

# IMPACT REPORT 2021

Enabling sustainable  
transformation



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# Key figures 2021

(as of 31 December 2021)



## 1.9

million indirect jobs  
supported

## 76%

share of total micro,  
small, and, medium  
enterprises and rural  
sub-loans disbursed in  
local currency

### Funding

Assets under management	EUR 1,068,000,000
Investors/donors	21

### Investments

Outstanding investment portfolio	EUR 969,000,000
Cumulative volume invested in partner lending institutions	EUR 3,477,000,000
Active countries	15
Active partner lending institutions	73

### Technical assistance (since inception)

Technical assistance projects managed	563
Volume of technical assistance projects managed	EUR 35,000,000
Countries to date with technical assistance projects	16
People benefitting from capacity building	35,000

### Impact

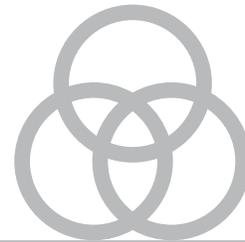
Outstanding sub-loans to micro, small, and medium enterprises and households	90,560
Volume of outstanding sub-loans to micro, small, and medium enterprises and households	EUR 1,100,000
Total volume of sub-loans disbursed to micro, small, and medium enterprises and households through EFSE financing (cumulative)	EUR 8,750,000,000
Indirect jobs supported by micro, small, and medium enterprises receiving financing through partner lending institutions* (cumulative)	1,900,000
– of which, women* (cumulative)	799,000
Women-owned enterprises reached through micro, small and medium enterprises finance* (cumulative)	47,500
Share of total micro, small, and medium enterprises and rural sub-loans disbursed in local currency	76%
Share of sub-loans disbursed to rural end-borrowers	23%

\*Figures are modeled by EFSE based on primary reporting and third-party data.



## Greetings from the Chairperson

As a partner of transformation, a key focus in 2021 was to empower businesses with the right tools for sustainable growth.



EUR  
1.03

billion committed portfolio  
as of December 2021

73

partner lending institutions  
as of December 2021

**At the time we publish this report, we are shocked and disheartened by the events that are still unfolding in Ukraine. It is a country that the European Fund for Southeast Europe (EFSE) has supported for many years and in which we have built strong partnerships and friendships.**

The current crisis highlights the importance of EFSE's transformation agenda towards EU values, standards, and competitiveness, which will continue to grow as it carries out its mission to support sustainability, diversity, digitalization, and entrepreneurship. At the same time EFSE's role as a risk taker is becoming more crucial, as it applies financial instruments such as local currency financing and other capital instruments to further empower the transformative potential of entrepreneurs in the EU region.

Working alongside local lending institutions, EFSE provides valuable support and access to capital for small businesses that are the bedrock of economic recovery and prosperity, particularly in our target regions of Southeast Europe and the EU Eastern Neighbourhood Region. In this review, we look at some of EFSE's activities in 2021 and the impact we created with our partners.

EFSE ended the year with a EUR 1.03 billion committed portfolio, significantly exceeding the planned targets for 2021 and in healthy shape, despite the challenging markets. The combination of a robust and resilient fund with a swift and flexible response to the needs of its lending partners allowed EFSE to quickly deploy capital to support the recovery of local businesses and economies.

As a partner of transformation, a key focus in 2021 was to empower businesses with the right tools for sustainable growth. These included reinforcing a viable environment for them to access finance and offering greater protection from operational risk.

In this regard, we expanded our footprint by building partnerships with 12 new lending institutions, taking the total to 73. We also engaged in a wider range of capital instruments to support key partners in increasing their lending capacity, including Basel 3-compliant subordinated debt and MREL-eligible senior non-preferred bonds. As an example of the real-world benefits of impact investing, EFSE's focus on combating the pandemic's impact on employment has allowed us to indirectly support almost two million jobs to date.

EFSE similarly pressed ahead with its local currency finance agenda to give access to affordable longer-term finance in local currency, reducing foreign exchange risks for businesses and helping to develop resilient local economies. More than 49% of the fund's loan investments in 2021 were in local currency. Three new currencies were added: the Moldovan leu, Azerbaijani manat, and Serbian dinar, taking the total to seven in our countries of operation. EFSE also worked closely with national regulators to promote this type of lending and events were held in Georgia and Ukraine to raise awareness about the subject.

The success of EFSE cannot be judged solely in monetary terms. We refined our impact strategy and framework, rolled out the impact scoring tool, and extended initiatives to assess the gender balance in the jobs we support, all to ensure that impact targets are set and met in a meaningful way. We are therefore delighted and proud to have received an independent impact management evaluation for the fund's adviser, Finance in Motion, by verification company BlueMark, whose findings highlighted a strong alignment of our impact management system with the Impact Principles.

The war in Ukraine has only strengthened our commitment to fostering economic development and prosperity in Southeast Europe and the Eastern Neighbourhood Region. We are putting this resolve into action by leveraging financing and capacity building. Through our crisis response we are providing flexible liquidity for micro, small, and medium enterprises in the region, improving our partner lending institutions' resilience and capital base, offering local currency financing to act as an important stabilization mechanism, and bolstering our partner lending institutions' capacity to address the needs of strategically important sectors.

Kind regards,

**Dr. Klaus Müller,**  
Chairperson of the  
EFSE Board of Directors

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# Letter from the Fund Manager and Advisor

We will continue to build and rebuild an environment of economic opportunities for those in the EFSE target region.



Jasminka Begert



Oxana Binzaru



Ilia Gherman



Jens Giltjes



Christoph Kraiker



Elvira Lefting



Jacob Ole Nestingen



Dr. Simon Sonnekalb



Sylvia Wisniwski



Dear Reader,

While we draft this letter and report, the war in Ukraine has not yet ended. We, together with so many others have watched with fear, sadness and anger as Russia waged an unprovoked war against Ukraine. Through the dark clouds however, we have also seen examples of courage, solidarity, selflessness, ingenuity, and resilience. Humanity at its best.

Our resolve to successfully implement our mission has only been strengthened, and our partnerships only reinforced. We will continue to build and rebuild an environment of economic opportunities for those in the EFSE target region. Strategic partnerships, local currency lending, innovative financial instruments, entrepreneurship empowerment, and digital transformation among other things will remain the tools we use to foster sustainable economic development and prosperity. We will work as our partners' greatest allies to create and safeguard an environment where micro, small, and medium enterprises (MSMEs) thrive.

These MSMEs faced a challenging environment during 2021, in the wake of COVID-19. As economies in the region began to rebound from the crisis, businesses had to quickly adapt to the changing environment. Access to affordable finance was critical for these MSMEs to survive. Working together with its partner lending institutions, EFSE has promptly addressed this vital need, cumulatively facilitating over 1.025 million sub-loans to MSMEs and households.

For EFSE, 2021 was a transformational year. The fund has significantly expanded its outreach, teaming up with 12 new partner lending institutions and extending funding and support to additional geographies, sectors, and end borrowers. Together with its partners, EFSE explored new financial instruments and products to meet the demands of the new normal. Many of which were focused on addressing access to finance, including in local currency for start-ups, youth and women, and meeting the increasing capital requirement challenges.

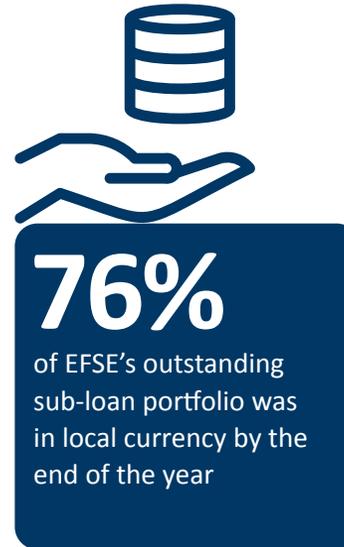
Through a strong focus on local currency lending, EFSE has significantly expanded its impact footprint in 2021 by providing financing in seven local currencies, including three new currencies: Serbian dinar, Moldovan leu and Azeri manat. By the end of the year, 76% of EFSE's outstanding sub-loan portfolio was in local currency. Along with deploying capital and financial instruments, the fund also worked closely with local partners to boost visibility and promote this important topic. Under the Power of Local Currency campaign, EFSE hosted two local currency financing events in Ukraine and Georgia.

