



Deep and Comprehensive Free Trade Area (DCFTA) Initiative East

*Chisinau
4 July 2017*

*European Investment Bank
European Investment Fund*



**Deep and Comprehensive Free Trade Area
(DCFTA) Initiative East**

Microfinance

**Supporting micro-
enterprises by
providing financing
to local microfinance
institutions**

Guarantee Facility

**Offering SME loan
guarantees to local
banks via the
European Investment
Fund (EIF), enabling
them to provide wider
access to finance for
SMEs**

Agri-food Value Chains

**Providing technical
assistance for
capacity building
activities and
business planning
and credit
application support
services to the SMEs**



Content

a Microfinance

b Guarantee Facility

c Agri-food Value Chains



Microfinance





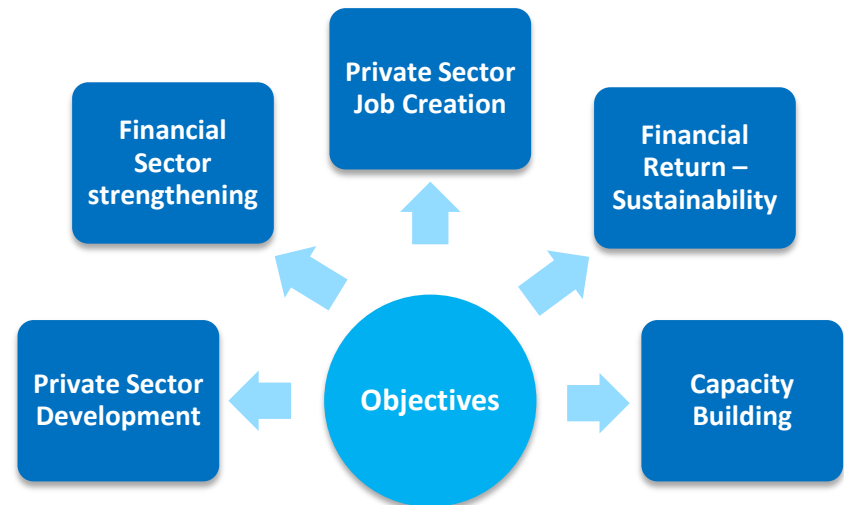
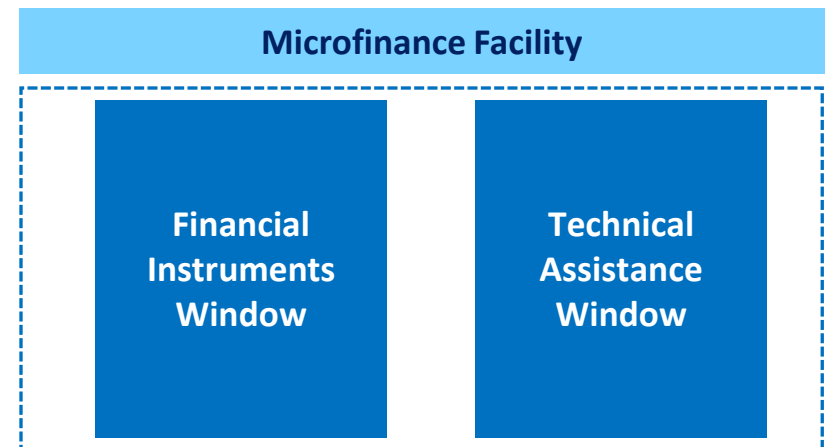
Empowering small businesses and changing lives

Context

- Micro Finance Institutions are a significant source of funding for microenterprises. Microfinance is a recognised tool to foster sustainable development and entrepreneurship.
- Microfinance Facility activities aim to facilitate access to finance to microenterprises in order to support private sector development, especially in less developed areas, and reduce social imbalances.

