



**European Bank**  
for Reconstruction and Development

# **Private Sector Development and EBRD Activities in South-Eastern Europe (as of 31 December 2002)**



**Stability Pact for South-Eastern Europe**

**Report prepared for the Working Table II and  
Regional Table Meetings**

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## Introduction and summary

The importance of private sector development in south-eastern Europe (SEE) has increased significantly since the launch of the Stability Pact in Cologne on 10 June 1999. At the second regional conference for south-eastern Europe in Bucharest in October 2001, the chairmen's conclusions noted that "all participants underlined the increasing role to be played by the private sector". However, the chairmen went on to observe that "progress in creating an environment that stimulates private sector development is significant but uneven" and "foreign investment flows to the region have been disappointing". In terms of the general investment climate, the region continues to lag well behind the advanced transition countries of central Europe and the Baltic states (CEB), and doubts remain about the willingness of foreign investors to fill the gap created by declining official assistance to the region. ***Therefore, during the next phase of the Stability Pact, international institutions and the bilateral donor community must continue to play a crucial enabling role for private sector development and investment flows.***

Section 1 of this paper updates the status of the regional private sector initiatives. Several of these initiatives have had an important positive effect on private sector development, and support to small and medium-sized enterprises (SMEs) in particular. The Trade Facilitation Programme has had a major impact in high-risk environments, micro-finance institutions have financed thousands of enterprises, and programmes such as IFC Southeast Europe Enterprise Development Programme or the EBRD's Business Advisory Service and TurnAround Management programmes have contributed in a significant way to institutional development and the introduction of best practices. In all cases, the support of bilateral and multilateral donors and cooperation among the IFIs have been essential.

Section 2 summarises the contribution of the EBRD to private sector development in the region. In addition to the Bank's role in regional private sector initiatives, the EBRD is leading or co-financing 16 priority regional infrastructure projects. In summary, annual EBRD signed commitments to the region have increased steadily since 1999, with €1.2 billion signed in 2002, of which 70 per cent is in the private sector. The project pipeline remains strong at over €1.8 billion, reflecting the improved business climate.

The paper concludes with some thoughts on the way ahead, highlighting the need to enhance the role of the private sector and PPPs in infrastructure, including municipal and environmental infrastructure, broadening the scope of trade facilitation and micro-finance programmes, and strengthening institutions through technical assistance and twinning programmes.

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## **1. Regional private sector initiatives: Working Table II status**

The EBRD was given a mandate to coordinate the international community's efforts to promote economic development and regional integration in south-eastern Europe through private sector development. On 29-30 March 2000, at the Funding Conference entitled "International Financial Institutions; Regional Private Sector Initiatives in South Eastern Europe" ten specific Regional Initiatives, selected through a process of consultation among the IFIs as having the most immediate impact, were proposed. Most of the initiatives are based on existing operations or proven models, which can be extended from one country to another. These initiatives attracted total pledges of €356 million, comprising €102 million in bilateral donor grants for co-financing and technical assistance pledges and €253 million pledged by the IFIs themselves: the World Bank Group, the EBRD, the European Commission and the Council of Europe Development Bank (CEDB).

Two years later, many of these initiatives, some of which have since been extended to Serbia and Montenegro, have had a very significant impact on the ground. This is particularly true of the Trade Facilitation Programme and SME financing and support facilities. Their implementation demonstrates that donor resources mobilised under the Stability Pact have had a very definite impact by generating incremental resources to the operations and programmes managed by the IFIs, many of which would not otherwise have been possible.

### **1.1. Trade facilitation initiatives**

#### *1.1.1. EBRD Trade Facilitation Programme*

The EBRD's Trade Facilitation Programme promotes foreign trade by providing guarantees to international confirming banks. In so doing, it takes the political and commercial payment risk of transactions undertaken by issuing banks in south-eastern Europe. The programme can guarantee any genuine trade transaction associated with exports from, imports to, and between the countries in the region. Most transactions benefit directly SMEs of the region. The programme is proving to be very successful, with the number of transactions growing every year, and the EBRD has been continuously working at expanding it further throughout the region and at increasing the range of guarantees available.