The Development Facility of the European Fund for Southeast Europe (EFSE DF) equipped its partners to navigate the increasingly complex regulatory landscape by providing tailored technical assistance (TA). Partners worked with the EFSE DF to develop bespoke solutions and trainings to use digital tools and cultivate digital transformation as well as to meet the growing anti-money laundering, impact, environmental and social requirements.

As local entrepreneurs in the EFSE target region play an important role in driving innovation in the "new normal", the EFSE DF has developed tailored TA that coupled with financial products aimed to empower this significant group. Together with local partners, the EFSE DF steered entrepreneurs across their growth journey, offering support during the incubation and capacity building phases and facilitating acceleration. This on top of the mentorship and digital assistance provided throughout the process equipped the entrepreneurs for success.

“

Looking back at a successful year of embarking on a long-term sustainable transformation, we know that it was only possible with all EFSE partners. We would like to extend our thanks to EFSE investors for their ongoing trust and resolve for our joint mission.



To scale up impact, we have further strengthened its impact management system. In 2021, the fund introduced an impact scoring tool to better assess its and its partner lending institutions' impact. Moreover, Finance in Motion, EFSE's advisor, is a signatory of the Operating Principles for Impact Management (Impact Principles). EFSE's impact management system is therefore aligned with these recognized industry practices. Along with an annual disclosure statement, which provides details on the practices applied, the advisor is committed to periodic independent verifications. The first verification, conducted in 2021 by the specialized consulting firm BlueMark, affirmed strong alignment with the Impact Principles.

Looking back at a successful year of embarking on a long-term sustainable transformation, we know that it was only possible with all EFSE partners. We would like to extend our thanks to EFSE investors for their ongoing trust and resolve for our joint mission.

We would like to thank the EFSE Board of Directors, the Investment Committee and the Development Facility Committee, whose swift and flexible responses allowed EFSE to provide the agile support needed to emerge from the COVID-19 crisis.

And we would like to thank the EFSE community, for the ongoing drive to create positive impact. Working together, we create a sustainable future.

With best regards,

**Finance in Motion  
Advisor**

**Hauck & Aufhäuser  
Manager**

# Our contribution to the Sustainable Development Goals

EFSE's activities have been mapped against the SDGs at SDG target level, based on which six have been selected as core SDGs.

SDG	EFSE contribution and indicators	2020	2021
 <b>1 NO POVERTY</b>	<b>EFSE contributes to eradicating poverty by meeting the basic financing needs of micro, small, and, medium enterprises and low-income households.</b>		
	Sub-loans facilitated to micro, small, and medium enterprises and households*	1,050,000	<b>1,100,000</b>
	Share of total rural and micro, small, and medium enterprise sub-loans disbursed below EUR 20,000	81%	<b>85%</b>
	Share of microfinance institutions among active partner lending institutions	25%	<b>26%</b>
 <b>2 ZERO HUNGER</b>	<b>EFSE helps improve agricultural productivity and the livelihoods of small-scale food producers through secure and equal access to financial services.</b>		
	Share of partner lending institutions with EFSE investments dedicated to rural and agricultural finance	45%	<b>46%</b>
	Share of sub-loans disbursed to rural end-borrowers	20%	<b>23%</b>
	Technical assistance projects dedicated to advancing the agricultural sector*	87	<b>93</b>
 <b>8 DECENT WORK AND ECONOMIC GROWTH</b>	<b>EFSE contributes to economic development and job creation by enabling entrepreneurs to establish and grow businesses through, for example, tailored financial services, mentorship, and strong ecosystems that support entrepreneurship.</b>		
	Indirect jobs supported in micro, small, and medium enterprises receiving financing through partner lending institutions <sup>1*</sup>	1,800,000	<b>1,900,000</b>
	Partner lending institutions supported with capacity building in developing and strengthening processes and practices*	89	<b>90</b>
	People trained*	34,900	<b>35,000</b>

\* Cumulative figure since inception

<sup>1\*</sup> Figures are modeled by EFSE based on primary reporting and third-party data

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EFSE contributes to inclusive and sustainable economic development by upgrading small-scale enterprises through improved access to finance and innovative solutions.



# 274,000

number of micro, small, and medium enterprises receiving EFSE financing through partner lending institutions



# 142

partner lending institutions since inception

SDG	EFSE contribution and indicators	2020	2021
<b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE 	<b>EFSE contributes to inclusive and sustainable industrialisation by upgrading small-scale enterprises through improved access to finance and innovative solutions.</b>		
	Volume of sub-loans enabled for micro, small, and medium enterprises through EFSE financing*	EUR 5.4 billion	<b>EUR 5.8 billion</b>
	Micro, small, and medium enterprises receiving EFSE financing through partner lending institutions <sup>1*</sup>	260,000	<b>274,000</b>
	Active borrowers	106,000	<b>91,000</b>
	EFSE partner institutions*	135	<b>142</b>
<b>10</b> REDUCED INEQUALITIES 	<b>EFSE contributes to the economic inclusion of all by sustaining and growing business income among marginalised entrepreneurs.</b>		
	Share of micro, small, and medium enterprises and rural sub-loans disbursed in local currencies	72%	<b>76%</b>
	Women-owned enterprises reached through micro, small, and medium enterprise finance <sup>1*</sup>	44,000	<b>47,500</b>
	Share of female participants in capacity building projects	37%	<b>41%</b>
<b>17</b> PARTNERSHIPS FOR THE GOALS 	<b>As a pioneer in blended finance, EFSE contributes to bringing together public and private investors for sustainable development.</b>		
	Committed capital	EUR 982 million	<b>EUR 979 million</b>
	Share of private capital invested in the fund	23%	<b>21%</b>
	Volume of technical assistance projects*	EUR 32 million	<b>EUR 35 million</b>

\*Cumulative figure since inception

<sup>1\*</sup> Figures are modeled by EFSE based on primary reporting and third-party data

# Partnering for sustainable transformation

- EFSE's approach to transformation
- Leveraging local currency and innovation to strengthen the financial sector
- Driving innovation and digitalization through tailored technical assistance
- Building strategic partnerships to foster entrepreneurship
- Shaping the future of finance in the agricultural sector
- Leveraging regional integration for a sustainable future



Lasting change happens from within. That is why, from the outset, the fund's vision for promoting economic development and prosperity in Southeast Europe and the EU Eastern Neighbourhood Region has been focused on empowering the transformative potential of entrepreneurship that resides in these economies.

Since its inception in 2005, EFSE's purpose has been to contribute to an environment in which entrepreneurs can seize an opportunity, make a go of it, grow and thrive.

### EFSE's approach to transformation

As a partner in transformation, EFSE works toward creating and contributing to the preconditions for entrepreneurial success.

This happens in three tiers: at the financial sector level by facilitating and reinforcing a viable environment for enterprises to access finance for growth and development; at the partner lending institution level by equipping the local lenders to better address the micro, small, and medium enterprises' (MSMEs') financing needs; and at the MSME level itself by facilitating access to finance with the prospect of long-range support along the enterprise's growth trajectory.

The success of EFSE's progressive approach to achieving transformation comes down to the clearly laid out theory of change that is at the core of EFSE's impact strategy.



## Leveraging local currency and innovation to strengthen the financial sector

At the financial sector level, EFSE's efforts are concentrated on ensuring MSMEs can operate off solid foundations, by promoting best industry standards and responsible finance practices, supporting financial literacy, addressing the existing MSME finance gap by facilitating financial inclusion, and encouraging education.

This, along with the EFSE's individually-tailored financing and technical assistance (TA) at the partner level, allow the financial institutions to better identify the underlying opportunities of lending to MSMEs, and mitigate inherent risks, which in turn leads to improved access to finance at MSME level.

As a responsible partner, EFSE makes the difference by lending in local currency. Financial institutions that borrow in foreign currencies to secure their own operations typically offer loans in that currency and pass on the exchange rate risks to their customers. To MSMEs generating income in their home currency to service debt in a foreign one, the associated foreign exchange risk can create existential concerns.

