a long time. Initially, the guarantee was from national sources, while now, with the similar parameters, the guarantee is covered by counter guarantee from EIF	
Product	1)M-guarantee is the main product , (other are 2)S-guarantee and 3)Expanze) from Českomoravské záruční a rozvojové banky	EIF HORIZON 2020
Type of Product	Guarantee	
Target Group	Operating loan SMEs up to 50 employees, Invest. loan SMEs up to 250 employees, EUR 10M turnover/total assets	SMEs up to 250 employees, Mid Caps up to 500 employees EUR 43M turnover/ EUR 50M total assets
Target Sectors	All excluding sectors restricted by ČMZRB (agriculture also NO)	All excluding sectors restricted by EIF (agriculture YES)
Guarantee Rate	70% of the loan value, capped	50% of the loan value
Guarantee Fee	0	SMEs 0,5% p.a., Mid Caps 0,8% p.a.
≥ Value ≤	max EUR 155K	max EUR 5M
≥ Maturity ≤	min 12 - max 72months	min 12 - max 120 months
Process	Client approaches ČMZRB → the business bank helps with application → client signs contract with ČMZRB → brings a guarantee to the business bank	

Hungary

3 national guarantor:

- Garantiqa;
- AVHGA;
- Hungarian Export-Import Bank.

14 available guarantee programmes (12 financed through national sources, 2 financed through international sources – EIF COSME).

Local Guarantor	Garantiqa Creditguarantee Co. Ltd. (Garantiqa Hitelgarancia Zrt.)						
Type of Institution	Mixed - 30.5% owned by the State, 46.8% by Hungarian Development Bank (state ownership 77%), remaining part owned by commercial banks						
Resources	National sources						International sources
Description	Supporting SMEs that lack sufficient collateral and boosting their competitiveness by providing sureties for loans, bank guarantees						
Subsidy content	state subsidized				not subsidized		
Product	Guarantee with 85% counter guarantee of the State	Portfolio guarantee with 85% counter guarantee of the State	Széchenyi Program sureties	Guarantee for Credit Automat Extra overdraft Hitelautomata Extra	Guarantee on Garantiqa's own risk	Irinyi Guarantee Program on Garantiqa's own risk	Guarantee with 50% COSME counterguarantee (EIF) and 50% own risk
Type of Product	Guarantee with subsidized fee		Guarantee with subsidized fee for standardized Széchenyi products	Guarantee with subsidized fee	own risk guarantee with market fee	own risk guarantee with special fee for special sectors	due to EIF CAP own risk guarantee with special fee and fixed rate
Target Group	SMEs					All corporates	SMEs
Target Sectors	all, including agriculture		all without agriculture		all, including agriculture	only in sectors of Irinyi Plan (like manufacturing, agriculture, IT etc.)	all, including agriculture, only excluded sectors are defined: production of weapons and ammunition, arms; military; gambling; pure financial activities
Guarantee Rate	up to 80% of the loan amount	80% for loans up to EUR 480K 60% for loans EUR 480K – EUR 640K	80% of the loan amount		up to 80% of the loan amount		for investment loans fixed 90% of the loan amount; for working capital loans fixed 85% of the loan amount
Guarantee Fee	0.3% -0.85%		0.47% - 0.7% p.a.	0.61% p.a.	0.625-1.875% p.a.	1.25% p.a. calculated on the guaranteed amount.	Investment loans 1.0% p.a.; Working capital loans 1.2% p.a. Overdraft 1.5% p.a. calculated on the guaranteed amount.
≥ Value ≤	max to available state aid limits	max to available state aid limits; total guarantee amount per client max EUR 804K	max EUR 160K		max EUR 1,6M own risk guarantee for the entire client group In own risk guarantee volume and Irinyi program guarentee volume max. HUF 800 million (2.6 M EUR) for the client group and in own risk program and Irinyi program and COSME program max. HUF 920 million (2.9 M EUR) for the client group.		for max. 5 years 920 M HUF/3 M EUR; for max. 6 years 828 M HUF/2,7 M EUR; for max. 7 years 736 M HUF/2,4 M EUR; for max. 8 years 644 M HUF/2,1 M EUR; for max. 9 years 552 M HUF/1,8 M EUR
≥ Maturity ≤	up to 25 years, guarantee limits up to 10 years	up to 10 years	Overdraft - 1 + 1 year WC loans - up to 3 years Investment loans - to 10 years	Overdraft - 1 year prolongations allowed	up to 15 years		min 12 months, for working capital financing max. 5 years, for investment loans max. 9 years
Process	Bank sends the documentation to the Guarantor	Bank sends the documentation to the Guarantor, simplified procedure	Products provided can be applied for at KAVOSZ Ltd. and the Chamber of Commerce and Industry	Bank sends the documentation to the Guarantor, simplified procedure	Bank sends the documentation to the Guarantor		