As of the end of December 2002, 29 banks from south-eastern Europe were participating in the programme, with an overall agreed coverage limit of €125 million. Countries with high perceived risk, such as Bosnia and Herzegovina, FYR Macedonia and Moldova, are particularly active users of the facility. Over the period 1999-2002, this programme has guaranteed 707 trade transactions for a total value of €121 million. The annual number of guarantees issued is growing fast: from 108 transactions in 2000 to 215 in 2001 and 382 in 2002, representing a turnover of €64 million in 2002. Seventy per cent of the guarantees are for transactions of less than €100,000.

This programme has been made possible thanks to a risk-sharing mechanism between donors and the EBRD, for which donors have committed €10.3 million (Switzerland, Netherlands, Germany, Norway and Austria).

### *1.1.2. World Bank Trade Guarantee Programme*

The World Bank Trade Guarantee Programme is providing support for exporting companies in the form of working capital loans and/or guarantees, contract bond support, export credit insurance, and technical assistance (matchmaking, export procedures, and quality assurance), as well as support for trade in the form of political risk guarantees/insurance.

Two facilities are in operation in Bosnia and Herzegovina. The first one is providing political risk insurance for imports in cooperation with a syndicate of private risk insurers (Emergency Industrial Re-Start Project): 28 guarantees and insurance policies for a value of US\$ 23 million were issued as of June 2002. The second one is supporting BiH exporters (Enterprise Export Facility) through various instruments: as of June 2002, 19 working capital loans had been made, two contract bonds supporting exports of US\$ 44 million were arranged and 14 exporters had benefited from export credit insurance. World Bank credits supporting these two projects total US\$ 20 million and donor co-financing for the political risk insurance project is about US\$ 10 million (Netherlands, Sweden and Switzerland).

In Albania, the Private Industry Recovery Project is providing political risk guarantees. The World Bank extended a US\$ 10 million credit supporting this guarantee facility. As of June 2002, 23 guarantee contracts for a total amount of US\$ 8.3 million had been issued. The project is currently being amended in order to allow the implementing agency, the Albanian Guarantee Agency, to also use the funds for import and export credit insurance, facilitate working capital financing and contract bonds support in cooperation with local banks, and offer technical assistance.

A similar project is expected to be approved for Serbia and Montenegro (World Bank loan of US\$ 11.8 million and Italian donor financing of €10 million) and for FYR Macedonia in the coming year.

## **1.2. Micro, small and medium-sized enterprise financing**

### *1.2.1. Micro-finance banks*

Micro-finance banks are now established in Albania, Bosnia and Herzegovina, Kosovo, Serbia and Montenegro, Bulgaria, Romania and Moldova, with another soon to be opened in FYR Macedonia. These institutions, set-up by the EBRD, IFC, KfW/DEG, FMO and private investors (IMI and Commerzbank), are having a highly significant impact in allowing access to financing for entrepreneurs and small and micro businesses. On a cumulative basis to date, these banks have granted over 55,000 small loans for a cumulative value of US\$ 336 million (average loan amount of around US\$ 6,100). The current loan portfolio outstanding consists of 29,000 loans for a value of US\$ 161 million. The table below provides details for each institution.