Local currency lending shields both sides of the loan, lenders and MSMEs, from exchange rate fluctuations. Just as important as the ability to better plan ahead is the peace of mind that comes from not having to worry about unforeseen currency depreciation or appreciation. This extra layer of protection is at the core of creating a vibrant, sustainable entrepreneurship ecosystem – especially in times of crisis or in challenging operating environments.

“

Local currency lending shields both sides of the loan, lenders and MSMEs, from exchange rate fluctuations.



7

Lending in 7 local  
currencies

70%

of total fund-approved  
loan investments were in  
local currency in 2021

The FX risk is absorbed through a combination of hedging instruments, amongst others the L-share structure. EFSE is structured in such a way that a special share class – the L-shares – absorbs the foreign exchange risk when providing partner lending institutions with a local currency lending facility. Backed by the European Union and the German Federal Ministry for Cooperation and Development (BMZ), this lending structure offers the best possible guarantee to both investors in the fund and partner lending institutions.

Given this key market need, EFSE is committed to further expanding its local currency lending. In 2021, EUR 165.9 million in seven local currencies was approved to 11 partner lending institutions – more than 70% of total fund-approved loan investments (EUR 308.2 million). This included dedicated local currency financing to partner lending institutions in Ukraine, Georgia, Armenia, and Romania as well as an expansion to new partners and currencies, including Eurobank in Serbia, Bank Respublika in Azerbaijan, and maib in Moldova. To the latter, EFSE provided its first LC-denominated Basel 3-compliant Tier 2-subordinated debt for seven years, which marked a significant milestone and contribution to the promising transformation of the largest bank in the country.

### Driving innovation and digitalization through tailored technical assistance

Where local currency lending is a critical tool on the supply side of MSME finance, the EFSE Entrepreneurship Academy stands out for its support on the demand side. Set up in 2018 under the EFSE Development Facility (EFSE DF), it works together with on-the-ground organisations like local incubators, accelerators and partner lending institutions, to provide business creators with mentoring, training, and networking opportunities, as well as access to the funding they need to make their ideas fly. The Academy also accompanies entrepreneurs on their journey, organizing workshops and training programs that equip them with the tools and insights to navigate market realities, including the regulatory environment, and help them establish and maintain a long-term growth trajectory. The topics covered in the training programs range from creating viable business models and value proposition, customer segmentation, digital project management, marketing and sales, business growth metrics to tax, legal, and financial management aspects.

In 2021 alone, the EFSE Entrepreneurship Academy supported over 610 entrepreneurs throughout Southeast Europe and the EU Eastern Neighbourhood Region. In total, the Academy has supported more than 3,400 entrepreneurs since its launch in 2018.

### Building strategic partnerships to foster entrepreneurship

The partnership between EFSE and Sparkasse Bank in Bosnia and Herzegovina illustrates how the demand and supply sides work together in supporting the entrepreneurial ecosystem, while addressing the financial gap at MSME level. EFSE extended a EUR 5 million facility to Sparkasse Bank for a new loan product aimed directly at budding entrepreneurs. As Bosnia and Herzegovina is the only country in the Western Balkans without access to the EU's Employment and Social Innovation (EaSI) guarantee scheme to offset the bank's risk exposure, the EFSE DF provided the necessary guarantee instrument (collateral deposit). This now makes Sparkasse Bank the first – and soon, we trust, not the only – bank in the country to offer financial solutions specifically tailored to start-up profiles.

Complementing the loan facility, EFSE DF has put in place a technical assistance (TA) programme to support mentoring provided by Mozaik Foundation. A longstanding partner of EFSE DF, Mozaik has a strong track record of addressing the lack of business opportunities challenge for youth in Bosnia and Herzegovina. The next step will be to replicate the EFSE DF's successful Entrepreneurship Academy concept here, too.

### Shaping the future of finance in the agricultural sector

Most of the economies within the fund's geographic scope are rooted in agriculture. This legacy, combined with advances in agriculture technology/infrastructure, translates into vast business opportunities. In 2021, for instance, the EFSE Entrepreneurship Academy sponsored the six-month-long ScaleUp Academy programme organised by Technolera in Turkey to identify avenues for agtech solutions development and implementation. The programme culminated in a six-day event at which 15 of the 80 participating start-ups presented solid concepts for addressing key challenges in agriculture and sustainability. These ranged from AI-based data analytics to support farmers in their operational decisions to a supply chain financing platform for small and medium enterprises, and vertical soil-less farming technology.

To bridge the financing gap and empower the underserved farmers in Ukraine, EFSE DF has teamed up with Agrohubs to develop a dedicated agri-credit assessment tool with scoring functionalities that will greatly help financial institutions to assess potential client efficiency and productivity through comparative analysis.

EFSE's partnerships have not only acted as a positive catalyst, but as a foundation to foster a strong entrepreneurial ecosystem. The fund is uniquely equipped to



**610**  
entrepreneurs supported through the EFSE Entrepreneurship Academy in 2021

**93**  
Technical assistance projects dedicated to advancing the agricultural sector since inception

address MSME needs while striving to create an environment in which these entrepreneurs can thrive.

### Leveraging regional integration for a sustainable future

Moving forward, EFSE will add to the strong foundation it has built by maintaining its focus on employment and income generation through the financial sector. To complement that, the fund continues to strive to fulfil its mission by encouraging regional and EU integration – spreading EU values, EU standards as well as the EU economic perspective – while promoting transformation and innovation on the MSME and the financial sector levels. This will encompass fostering initiatives that encourage competitiveness, digitalization, transparency, and the green agenda among financial institutions and MSMEs, including the young and female entrepreneurs that fall within the EFSE's developmental and financial support mission. EFSE will continue to work with its partners on "future proofing" their businesses and the environment in which they operate, while building on the many accomplishments achieved during 2021.

## EFSE's transformation value drivers

### Financial contribution



ACCESS TO FINANCE



FINANCING IN LOCAL CURRENCY

### Technical assistance support



DIGITALIZATION



REGIONAL INTEGRATION



OPERATIONAL EFFICIENCY



INNOVATION

# Transforming the entrepreneurship bank

EFSE and BT Group's partnership, spanning over 15 years, has seen the Group grow its geographical footprint, expand its service offerings and transform into Romania's largest financial institution.



**It has been over 25 years since a group of entrepreneurs in Cluj-Napoca, the capital city of Transylvania, founded Banca Transilvania (BT) – for entrepreneurs.**

The first “branch” occupied the spare rooms in the founders’ apartments. The start-up team: thirteen employees. Today, the largest bank in Romania.

By the time EFSE enters the market in 2006, the bank has built BT Group, with close to EUR 2.5 billion in assets and a loan portfolio of EUR 1.4 billion. Solid financials and a sterling reputation. And a vision it shares with EFSE: to help build up and strengthen small and medium enterprises (MSMEs), Romania’s economic backbone. Today, sixteen years after becoming an EFSE partner, BT Group’s loan portfolio dedicated to MSMEs totals over EUR 1.3 billion, with more than 317,000 active MSME clients in 2021.

Throughout BT Group’s transformation, EFSE investments – coming predominantly as Tier 2 capital support to Banca Transilvania – have fuelled growth, both organic and through acquisitions. Just as importantly, the technical assistance (TA) provided through the EFSE Development Facility has kept the momentum up, enabling BT Group to address borrowers’ diverse needs more effectively, while also assisting the Group’s evolution into an ESG-driven organisation committed to sustainable practices.

Targeted TA was instrumental in enabling BT Group to build the capacity necessary to diversify into microfinance. True to the enterprising spirit of its parent company’s DNA, BT Microfinantare, also an EFSE partner, is working with over 10,000 very small businesses. It helps to secure close to 20,000 jobs in 2,000 municipalities.

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As a local bank, we have always had the ability to act quickly and to constantly optimize our business model. Bold and cautious, optimistic, and innovative, that’s the Banca Transilvania spirit.