Local Guarantor	Rural Credit Guarantee Foundation AVHGA				
Type of Institution	**Foundation -** financed via Ministry of Agriculture and financial institutions				
Resources	National sources				International sources
Description	AVHGA acts in form of a foundation. It is aimed to issue on-demand guarantees to SMEs engaged in agriculture and in activities related to rural development				
Product	**Guarantee** with 85% counter guarantee of State	**Guarantee** with 85% counter guarantee of State - special products	**Guarantee** with market fee with 85% counter guarantee of the State	**Guarantee** on AVHGA's own risk	**Guarantee with 50% COSME counterguarantee (EIF)**
Type of Product	Guarantee with subsidized fee		Guarantee with market fee		Guarantee
Target Group	SMEs				
Target Sectors	all, including agriculture			only for agrarian sectors	all, including agriculture
Guarantee Rate	80% loans up to EUR 640K 70% loans up to EUR 1,3M 60% loans up to EUR 1,6M 50% loans above EUR 1,6M	80% of the loan amount	up to 80% for loans up to EUR 320K 60% for loans above EUR 320K	up to 80% loans up to EUR 170K up to 60% loans from EUR 170K – EUR 320K 50% for loans above EUR 320K	up to 80% for loans up to EUR 320K up to 60% for loans over 320K
Guarantee Fee	for 80% guarantee cca. 0.3-0.7% p.a.	0.3% p.a.	for 80% guarantee 1.66-3% p.a.	for 80% guarantee 0,8% p.a.	for 80% guarantee 0.6% p.a. (for 50% 0.375%).
≥ Value ≤	max EUR 3.2M, depending on state aid limits Guarantee for the client group up to EUR 2.5M	max EUR 320K, depending on state aid limits Guarantee for the client group up to EUR 2.5M	guarantee for the client group max EUR 2.5M	own risk guarantee up to EUR 320K (one client), or EUR 480K (client group)	loan value up to EUR 1M per client
≥ Maturity ≤	up to 25 years	up to 5 years	up to 25 years		min. 1 year, Non-revolving loans - to 10 years Revolving loans – to 5 years
Process	Bank sends the documentation to the Guarantor	Bank sends the documentation to the Guarantor, decision made by simplified procedure	Bank sends the documentation to the Guarantor		

Local Guarantor	Hungarian Export-Import Bank Plc. (Magyar Export- Import Bank Zrt.)
Type of Institution	**Public** - 100% owned by Hungarian State
Resources	**National sources**
Description	Serving Hungarian exporters through effective financing. Providing a coherent range of lending and guarantee products while assessing and channeling the needs of exporters.
Product	**Guarantee with 100% counter guarantee of State**
Type of Product	**Guarantee** for loan products that are refinanced by Eximbank
Target Group	**SMEs, Mid-caps, Large companies**
Target Sectors	all
Guarantee Rate	in general **50-60% of the loan amount**, **in special cases up to 80%**
Guarantee Fee	pricing is based on individual assessment depending on rating and collaterals min. 0.5% p.a,
≥ Value ≤	min EUR 10K - max EUR 6.5M
≥ Maturity ≤	+ 15 days upon the final maturity of the Exim loan product
Process	Bank signs a Standby Guarantee frame agreement with Eximbank → client sends an Exim loan request to the bank → bank decides on using a guarantee of Exim and sends the documentation to the Exim or approval → upon the approval, the Client signs the guarantee contract with Eximbank

North Macedonia

1 national guarantor:

- Macedonian Bank for Development Promotion.

3 available guarantee programmes (1 financed through national sources).

Local Guarantor	Macedonian Bank for Development Promotion A.D, Skopje		
Type of Institution	**Public** - 100% owned by fYRoM		
Resources	**National sources**	**International sources**	
Description	MBDP provides financial products and services in the Republic of Macedonia		
Product	Financing Investments from the **Special Credit Guarantee Scheme**	Financing Investments for **Small and Medium Enterprises from EIB4**	Financing Priority **Projects Investments from EIB4**
Type of Product	Guarantee	Guarantee Subsidized interest rate Risk sharing	N/A
Target Group	SMEs up to 250 employees, Annual revenues less than EUR 10 million Total assets less than EUR 11 million	SMEs	N/A
Target Sectors	all		companies providing support in the area of knowledge base economy, energy, ecology, industry, tourism, education
Guarantee Rate	up to 42% of the loan amount facilitating the borrower's access to loan funds in respect of collateral	up to 100% of the loan amount	up to 50% of the loan value
Guarantee Fee	N/A	management fee of 1.0% one-off charged by business banks	N/A
≥ Value ≤	minimum EUR 10K maximum amount EUR 300K	max EUR 3,5M	max EUR 6M
≥ Maturity ≤	up to 8 years		
Process	N/A		

Moldova

1 national guarantor:

- FGC.

