COMMISSION DECISION
OF 2001

Establishing a Phare multi-beneficiary programme “SME Finance Facility Phase 2 with the EBRD” in 2001,

THE COMMISSION OF THE EUROPEAN COMMUNITIES,

Having regard to the Treaty establishing the European Community,

Having regard to Council Regulation (EEC) N° 3906/89 of 18 December 1989 on economic aid to certain countries of Central and Eastern Europe¹, as last amended by Regulation (EC) N° 2666/2000², and in particular Article 9 thereof,

Whereas:

1. Regulation No 3906/89 lays down the rules and conditions for the granting of economic aid to certain countries of Central and Eastern Europe,

2. Whereas the measures provided for by this Decision are in accordance with the opinion of the Committee on Aid for Economic Restructuring in certain countries of Central and Eastern Europe,

HEREBY DECIDES AS FOLLOWS:

Article 1

The programme described in the Annex to the present decision is hereby adopted.

Article 2

The maximum amount of Community assistance shall be 30 MEUR to be financed through Budget line B7-030 in 2001.

Done in Brussels,

¹ OJ n° L375/11 du 23/12/1989
² OJ no. L038 of 08/02/2001
FINANCING PROPOSAL
SME FINANCE FACILITY PHASE 2 WITH
THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (EBRD)

1. IDENTIFICATION

Countries: The 10 candidate countries from Central and Eastern Europe
Programme title: Small and Medium-Sized Enterprise Finance Facility Phase 2 with the EBRD
Year: 2001
Cost: 30 MEUR
Implementing Authority: European Commission
Disbursement - 31.12.2006
Sector: PR
Group: L
Budget Line: B7-030
Task Management: Bardo Gavazzoli (DG ELARG) - implementation will be
assured through a sub-delegation arrangement with the ECFIN DG

2. SUMMARY

A strong small and medium-sized enterprise (SME) sector is an essential element in the
candidate countries’ preparation for accession to the European Union.

In Agenda 2000 and the Phare New Orientations the lack of a dynamic and sound SME sector
was identified as a key stumbling block to accession and it was stressed that one of the main
factors preventing the growth of SMEs is the reluctance and inexperience of the financial sector
in the candidate countries to provide equity and debt finance to SMEs. In response, these two
documents called on the Phare programme to establish a new financial instrument - the SME
Finance Facility - to induce financial intermediaries in the candidate countries from Central and
Eastern Europe to expand and to maintain in the long term their debt and equity financing of
SMEs.

A pilot Phase 1 of the Facility was launched by Phare in co-operation with the EBRD in 1999.
Under that pilot Phase EBRD and Phare funds have been jointly mobilised through a special
fund to provide tailored SME loans, technical assistance, guarantee, equity and management
support to financial intermediaries (i.e. banks and investment funds) in the region, which then
provide funding as sub-loans or equity to their SME clients. The Commission also launched on
June 2000 an assessment exercise on the activity led under the Phase 1 of the Facility with the EBRD. The final report, which was issued in January 2001, recommended notably to give particular consideration to the creation of a “Leasing Window” in order to further enhance the access of SMEs to small and micro credit. Leasing may indeed be an effective mechanism for financing SMEs as these, which may not qualify for bank lending, may qualify for a financial lease due to the different status of the security. In addition, on 11th December 2000 the Facility formally entered into Phase 2 where other additional sponsors joined the programme and on 12th January 2001, the scheme was further consolidated with the signing of an Arrangement under Phase 2 of the SME Finance Facility between the Commission and the EBRD.

Within the framework of the Phase 2, the present Financing Proposal deals with a further replenishment of the Phare contribution to the EBRD activities according to the already implemented mechanisms within the Facility, as well as the extension of the Loan and Guarantee Window (LGW) by introducing the possibility of supporting projects of leasing to the CEEC SMEs.

As from now the LGW will be referred as Loan, Guarantee and Leasing Window (LGLW).

As far as the Equity Window (EW) is concerned, no additional funding request is formulated.

The additional Phare contribution to the Facility will be 30 MEUR, and the EBRD will increase its contribution to this programme by an additional amount of 150 MEUR. These EBRD and Phare resources will be used for Projects under the LGLW. The revised procedures for implementing this Financing Proposal following the introduction of the financial leasing component will be set down in an amendment of the Contribution Arrangement presently in force for Phase 2 to be signed following the approval of this Financing Proposal.

The revision of the management procedures have been agreed in accordance with the findings of the Assessment Report and of the experience acquired from both parties.

3. STRATEGY

It is widely recognised that SMEs play a vital role in the generation of a dynamic economy and in particular in the creation of new employment in the EU as well as in the candidate countries. However SMEs are often undercapitalised and face significant problems in raising debt finance and in obtaining risk capital, or subordinated debt.

3.1 The Policy Framework

Financing problems of SMEs in the CEE accession countries are becoming increasingly serious because of the rapid growth in the sector combined with the continued reluctance and inexperience of banks and investment funds to provide finance to the sector.

According to EUROSTAT surveys, in most of the candidate countries between 70-85% of the SMEs indicated that a lack of funds is a primary constraint on their development.

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1 Cfr. the Financing Proposal with the CEB/KfW approved at the 80th Phare Management Committee of 18 July 2000.
It is usual for most emerging SMEs, especially the small ones, to have no access to risk capital other than the personal resources of the founders. The raising of debt finance is also difficult for SMEs, as banks are often reluctant to lend to them. The lending risk inherent in new firms and expanding SMEs is high and difficult to assess, and is increased by their usual low capitalisation. Loans are often not available to SMEs because of lack of collateral, making new projects particularly difficult to finance. Also, there is frequently a perception that the costs of administering small loans are disproportionately high and that larger loans generate a higher income stream, leading banks to concentrate their efforts on larger companies. Experience in most industrialised countries shows that unless stimulated through focused schemes such as the SME Finance Facility, banks tend to focus on large companies, thereby undermining SMEs and micro enterprises financing.

On this background the New Orientations of Phare specifically called for the establishment of a horizontal SME Facility for the region as a whole: “A horizontal facility for small and medium enterprises (SME) will be available to remedy the shortage of investment capital available to SMEs.”

In response to these policy indications, the Commission launched the SME Finance Facility Phase 1 with the EBRD, approved by the Phare Management Committee on 19 November 1998. This programme proved to be successful so far. The Commission has therefore decided to consolidate the scheme by providing additional support to the partner financial institutions as well as inviting other IFIs to participate in the programme.

In addition, in the light of the recommendation formulated in the framework of the report on the assessment of Phase 1 issued in January 2001, the Commission invited the EBRD to sound out the potential market needs for leasing operations.

The EBRD found a positive reception by the financial intermediaries in the candidate countries of this proposal. Leasing is indeed perceived as an effective mechanism for financing SMEs, since the risk of a financial lease is at least as good as that of a secured loan. Indeed, SMEs that may not qualify for bank lending may qualify for a financial lease due to the different status of the security (the lessor -the leasing company- retains the title of property in a financial lease). The financial lease, which allows the transfer of ownership to the lessee (the SME) at the end of the lease, corresponds indeed to a form of providing long-term finance to SME.

On this background, the Commission has decided to promote the development of leasing mechanisms through an appropriate grant support to eligible leasing companies in the framework of the Facility. To be noted that the eligible financial intermediaries involved in the SME Finance Facility were until now either local banks or investment funds.

3.2 The SME Finance Facility Overall

The SME Finance Facility objective is to persuade financial intermediaries in the CEEC to expand and sustain their business to SMEs through providing incentives and other support to overcome their lack of experience and to cover the special administrative costs and risks involved. A SME Finance Facility Project is a tailored package of financial incentives (including Phare and IFI funding) to a financial intermediary (i.e. investment fund, bank or, as from now, leasing company), which may be combined with additional co-financing from that financial intermediary, to be channelled to individual micro-enterprises or SMEs as equity, loans or financial leases (these are termed as Sub-Projects).
As for the eligible support envisaged, the specific incentives financed through the Phare programme on specific Projects may be granted through two co-ordinated Windows: the Equity Window and the Loan, Guarantee and Leasing Window.