Financial leasing is another domain that EFSE supports through its partnerships with BT Leasing Transilvania and BT Leasing Moldova to offer alternative solutions to finance MSME growth efficiently and at a lower risk. BT Group's acquisition in 2021 of Idea Bank and its leasing and insurance brokerage subsidiaries further cements its role as a standard-bearer for entrepreneurship.

Horia Ciorcilă, Chairman of the Board of Directors and founder of Banca Transilvania sums it up this way: "As a local bank, we have always had the ability to act quickly and to constantly optimize our business model. Bold and cautious, optimistic, and innovative, that's the Banca Transilvania spirit. Since the beginning of the BT story, the bank has reinvested in Romania, for a responsible and sustainable growth, almost all the profit and we have thus managed to support the Romanian economy, companies, entrepreneurs and the Romanians' ambitions."



**Mihaela Nadasan**

Deputy CEO at Banca Transilvania

Shortly before going to press, we were sad to learn of the unexpected passing of Mihaela Nadasan, Deputy CEO at Banca Transilvania. The EFSE's successful partnership with BT Group is the result of her professionalism, determination, and vision. We will continue to build on the foundations she laid.

## 15 years of transformation

### 2006

#### JOINING FORCES

EFSE and Banca Transilvania team up with EFSE supporting the bank's growth with a significant subordinated and senior financing package

### 2007

#### INCREASING OUTREACH

EFSE's investment expands to BT Leasing Transilvania

### 2012-2013

#### BOOSTING CAPITAL

EFSE bolsters Banca Transilvania with Tier 2 subordinated debt as it becomes Romania's third largest bank

### 2016

#### ADDING MICROFINANCE

BT creates BT Microfinantare, its microfinance-dedicated company with EFSE's financing and technical assistance support

### 2018

#### EXPANDING CAPITAL AND REACH

EFSE invests EUR 73.75 million across BT Group, EUR 45 million of which is subordinated debt to the bank, as BT Group ventures into banking in the Republic of Moldova

EFSE adds BT Microfinantare and BT Leasing Moldova as partners



## EUR 169.2 million

invested by EFSE across the  
BT Group as of 31 December 2021

### 2019 – 2020

#### BUILDING CAPACITY

EFSE Development Facility invests in building BT Microfinantare capacities in sales, business transformation, and credit risk management

### 2021

#### CONTINUING GROWTH

BT Group acquires Idea:Bank, Idea:Leasing and Idea:Insurance Broker to strengthen its digital offering

EFSE increases its financing of BT Microfinantare and BT Leasing Moldova on top of tailored technical assistance to help the micro, small, and medium enterprises clients of BT Microfinantare move their operations online and BT Leasing increase its digital capacities

**THE STORY GOES ON...**

# Leveraging capital support and local currency to strengthen resilience

EFSE teamed up with maib, through a local currency investment, to create the foundation for long-term growth and transformation.



**In 2021, EFSE provided a Basel 3-compliant Tier 2-subordinated loan facility to maib, which is Moldova's largest financial institution by any metric.**

The landmark transaction in Moldovan lei equivalent to EUR 15 million marked more than a milestone. It testified to the power of Moldova Agroindbank's (maib) transformation, determination, and resilience as well as to the entrepreneurial spirit at the fund's core.

The Moldovan lei equivalent facility was provided for seven years. This means the micro, small, and medium enterprises (MSMEs) can focus on growing their businesses, enjoying lower instalments in the currency they earn their income over longer repayment periods. And because it is provided under the Basel 3 framework, the loan facility constitutes a protective capital buffer as maib maintains momentum on its development trajectory, serving among others the MSME clients.

As the era of low interest rates and strong currencies across emerging economies unwinds, local currency lending clearly emerges as a pivotal contributor to broad-based growth and financial stability. In Moldova, it is cementing the gains achieved as the country's financial sector closes a difficult chapter in its history.

For maib, getting the investment was a validation of the significant advances made since engaging in a thorough institutional upgrade process that began in 2018, when a consortium of foreign shareholders, including the European Bank for Reconstruction and Development, and leading private equity firms Invalda Invl and Horizon Capital put their money and trust into the bank. The acceleration increased in 2021, when a new leadership drawn from the top echelon of the region's financial community was onboarded and the bank was rebranded.

The EFSE loan facility is the first Basel 3-compliant Tier 2 capital instrument to be implemented in the Moldovan banking sector. This underscores not only the robust foundations of today's maib, but also serves as an indicator of the strong development and transformational impact that EFSE has on the institutional and sector levels.

Just as important is its effect as a clear signal, to actors both within and outside the country's economy, of EFSE's role as a market enabler, facilitator and risk taker.

The high impact generated by the EFSE's loan facility is reinforced by the dedicated technical assistance (TA) support from the EFSE Development Facility. It's about enhancing maib's capacities to offer the best-in-class services to its clients. Over 1,400 staff members from top managers to the first-line officers were provided with tailored trainings and mentoring on leadership, customer centricity, customer service+ and sales+.

The journey of a promising bank transformation that EFSE is happy to share.

## maib in numbers (as of 31 December 2021)

### Largest outreach in Moldova



35%

ONLINE LOANS



31.4%

MARKET SHARE  
BY ASSETS



35%

OF MOLDOVA'S  
POPULATION SERVED



4.2bn lei

SME LOANS



901K

CLIENTS



21.1%

TIER 1 CAPITAL RATIO

“

The local currency subordinated loan investment into maib represents an important and welcome scale up of EFSE's engagement in Moldova. It attests the fund's holistic approach to institutional and sector development and also positions it at the forefront of the transformational effort as a reliable partner that delivers sustainable and lasting impact.

**Mr. Vladimir Munteanu,**  
First Deputy Governor of the  
National Bank of Moldova

The CEO of maib, Giorgi Shagidze said "I am proud to say that maib has cemented its leadership position across all categories during 2021. This was thanks to the "customer first" transformation of last year. Maib initiated projects in Digital Transformation, Focus on UX developments, and, first and foremost, the Agile Transformation which is the one and only such transformation in Moldovan banking industry.

The subordinated loan we received from EFSE in November 2021, EUR 15 million equivalent in Moldovan lei, enabled maib to finance micro, small, and medium-sized enterprises and help them increase competitiveness and resilience, while safeguarding them from potential exchange rate fluctuations.

I would like to thank EFSE team for this valued partnership and for supporting Moldovan businesses and economy. I look forward to continuing this collaboration for years to come."

From EFSE proceeds (as of 12 April 2022):

479

LOANS GRANTED

439

CLIENTS SERVED

301.5m lei

DISBURSED

# Driving digital transformation in microfinance

EFSE is empowering microfinance institutions in their first step towards a digital transformation and a dynamic future.



## 70%

reduction in internal reporting at EFSE's partner institutions after receiving training on the digital transformation

## 50-70%

reduction in time required for policy and procedure approval

Throughout the world, in every industry, the drive to digital is unleashing new potential for improving the quality, speed and efficiency of doing business. There is no holding back this transformative wave, and digital is the new normal.

EFSE has worked extensively to advance digital development, across various levels and with different partners. The fund supports regulators in developing ecosystems that increase the potential for financial technology companies to thrive. Through digital capacity building, EFSE assists its partners in realizing potential for greater efficiency, while aiding the partners' clients to develop their own digital engagement.

Microfinance institutions (MFIs) are especially apt to benefit from digitalisation, specifically in terms of the efficiency gains that can be achieved. MFIs thrive by maximising the number of very small loans they issue, rarely exceeding amounts equivalent to EUR 5,000. Processing these loans is labour intensive, from taking applications, verifying clients, disbursing funds, servicing and reporting on them. These very small loans can be as complex and time intensive as significantly larger loan amounts.

At EFSE's partner MFIs in the Western Balkans, the average wait time from application to disbursement is currently up to four working days, mainly due to internal processes and organization as well as legacy IT systems. Through digitalisation, this could realistically be shortened to as little as 15 minutes for current clients, with the added benefit of more robust risk mitigation built in. In addition to improving the profitability of microfinance, this shift could have a life-changing impact on borrowers: all too often, microloans are taken out for an urgent financing need.