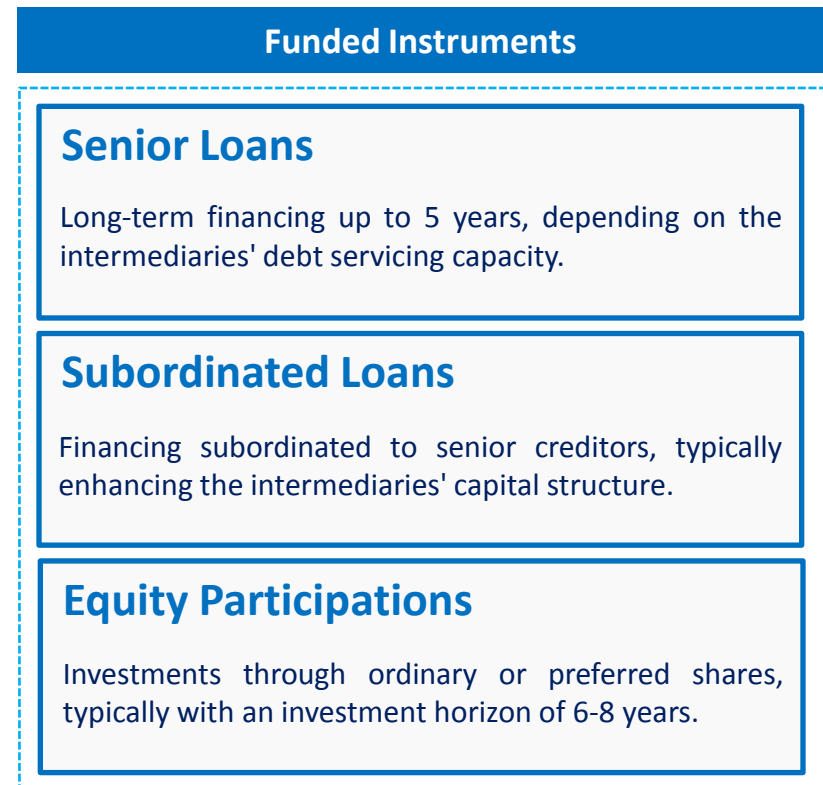
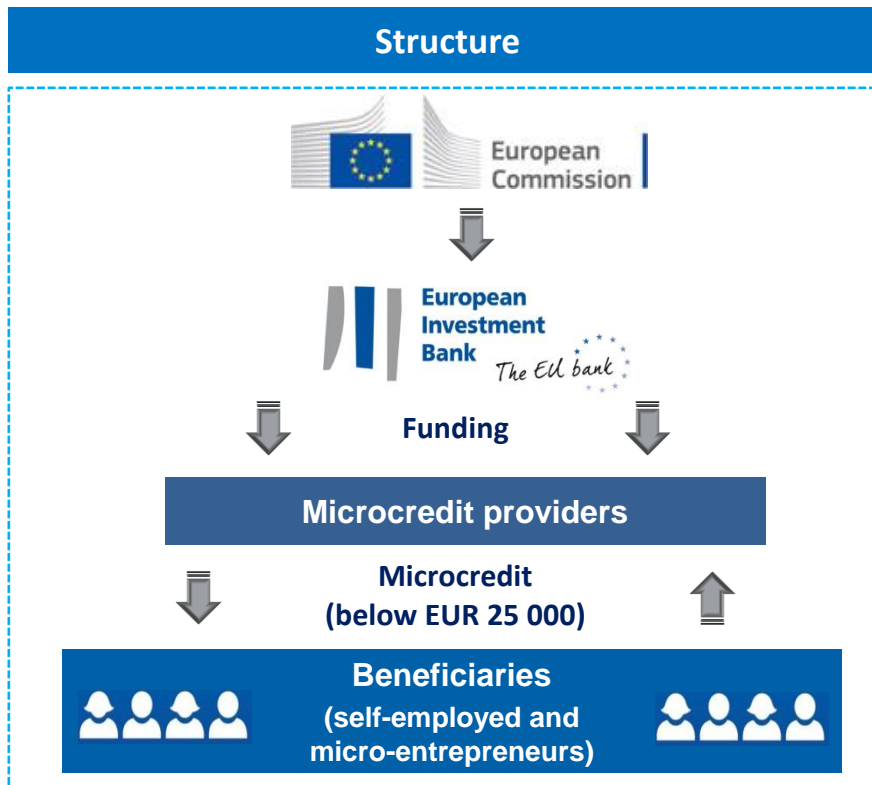
Overview

- Microfinance service providers (Micro Financial Institutions and Small Banks).
- Channel resources towards 15,600 microenterprises in the region, creating and/or sustaining over 30,000 jobs, including integration of women in the workforce.
- The Microfinance Facility is a microfinance initiative established with funding of the European Commission and the EIB.





Financial Instruments Window: Improving Access to Finance



- Pricing of funded instruments will reflect the individual transaction risks as well as local market conditions. Interest rates will be set on a floating rate basis.
- Funded instruments can be denominated in EUR or USD. The financing to micro-borrowers must comprise new micro-loans and micro-lease receivables below EUR 25,000.