As far as the EBRD Projects are concerned, the Community would provide financing as follows:

Through the **Equity Window (EW)**, the Community would finance the following types of incentives:

1. equity co-investment with a view to share the overall investment risk with the co-investing IFI and investment fund;
2. funding of management and operating costs of the investment fund on a grant basis.

Through the **Loan, Guarantee and Leasing Window (LGLW)**, the Community would finance the following types of incentives:

**Towards Participating Banks (PBs)**

1. performance incentives on loans or credit lines provided by IFIs to banks and for on-lending to SMEs;
2. a partial first-loss guarantee on the SME loan portfolio of the banks;
3. technical assistance to strengthen the bank's capacity to service microenterprises and SME customers.

**Towards Participating Leasing Companies (PLCs)**

4. performance incentives on loans or credit lines provided by IFIs to leasing companies for their SME operations;
5. technical assistance to strengthen the leasing company’s capacity to service microenterprises and SME customers.

**Towards Participating Banks and Participating Leasing Companies**

6. other types of incentives that can be proposed by sponsors as far as they meet the objectives and enhance the Facility.

### 3.3 Development of the Facility: the context

Following the launch of the operations with EBRD under Phase 1, the Commission carried out a marketing initiative towards other IFIs to elicit additional interest and possible commitments to Phase 2 of the Facility.

The Commission therefore extended the invitation to participate in the Facility Phase 2 to the Nordic Environmental Finance Corporation (NEFCO), the Nordic Investment Bank (NIB), the Council of Europe Development Bank (CEB), the European Bank for Reconstruction and Development (EBRD) and the International Finance Corporation (IFC). These IFIs have been
invited to the Facility because they were already contacted in the preparation of Phase 1, as well as in their quality as signatory bodies of the Memorandum of Understanding on Co-operation for Pre-Accession Preparation of Central and East European Countries. In addition the European Investment Bank (EIB) was also invited to participate in the Facility.

To date, following the approval of the Financing Proposal by the 80th Phare Management Committee of 18/7/00, an agreement is operational since 11th December 2000 with the Council of Europe Development Bank (in association with Kreditanstalt für Wiederaufbau -KfW) for its participation in the Facility under the Loan and Guarantee Window.

Technical discussions are also currently being held with the EIB concerning its possible involvement in the SME Finance Facility.

In relation to the development of the participation of the EBRD to the SME Finance Facility, the table hereafter shows that the resources dedicated by Phare and by the EBRD to this programme will be a total of 560 MEUR including the present Financing Proposal, of which 510 MEUR are dedicated to the LGLW and 50 MEUR to the EW.

<table>
<thead>
<tr>
<th></th>
<th>LGLW</th>
<th></th>
<th>EW</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EBRD resources</td>
<td>Phare resources</td>
<td>EBRD resources</td>
<td>Phare resources</td>
</tr>
<tr>
<td>Phase 1</td>
<td>50</td>
<td>25</td>
<td>25</td>
<td>25</td>
</tr>
<tr>
<td></td>
<td>75</td>
<td>/</td>
<td>/</td>
<td>/</td>
</tr>
<tr>
<td>Phase 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional financing in 2000</td>
<td>150</td>
<td>30</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Phase 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Additional financing through the present Proposal</td>
<td>150</td>
<td>30</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Total with EBRD</td>
<td>425</td>
<td>85</td>
<td>25</td>
<td>25</td>
</tr>
</tbody>
</table>

These resources must be committed and used within the SME Finance Facility under a coordinated approach. This implies that under Phase 2, it is up to the Commission to ensure that:

- The procedure of approval of Projects takes into account the necessity to meet the confidentiality requirements of the respective sponsors
- The necessary co-ordination between the sponsors is in place so as to ensure the maximum efficiency of the Facility and to allow exchanges of experience.

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2 The Memorandum of Understanding was signed with these IFIs on 30th March 2000.

3 Following the EBRD Board decision of April 2000, the Bank raised its contribution by an additional 75MEUR.
These aspects are detailed in Section 5. To complement the information on the Commission role of co-ordination the following diagram highlights the management structure of the Facility at the present stage where the Loan and Guarantee Window is extended to become the LGLW.
PHASE 2

STEERING COMMITTEE
Commission to co-ordinate the Facility
(COMMISSION + EBRD + CEB/KfW + other future partners)

CO-FINANCING MEMBERS
to approve the Projects

EUROPEAN COMMISSION

EBRD

LGLW

CEB/KfW

LGLW

Future new partners

Future LGLW

Future EW
3.4 The progress achieved so far under Phase 2 with the EBRD

One of the objectives set by the Commission under Phase 1 was to ensure balanced country coverage of the SME Finance Facility. As of end 2000, each of the eligible countries benefits from at least one Project under the Facility.

As anticipated, the EBRD committed the total of the funding available under the Phase 1 for the LGW at the end of 2000 and the first Projects under Phase 2 were already approved by the Co-financing Members in December 2000. As of 3rd August 2001, 15 Phare/EBRD Projects of loans are already operational with local participating banks in 8 out of 10 CEECs, and 3 Projects were approved but the loan agreements have not been signed yet. The EBRD also confirmed to the Commission its maximum effort to cover all of the 10 eligible countries under the LGW. As of today, under the Equity Window, 5 countries (Czech Republic, Hungary, Romania, Slovakia and Slovenia) have been covered by the EBRD.

The Loan and Guarantee window:

At the date of 3rd August 2001 the following Projects have been approved and signed under the Loan and Guarantee Window:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Headquarters</th>
<th>BANK</th>
<th>EBRD LOAN MEUR</th>
<th>PHARE total contr. MEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>Sofia</td>
<td>UCB</td>
<td>3.00</td>
<td>0.84</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>Prague</td>
<td>CS</td>
<td>20.00</td>
<td>4.05</td>
</tr>
<tr>
<td>Estonia</td>
<td>Tallinn</td>
<td>OB</td>
<td>10.00</td>
<td>1.78</td>
</tr>
<tr>
<td>Latvia</td>
<td>Riga</td>
<td>LUB</td>
<td>10.00</td>
<td>1.78</td>
</tr>
<tr>
<td>Lithuania</td>
<td>Siauliai</td>
<td>SB</td>
<td>5.00</td>
<td>1.14</td>
</tr>
<tr>
<td>Poland</td>
<td>Poznan</td>
<td>WBK</td>
<td>10.00</td>
<td>1.75</td>
</tr>
<tr>
<td>Poland</td>
<td>Katowice</td>
<td>Bank Słaski</td>
<td>10.00</td>
<td>1.63</td>
</tr>
<tr>
<td>Poland</td>
<td>Krakow</td>
<td>Fortis Bank Polska</td>
<td>10.00</td>
<td>1.16</td>
</tr>
<tr>
<td>Poland</td>
<td>Warsaw</td>
<td>Bank Zachodny</td>
<td>10.00</td>
<td>2.00</td>
</tr>
<tr>
<td>Poland</td>
<td>Warsaw</td>
<td>Pekao</td>
<td>20.00</td>
<td>3.50</td>
</tr>
<tr>
<td>Romania</td>
<td>Cluj</td>
<td>Banca Transilvania</td>
<td>4.90</td>
<td>1.28</td>
</tr>
<tr>
<td>Romania</td>
<td>Bucharest</td>
<td>BCR</td>
<td>20.00</td>
<td>2.98</td>
</tr>
<tr>
<td>Slovakia</td>
<td>Bratislava</td>
<td>VUB</td>
<td>20.00</td>
<td>3.40</td>
</tr>
<tr>
<td>Slovenia</td>
<td>Maribor</td>
<td>NKBM</td>
<td>5.00</td>
<td>1.14</td>
</tr>
<tr>
<td>Slovenia</td>
<td>Koper</td>
<td>BK</td>
<td>5.00</td>
<td>1.14</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>162.9</strong></td>
<td><strong>29.57</strong></td>
</tr>
</tbody>
</table>