5 available guarantee programmes (all financed through national sources).

Local Guarantor	**FGC - Credit Guarantee Fund** **Financier - ODIMM (Organization for SMEs Development)**				
Type of Institution	**Public** - funded from the state budget				
Resources	**National**				
Description	The strategy is to increase the number of financed SMEs; reduce Bank's risk and cost of credit; collaborate with international organizations. Specific is low utilization of products due to one of the highest interests in European countries (8% - 11% p.a).				
Product	SMEs managed by **young entrepreneurs**	SMEs managed by **female entrepreneurs**	**STARTups**	**Active SMEs**	SMEs active in **export sector**
Type of Product	**Guarantee**				
Target Group	**SMEs**				
Target Sectors	Industry, Agriculture, Trade, etc.				Export
Guarantee Rate	Maximum 50%	Maximum 70%		Maximum 50%	
Guarantee Fee	0.5% on the approved value of the guarantee				
≥ Value ≤	max 500,000 MDL / 23,625 EUR	max 700,000 MDL / 33,075 EUR max EUR 25K		max 3,000,000 MDL / 141,750 EUR.	max 5,000,000 MDL / 236,250 EUR
≥ Maturity ≤	up to 60 months				
Process	**Bank sends the documentation to the Guarantor** **Time for response - 3 working days**				

Poland

National guarantors:

- Bank Gospodarstwa Krajowego;
- About 40 regional guarantee schemes;
- Krajowy Ośrodek Wsparcia Rolnictwa (National Centre for Agriculture Support) is launching a loan guarantee programme for restructuring of indebted entities operating farms.

Local Guarantor	Bank Gospodarstwa Krajowego				
Description	**Public** - National Promotional Bank, public, 100% owned by the State				
Resources	**National** (100% State Budget)	**National** (Smart Growth OP for 2014-2020, financed from ERDF in 85% and State Budget in 15%)	**National** (Digital Poland OP for 2014-2020, financed from ERDF in 85% and State Budget in 15%)	**International** (50% EIF counter guarantee under COSME Loan Guarantee Facility)	**International** (70% EIF counter guarantee under Cultural and Creative Sectors Guarantee Facility of the Creative Europe Programme)
Description	General guarantee for SMEs	Guarantee for innovative SMEs	Guarantee for SMEs from telecommunication sector	General guarantee for SMEs	Guarantee for SMEs from Cultural and Creative Sectors
Product	De Minimis Guarantee	Biznes Max Guarantee	PLG-POPC	PLG-COSME Guarantee	PLG-Kreatywna Europa
Type of product	Guarantee				
Target group	SMEs				
Target sector	all	all; innovation criteria apply	Telecommunication	all	Cultural and Creative Sectors
Guarantee rate	up to 60%	up to 80%	up to 80%	80%	up to 80%
Guarantee fee	annual fee 0,5% of the guarantee amount	no guarantee fee	no guarantee fee	annual fee 1% of the guarantee amount	annual fee 0,25% of the guarantee amount
Value	maximum guarantee amount PLN 3,5 m (approx. EUR 815 thousand)	maximum guarantee amount EUR 2,5 m	maximum guarantee amount EUR 2,5 m	maximum loan amount PLN 600 thousand (approx. EUR 140 thousand)	maximum loan amount PLN 8,4 m (EUR 2 m)
Maturity	up to 99 months for investment loans, 27 months for operational loans	up to 20 years	up to 20 years	up to 99 months for investment loans, 27 months for operational loans	up to 99 months for investment loans, 27 months for operational loans
Process	Client applies for the guarantee at the financing bank, who assesses the credit application and grants the guarantee.				
Other information	The guarantee involves state aid according to de minimis rules.	The guarantee involves state aid according to de minimis rules or regional investment aid.	The guarantee involves state aid according to de minimis rules.	The guarantee does not constitute state aid.	The guarantee involves state aid according to de minimis rules.

Romania

3 national guarantors:

- FNGC IMM;
- FGCR;
- EximBank.

5 available guarantee programmes (all financed through national sources).