## Micro-finance institutions – Summary data as of 31 December 2002

	FEFAD Bank	MEB Bosnia	Procredit Bulgaria	MEB Kosovo	MIRO Romania	MEB Serbia & Montenegro	MEC Moldova <sup>2)</sup>
<b>Date operations commenced</b>	Jan-96	Nov-97	Oct-01	Feb-00	Jan-00	Apr-01	Dec-99
<b>Shareholders</b>	EBRD IFC IMI KfW - Commerzbank	EBRD IFC IMI KfW FMO Commerzbank	EBRD IFC IMI DEG/KfW - Commerzbank	EBRD IFC IMI KfW FMO Commerzbank	EBRD IFC IMI DEG/KfW - Commerzbank	EBRD IFC IMI KfW FMO Commerzbank	EBRD - IMI KfW/DEG Doen Western NIS Enterprise Fund
<b>No. of Branches/outlets</b>	9	11	13	7	6	9	8
<b>No. of Loan Officers</b>	39	36	83	59	36	69	38
<b>Total # Loans Disbursed</b>	12,430	15,652	6,827	8,344	3,472	5,973	2,304
<b>Total Vol. Loans Disbursed</b>	\$80,856,357	\$78,169,567	\$41,853,206	\$56,611,058	\$19,043,960	\$49,942,690	\$11,036,695
<b>Outstanding # of Loans</b>	5,434	5,982	4,884	4,493	2,591	4,515	1,111
<b>Outstanding Loan Volume</b>	\$29,772,246	\$32,156,368	\$28,369,438	\$23,057,856	\$10,589,825	\$33,669,427	\$4,184,328
<b>Total Deposits<sup>1)</sup></b>	\$51,579,000	\$10,188,591	\$8,951,027	\$272,447,827	\$361,316	\$35,751,000	\$0
<b>Arrears % &gt; 30 days</b>	1.98%	0.55%	0.06%	0.41%	0.54%	0.46%	0.00%

<sup>1)</sup> All deposits as of 30 September 2002 (MEC, as a finance company, is not allowed to take deposits)

<sup>2)</sup> MEC-Moldova currently operates as a microfinance company but is expected to become a bank in 2003

Donor support towards these institutions in the form of technical assistance represented over €14 million, contributed by the United States (€11.1 million through US/EBRD SME Finance Facility), KfW, FMO, EU, Luxembourg, Germany, Norway and DOEN. The EBRD's own investment commitments to these institutions represent €23.5 million.

### 1.2.2. EBRD/EU SME Finance Facility

The EU/EBRD SME Finance Facility is intended for all ten EU accession countries, including Bulgaria and Romania. It is providing financing for SMEs through participating banks and leasing companies, together with technical assistance to improve the banks' lending skills and with a performance incentive designed to offset the costs of entering the business of lending to what is normally perceived as the riskiest segment of the enterprise sector.

As of end 2002, the EBRD had committed in Romania and Bulgaria a total of €128 million in loans while the EU had provided €23 million in grants for technical assistance and performance fees. There are currently six banks participating in the programme in Romania (Alpha Bank, Banca Transilvana, Romanian Commercial Bank, Banca Agricola Raiffeisen, Banc Post and Volksbank) and four banks in Bulgaria (Union Commercial Bank, Hebros Bank, Raiffeisen Bank and United Bulgarian Bank). These ten participating banks have extended over 2,290 loans to SMEs for a total amount of around €75 million.

In addition, the EBRD has been implementing stand-alone SME finance operations, described in Section 2.1 below.

### 1.2.3. Small equity funds

With the support of the Italian Treasury, the EBRD has set up two dedicated equity funds targeted at high-potential SMEs in two high-risk environments: Albania and Kosovo. The structure of the funds combines EBRD investments with donor grants to provide a risk mitigation cushion as well as technical assistance (assistance to investee

companies and share of the fund's management fee). The funds have been successful in developing a portfolio rapidly by investing creatively using equity or simple but robust quasi-equity structures.

The Albanian Reconstruction Equity Fund is capitalised with US\$ 14 million (US\$ 7 million from the EBRD and US\$ 7 million from Italy) and benefits from Italian technical cooperation grants of US\$ 3 million. As of end December 2002, the fund had invested in 11 local enterprises for a total commitment of US\$ 4.7 million.

More recently, the Kosovo Equity Reconstruction Fund started operating. The Fund is capitalised with €4 million (half EBRD, half Italy), and benefits from Italian technical assistance grants of €1.35 million. As of end December 2002, the fund has invested in six enterprises for a total commitment of €2.8 million.