**PROJECTS APPROVED BY THE COFINANCING MEMBERS BUT LOANS NOT YET SIGNED**

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>Headquarters</th>
<th>BANK</th>
<th>EBRD LOAN MEUR</th>
<th>PHARE total contr. MEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bulgaria</td>
<td>Sofia</td>
<td>UCB (2nd credit line)</td>
<td>3.00</td>
<td>0.65</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>Sofia</td>
<td>Hebros Bank</td>
<td>6.00</td>
<td>1.45</td>
</tr>
<tr>
<td>Slovenia</td>
<td>Ljubljana</td>
<td>SKB</td>
<td>10.00</td>
<td>1.78</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td></td>
<td><strong>19.00</strong></td>
<td><strong>3.88</strong></td>
</tr>
</tbody>
</table>

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4 At August 2001, Hungary has been covered by the EBRD only by equity projects so far, and the loan project in Slovakia has not been signed yet.
It can be noticed from the above table that one major improvement already obtained from the Facility is the leverage applied to the Phare funds. Although the Phase 1 was designed with a ratio between the EBRD and the Phare resources equal to or higher than 2, the actual leverage of resources is currently around 5 in favour of Phare.

It is expected that about 26 EBRD Projects may be approved with the presently available resources by the end of 2001.

It should be noted that taking the involvement of CEB/KfW into account, it may be expected under this programme to approve a total of between 38 to 40 Projects with the presently available resources by the end of 2001 under the LGLW.

In addition, in June 2000, the Commission decided to launch an assessment exercise in order to verify the quality and effectiveness of the technical assistance provided, to identify any difficulty restricting the efficient implementation of the Facility and identify possible improvements of the delivery mechanism before entering into Phase 2. The Assessment Report - although highlighting some initial difficulties and delays due to the start-up of this new scheme - recognised the potential and the relevance of such an instrument to increase SME lending.

The Report formulated 20 recommendations of which 17 were taken into account. Three recommendations were not implemented, as they were considered as not appropriate. In this context, the Assessment Report observed that leasing was not included among the operations under the Facility and that “specific consideration should be given to whether such an instrument (with TA and / or grant support) would facilitate the achievement of the Financial Memorandum’s objectives”.

On 12th January 2001, the Steering Committee of the SME Finance Facility discussed this issue and considered as appropriate to examine how leasing operations could be developed.

The feedback received from the IFIs has confirmed the interest for the development of this new form of specific support to leasing companies. In particular, ad-hoc discussions held by EBRD, CEB and KfW with the potential beneficiaries of the leasing tool in the candidate countries have confirmed the importance of developing leasing operations as an additional financing mechanism for SMEs. In addition leasing companies operate in all of the Eligible Countries and play a dynamic role in providing financing to SMEs, although the importance of the financing varies from country to country.

The Commission has therefore concluded that the financial lease, which is an alternative to bank loan financing for equipment purchase, should be encouraged within the SME Facility.

**The Equity Window:**

At this stage, the Commission does not envisage the need for additional funding for the Equity Window for Phase 2. The take off of the Equity Window resulted slower than originally foreseen due to the more complex schemes that the equity participation implies and the necessity of a particular careful evaluation of all the implications that the participation in the newly created Equity Funds may cause.
The present strategy of the EBRD, which was discussed and approved at the Steering Committee of 27th June 2000, is to establish specific SME funds alongside other existing funds in the countries concerned. Thanks to this strategy, 42% of the resources available under the EW were committed to Equity Projects at the end of 2000. More Projects are expected in 2001. However, although EBRD is making considerable efforts to commit the Phare funds, it would be nonetheless premature to seek additional funding for the Equity Window at this stage.

At 3rd August 2001 the following Projects have been approved under the Equity Window:

<table>
<thead>
<tr>
<th>COUNTRY</th>
<th>FINANCIAL INTERMEDIARY</th>
<th>EBRD MEUR</th>
<th>PHARE MEUR</th>
<th>OTHERS MEUR</th>
<th>TOTAL MEUR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech &amp; Slovak Republics</td>
<td>GIMV Czech Ventures</td>
<td>3.00</td>
<td>3.00</td>
<td>6.00</td>
<td>12.00</td>
</tr>
<tr>
<td>Estonia, Latvia, Lithuania</td>
<td>Baltic SME Fund</td>
<td>3.00</td>
<td>3.00</td>
<td>8.50</td>
<td>14.50</td>
</tr>
<tr>
<td>Hungary</td>
<td>Euroventures Danube BV(*)</td>
<td>3.75</td>
<td>3.75</td>
<td>7.50</td>
<td>15.00</td>
</tr>
<tr>
<td>Hungary</td>
<td>First Hungarian SME Fund</td>
<td>3.75</td>
<td>3.75</td>
<td>12.50</td>
<td>20.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>13.50</strong></td>
<td><strong>13.50</strong></td>
<td><strong>34.50</strong></td>
<td><strong>61.50</strong></td>
</tr>
</tbody>
</table>

(*) This Project may also finance investments in Romania, Slovakia and Slovenia.

4. OBJECTIVE OF THIS FINANCING PROPOSAL

The primary objective of the SME Finance Facility with the EBRD is to induce financial intermediaries in the ten candidate countries from Central and Eastern Europe to expand and to maintain in the long term their financing operation to SMEs. In order to meet the new and maturing needs of SMEs in the applicant countries the Commission intends through this Financing Proposal:

1. to expand the existing activities under the Loan and Guarantee Window of the Facility by including the financial leasing operations;
2. to expand the eligible Financial Intermediaries by including Participating Leasing Companies;
3. to further expand the current range of the Participating Banks from the candidate countries in the Facility.

Secondary objectives of this Financing Proposal are (i) to leverage the largest amount of co-financing with the Community grant through co-financing with the EBRD; (ii) to ensure greatest efficiency of the management of these complex financial schemes by delegating implementation to the EBRD, whose expertise is extensive in these areas.

The means to achieve these objectives is to mobilise further financing from the EBRD through the existing SME Facility’s Special Fund so as to provide additional tailored credit lines to support banks and leasing companies in the Eligible Countries. Each Project approved by the Commission and signed between the EBRD and the participating banks and/or the leasing companies corresponds to the provision of sub-loans or financial leases to their SME clients.
5. DESCRIPTION OF SME FACILITY PHASE 2 (EBRD)

5.1 Co-ordination

The EBRD as well as the other sponsors are authorised to commit Phare resources into those Projects meeting the Facility requirements under a co-ordinated approach. This implies defining mechanisms that are applicable to all sponsors for:

(a) the approval of Projects which will be submitted respectively by the EBRD or CEB/KfW;

(b) the co-ordination on the implementation of the Facility to make sure that:
   - there is no overlap between the Projects of the respective sponsors and;
   - an appropriate country coverage is reached between the sponsors.

All Projects being submitted or to be submitted in the future by the EBRD will be approved according to the existing mechanisms of the Phase 2.

5.2 The rationale for Phase 2 with the EBRD

In the light of the results achieved so far, the Commission intends to further expand the Facility within the candidate countries so as to maximise the impact of this programme by ensuring maximal geographical coverage and to increase the effectiveness of the Facility by involving the leasing companies as potential beneficiaries.

Through this Financing Proposal, the Commission intends to reach these objectives by granting the necessary support to the loan, guarantee, and to leasing Projects by providing an additional amount of 30 MEUR to the LGLW. The EBRD Board will agree a parallel additional contribution of 150 MEUR to the LGLW of the Facility.

