

# Letter from the Fund Manager and Advisor

## Dear Reader,

2020 was a year that left its mark on all of us. Even now, the pandemic is not over, and the aftershocks of last year's events are still reverberating — not least in EFSE's target regions of Southeast Europe and the Eastern Neighbourhood Region.

These economies are driven by the micro and small enterprises who depend on robust local commerce to support their livelihoods. And yet, as we have seen, the economic ramifications of the COVID-19 crisis have weighed especially heavily on smaller businesses for whom a sudden drop in liquidity could very well mean an existential threat.

This is where impact investing is crucial. By bringing together public and private investors who want to make a difference, funds like EFSE are specifically tasked with taking on development challenges facing local economies and entrepreneurs. In 2020, this task became more imperative than ever before. It meant acting quickly to channel finance to the fund's local partner institutions – the on-the-ground banks and microfinance providers upon which micro and small enterprises critically rely for their liquidity.

For example, in spring of 2020, just as the pandemic hit the Western Balkans, EFSE moved swiftly to supply EUR 43 million in additional funding to nine key

microfinance lenders in the region to help them maintain cash flows and help entrepreneurs overcome liquidity challenges.

In fact, in 2020 the fund approved record investments to financial institutions in its regions, equipping them to meet the needs of more than 40,000 entrepreneurs and households. This was through a range of instruments, whether through senior loans, subordinated debt, or local currency financing. Indeed, more than 57% of the financing enabled by EFSE was in local currency, providing an extra layer of security against foreign exchange risks in uncertain times. In the end, EFSE's investments in 2020 contributed to supporting over 91,000 local jobs.

Meanwhile, the EFSE Development Facility took action to help financial institutions with the operational challenges of adapting to a new reality. A set of emergency programs was launched in the spring of 2020, designed to provide expertise to EFSE's partners in dealing with, for example, loan restructuring, digitalisation, human resource management, and other topics essential to navigating through a turbulent environment. For business owners, the EFSE Development Facility offered one-on-one mentoring and helplines, in addition to regional webinars and online monitoring and coaching. Targeted grants and novel tech-based solutions were also deployed to enable entrepreneurs adapt new business models, manage costs, and stay in business.

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Of course EFSE has not been tackling these challenges alone. The fund's investees – the dedicated financial institutions in EFSE's regions – have shown enormous resilience and initiative in providing for their micro and small enterprise clients. Local business support organisations as well as national regulators are working tirelessly to help brace entrepreneurs and institutions against the storm. And EFSE's international investors have shown resolution and trust in keeping open the crucial flow of funding needed to maintain business operations and stability in Southeast Europe and the Eastern Neighbourhood Region. Indeed, the European Union has even invested an additional EUR 40 million into EFSE to boost the fund's crisis response ability.

As the Manager and Advisor of this remarkable vehicle for impact, it has been our privilege to contribute to EFSE's strong crisis intervention over the last year and beyond. EFSE has its roots in international collaboration for local support: From its origin in the consolidation of European efforts to help a region rebuild from a decade of conflict; to reinforcing financial infrastructure in the face of the 2008/2009 crisis; to serving as a conduit for critical resources to equip institutions and entrepreneurs to manage a pandemic – EFSE today has built a reputation as a seasoned expert and reliable ally in challenging times.

We would like to extend our thanks to EFSE's investors and partners for their dedication to our shared mission. Together, we aim to support sustainable development from the ground up, by investing in the success of the



hardworking entrepreneurs of Southeast Europe and the Eastern Neighbourhood Region.

We would like to thank the EFSE Board of Directors, the Investment Committee, the Development Facility Committee, and all fund decision-makers whose keen understanding and quick action have enabled EFSE to provide swift, targeted support to combat the crisis.

And we would like to thank you, the EFSE community, for your commitment to making a positive impact. A stable, healthy, integrated Europe is one where we all pool strengths for the well-being our neighbours. And the EFSE community has shown, as ever, unflagging commitment to this vision throughout an unprecedented period.

With best regards,

FINANCE IN MOTION  
Advisor

HAUCK & AUFHÄUSER  
Manager