### **1.3. SME support initiatives**

#### *1.3.1. IFC Southeast Europe Enterprise Development Programme*

Southeast Europe Enterprise Development (SEED) is a multi-donor initiative managed by the IFC to strengthen small and medium-sized enterprises in Bosnia and Herzegovina, Albania, FYR Macedonia and Serbia and Montenegro. The five-year, US\$ 25 million facility offers a variety of services both to local SMEs directly and to local organisations that support them. SEED also works closely with the World Bank Group and other international institutions to improve the difficult operating environment for SMEs in these target economies. Headquartered in Sarajevo, SEED has offices in Banja Luka, Belgrade, Skopje and Tirana. SEED is funded by Austria, Canada, Greece, the Netherlands, Norway, Slovenia, Sweden, Switzerland, the United Kingdom and IFC.

SEED works along three service lines: enterprise-level investment services; capacity building of enterprises and of local service providers, such as business associations, chambers of commerce, training / economic institutions and consultants who serve SMEs' needs; and improvement of the business enabling environment. During fiscal year 2002, SEED investment services delivered 31 Internal Enhancement Plans and 20 Investment Plans. Fourteen projects were financed for US\$ 9.1 million. SEED also completed 49 capacity building projects (to business development service providers or SMEs/group of SMEs), training more than 1,000 local service providers and nearly 1,600 SMEs employees/managers. Finally, SEED has undertaken 30 "business enabling environment initiatives", which included surveys/studies, publications and input into donor / government strategies on SME development and poverty reduction.

#### *1.3.2. Business Advisory Service Programme*

The Business Advisory Service (BAS) Programme is managed and delivered by the independent and non-profit TurnAround Management Group (TMG) based at the EBRD HQ in London. BAS is an established and proven multi-donor programme which co-funds specific consultancy projects with micro, small and medium-sized enterprises, improving their quality and competitiveness. BAS is using predominantly (>75 per cent) local accredited consultants, thereby enabling an increase in the capacity and competence of the local consultancy industry. In south-eastern Europe, BAS is operating successfully in Croatia, Bosnia and Herzegovina, Bulgaria and, since June 2002, in FYR Macedonia. Using simple procedures and a cost effective structure, BAS

allows effective support of large numbers of enterprises, focusing on practical inputs with clear objectives, such as financial information systems, market research and development, quality management systems, engineering studies, and business plans. Such projects provide benefits with a relatively short 'pay-back' time and enterprises typically recoup costs in about one year. Ex-post evaluation of BAS impact on enterprises shows measurable benefits in profitability, productivity, sustainable employment and creation of new jobs. As at 31 January 2003, there are 113 BAS projects in progress in south-eastern Europe (37 in Bosnia and Herzegovina, 18 in Bulgaria, 32 in Croatia, 26 in FYR Macedonia).

Committed donor funding (from EU, Italy-CEI, UK, Taipei-Taiwan, Austria, Germany and the Balkan region Special Fund) amounts to €5.8 million. An additional €20 million is requested from donors to ensure continuation of existing operations in south-eastern Europe for the period 2003-04 as well as starting up operations in Serbia and Montenegro and Romania, where feasibility studies have shown that BAS Programmes would be viable, and establishing programmes in Albania, Kosovo and Moldova if feasibility studies (yet to be carried out) are positive.

### *1.3.3. TurnAround Management Programme*

The TurnAround Management (TAM) Programme is also managed by TMG. TAM is an established and proven multi-donor programme providing industry-specific advisors to potentially viable small and medium-sized enterprises, enhancing the knowledge, confidence and capabilities of their management and assisting transition to success in market-driven economies. TAM projects improve management skills, cash-flow, quality, productivity, local and export marketing, and increase profitability. Operating successfully for nearly a decade, TAM is currently active in all countries of south-eastern Europe (success rate of 80 per cent). TAM is using an international network of 'industry specific' senior advisors and technical experts, mostly former industry managers to deliver in a cost effective manner service to a large number of enterprises. TAM applies a high degree of conditionality on enterprise performance: advice to unresponsive enterprises is stopped, reducing the exposure and potential waste of donor funds. As at 31 January 2003, 183 TAM projects had been implemented in the SEE region (six in Albania, ten in Bosnia and Herzegovina, 22 in Serbia and Montenegro, 11 in Croatia, eight in FYR Macedonia, 34 in Bulgaria, 79 in Romania and 13 in Moldova), 123 of which have been completed.