The management and co-ordination aspects of the programme have not been modified significantly since the Facility entered into Phase 2 last year. In particular, the main role of the Commission within the Steering Committee is always to guarantee the necessary co-ordination between the partners while ensuring the confidentiality of the operations of each partner with the CEEC financial intermediaries.

5.3 The Contribution Arrangement and its amendment

To maximise the efficiency of the programme’s implementation, the Commission will continue transferring the Phare contribution to the existing Facility’s Fund. The EBRD will continue administering the Fund as well as managing and supervising the Projects co-financed under this programme.

Within the framework of the amendments of the Contribution Arrangement the Commission will finance under the LGLW the types of incentives in parallel to the EBRD loans or credit lines as previously described under section 3.2.

5.4 The Operations to be financed

The SME Facility’s operations within the present extension of Phase 2 will be similar to those already undertaken under the Facility Phase 2. These are described in the diagram overleaf.
As the present Financing Proposal does not deal with additional resources to the EW, the description under the section 5.5 is given for LGLW Projects only. However the conditions specified for the EW Projects under Phase 2 as stipulated in the Financing Proposals already approved by the Phare Management Committee remain applicable.

As for the LGLW, it should be noted that the EBRD would provide the loan funds or credit lines to the Participating Banks and Participating Leasing Companies at market rates. On the other hand, the Phare contribution is intended to stimulate the local Participating Banks and/or Leasing Companies to develop and sustain their lending and leasing operations with SMEs. To be noted that a Sub-Project between a PB and an SME is in principle a sub-loan but could also be a financial lease.
5.5  Project description

LGLW Projects financed under the Facility will involve provision of Phare funds and EBRD resources through specific agreements with Participating Banks (PBs) or Participating Leasing Companies (PLCs), which shall on-lend or lease directly to SMEs.

The resources will be attributed to each Project with local PBs and PLCs with a leverage not lower than 3/1 in favour of Phare.

The size of each Project agreed with the PB or the PLC will be, in principle, between 5-15 MEUR and the maximum size of loans or lease per SME beneficiary shall be 250,000 EUR.

The Project with the PBs and with the PLCs supported under the Facility will include EBRD loan or credit line and a contribution from Phare.

5.5.1 Categories of Incentives Financed from Phare resources

The Phare contribution may be used for one or more of the following components in varying proportions depending on the Project’s specific needs:

Towards PBs

(1) Performance fee (PF)

In the form of a grant partly compensating for the interest to be paid by the PBs to EBRD. The Phare incentive will be determined on a downward sliding scale and be paid only in relation to actual performance of the PB on the SME lending.

(2) Technical Co-operation (TC)

Phare resources may be provided to PBs for institution building purposes. The aim of TC is among other things to:

• install management information systems specifically geared towards SME portfolios;
• recruit and train PBs staff in SME customer support and small loan appraisal, supervision and loan administration skills;
• assist in the introduction and implementation of organisational and managerial procedures and practices involved with SME lending;
• strengthen administrative, credit and management capacities.

(3) Loan Guarantee

Phare contribution may be used, where appropriate, to provide a partial guarantee on the SME sub-loan portfolio managed by the PBs. This guarantee is limited to a maximum of 40% of the loss per Sub-Project.

Towards PLCs

(4) Performance fee
In the form of a grant partly compensating for the interest or loan principal to be paid by the PLCs to EBRD. The Phare incentive will be determined on a downward sliding scale and be paid only in relation to actual performance of the PB on the SME Sub-Projects.

(5) Technical Co-operation (TC)

Phare resources may be provided to PLCs for institution building purposes. The aim of TC is among other things to:

- install management information systems specifically geared towards SME portfolios;
- recruit and train PLCs staff in SME customer support and small leases appraisal, supervision and lease administration skills;
- assist in the introduction and implementation of organisational and managerial procedures and practices involved with SME leases;
- strengthen administrative, management and operational capacities.

Towards PBs and PLCs

(6) Other incentives

Subject to specific approval of the Co-financing Members -representing the Commission and the EBRD- other appropriate incentives for the benefit of PBs or PLCs may be granted.

5.5.2 Ceilings

For Performance Fees

No more than 50% of overall Fund Resources may be used for performance fees. This 50% ceiling may be raised up to 70% by the Co-financing Members - representing the Commission and the EBRD - if considered as necessary for the objectives of the Facility. The specific portion of performance fee may however vary between Projects.

For Technical Co-operation

No more than 70% of Fund Resources is allocated to the LGLW (previously Loan and Guarantee Window). The specific portion of TC may vary between Projects.

As an example, an arrangement offered to a Participating Bank on a Project might consist in:

(1) A loan or credit line for on-lending to the SMEs. The combination of EBRD loan funds with a Phare interest rate incentive shall produce the attractive margin required to induce Participating Banks to take the loan and undertake the necessary organisational changes, most notably the specialisation of loan officers and branches to SME lending.

(2) Where justified, a partial first-loss guarantee for a fixed percentage of losses on the SME loan portfolio managed by the Participating Bank.
(3) Technical assistance to perform institution building in the Participating Banks (e.g. adjust organizational structure, train loan officers in appraisal and supervision, introduce new management information systems, etc.) to meet the special administrative needs of lending to the SME sector, which is very different from the requirements of lending to a small number of large clients.

An arrangement offered to a Participating Leasing Company on a Project might consist in:

1. A loan or credit line provided by the EBRD to the PLC linked to the financial lease agreements to be contracted with the SMEs.

2. A performance fee to be paid from the Phare resources to the PLC which will be offset against either principal or interest payments due to EBRD.

The type and the precise mix of the support offered under individual Projects may vary country by country and may depend on the Project’s specific circumstances.

5.6 Procedure of Project approval and management

The EBRD shall prepare the Project proposals for support under the SME Finance Facility with the relevant Participating Banks and Participating Leasing Companies in the candidate countries.

The *Co-financing Members* (the Commission and the EBRD) will approve the Project proposals and supervise the implementation of the activities to be carried out under the Facility through reports and audits and co-ordinate the implementation of the Facility through the Steering Committee.

The Facility’s support to Projects will be provided through loans and credit lines for Participating Banks and Participating Leasing Companies combined with the incentives provided from Phare through the Fund (performance fee, guarantees, technical support, and others).

The maximum sub-loan or financial lease per SME beneficiary will be of 250,000 EUR, thereby establishing a clear additionality vis-à-vis the existing financial instruments available to SMEs in Central and Eastern Europe. An SME may benefit from the LGLW and the EW, but under the EW the maximum investment per SME shall be 1,000,000 EUR.

In accordance with the existing practice, the EBRD shall manage the Projects and engage the Participating Banks and Participating Leasing Companies in the candidate countries to provide finance to or to establish Financial Lease agreement with SMEs (i.e. Sub-Projects) on a day to day basis.

Obviously, each Project with the Participating Bank shall finance many more Sub-Projects in individual SMEs.

SMEs eligible for support through Sub-Projects are enterprises employing not more than 250 people\(^5\).

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\(^5\) The definition of eligible SMEs derives from Commission Recommendation 96/280/EC of 3 April 1996.
5.7 The Administrative Structure

The Fund

The Commission and the EBRD have agreed to allocate this further financing in the already existing Special Fund created in the framework of the SME Finance Facility and managed by the EBRD.

The Steering Committee and co-ordination issues

Since the involvement of CEB/KfW, the SME Facility has entered into Phase 2, where different partners are involved in the financing operations to support the SMEs in the candidate countries. It is therefore important to ensure the necessary co-ordination between the different IFIs involved so as to avoid overlaps of activity and all risk of duplication of funds to the same Participating Banks or Participating Leasing Companies.

The Steering Committee will ensure co-ordination and complementarity between the Projects supported by the Phare contribution under the Facility.

The Steering Committee under Phase 2 comprises three representatives of the Commission and one representative of each, respectively, other IFIs and FIs having signed similar Contribution Arrangements with the Commission.