Technical Assistance Window: Creating a sustainable microfinance ecosystem

Rationale

Finance on its own is not enough to ensure business success.

Training

Coaching

Guidance

Mentoring



Maximizing the Impact

Technical Assistance

Training Programs for MFI staff

Design and deliver training programmes focusing on Credit Risk Management as well as on Banking and Administrative Risk Management to financial intermediaries.

Capacity Building for MFI

Provide targeted capacity building via consulting interventions for each financial intermediary.

Beneficiary Support Actions

Organise series of actions aimed at raising the level of financial literacy, improving managerial capacity and building entrepreneurship skills of potential final beneficiaries in order to help them present bankable projects to financial intermediaries.



What intermediaries are eligible?

Microfinance service providers, including Micro Financial Institutions, Credit Cooperatives and Small Banks providing resource to MSE and low-income persons.

EIB Funding can support income-generating activities only (consumer finance is excluded).

Which intermediaries can benefit from the Facility?

The EIB will select intermediaries after carrying out a detailed due diligence based on established selection criteria including financial standing, financing capacity, operational capabilities, and expected impact (e.g. volumes and geographical reach).

Intermediaries are expected to comply with standard EIB requirements (environmental and social standards, integrity, AML, etc.)

What are the benefits of becoming an intermediary ?

- Increase loan volumes and possibility to gain new customers
- Attract new investors from the private sector and reinforce shareholding structure in order to reach sustainability
- Develop pilots and build economies of scale
- Adopt sustainable measures to promote employment





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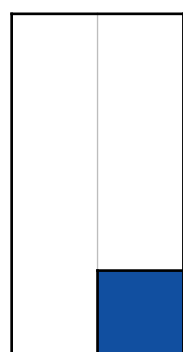
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Guarantee Facility

EIF Guarantee Instruments - Risk tolerance and leverage effect

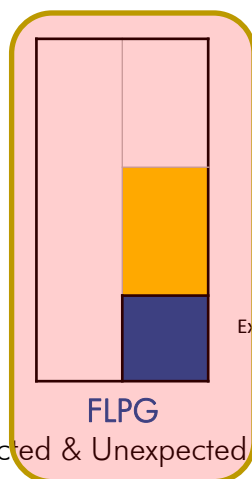
Product		Portfolio Tranche	Form	Leverage	Terms / Elements for consideration
COSME SMEG	Risk Transfer	First Loss	Direct guarantee Counter - guarantee	= 20	Risk Tolerance
FLPG*		First Loss + Second Loss	Direct guarantee	= 5 to 7	Rationale Type of Intermediaries
Credit Enhancement		Second Loss (mezzanine)	Direct guarantee	= 6 to 8	Price
InnovFin		Blended (uncapped)	Direct guarantee Counter-guarantee	= 10 (on EC FLPG)	Leverage Sustainability
ABS	Funding	Senior/mezzanine	Guarantee or direct purchase of notes	= 2 to 3	Final Beneficiaries
Loan Funds		Vertical (uncapped)	Equity-type investment	= 3	

*First loss portfolio guarantee



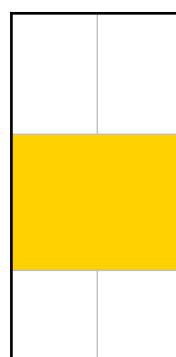
SMEG
(First Loss)

Expected
Loss



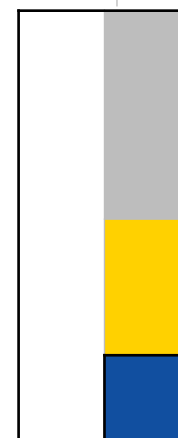
FLPG
(Expected & Unexpected Loss)

Expected
Loss



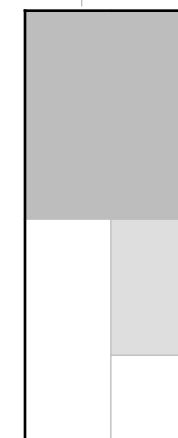
Credit Enhancement
(Second Loss)

Expected
Loss



InnovFin
(uncapped)