Total donor funding committed to support TAM (from the EU and a large number of bilateral donors) amounts to €12.1 million. The required donor funding for the period 2003-04 is an additional €3 million. There is a current pipeline of eligible TAM projects across the region and many prospective enterprises are recorded in all countries. While further EU funding for TAM is now available for Bulgaria and Romania, no other broadly based framework funding is available for the other countries, so that TAM is presently having to continue to operate on a project-by-project basis with bilateral donors.

## **1.4. Other initiatives**

### *1.4.1. MIGA political risk guarantee*

MIGA has been actively supporting south-eastern Europe regional private sector initiatives. The Agency is currently working on the establishment of a donor-supported regional political risk guarantee trust fund, notably to support SMEs. Donor consultations are taking place on the preparation of this facility (indicative size: €10-20 million). Several projects for which investors have applied for a guarantee have already been identified (financial, infrastructure and manufacturing sectors).

Under a regional political risk guarantee fund, MIGA would be able to support investment/lending into the region. MIGA can issue guarantees against the risks of transfer restriction, war and civil disturbance, expropriation, and breach of contract. Foreign loans and investments insured under a fund would also include franchising and leasing type of agreements, including management contracts and technical assistance, and others.

MIGA is also pursuing other initiatives in the region which include the administration of the EU-funded political risk guarantee trust fund in Bosnia and Herzegovina.

### *1.4.2. South-eastern Europe construction industry capacity building*

The objective of this initiative is to identify the capacity constraints and other problems faced by the local construction industry contractors and suppliers in the region with the objectives of: (i) developing capacity enhancement initiatives, including financial product recommendations for IFIs and commercial banks; (ii) optimising participation in business opportunities generated; and (iii) disseminating knowledge about tendering and procurement processes to local construction firms.

A study was commissioned utilising grant funds from the UK (€256,000) and completed at the end of 2001. The final report (executive summary available from the EBRD upon request) gives a detailed overview of the constraints facing local construction industry contractors and recommends action to overcome these. Much of this requires further donor support. In parallel, local seminars for the construction industry were held to disseminate knowledge about tendering and procurement processes to local construction firms.

## **1.5 Conclusion**

Most regional private sector initiatives have been successfully implemented and have shown substantial and significant results in terms of support to private enterprises, particularly SMEs in the region, providing financial support, advice and institutional building. None of these initiatives would have been possible without the leverage provided by the generous commitments of the multilateral and bilateral donors and the pooling of efforts between IFIs and the donor community. Going forward, donors are urged to review their commitments to private sector development in the region and to consider additional support to some of the regional private sector initiatives identified above. The EBRD is committed to its role as co-ordinator of private sector development programmes under the Stability Pact and looks forward to continued excellent collaboration with the other IFIs, the EU and the bilateral donor community.

## **2. The role and activities of the EBRD in south-eastern Europe**

South-eastern Europe benefited from a renewed level of interest from private investors and bilateral donors in 2001 and 2002. Through its activities in the region, the EBRD sought to further encourage this interest by cooperating closely with other multilateral institutions and by undertaking an extensive investment programme. The Bank helped to finance the privatisation and restructuring of large industrial enterprises, the development of critical infrastructure projects and support for a large number of small enterprises. The EBRD has therefore continued to successfully implement its action plan for south-eastern Europe and its commitments to the Stability Pact. The Bank's objectives fall in three main areas: (i) regional private sector initiatives; (ii) regional infrastructure finance; and (iii) increased EBRD business volume in the region.

### **2.1. Regional private sector initiatives and SME support**

As noted earlier, under the Stability Pact, the EBRD was requested to lead and coordinate regional initiatives that would promote private sector development in the region. Several of these initiatives such as trade facilitation, micro-finance institutions and other dedicated SME financing schemes are led and implemented directly by the EBRD. A detailed status of each initiative is presented in the previous section. The impact of these initiatives on SME support and development have been considerable.