The Commission through the Steering Committee will supervise the correct implementation of the Facility.

All decisions of the Steering Committee are made by unanimity. The Steering Committee convenes at the request of any of its members, but meets at least twice per year and a representative of the Commission chairs the meetings.

The Steering Committee shall, in particular:

(1) monitor financial and operational progress of the Facility;
(2) review, as appropriate, publications reporting on the Facility;
(3) review the experiences of the Facility overall with a view to proposing improvements;
(4) co-ordinate activities of the Facility so as to avoid duplication and overlap between sponsors.

The Co-financing Members and approval of Projects

Project proposals will be submitted to and agreed only by the Co-financing Members, i.e. those members of the Steering Committee representing the Commission and the financial institutions involved in the decision of co-financing of each specific Project (in this case two representatives of the Commission and one representative of the EBRD).

By their approval of the Project, the Co-financing Members authorise the mobilisation of the Resources of the Fund.
The Commission will also ensure the confidentiality of the Projects proposed by the Co-financing Members.

The Secretariat

The Secretariat shall continue to be administered by the Commission (DG ECFIN/FOS) and shall ensure the co-ordination between the Commission and all the sponsors for matters related to Projects, Steering Committee organisation and administration of the Fund.

6. BUDGET

This Financing Proposal consists of 30 MEUR from the Community budget. Included in this figure is the management fee paid by the Commission to the EBRD. This management fee is equal to 1.25% of each tranche of the Contribution released to the Fund towards covering the cost of implementing all EBRD tasks under the Arrangement and corresponding to a maximum amount of 0.375 MEUR.

The amount corresponding to the management fee is included in the amount of each tranche released to the Fund. The Commission shall not provide any additional amount to support the ordinary EBRD costs resulting from this Arrangement.

Figure 6a: Phare Contribution

<table>
<thead>
<tr>
<th>Sector</th>
<th>Allocation</th>
<th>Investment*</th>
<th>Institution Building</th>
<th>TA*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Window</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Loan/Guarantee/Leasing Window</td>
<td>100%</td>
<td>100%</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

* Investment Support, Institution Building and Technical Assistance cannot be separated out as distinct Phare actions under the SME Facility but are considered as integral components of each investment support Project financed under the Facility.

Figure 6b: Co-Financing to SME Facility

<table>
<thead>
<tr>
<th>WINDOWS</th>
<th>PHARE</th>
<th>EBRD</th>
<th>Financial Intermediary</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Window</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Loan /Guarantee/Leasing Window</td>
<td>+</td>
<td>+</td>
<td>+/-</td>
</tr>
<tr>
<td>Total</td>
<td>+</td>
<td>+</td>
<td>+/-</td>
</tr>
</tbody>
</table>

Co-financing from the PBs and PLCs in the Loan, Guarantee and Leasing Window will be encouraged, but will vary depending on the circumstances of the Project.
7. IMPLEMENTATION ARRANGEMENTS

Implementation shall be delegated to the EBRD on the basis of the Contribution Arrangement. The Commission’s supervision will be exercised throughout the duration of the programme through the Steering Committee and through activities of monitoring and evaluation, various reports and audits.

Building on the general description of the programme given in section 5 of this Financing Proposal, this section explores in greater detail implementation principles.

7.1 Implementation Principles

As well as the basic aspects of the Facility set out in this Financing Proposal, there are certain principles of implementation that can be highlighted here:

1. No Phare funds will be used for the purposes of a Project (under the LGLW or the EW) without prior approval of that Project by the Co-financing Members.

2. Those Projects that address key problems in the relevant country’s National Programme for the Adoption of the Acquis will be particularly welcomed, as well as those focusing on micro-enterprises.

3. The financial and operational management of Community funds under the SME Facility shall be delegated to the EBRD. To this end, the Community Contribution shall be paid into the existing interest bearing account termed the “SME Facility Special Fund” in the EBRD. The modalities are set down in the Contribution Arrangement agreed between the Commission and the EBRD.

4. After an initial advance, the Commission will approve the release of further funds to the SME Facility Special Fund in tranches. All funds remaining unused or revolving within the Special Fund will be reused for the purpose of the SME Facility according to the same rules and procedures.

5. At a minimum, the EBRD will provide three times the financial contribution of Phare to a Project financed through the Loan, Guarantee and Leasing Window. The general objective for the LGLW is to commit EBRD and Phare resources in the proportion of 5 to 1 for the SME Finance Facility Phase 2 (425 MEUR/85 MEUR)

6. The Commission shall exercise its responsibility over the use of the Community funds for the duration of the Facility on the basis of monitoring reports and accounts provided by the EBRD in accordance with the rules set down in the Contribution Arrangement.

7. The Facility with EBRD will be available for all candidate countries from Central and Eastern Europe and an effort will be made to reach a balanced country usage although, of course, final Project selection must be on the basis of the quality of the proposals.

8. The specific procedures relating to the implementation of the Project will be set down in Project agreements with the Participating Bank or the Participating Leasing Company. Project agreements will specify the terms and conditions applicable to the use of EBRD and Fund Resources and will ensure that relevant provisions will be incorporated in the agreements between the Participating Banks/Leasing Companies and the SMEs.
(9) Interest earned on the account and possible funds paid out from the Fund and recovered from Projects shall be returned to the SME Facility Special Fund for use again on new Projects, until termination of the SME Facility Special Fund’s activities. The EBRD is also committed to the continuation of the operations until the termination of the SME Facility Special Fund’s activities. Any funds remaining at termination shall be returned to the Commission.

7.2 Eligibility Criteria

Eligible Participating Banks and Participating Leasing Companies

Selection of Participating Banks will concentrate on their credit worthiness and branch networks. Selection of Participating Leasing Companies will concentrate on their financial soundness and their regional presence.

Selection will also take into account the possible previous involvement in institution building programmes.

The selection criteria will include, among other things, geographic location, market competition between banks/leasing companies, business potential, branch management competence, commitment to lending or financial lease to SMEs, openness to new technology and willingness to devote personnel.

On an exceptional basis, a state-owned bank may also participate in the SME Facility. Criteria for participation of a state-owned bank will include geographic outreach, assistance to its privatization and the existence of credible financial and commercial autonomy.

Eligible SMEs

Enterprises eligible for Sub-Projects must comply with the definition of SME as per Commission Recommendation of 3 April 1996 (OJ L 107 of 30 April 1996). The term SME includes the individual entrepreneur. Eligible SMEs must:

(1) have majority private ownership and control or be in the final stage of the process of privatisation;

(2) not be conducting business in activities such as, gambling, real estate, banking, insurance or financial intermediation and the manufacture, supply or trade in arms, as well as activities on EBRD’s Environmental Exclusion List.

Eligible Expenditure at SME level

Funds utilisation by SMEs may be for the financing of investment in fixed assets and working capital and may involve new projects, or the modernisation or expansion of existing business within sectors in the following non-exhaustive list: manufacturing industry, agro-allied business, hotel, tourism, energy saving and environment, construction, trade and services.

Eligible Countries

The Facility Phase 2 with the EBRD is open to Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. An effort will be made to reach a balanced country usage.
7.3 Project Selection and Approval

After preparation by the EBRD, Project proposals will be presented to the Co-financing Members representing the Commission and the EBRD. The approval will be given through written procedure and the acceptance or rejection of a Project proposal by the Co-financing Members will be confirmed within twenty working days of its submission.

The Secretariat organised by the Commission shall ensure the co-ordination of the written procedure. The unanimous agreement from the Co-financing Members is required.

Subject to the legal obligation of bank secrecy and the rules of confidentiality, the Commission shall have access to all relevant information in connection with the Project proposals.

The Co-financing Members shall assess Project proposals according to their compliance with the following criteria:

1. the compliance with the Arrangement and its appendices, including degree of compliance with eligibility criteria;
2. the impact of the proposed Projects on accession and on SME development in the Eligible Countries;
3. the country in which the Project is located, taking into account the objective of the Facility to be implemented over time in all Eligible Countries;
4. the degree to which the requested grant leverages additional funds from Partners and PBs or PLCs;
5. the coherence of the proposed allocation of Fund resources with other approved Projects.