Expected
Loss

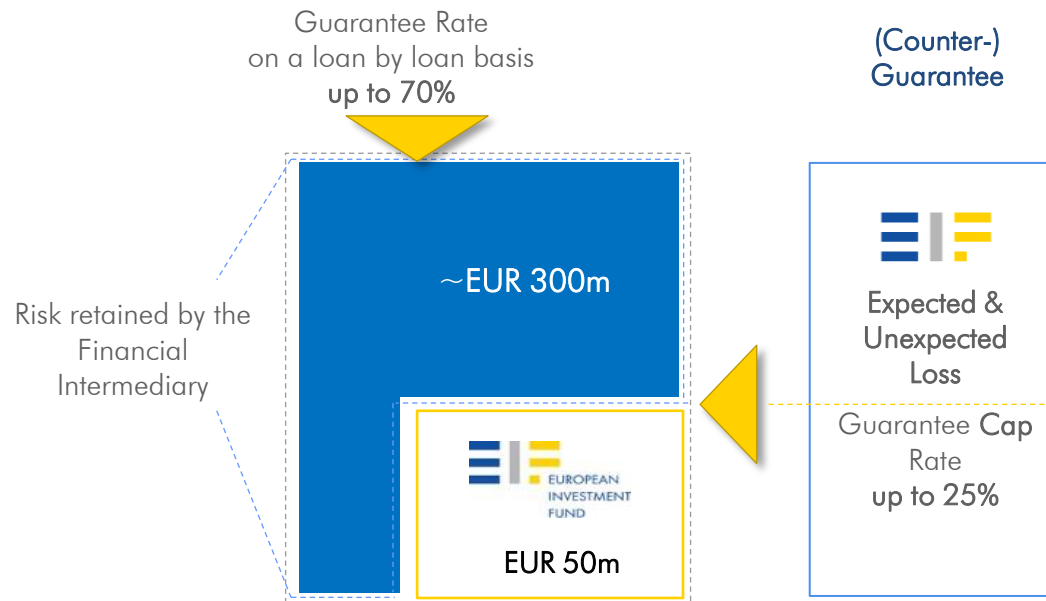


ABS
(Senior/Mezz)

Expected
Loss

How it works:

First Loss Portfolio Guarantee (FLPG)



- Capped (Counter-)guarantee on a portfolio of new SME transactions

Key terms:

Eligibility

- Decisions delegated to the financial intermediaries based on pre-set eligibility criteria (no loan-by-loan approval needed)

Coverage

- Covers main SME lending products: investment loans, working capital (including revolving credit and overdrafts), leases, bank guarantees and letters of credit

Loan size

- Up to EUR 5m / up to 10% of the portfolio size

Maturity

- Between 6 months (for revolving credit periodically renewable) and 10 years

Currency

- SME lending products can be denominated in EUR, USD or in Local Currency

Losses

- Covers losses including principal and interest (up to 90 days)

Benefits

- Financial intermediary expected to transfer the benefit to SMEs: reduce risk margin / collateral requirements

The Application process:

EIB - Guarantor EIF - Transaction Agent



Call for Expression of Interest is launched

- An Open Call for Expression of Interest for selecting the financial intermediaries is launched
- Available on EIB and EIF web sites!

Pre-selection

- Financial intermediaries send a proposal to EIF; selection will be made on a “first come, first assessed” basis

Due Diligence

- After “pre-selection” EIB and EIF will propose a “due diligence” meeting – takes place at the premises of the financial intermediary

Approval

- Approval of the guarantee transaction by EIB and EIF

Signature

- Contract signature
- Typically 2 years to include loans in the guaranteed portfolio

Impact:

Issues for SMEs in the region

- High interest rates
- Short loan maturities
- Significant demand of collaterals by the local banks

Lower SME risk when utilizing the guarantee

- Lower interest rates and longer maturities
- Lower collateral requirements

What to expect:

- Improved access to finance through first loss SME portfolio guarantees and credit exchange risk mitigation
- Enable financial intermediaries to take on more risk and reach out underserved segments of the economy



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Unlocking production potential in a sustainable and resource-efficient manner

Context

- For decades the agri-food sector has been viewed as high risk by commercial lenders confronted with its seasonal cash flows.
- Banks are often reluctant to extend credit to SMEs because of the high costs of obtaining adequate information on the credit quality of small companies as well as the limited capacity of the latter to present bankable investment projects.
- This has resulted in high interest rates and collateral requirements, effectively cutting off access to finance for longer term investments in technology upgrades.