Local Guarantor	FNGC IMM Credit Guarantee Fund for SMEs			FGCR - Romanian Rural Credit Guarantee Fund	EximBank Bank for Import-Export
Type of Institution	**Public** - funds coming directly from the state budget			**Private** - funds coming directly from Ministry of Agriculture	**Public Bank**
Resources	**National sources**				
Description	FNGC IMM was established in 2001, based on the Law 133/1999 on the stimulation of private entrepreneurs for the development of SMEs			Supporting the absorption of European funds and development and consolidation of agricultural holdings	Providing financing, guarantees, and insurance products in Romania
Product	**Standard** Guarantees	**Ceiling** Guarantees	**State** Guarantees	**Agribusiness** Guarantee	**EximBank** Guarantee
Type of Product	**Guarantee**				
Target Group	**SMEs**				**SMEs or Large Companies**
Target Sectors	**Industry, Agriculture, Trade, etc.**			Agribusiness	Industry, Agriculture, Trade, etc.
Guarantee Rate	Working Capital lines – max 50% Investments - max 80%	max 80% for all facilities	max 50% for all facilities	up to 80% of the loan value unless the loan is for EU Funds (FEADR) beneficiaries, when 100%	up to 80% of the loan value
Guarantee Fee	**from1.1% to 6.3% p.a, depending on client's rating**		1.9%	from 1.25% to 6.3% depending on the rating	guarantee fee from 0.9 to 6.3% depending on the financial performance
≥ Value ≤	max EUR 2,5M per client	max EUR 400K per client	max EUR 550K per client	max EUR 2,5M per client	max EUR 50M
≥ Maturity ≤	**Loan maturity + 30 days**		24 months with prolongation possibility of 12 months	loan maturity + 60 days	maturity of the loan
Process	Bank sends the documentation to the Guarantor, time for response: 10 working days	Bank sends the documentation to the Guarantor, time for response: 5 working days	Bank sends the documentation to the Guarantor	Extern - based on the FGCR own analysis	Bank sends the documentation to the Guarantor

Serbia

1 national guarantor:

- Project Investment Management Unit.

1 available guarantee programme (financed through national sources).

Local Guarantor	Project Investment Management Unit - PIMO
Type of Institution	**Public** - 100% owned by the Republic of Serbia
Resources	**National sources**
Description	N/A
Product	**Serbian Government support to MSME - start up facility**
Type of Product	**Risk-sharing** with a guarantee of the State
Target Group	**MSME**
Target Sectors	N/A
Guarantee Rate	**guarantee cap rate** **guarantee rate** 70% of each outstanding individual loan
Guarantee Fee	1% p.a.
≥ Value ≤	N/A
≥ Maturity ≤	Working Capital Loans - 3 years Investment Loans - 5 years
Process	Entrepreneur needs to complete the training programme with the Serbian Chamber of Commerce (formulation of the business plan and building skills) → when completed he/she applies for a loan with a bank → after the bank's approval PIMO issues a guarantee backed by cash deposited at the Serbian Ministry of Finance Treasury

Slovakia

1 national guarantor:

- Slovenský záručný a rozvojový fond.

1 available guarantee programme (financed through EIF sources) and 1 portfolio guarantee programme in preparation (by SZRF).

Slovenia

1 national guarantor:

- Slovene Entrepreneurial Fund.

1 available guarantee programme (financed through national sources).

Local Guarantor	Slovene entrepreneurial fund
Type of Institution	**Public** - 100% owned by the Republic of Slovenia
Resources	**National sources**
Description	Republic of Slovenia established Slovene entrepreneurial fund for purpose of financial support and stimulation of entrepreneurial sector in Slovenia
Product	**Slovenian Government support to SME**
Type of Product	**Risk-sharing** with a 60 % - 80 % guarantee of the Slovene entrepreneurial fund and subventions of interest rates paid to commercial banks
Target Group	**SME**
Target Sectors	All, except agriculture, coal production, tobacco production and trade, weapon industry and gambling
Guarantee Rate	**guarantee cap rate** **guarantee rate** 60% - 80 % of each principal outstanding individual loan
Guarantee Fee	Free for banks and companies
≥ Value ≤	25.000 EUR - 1.250.000 EUR
≥ Maturity ≤	Working Capital Loans - 1,5-5 years Investment Loans - 1,5-10 years
Process	Client sends application and bank decree of the loan approval issued by business bank to Slovene entrepreneurial fund for approval → client signs contract for guarantee issue with Slovene entrepreneurial fund and loan contract with business bank → Slovene entrepreneurial fund issues guarantee to the business bank