The procedures and guidelines outlined in this Financing Proposal - including eligibility criteria applied, support offered, financial intermediaries used, final SMEs selected and the implementation conditions and approaches adopted - shall be followed as a general rule. However, given that the particular requirements of projects may differ considerably depending on the country concerned and the SME market segment being targeted, the EBRD may propose to the Co-financing Members exceptions to these general guidelines and limits. The EBRD shall highlight the particular exceptions and provide justifications, so that the Co-Financing Members may consider these exceptions on their merits and on a case by case basis.

By their approval of the Project, the Co-financing Members authorise the mobilisation of Fund resources.

7.4 Implementation of Projects

In accordance with the current management of the Facility, the administration of the Phare funds shall be undertaken by the EBRD under the monitoring of the Commission, and shall not be implemented according to the standard Phare Decentralised Implementation System.

The Commission shall be continuing to exercise its responsibilities over the use of funds throughout the duration of the programme and the implementation shall be assured through a sub-delegation arrangement with DG ECFIN/FOS.
The precise procedures for implementation of the Projects shall be set down in the specific Project agreements (i.e. contracts) signed between the EBRD and respectively the Participating Banks or the Participating Leasing Companies. These Project agreements will specify the terms and conditions applicable to the use of funds. Subject to the rules of confidentiality, the Secretariat of the Steering Committee shall be provided with copies of these Project agreements. To be noted that these documents will be available only to the Co-financing Members.

Project agreements shall specify the terms and conditions applicable to the use of Partners and Fund resources and shall ensure that those relevant provisions resulting from the Arrangement will be incorporated in the agreements between the PBs or the PLCs and the SMEs.

Project agreements shall encompass specific, objectively verifiable criteria by which Sub-Project compliance with agreed rules will be controlled.

In the case of default on Project agreements, the EBRD will undertake recovery proceedings in a manner consistent with the care and diligence applied in EBRD projects financed out of its ordinary resources. The Commission will assist in this process where required.

8. MONITORING, ASSESSMENT AND EVALUATION

The EBRD will continue to be responsible for monitoring the implementation of actions under the Contribution Arrangement and for providing the following reports:

(1) Monthly financial statements – a summary statement of the Fund account indicating the situation of the Fund, at the beginning and the end of the month, any transaction (with value date) and providing explanation and justification of any transaction.

(2) Quarterly pipeline report – a summary of the Projects in the pipeline and a forecast of commitments and disbursements from the Fund.

(3) Semi-annual progress report: this will be an assessment of activities under the Arrangement for the first six months including:

(a) all financial matters relating to the Arrangement’s operation, including duration of sub-loans/leases and relation of other terms to general market conditions in the country concerned;

(b) compliance of Sub-Projects with Project agreements and articles of the Arrangement;

(c) information on Sub-Projects including, as a minimum, numbers of Sub-Projects, sectors covered, number of employees per beneficiary SME and total assets and turnover and interest rates. To meet confidentiality requirements, data may be provided on an aggregated basis.

(4) An annual report on the Arrangement’s operations from the end of each year. It will include for the second half of the year the same kind of information as requested above to assess the activities under the Arrangement and also cover as a minimum:
(a) contribution of activities under the Arrangement to pre-accession efforts of the country concerned;

(b) the leverage achieved by Fund Resources on additional Partner and private sector funds. The number of PBs/PLCs still maintaining their SME operations after termination of support from the Fund;

(c) any other information deemed useful to measure the impact of the Facility in terms of its original objective “to alleviate the financing problems of small and medium-sized enterprises in the Phare eligible countries”.

(5) A final report established at the termination of the Arrangement shall include information deemed necessary to assess the overall impact of the Arrangement since its commencement.

The Commission may also carry out, from time to time, assessments of the activities under the Arrangement. To this purpose Commission’s agents or duly authorised representatives may pay monitoring visits down to the Sub-Project level. The Commission also exercises its responsibilities through reviewing the audited accounts and reports produced by the EBRD and through its own independent assessment and audits. Finally, an ex-post evaluation is carried out after completion of the programme.

9. ANTI-FRAUD MEASURES AND AUDIT

All financing memoranda as well as the resulting contracts are subject to supervision and financial control by the Commission (including the European Anti-fraud Office) and the Court of Auditors.

In order to ensure efficient protection of the financial interests of the Community, the Commission can conduct checks and inspections on site -down to the Sub-Project level- in accordance with the procedures foreseen in Council Regulation (Euratom, EC) No. 2185/96 dated from November 11, 1996, concerning on-the-spot checks and inspections carried out by the Commission in order to protect the European Communities' financial interests against fraud and other irregularities.

The procedures foreseen in Art. 15 para 3 of Commission Regulation No. 2222/2000 dated from June 7, 2000, on the communication in case of irregularities and the putting in place of a system to administrate the information in this field shall apply.

The Project agreements to be concluded by the EBRD with the financial intermediaries, as well as agreements between the latter and beneficiaries of Sub-Projects, shall contain provisions to this effect. Relevant documentation should be maintained at all levels for a period of five years after closure of the Project.

There shall be full coordination between the EBRD, the Commission and Court of Auditors to minimise any potential disruption to activities.
10. VISIBILITY

All Projects financed under the Facility involving Community funds shall reflect explicitly the input of the Commission through: (i) announcements in the national press of the country concerned; and (ii) inclusion of specific clauses promoting visibility in the Sub-Projects supported at the FI level.

In addition, under Phase 2, EBRD will report accounts for the SME Facility Special Fund for inclusion in its Annual Report at the same visibility level granted to other special funds.

11. SPECIAL CONDITIONS

11.1 Termination

The funding of the SME Facility Phase 2 Special Fund may terminate on 31st December 2003 if the resources as outlined in this Financing Proposal are not designated for Projects by the Co-financing Members. While the disbursement expiry date of the Phare budget is 31st December 2006, the whole Phase 2 of the Facility with the EBRD shall terminate on 31st December 2011.

The funding of the SME Facility Special Fund may be terminated if the EBRD or Commission fails to perform any of their material obligations under the Facility.

Any Phare funds on the SME Facility Special Fund at termination of the Phase 2 with the EBRD shall be returned to the Commission in accordance with the Rules and Regulations of the SME Facility Special Fund. Any funds remaining due to the SME Facility Special Fund at termination shall be returned to the Commission when such resources are received in the SME Facility Special Fund.

The Commission shall exercise its responsibility over the use of funds through the duration of the programme in accordance with its Financial Regulation applicable to the General Budget of the European Communities of 21st December 1977 as amended.

11.2 Transfers between the Windows

The EBRD will develop the activities under both Windows according to the resources allocated respectively to each Window. However, in order to maximise the performance of the Facility, in the exceptional circumstance that the resources available under one of the two Windows are not sufficient to allow the approval of a Project the EBRD may be allowed, subject to unanimous agreement of the Co-financing Members, to use the available resources from the other Window for this specific Project.

12. RISKS AND ASSUMPTIONS

At the operational level, the principal risk is that the Participating Banks and Leasing Companies supported by the SME Facility will not continue their SME operations once the Facility support has ended. This risk is however considered low, since experience with similar programmes elsewhere shows that financial intermediaries tend to continue on their own once
they have the capacity to administer such loans or leases, have gone through the learning curve and have realised the profit potential of such SME operations.

At the policy level, the Facility assumes a sustained effort by Eligible Countries to press ahead with making further progress in relation to SME regulations and laws, most particularly in the adoption of the acquis communautaire as it relates to SMEs.