More broadly, the EBRD is indirectly supporting SMEs and the private sector at large in south-eastern Europe through its significant involvement in the financial sector. As of 31 December 2002, the EBRD's cumulative volume of commitments with banks (equity, credit lines and guarantee products) and other non-bank financial institutions, including private equity funds in the region, represents a total of €1.15 billion. It is noteworthy that, as of end 2002, private equity funds active in the region and in which the EBRD has participated, have a total committed capital of over €446 million to invest in enterprises of the region, of which €286 million has been disbursed and invested.

### **2.2. Infrastructure finance**

Infrastructure is a key focus of the Stability Pact. The EBRD is one of the IFIs actively involved in this sector and is directly leading or co-financing 21 projects out of a list of 51 projects recognised by the Stability Pact as priority infrastructure project for the region. The list of projects comprise Quick Start infrastructure projects agreed at the Regional Funding Conference held in Brussels in March 2000 in support of the Stability Pact, and the list of regional infrastructure projects presented at the second Regional Conference held in Bucharest in October 2001. Following the Infrastructure Steering Group's meeting of 21 November 2002, five new projects were included on the list. Substantial progress has been made in getting the projects started. The number of projects started by the beginning of 2003 has doubled compared with December 2001.

- The three projects led by the EBRD under the initial list are signed and under implementation: Macedonia Environmental Action Programme with six municipalities: €20.8 million EBRD finance; Albania Elbasan-Librazd Road: €17 million (revised project financing signed in December 2002 - work ready to start in 2003); Croatia Rijeka Water Supply: €7.5 million. In addition, the EBRD co-financed three more projects: a €50 million power sector loan under World Bank

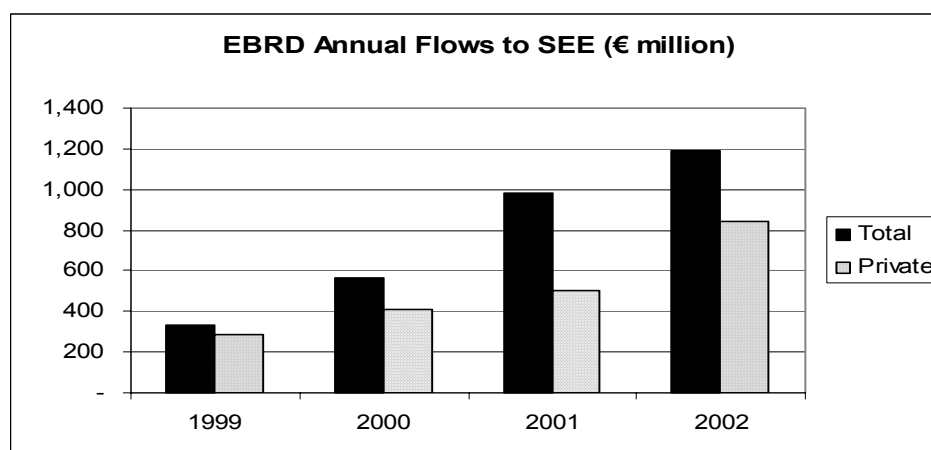
lead in Bosnia and Herzegovina and two EIB led projects in the road sector in FYR Macedonia which are currently being finalised: Skopje Bypass (proposed EBRD financing: €25 million) and Skopje-Thessaloniki Road (proposed EBRD financing: €15 million).

- Furthermore, the EBRD leads or participates in 15 more priority projects, which are currently under preparation or already signed. These projects (power in Albania, Croatia, Serbia and Montenegro and Romania, railways in Bosnia and Herzegovina and Serbia and Montenegro, roads in Croatia and Romania, water and waste water in Croatia and Romania, air navigation services in Croatia, Serbia and Montenegro and FYR Macedonia) have a total value of over €1.7 billion, for which the EBRD is providing finance of over € 660 million.
- As of 31 December 2002, the EBRD's overall cumulative infrastructure commitments to the region amounted to €2.1 billion for 68 projects in the transport, municipal, power and energy efficiency sectors (total project value €7.4 billion). At the same date, the overall pipeline of new infrastructure projects under consideration in the region stood at 19 projects amounting to €3.2 billion, for which the EBRD is considering committing €830 million in financing.