Launched in 2021 by the EFSE Development Facility The Path to Digital Transformation Programme specifically supports MFIs in getting started on their digital journey. Structured in five phases over 12 months, the pilot programme focused on four MFIs - Partner MCF, MCC EKI, and MCF MI-BOSPO in Bosnia and Herzegovina and Alter Modus in Montenegro.

Guided by dedicated experts, the MFIs have assessed their digital readiness, identified key organisational roadblocks, and importantly have developed business strategies for digital transformation along with implementation roadmaps and action plans. The project is already resulting in greater efficiency. For example, most MFIs currently prepare more than 1,000 reports manually a year, through digitalization this could be decreased to around 350 reports a year – resulting in a 70% reduction in internal reporting, enabling the MFIs to extend loan officer reach. Going digital allows the MFIs to offer more inclusive, responsible, and cost-effective products and services to micro- and small-sized businesses.

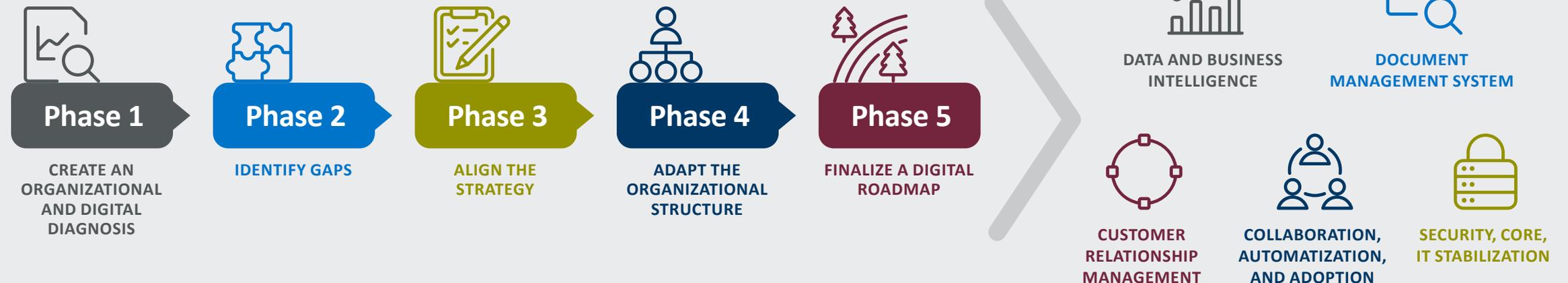
Igor Duspara, Director of IT for the Bosnian MFI MCC EKI highlighted the benefits for the institution, saying “EFSE’s support has allowed us to increase our speed and efficiency, meaning our staff has more time for clients and we can better serve more businesses, and more developed businesses.”

A path that EFSE is proud to take with all its partner MFIs for an inclusive digital future!

“

EFSE’s support has allowed us to increase our speed and efficiency, meaning our staff has more time for clients and we can better serve more businesses, and more developed businesses.

## The MFI digital transformation roadmap journey



# EFSE's impact and sustainability approach

EFSE's mission is to foster economic development and prosperity in Southeast Europe and the EU Eastern Neighbourhood Region.



**It pursues this by channelling responsible financing to MSMEs and households and by strengthening the systems that surround and enable local entrepreneurs and households.**

In this way, the fund works toward its ultimate impact target of supporting jobs and income generation as well as improving living conditions. EFSE further strives for systemic impact by contributing to strengthening the financial sector serving those target groups, as well as empowering entrepreneurship by building skills along with access to resources and opportunities.

EFSE's impact management approach combines managing and mitigating potential negative outcomes with enhancing positive impact. Thereby, EFSE works towards the Sustainable Development Goals (SDGs) and aligns with international standards and good practices. These include the Operating Principles for Impact Management, the IFC Performance Standards, the eight core conventions of the International Labour Organization, the International Bill of Human Rights, and key responsible finance initiatives.

## BlueMark verification

Finance in Motion, EFSE's advisor, is a signatory of the Operating Principles for Impact Management (Impact Principles), the leading industry standard for integrating impact management throughout the investment lifecycle. In the framework of the Impact Principles, the advisor is committed to periodic independent principle alignment verifications.

In 2021, BlueMark, a specialized impact verification services provider, conducted this assessment by benchmarking Finance in Motion's impact management system against the Impact Principles. The verification, which included a review of EFSE practices, showed notable ratings across all principles, affirming the fund's strong impact management system.



**Read more about**  
[Finance in Motion's Disclosure Statement here](#)

## Positive impact management

Assessing EFSE's positive impact is crucial to the fund, as it demonstrates progress towards EFSE's social objective and provides insights and learnings that inform its strategy.

EFSE tracks and reports its progress towards its impact objective based on a set of key indicators. They have been selected based on EFSE's Theory of Change, reflecting both the direct impact on the investee and the sector overall (for example, by improving the financial institutions' capacity to serve the micro, small, and medium enterprise, or MSME, sector) as well as the indirect impacts on or through the investees' clients (for example sustaining and creating job opportunities in the local MSME sector).



Explore

[EFSE's impact logic in its Theory of Change here](#)

In 2021, EFSE introduced a new impact scoring tool to further strengthen its systematic impact management. The tool builds on EFSE's Theory of Change and reflects the targeted impact of the fund's partner lending institutions as well as the final socio-economic impact to be supported through the investments. It is further aligned with best practice industry frameworks and builds on the 5 Dimensions of Impact. In assessing the potential impact of each investment, the tool considers the need for and relevance of an investment in a particular country and sector. It further evaluates the investees' outreach to the target group as well as its commitment and capacity to deliver positive impact. Finally, EFSE's investor contribution is estimated, considering the financial and non-financial additionality of each investment. The expected impact is mapped against the UN SDGs. This tool is integrated in the investment lifecycle and will be used for impact assessment during the due diligence process as well as to monitor impact over time and at the portfolio level.

## An impactful portfolio

EFSE works with selected PLIs...



**WOMEN IN SENIOR LEADERSHIP**

**64%** of partner lending institutions with at least 25% women in senior leadership



**WOMEN IN WORKFORCE**

**86%** of partner lending institutions with at least 40% women



**TRANSFORMING PROCESSES**

**25%** of current EFSE partner lending institutions receive support in transforming their internal processes through EFSE tailored technical assistance

... to reach its final target group:

**FEMALE**

**41%** of individual sub-loans support female sub-loan borrowers

**YOUNG**

**17%** of individual sub-loans support young sub-loan borrowers\*

**RURAL**

**29%** of individual sub-loans reach sub-borrowers living in rural areas

\*Young sub-borrowers are defined as below the age of 30

## Sustainable Finance Disclosure Regulation

In pursuing its sustainable investment objective, EFSE is classified as an Article 9 impact fund in accordance with the Sustainable Finance Disclosure Regulation (SFDR). The fund's overall sustainability-related impact of the fund is demonstrated by relevant sustainability indicators ([see pp. 8-9](#)).



**Read more about**

[EFSE's approach to impact and sustainability here](#)

## Managing environmental and social risks

EFSE places a priority on the effectively managing – i.e., avoiding, minimising, and mitigating – potential environmental and social (E&S) risks and impacts associated with its investments. To this end, the fund maintains and continuously improves on its Environmental and Social Management System (ESMS). The fund's E&S management approach is guided by the key principles of the IFC Performance Standards.

E&S risks are considered throughout the investment process. E&S screening, E&S risk categorization, and thorough E&S due diligence processes are key tools for identifying risks and potentially significant adverse sustainability impacts. These tools are also used to assess EFSE's investees' capacity and commitment to address and mitigate those impacts.

In addition, the fund prohibits the use of EFSE funding for activities with an elevated risk of causing adverse social or environmental impacts, such as those related to business activities in the coal, oil, and gas sectors, activities involving child or forced labour, and those involving the destruction of high conservation value areas, among others. Once capital is deployed, EFSE regularly monitors the E&S performance of its partner lending institutions and helps them strengthen their E&S capacity where required.