A further risk is that Sub-Projects financed will have limited impact on SMEs development. Given the experience of other SME programmes and the changes, which the Facility has introduced, the risks of poor impact would seem limited.
Annexes

1. Definitions
2. Project proposal format
3. Log-frame Matrix
4. Cumulative contracting and disbursement schedule
5. Visibility/Publicity
6. Summary for the Official Journal
ANNEX 1

DEFINITIONS

Except as defined otherwise herein, capitalised terms shall have the meanings attributed to them in this article:

1. **Contribution** - the contribution to the Fund of 110 MEUR (i.e. 85 MEUR under LGLW and 25 MEUR under EW) by the European Community.

2. **Co-financing Members** - Members of the Steering Committee involved in the decision of financing a Project: 2 representatives of the Commission, 1 representative of the EBRD.

3. **Eligible Countries** - Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia.

4. **Facility** - The SME Finance Facility involving Facility Phase 1 and Facility Phase 2.

5. **Facility Phase 1** - the first phase of the SME Finance Facility where the sponsors were the Commission and the EBRD.

6. **Facility Phase 2** - the second phase of the SME Finance Facility where the sponsors are the Commission, the EBRD and other IFIs, possibly working in association with national Financing Institutions.

7. **Financial Lease** - A form of financing corresponding to an agreement whereby the lessee (an SME) will use an asset owned by the lessor, stipulating that the lessee will pay a rental to the lessor for a certain period of time and stipulating that -at the end of that period of time- the lessee is entitled to the ownership of the asset subject to the payment of the residual value of the asset.

8. **Fund resources** - consist of the contribution, interest earned on the Fund account and funds initially paid out from the Fund and recovered from Projects.

9. **IFIs** - International Financial Institutions. Where appropriate, the wording also covers an IFI working in association with a National Financing Institution (such as CEB and KfW).

10. **Participating Bank (PB)** - the Bank establishing a Project with the EBRD, which shall lend directly to the SMEs. The PBs are banks operating in the Eligible Countries, including locally registered entities and also subsidiaries or branches of EC banks.

11. **Participating Leasing Company (PLC)** - the Leasing Company establishing a Project with the EBRD, which shall establish financial lease agreements directly with the SMEs. The PLCs are companies operating in the Eligible Countries, including locally registered entities and also subsidiaries or branches of EC Companies.

12. **Project** - a financial package with a PB or a PLC, which would include Fund and EBRD resources and comprise one or more of the components according to the arrangement:

   - performance fee, technical co-operation, guarantee and other approved incentives for arrangement with PBs or;
   - performance fee, technical co-operation, and other approved incentives for arrangements with PLCs.

13. **Sub-Project** - sub-loan or Financial Lease to an individual SME.
ANNEX 2

PROJECT PROPOSAL FORMAT

The EBRD submits Project proposals that will in principle comprise the following items. The same format is used for Projects with PBs or PLCs. This proposal format may be changed with the agreement of the Co-Financing Members if so required:

1 The PB/PLC
   1.1 Introduction
   1.2 Current financial position and due diligence statement on PB or PLC

2 The Project
   2.1 Objectives
   2.2 Description, including impact on employment
   2.3 Outline of Agreement: Principal terms and conditions
   2.4 Environmental Issues
   2.5 Indicators of achievement for monitoring and evaluation
   2.6 Risks and risk-mitigating measures

3 The SME Facility’s Involvement
   3.1 Eligibility criteria, including any exceptions to the rules set down in the Rules of Procedure and justification for these exceptions and monitoring criteria
   3.2 Accession and transition impact, including PB policy statement on commitment to long term lending to SMEs
   3.3 Additionality
   3.4 Modalities of Phare support, including a breakdown of use of Fund Resources and any exceptions to the rules set down in the Rules of Procedure and supporting justifications for such exceptions

4 Implementation
   4.1 Start-up and implementation timetable
   4.2 Disbursement schedule
   4.3 Monitoring and reporting, including reports to Steering Committee
   4.4 Termination
   4.5 Visibility, including specific provisions for Commission visibility
   4.6 Audit
## ANNEX 3

### LOG-FRAME MATRIX

**Prog Number:** ZZ 00 / **Title:** SME Finance Facility Phase II (EBRD).  **Period:** Sept.2001 – Dec.2006

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
</table>
| 1. To induce financial intermediaries in the ten eligible countries to expand and to maintain in the long term financing operation to SMEs. | 1. Participating financial intermediaries’ approach to SME operations after Facility’s closure. | 1. participating financial intermediaries  
2. participating SMEs  
3. annual reports | 1. financial intermediaries will not be able to sustain lending/leasing in the long term  
2. economic policies conducive to SME development are not implemented, thereby undermining Facility and participating FI efforts |

**Outputs**

<table>
<thead>
<tr>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
</table>
| 1. Greater access to finance among participating SME’s in the region.  
2. Expanded capacities of Participating Banks (PBs) and Participating Leasing Companies (PLCs) to serve the needs of SMEs.  
3. Example to other potential financial intermediaries that operating with SME’s is possible. | 1. Increased SME lending related to the Facility operations in each PB/PLC compared with the appropriate indicators.  
Level of increased successful investment taken by the Investments Funds compared with the overall level of investment as known in the sector.  
2. Approach of PB/PLC to SME operations in terms of: lending/leasing policy in place; SME tailored system of appraisal; trained staff.  
3. Interest of other financial intermediaries in the Facility and SME’s in general, although such a general indicator cannot be used to directly gauge the Facility’s performance. | 1. financial intermediaries will not be able to sustain lending/leasing in the long term  
2. IFIs will not be well co-ordinated which produces overlaps of activity and duplication of funds to the same Participating Banks or Participating Leasing Companies |

### Inputs

**Projects** with Financial Intermediaries in support of SME’s. The Facility’s support to Projects shall be provided through a:  
1. Loan, Guarantee and Leasing Window for PBs/PLCs including - loan funds, performance fees, guarantees, technical assistance and other approved incentives.
Each Project will then finance individual **Sub-Projects** which are defined as loans or financial leases in individual SMEs

<table>
<thead>
<tr>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
</table>
| 1. number of financial intermediaries participating in the Facility.  
2. number of Sub-Projects financed. | 1. participating financial intermediaries  
2. participating SMEs  
3. assessment reports  
4. evaluation reports | 1. identification of suitable Projects and Sub-Projects  
2. administrative efficiency  
3. financial sounders and operational capacities of PBs and PLCs |
ANNEX 4

Cumulative contracting and disbursement schedule

<table>
<thead>
<tr>
<th>MEUR</th>
<th>31.10.01</th>
<th>31.12.01</th>
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<th>30.06.02</th>
<th>30.09.02</th>
<th>31.12.02</th>
<th>31.03.03</th>
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Please note that this disbursement table is an approximation. The actual disbursements will depend on the demand of the Projects financed under the Facility, which have not yet been selected.
ANNEX 5
INFORMATION AND PUBLICITY FOR THE PHARE, ISPA AND SAPARD PROGRAMMES OF THE EUROPEAN COMMUNITIES

1. Objective and scope

Information and publicity measures concerning assistance from the European Community Phare Programme are intended to increase public awareness and transparency of EU action and to create a consistent image of the measures concerned in all applicant countries. Information and publicity shall concern measures receiving a contribution from the Phare Programme.

2. General principles

The appropriate Programme Authorising Officer in charge of the implementation of Financing Memoranda, and other forms of assistance shall be responsible for publicity on the spot. Publicity shall be carried out in co-operation with the EC Delegations, which shall be informed of measures taken for this purpose.

The competent national and regional authorities shall take all the appropriate administrative steps to ensure the effective application of these arrangements and to collaborate with the EC Delegations on the spot.

The information and publicity measures described below are based on the provisions of the regulations and decisions applicable to the Structural Funds. They are:


Specific provisions concerning ISPA are included in:


Information and publicity measures must comply with the provisions of the above mentioned regulation and decision. A manual on compliance is available to national, regional and local authorities from the EC Delegation in the country concerned.