Objectives

IMPROVE

...companies' productivity and the quality of their products

e.g. Moldova ToR of TA "improve quality, quantity and taste of product"

INVOLVE

...many relevant players in the creation of value added all along the value chain

e.g. laboratories for standards testing

STRENGTHEN

... the competitive position of companies and their products to successfully place them on the market

e.g. marketing

Activities

Support the agri-food sector and enable private and public sector actors to take full advantage of the DCFTA by:

Providing support in compliance with European standards and in accessing to EU markets

Enhancing quality and competitiveness of agri-food products on local and international markets

Covering entire value chains

From

Education system,
Modernization of primary production,
Transportation,
Storage,
Grading and sorting,
Packaging,
Processing

To

Provision of related goods and services,
Certification and quality control,
Marketing
International business development



Why Finance an Entire Value Chain?

A value chain is as strong as its weakest link

Its output is as large as its most significant bottleneck

Each link and bottleneck therefore requires attention to maximize overall performance of the value chain



All participants in the value chain are eligible for funding:

Enterprises in primary agriculture

Research, Education, Vocational Trainings

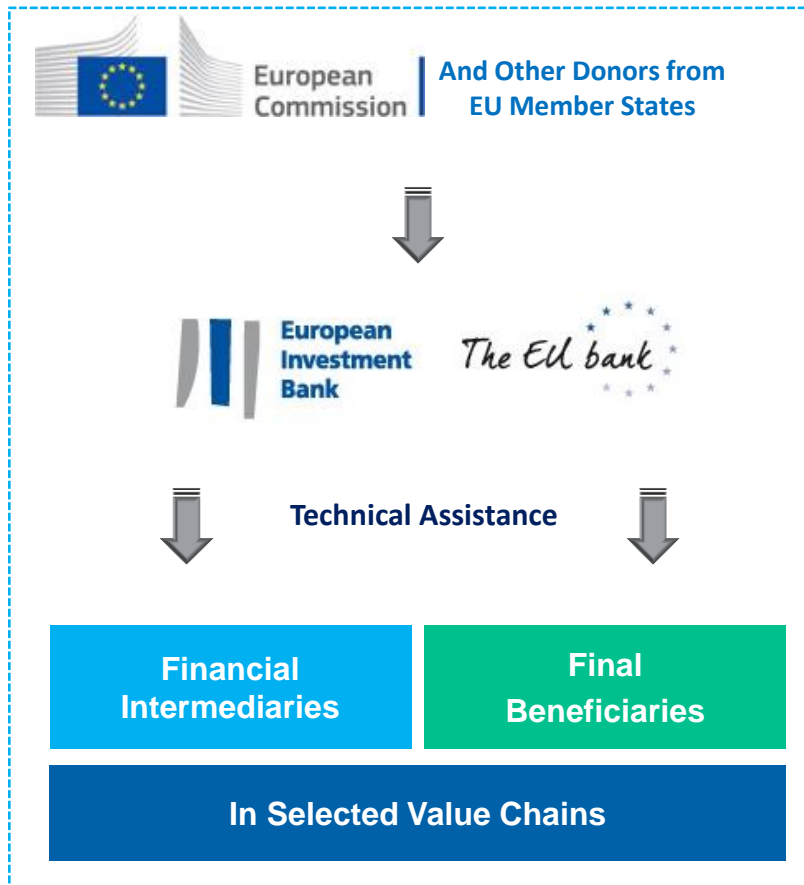
Private and public enterprises along the value chain

Food safety and quality control bodies, public/private



EIB loans to support selected value chains in the agri-food sector in Moldova

Structure



Selected Value Chains

Perennial Fruits



Wine





EIB loans to support selected value chains in the agri-food sector

Constraints

Solutions

1

- Commercial banks having insufficient expertise in the agricultural sector and its specificities.

- Providing specific training to commercial banks, improve their understanding of the sector.

2

- Smaller companies and farms:
 - Are often unable to compile appropriate loan applications (including business plans);
 - Do not have a full understanding of business processes and management;
 - Have limited knowledge of modern, efficient agricultural or process/logistics technologies.

- Assistance in:
 - Working together with SMEs to prepare loan applications;
 - Providing business training to eligible participants (e.g. operations, finance, etc.).
 - Improving their knowledge of modern agriculture and agri-food technologies

3

- Lack of capacity of public sector research, extension and certification bodies to support SMEs in upgrading technologies.

- Providing capacity building support to public and private sector entities



Thank you for your attention.

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