# Operational results

- Funding
- Investments
- Technical assistance
- Sub-loan portfolio

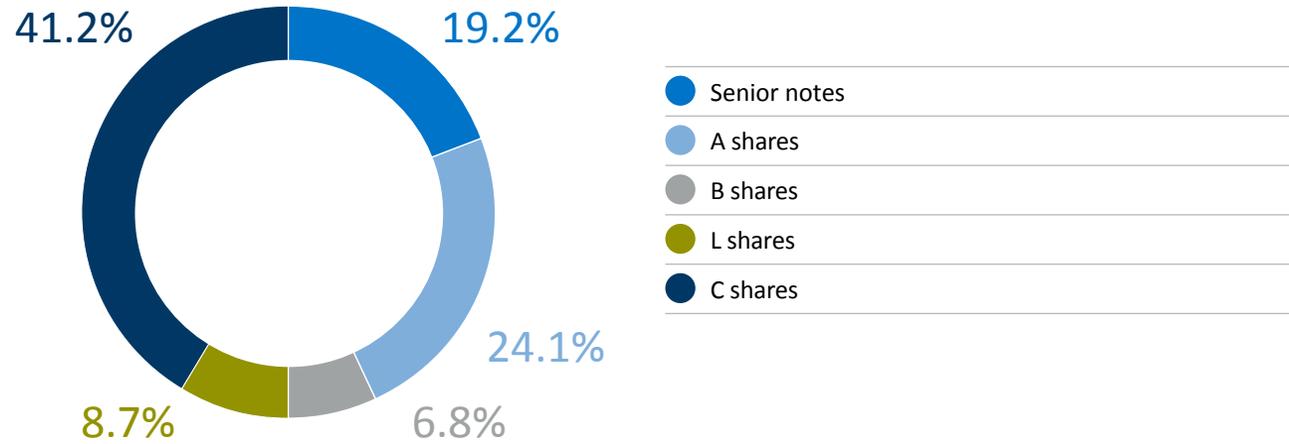


# Operational Results

## Funding

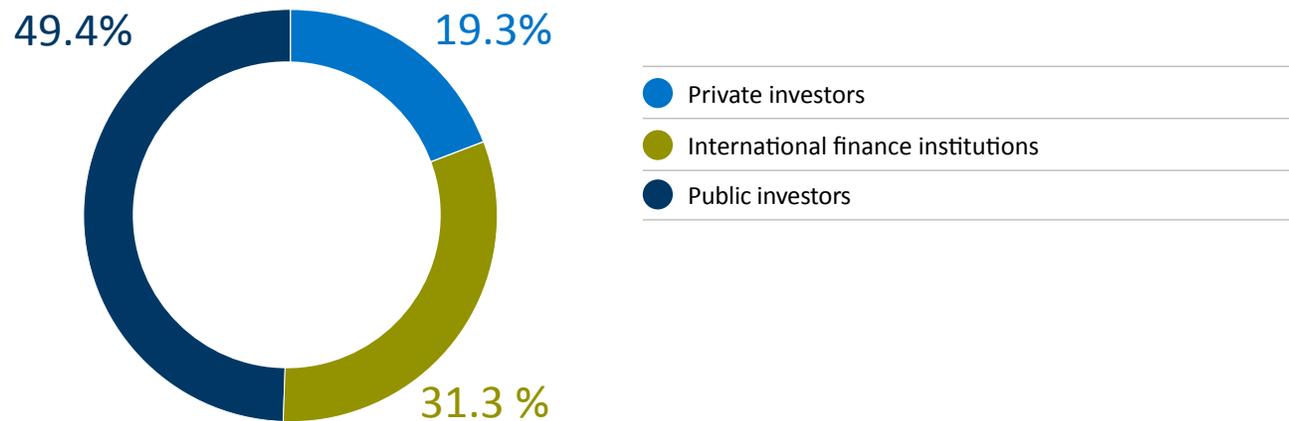
Available funding by investment class

Total committed investment portfolio as of 31 December 2021: EUR 1.03 million



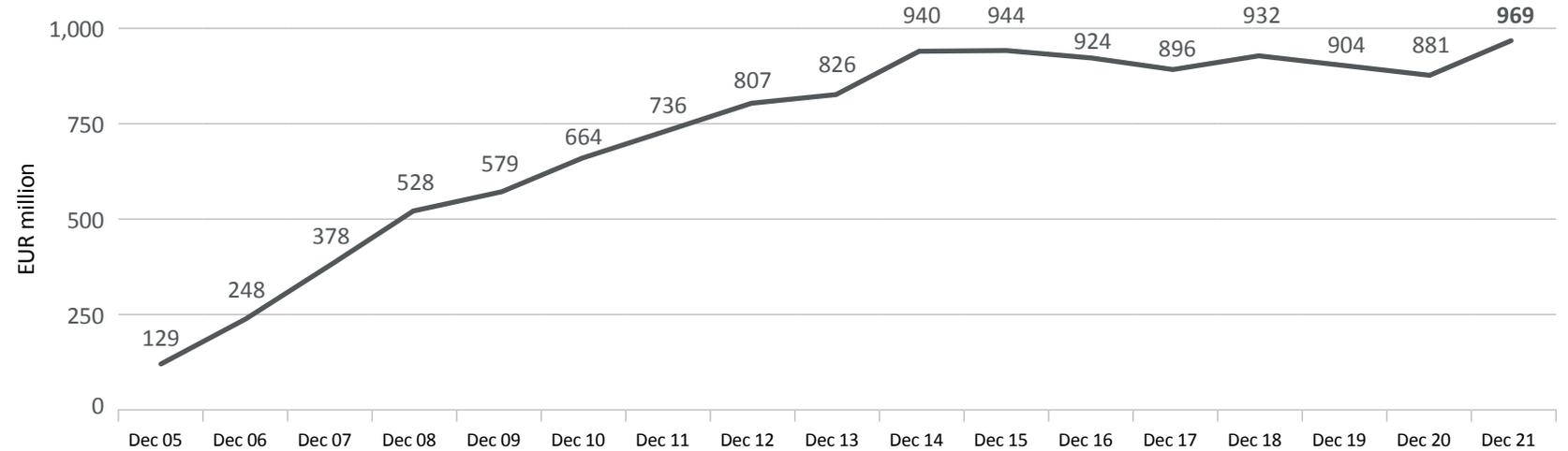
Fund investors by investor class

Total committed investment portfolio as of 31 December 2021: EUR 1.03 million



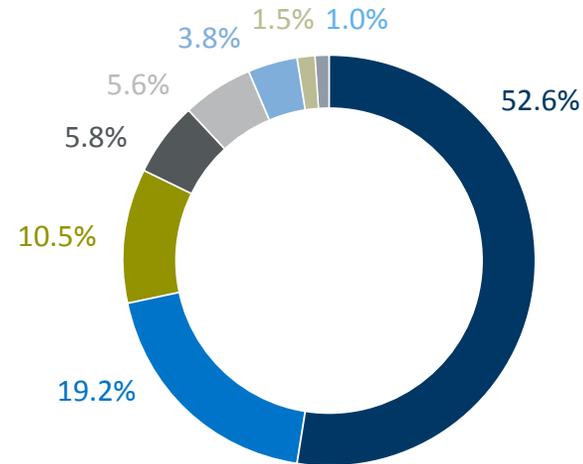
# Investments

**Outstanding investment portfolio per year**



# Investments

**Outstanding investment portfolio by currency**

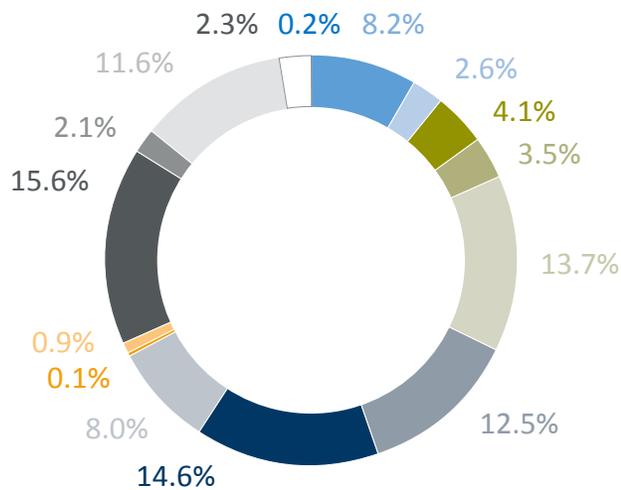


- EUR (Euro)
- USD (United States dollar)
- UAH (Ukrainian hryvnia)
- GEL (Georgian lari)
- RON (Romanian new leu)
- AMD (Armenian dram)