3. Information and publicity concerning Phare programmes

Information and publicity shall be the subject of a coherent set of measures defined by the competent national, regional and local authorities in collaboration with the EC Delegations for the duration of the Financing Memorandum and shall concern both programmes and other forms of assistance.

The costs of information and publicity relating to individual projects shall be met from the budget for those projects.
When Phare programmes are implemented, the measures set out at (a) and (b) below shall apply:

(a) The competent authorities of the applicant countries shall publish the content of programmes and other forms of assistance in the most appropriate form. They shall ensure that such documents are appropriately disseminated and shall hold them available for interested parties. They shall ensure the consistent presentation throughout the territory of the applicant country of information and publicity material produced.

(b) Information and publicity measures on the spot shall include the following:

(i) In the case of infrastructure investments with a cost exceeding EUR 1 million:

- billboards erected on the sites, to be installed in accordance with the provisions of the regulation and decision mentioned in paragraph 2 above, and the technical specifications of the manual to be provided by the EC Delegation in the country concerned.

- permanent commemorative plaques for infrastructures accessible to the general public, to be installed in accordance with the provisions of the regulation and decision mentioned in paragraph 2 above, and the technical specifications of the manual to be provided by the EC Delegation in the country concerned.

(ii) In the case of productive investments, measures to develop local potential and all other measures receiving financial assistance from Phare, ISPA or SAPARD:

- measures to make potential beneficiaries and the general public aware of Phare, ISPA or SAPARD assistance, in accordance with the provisions cited at paragraph 3(b)(i) above.

- measures targeting applicants for public aids part-financed by Phare, ISPA or SAPARD in the form of an indication on the forms to be filled out by such applications, that part of the aid comes from the EU, and specifically, the Phare, ISPA or SAPARD Programmes in accordance with the provisions outlined above.

4. Visibility of EU assistance in business circles and among potential beneficiaries and the general public

4.1 Business circles

Business circles must be involved as closely as possible with the assistance, which concerns them most directly.

The authorities responsible for implementing assistance shall ensure the existence of appropriate channels for disseminating information to potential beneficiaries, particularly SMEs. These should include an indication of the administrative procedures to be followed.

4.2 Other potential beneficiaries

The authorities responsible for implementing assistance shall ensure the existence of appropriate channels for disseminating information to all persons who benefit or could benefit from measures concerning training, employment or the development of human resources. To this end, they shall secure the co-operation of vocational training bodies
involved in employment, business and groups of business, training centres and non-
governmental organisations.

Forms

Forms issued by national, regional or local authorities concerning the announcement of,
application for and grant of assistance intended for final beneficiaries or any other person
eligible for such assistance shall indicate that the EU, and specifically the Phare, Ispa or
Sapard Programmes, is providing financial support. The notification of aid sent to
beneficiaries shall mention the amount or percentage of the assistance financed by the
Programme in question. If such documents bear the national or regional emblem, they shall
also bear the EU logo of the same size.

4.3 The general public

The media

The competent authorities shall inform the media in the most appropriate manner about
actions co-financed by the EU, and Phare, ISPA or SAPARD in particular. Such participation
shall be fairly reflected in this information.

To this end, the launch of operations (once they have been adopted by the Commission) and
important phases in their implementation shall be the subject of information measures,
particularly in respect of regional media (press, radio and television). Appropriate
collaboration must be ensured with the EC Delegation in the applicant country.

The principles laid down in the two preceding paragraphs shall apply to advertisements such
as press releases or publicity communiqués.

Information events

The organisers of information events such as conferences, seminars, fairs and exhibitions in
connection with the implementation of operations part-financed by the Phare, Ispa or Sapard
Programmes shall undertake to make explicit the participation of the EU. The opportunity
could be taken of displaying the European flags in meeting rooms and the EU logo upon
documents depending on the circumstances. The EC Delegation in the applicant country shall
assist, as necessary, in the preparation and implementation of such events.

Information material

Publications (such as brochures and pamphlets) about programmes or similar measures
financed or co-financed by Phare, Ispa or Sapard should, on the title page, contain a clear
indication of the EU participation as well as the EU logo where the national or regional
emblem is used.

Where such publications include a preface, it should be signed by both the person responsible
in the applicant country and, for the Commission, the Delegate of the Commission to ensure
that EU participation is made clear.

Such publications shall refer to the national and regional bodies responsible for informing
interested parties.

The above-mentioned principles shall also apply to audio-visual material.
5. **Special arrangements concerning billboards, commemorative plaques and posters**

In order to ensure the visibility of measures part-financed by the Phare, Ispa or Sapard Programmes, applicant countries shall ensure that the following information and publicity measures are complied with:

**Billboards**

Billboards providing information on EU participation in the financing of the investment should be erected on the sites of all projects in which EU participation amounts to EUR 1 million or more. Even where the competent national or regional authorities do not erect a billboard announcing their own involvement in financing the EU assistance must nevertheless be announced on a special billboard. Billboards must be of a size which is appreciable to the scale of operation (taking into account the amount of co-financing from the EU) and should be prepared according to the instructions contained in the technical manual obtainable from EC Delegations, referred to above.

Billboards shall be removed not earlier than six months after completion of the work and replaced, wherever possible, by a commemorative plaque in accordance with the specifications outlined in the technical manual referred to above.

**Commemorative plaques**

Permanent commemorative plaques should be placed at sites accessible to the general public (congress centres, airports, stations, etc.). In addition to the EU logo, such plaques must mention the EU part financing together with a mention of the relevant Programme (Phare, Ispa or Sapard).

Where a national, regional or local authority or another final beneficiary decides to erect a billboard, place a commemorative plaque, display a poster or take any other step to provide information about projects with a cost of less than EUR 1 million, the EU participation must also be indicated.

6. **Final provisions**

The national, regional or local authorities concerned may, in any event, carry out additional measures if they deem this appropriate. They shall consult the EC Delegation and inform it of the initiatives they take so that the Delegation may participate appropriately in their realisation.

In order to facilitate the implementation of these provisions, the Commission, through its Delegations on the spot, shall provide technical assistance in the form of guidance on design requirements, where necessary. A manual will be prepared in the relevant national language, which will contain detailed design guidelines in electronic form and this will be available upon request.
ANNEX 6: SUMMARY FOR THE OFFICIAL JOURNAL
SME Finance Facility (Phase 2) with the European Bank for Reconstruction and Development (EBRD)

The Commission agreed on further financing to the multicountry programme SME Finance Facility (Phase 2) with the EBRD.

The European Community will contribute of 30 MEUR from budget line B7-030 to this programme, which must be implemented by 31st December 2003.

**Implementation**

The general objective of the SME Finance Facility is to induce financial intermediaries in the candidate countries to expand and to maintain their long term debt and equity financing of SME operations.

Under the SME Finance Facility the European Community’s grants and EBRD funds are jointly mobilised through a special fund to provide namely tailored SME loans, financial leases, guarantees, management support and other incentives to the participating banks or leasing companies of Central Eastern European candidate countries to the EU. Banks or leasing companies will then co-finance and market these components to their SME clients.

The SME Finance Facility was launched with a pilot Phase 1 with the EBRD on 1999. The European Commission consolidated the co-operation with the EBRD under a new Phase 2 of this programme in 2000. Now with additional 30MEUR of financing the Commission intends to further develop this programme in co-operation with the EBRD.

Further information about this programme can be obtained from:

(a) The Commission internet service at:

or
http://europa.eu.int/comm/economy_finance/fos/sme/sme002_en.htm

(b) European Commission Directorate General Enlargement:
Mr. Bardo Gavazzoli Schettini,
Tel: (32-2) 299 31 58
Fax: (32-2) 295 95 40

(c) European Commission Directorate General Economic and Financial Affairs – Financial Operations Service:
Mr. Joseph Salacz
Tel: (352) 4301 36 248
Fax: (352) 4301 36 439