



Structured Finance

European Microfinance Fund for Southeast Europe (EFSE)

HIGHLIGHTS

- First multidonor-funded risk sharing facility for microfinance and small business in Southeast Europe
- First time for a highly reputable global fund management company to engage in microfinance and small business
- EFSE promotes the development of micro and small businesses at the local levels by mobilizing financing
- US\$600mn equivalent target via multiple closings over a five-year period
- IFC initial investment of US\$12mn equivalent in Senior A and US\$24mn equivalent in Mezzanine B shares

THE COMPANY

The European Microfinance Fund for Southeast Europe (EFSE), promoted by Germany's development bank, KfW, is a microfinance investment vehicle. It channels long-term resources for micro and small business (MSBs) in Southeast Europe through partner lending institutions such as banks, specialized microfinance institutions (MFIs), and microfinance nonprofit organizations. Product offerings include loans, guarantees, standby letters of credit, bonds, and other debt instruments. The fund is a public-private partnership which seeks to leverage private capital to support job creation and economic growth in the region. Moreover, it allows for mobilizing additional resources which affords a greater degree of scale, flexibility, and efficiency in reaching the targeted beneficiaries.

EFSE was incorporated in Luxembourg for an unlimited duration, under the management of Oppenheim Pramerica Asset Management S.à.r.l. in a consortium with Bankakademie e.V. as the microfinance adviser. A development facility was also established to provide partner lending institutions with technical assistance to strengthen their operational capability and professional management.

FINANCING OBJECTIVES

In 1998, European donors (Austria, EU, Germany, and Switzerland) created a credit facility, managed by KfW,

for post-war reconstruction in Bosnia and Herzegovina. Following its success in providing SME and rural credit products, the facility was replicated in Serbia, Montenegro, and Kosovo. These donor-funds have made a significant impact in job-creation through the provision of much needed financing to MSBs and strengthening of MFIs. Capitalizing on KfW's success, coupled with IFC's growing experience in structuring microfinance investment vehicles, EFSE was created to scale up the impact of these donor-funded programs and respond to the medium- to long-term financing needs of MSBs.

THE STRUCTURE

EFSE utilizes a tiered risk sharing structure. Its liabilities consist of three types of securities: (i) Senior A; (ii) Mezzanine B; and (iii) Junior C shares. The European donor-funding will be rolled into the C shares in the form of loan portfolios of four existing investment programs in Bosnia and Herzegovina, Serbia, Montenegro, and Kosovo. The C shares, approximately EUR 67.7 million, will represent a first-loss tranche, fully subordinated to all other classes of securities issued.

EFSE plans to attract commercial capital from multi-lateral and private institutional investors with a target of EUR 500 million (approximately US\$600 million) via multiple closings in five years. On December 15, 2005,

the initial closing date, its size totaled to nearly EUR 147.7 million (approximately US\$176 million). IFC's participation consisted of EUR 20 million (approximately US\$24 million) in Mezzanine B shares with a 10-year maturity and EUR 10 million (approximately US\$12 million) in Senior A shares with a 7-year maturity. This represents nearly 20 percent of the total capitalization of the fund. Other investors that participated in the first closing include KfW, the Netherlands Development Finance Company, the German and Swiss governments, and Bankakademie.

Managed by Oppenheim and Bankakademie, this unique microfinance vehicle offers fund, fund management, and custodian and administrative services. Their combined expertise will enable EFSE to position itself in the market. Moreover, their involvement also attests to the commercial viability and sustainability of the vehicle.

OUTCOME

IFC's participation in EFSE will allow the fund to foster information sharing, advance the local regulatory and legal climates, and streamline the supervision process of partner lending institutions. Furthermore, the technical assistance will help partner lending institutions to become more efficient providers of quality financial services to their clients and strengthen their governance and risk management. These gains in professionalism and transparency will help make the companies attractive to commercial investors. Finally, IFC's support to the fund will expand the range of investment instruments available to partner lending institutions to make microfinance investments more appealing to institutional investors.

TERMS AND CONDITIONS

Amount	EUR 147.7mn (approximately US\$176mn)	
Currency	Euro	
Issue Date	December 15, 2005	
Origination Period	5 years	
Maturity	Senior A	7 years
	Mezzanine B	10 years
IFC Investment	IFC investment of EUR 10mn (approximately US\$12mn) in Senior A and EUR 20mn (approximately US\$24mn) in Mezzanine B shares	