### 2.3. Increased investment flows and commitments

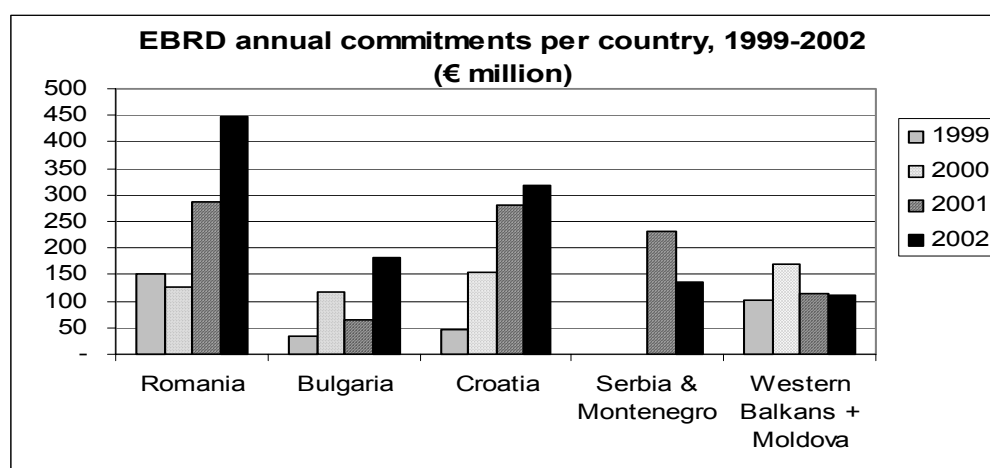
The EBRD is experiencing increased investor interest in the region, suggesting that increased stability and business confidence, governments' commitment to reform-oriented policies and efforts towards an improvement of the investment climate are providing effective encouragement. Highlights include:

- Annual signed commitments by the EBRD in the region have been steadily increasing from €335 million in 1999 to €1.2 billion in 2002 (a 3.5 times increase compared with 1999), of which €840 million (71 per cent) represent private sector commitments.



Strong portfolio growth is taking place, particularly in Croatia, Romania, Bulgaria and Serbia and Montenegro.

EBRD Annual Commitments (EUR million)								
Country	1999		2000		2001		2002	
	Total	Private	Total	Private	Total	Private	Total	Private
Albania	41	1	2	2	18	18	42	1
Bosnia and Herzegovina	7	7	61	11	52	11	39	9
Bulgaria	35	25	116	116	65	65	182	91
Croatia	47	47	153	153	281	138	318	246
FYR Macedonia	47	47	65	44	33	33	20	9
Moldova	7	7	43	35	10	10	10	10
Romania	151	151	126	50	288	210	447	432
Serbia & Montenegro	-	-	-	-	233	16	135	43
<b>Total SEE</b>	<b>335</b>	<b>285</b>	<b>566</b>	<b>411</b>	<b>980</b>	<b>501</b>	<b>1,192</b>	<b>840</b>



- Alongside its own investment financing in the region and for the year 2002, the EBRD has mobilised €306 million in commercial co-financing (in the form of syndication and parallel lending from private commercial banks), up from €98 million in 2001, and €816 million in official co-financing (co-investment by other IFIs and bilateral donors, excluding technical cooperation), up from €287 million in 2001, further demonstrating increasing appetite by co-financiers for the region.
- As of 31 December 2002, the EBRD had cumulative commitments in the region close to €5.3 billion among 228 projects (representing €16.8 billion of total project value), with private sector commitments accounting for 58 per cent. The outstanding portfolio at the same date is €3.8 billion.