**Total outstanding investment portfolio as of 31 December 2021: EUR 969 million**

- MDL (Moldovan leu)
- RSD (Serbian dinar)
- AZN (Azerbaijani manat)

**Outstanding investment portfolio by country**



- Albania
- Bosnia and Herzegovina
- Kosovo
- Montenegro
- North Macedonia
- Romania
- Serbia
- Turkey

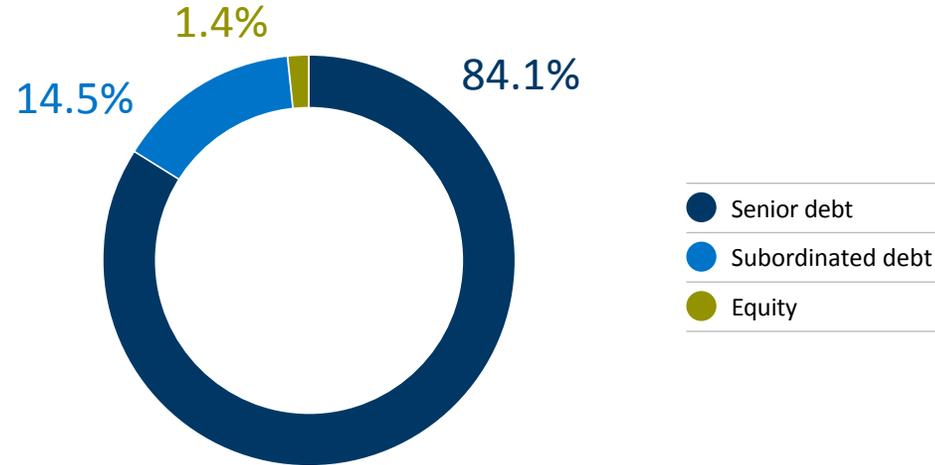
**Total outstanding investment portfolio as of 31 December 2021: EUR 969 million**

- Armenia
- Azerbaijan
- Belarus
- Georgia
- Moldova
- Ukraine
- Cross country

# Investments

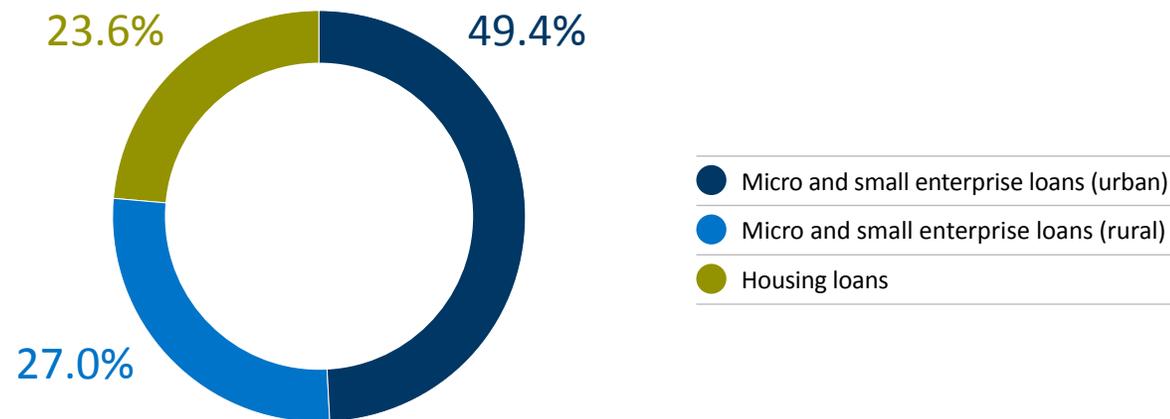
### Outstanding investment portfolio by instrument

Total outstanding investment portfolio as of 31 December 2021: EUR 969 million



### Outstanding investment portfolio by product

Total outstanding investment portfolio as of 31 December 2021: EUR 969 million

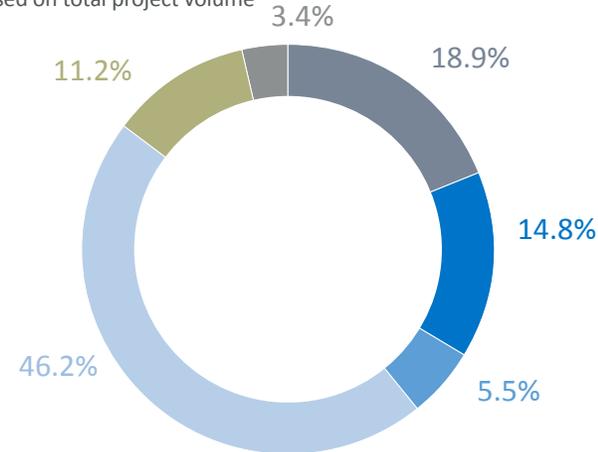


## Technical assistance

The EFSE Development Facility (EFSE DF) offers tailored technical assistance (TA) and training to the fund's partner lending institutions, conducts high-level research that includes development impact assessment, and contributes to strengthening the local financial sectors through advisory support and by actively fostering responsible finance. The EFSE DF implements projects on a range of relevant topics with micro, small, and medium enterprise (MSME) lending, responsible finance, entrepreneurship development, financial technology, financial product development and core capacity building for partner lending institutions remaining key topics.

### Total scope of activities

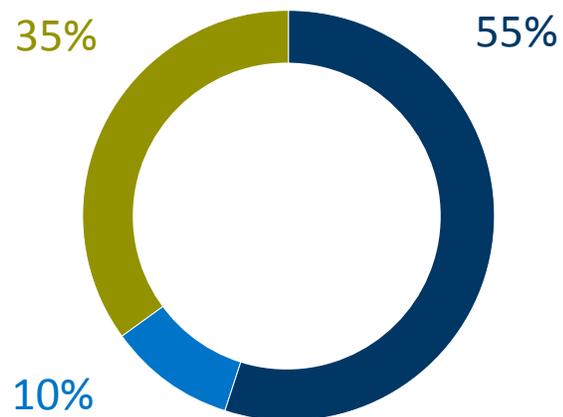
Based on total project volume



### 2021 Approvals

- Entrepreneurship and micro and small enterprise development
- Innovative financial product development
- Sustainable finance
- Core capacity building for partner lending institutions
- Financial technology
- Responsible finance

### Technical assistance by type



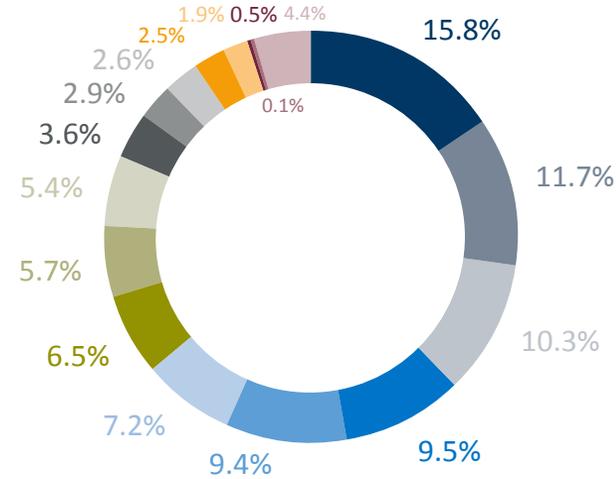
### 2021 Approvals

- Individual technical assistance
- Research and development
- Sector technical assistance