EBRD Cumulative Business Volume - 31 December 2002				
Country	Total Commitments		Private Sector Commitments	
	# projects	EUR million	EUR million	%
Albania	15	157	65	41%
Bosnia and Herzegovina	18	230	46	20%
Bulgaria	39	667	403	60%
Croatia	44	1,180	796	68%
FYR Macedonia	16	258	146	57%
Moldova	19	181	97	53%
Romania	63	2,251	1,461	65%
Serbia & Montenegro	15	367	57	16%
<b>Total SEE</b>	<b>228</b>	<b>5,290</b>	<b>3,072</b>	<b>58%</b>

Note: Including share of commitments to regional funds

- Cumulative gross disbursements to the region have reached €3.37 billion as of 31 December 2002, representing 64 per cent of cumulative commitments.

<b>EBRD Gross Disbursements (€ million)</b>					
	<b>Cumulative</b>	<b>By years 1999-2002</b>			
		<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
Albania	61	1	6	4	11
Bosnia and Herzegovina	87	19	22	16	11
Bulgaria	471	53	94	35	48
Croatia	802	51	100	79	262
FYR Macedonia	185	5	34	40	7
Moldova	148	20	9	21	26
Romania	1,568	200	140	204	254
Serbia & Montenegro	52			7	45
<b>Total SEE</b>	<b>3,372</b>	<b>349</b>	<b>405</b>	<b>406</b>	<b>664</b>

- At the end of 2002, the EBRD's project pipeline – deals under preparation but not yet signed – remains strong at €1.8 billion (of which two-thirds are private).

### **3. Conclusions and the way ahead**

Private sector development lies at the heart of the economic progress in south-eastern Europe. Notwithstanding recent progress in political stability and institutional reform, the region continues to suffer from the legacy of a decade of turmoil and conflict. Foreign investors remain cautious about the region's prospects for profitable investment opportunities, and in some countries the privatisation process is in danger of losing momentum. Capital flows to the region have been increasing over past years, but much more needs to be done to create the right investment climate both for local and foreign investors. For these reasons, the IFIs and the bilateral donor community must continue to play a very active enabling role for private sector development in the region. As outlined above, the EBRD has made a major contribution to the region's progress in recent years, but much of the EBRD's impact has depended on the generous financial and technical support of bilateral donors.

Looking ahead, one priority is to speed up the implementation of existing projects, including but not limited to infrastructure, so that the benefits of major investments can become apparent to the public, many of whom are dissatisfied with the perceived slow pace of reform. More generally, a number of concrete, project-related products and concepts should be explored and implemented where appropriate. These include:

- *Public-private partnerships in infrastructure:* the Bank has had some experience of successful PPP implementation, including the Sofia Water Concession project. PPPs are based on the sharing of investment risk, responsibility and returns between public and private entities and international institutions such as the EBRD can play a key role by assuming risks that commercial banks would not take. Nevertheless, the appropriate regulatory framework must be in place before public administrations can contemplate a PPP programme.
- *Enhanced SME and micro-finance support:* donor support continues to be essential in order to broaden and expand the projects specifically dedicated to SME financing

and support, including capacity-building and development of SME support networks.

- *Trade facilitation*: the Trade Facilitation Programme has been very successful so far and the EBRD is seeking to broaden the scope of the programme. Several new features are being explored: the provision of support for longer-term maturities for the import of capital equipment needed in the region to improve the industrial base, the introduction of revolving loan facilities to banks in order to fund trade-related advances to local companies, and risk-sharing with commercial banks.
- *Institution-building*: this is a key area of weakness where efforts should be focused: strengthening of local banks, regulatory bodies, utilities and public services are key to successfully serving the needs of the private sector, implementing projects efficiently and attracting new investors in all sectors. Two areas where the region lags behind central Europe and the Baltic states are legal transition and standards of corporate governance. The EBRD is working on both areas to enhance standards and performance in both areas. Commercial law is a particular focus for the EBRD's legal reform efforts; for example, the Bank has assisted in the development of modern pledge laws in Bulgaria and Romania which are based on the EBRD's Model Law on Secured Transactions.

**Annex: EBRD CONTACT LIST**

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