## Technical assistance

### Project distribution by country

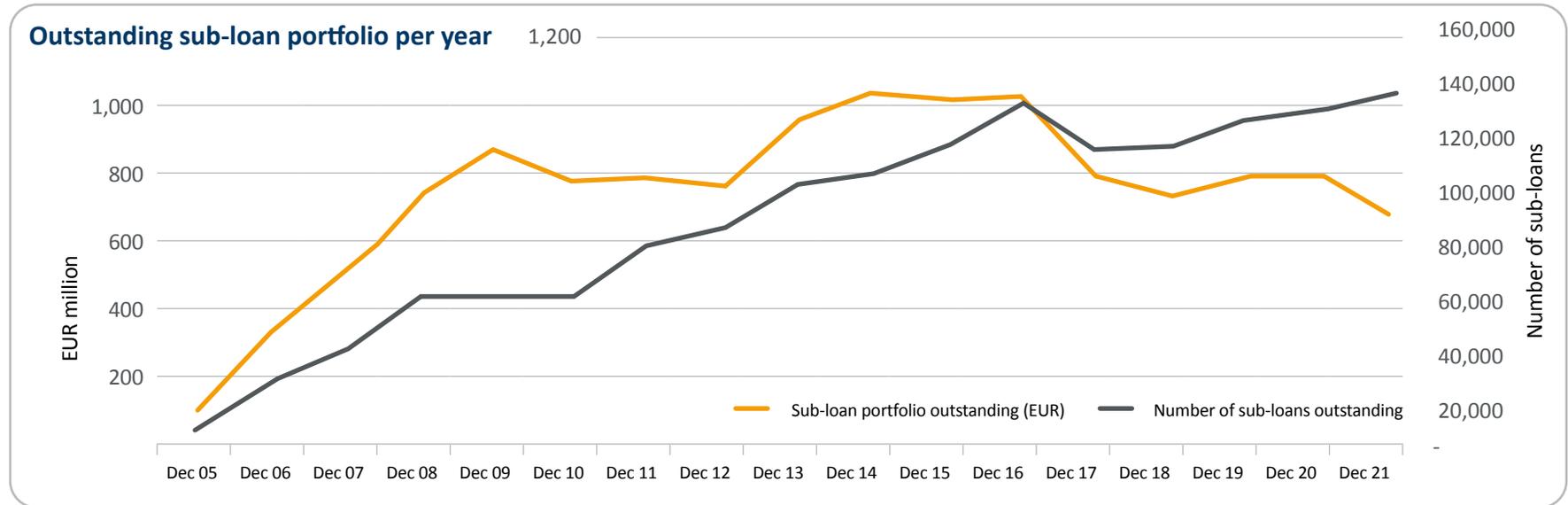
Based on total project volume



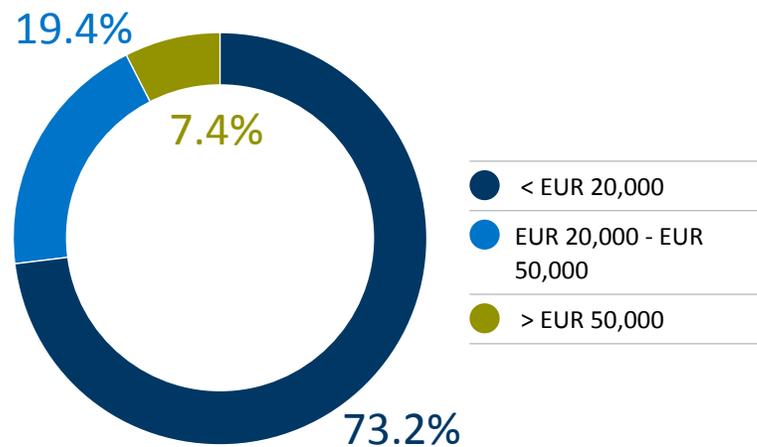
### Cumulative, from inception of the EFSE Development Facility in 2006 to 31 December 2021

Bosnia and Herzegovina	15.8%	Montenegro	3.6%
Turkey	11.7%	Ukraine	2.9%
Georgia	10.3%	North Macedonia	2.6%
Kosovo	9.5%	Azerbaijan	2.5%
Albania	9.4%	Croatia	1.9%
Moldova	7.2%	Belarus	0.5%
Serbia	6.5%	Bulgaria	0.1%
Armenia	5.7%	Regional-Southeast Europe	4.4%
Romania	5.4%		

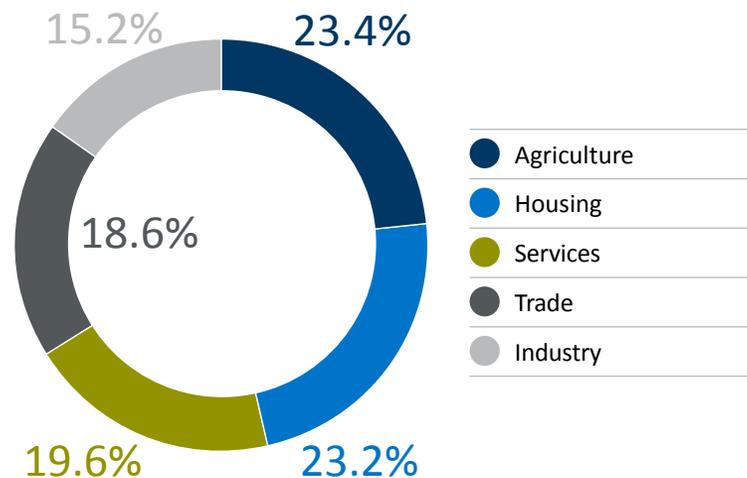
## Sub-loan portfolio



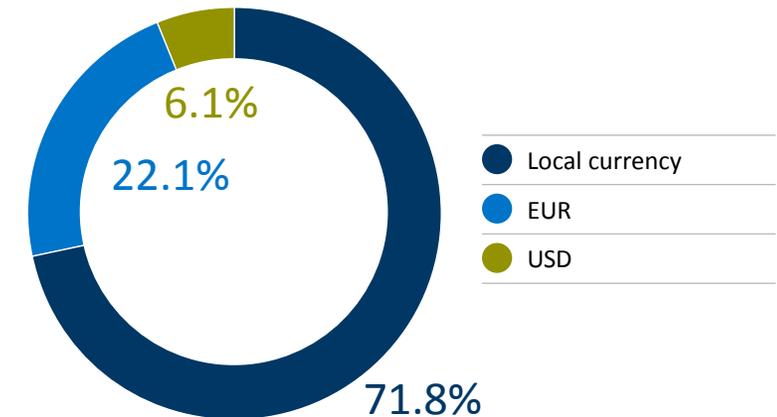
**Sub-loan portfolio outstanding by loan size based on number of sub-loans**



**Sub-loan portfolio outstanding by economic sector based on volume of sub-loans**



**Sub-loan portfolio outstanding by currency based on volume of sub-loans**



# Investors

## PUBLIC INVESTORS



European Investment Fund and KfW as Trustees for the European Commission



 Austrian Development Agency



Federal Ministry for Economic Cooperation and Development

DANIDA



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,  
Education and Research EAER  
State Secretariat for Economic Affairs SECO

## INTERNATIONAL FINANCIAL INSTITUTIONS

 **European Bank**  
for Reconstruction and Development

**KFW**

 **European Investment Bank**

 **IFC** | International Finance Corporation  
WORLD BANK GROUP

**FMO**

Entrepreneurial Development Bank

 **DB**

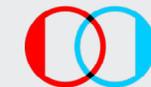
Development Bank of Austria

## PRIVATE INSTITUTIONAL INVESTORS

**Deutsche Bank** 

 **Raiffeisen Bank International**

 **financeinmotion**

 **Democracy & Media Foundation Stichting Democratie & Media**

 **Steyler Ethik Bank**

**GLS Bank**  
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Thomas Reker  
Madhu Dutta-Sen  
Syed Aftab Ahmed  
Andrea Hagmann

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Thomas Reker (Chairperson)  
Kristin Duchâteau  
Michael Hamp

## AUDIT AND RISK COMMITTEE

Nico Pijl (Chairperson)  
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\* This designation is without prejudice to positions on status, and is in line with UNSC 1244 and the ISJ Opinion of the Kosovo Declaration of Independence

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