COMMISSION DECISION
OF 2001

Establishing a Phare multi-beneficiary programme “SME Finance Facility Phase 2 with the Council of Europe Development Bank” (CEB/KfW) 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 Europe², as last amended by Regulation (EC) N° 2666/2000³, 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.

² OJ n° L375/11 du 23/12/1989

³ OJ no. L038 of 08/02/2001
Done in Brussels,

For the Commission
1. IDENTIFICATION

Countries: The 10 candidate countries from Central and Eastern Europe  
Programme title: Small and Medium-Sized Enterprise Finance Facility Phase 2 (CEB/KfW)  
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 ELAR) - 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 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.

On 11th December 2000 the Facility formally entered into Phase 2 with the signing of the agreement between the Commission and the Council of Europe Development Bank jointly with Kreditanstalt für Wiederaufbau (CEB/KfW).
The first Financing Proposal under that programme with CEB/KfW was approved by the 80th Phare Management Committee of 18 July 2000.

Within this framework, the present Financing Proposal deals with a further replenishment of the Phare contribution to CEB/KfW activities according to the already implemented mechanisms within the Facility. The additional Phare contribution to the Facility will be 30 MEUR and CEB/KfW will increase their contribution to this programme by an additional amount of 150 MEUR.

Following an assessment exercise on the activity led under the Phase 1 of the Facility with the EBRD the final report 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. As a consequence the Commission has agreed the extension the Loan and Guarantee Window (LGW) by introducing the possibility of supporting projects of leasing to the SMEs in the Central and Eastern European Countries (CEEC).

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

Since the Equity Window (EW) of the SME Finance Facility is not implemented by CEB/KfW, no funding request was formulated for that Window.

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 exercise and of the experience acquired until now.

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 candidate 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.

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.

In response to these needs -and in the light of the Agenda 2000 and the Phare New Orientations documents- the Commission launched the “Phase 1” of the SME Finance Facility with the EBRD, approved by the Phare Management Committee on 19 November 1998. As the Facility proved to be successful, the Commission decided to launch the “Phase 2” and invited other IFIs to participate in the programme. CEB in co-operation with KfW joined the Facility by signing a Contribution Arrangement on 11th December 2000.

In addition, following the recommendations formulated in the framework of the report on the assessment of Phase 1 issued in January 2001, the Commission invited the CEB/KfW to sound out the potential market needs for leasing operations in the candidate countries.

CEB/KfW found a positive reception by the local financial intermediaries 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 SMEs.

On this background, the Commission has decided to promote within this Proposal the development of leasing mechanisms through grant support to eligible leasing companies in the framework of the Facility. To be noted that the 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 framework of 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.

Within the Facility, 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) and OLBs/ILCs where applicable**

1. performance incentives on loans or credit lines provided by IFIs to banks which provide funding to SMEs either directly or through On-Lending Banks or Intermediary Leasing Companies;

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 micro enterprises 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 micro-enterprises and SME customers.

**Towards Participating Banks and OLBs/ILCs where applicable 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 (the so called “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 invitation to participate in the Facility “Phase 2” was extended 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 EIB was also invited to participate in the Facility.

To date within Phase 2 agreements with EBRD and with CEB jointly with KfW are operational. Technical discussions are also currently being held with the European Investment Bank concerning its possible involvement in the SME Finance Facility.

As for the development of CEB/KfW participation in the SME Finance Facility, the table hereafter shows that the resources dedicated by Phare and by CEB/KfW to this programme will

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4 The Memorandum of Understanding was signed with these IFIs on 30th March 2000.
be a total of 314 MEUR including the present Financing Proposal, of which 51 MEUR from Phare.

### Resources under Phase 2 with CEB/KfW (MEUR)

<table>
<thead>
<tr>
<th></th>
<th>Resources from CEB/KfW</th>
<th>Resources from Phare</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>LGLW</td>
<td>EW</td>
</tr>
<tr>
<td>Financing Proposal of 18/7/2000</td>
<td>113</td>
<td>0</td>
</tr>
<tr>
<td>New Financing Proposal</td>
<td>150</td>
<td>0</td>
</tr>
<tr>
<td>Total</td>
<td>263</td>
<td>0</td>
</tr>
</tbody>
</table>

These resources must be committed and used within the SME Finance Facility under a co-ordinated approach. This implies that under the current 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.

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.
**SME Finance Facility**

**Phase 2**

**Steering Committee**
Commission to co-ordinate the Facility

(COMMISSION + EBRD + CEB/KfW + other future partners)

**Co-Financing Members**

- European Commission
- EBRD
- CEB/KfW
- Future new partners
- LGLW
- EW

Future

Future

Future
3.4 The progress achieved so far with CEB/KfW

One of the objectives set by the Commission is to ensure balanced country coverage of the SME Finance Facility. By July 2001, the following Projects presented by CEB/KfW have been approved and 3 of them have already been signed under the Loan and Guarantee Window:

### SIGNED LOANS (MEUR)

<table>
<thead>
<tr>
<th>Participating Bank</th>
<th>Country</th>
<th>CEB/KfW Loan</th>
<th>Performance Fee</th>
<th>Other incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latvian Mortgage and Land Bank</td>
<td>Latvia</td>
<td>13</td>
<td>1.30</td>
<td>1.10</td>
</tr>
<tr>
<td>Slovenska Zarucna a Rozvojova Banka</td>
<td>Slovakia</td>
<td>7</td>
<td>0.28</td>
<td>1.10</td>
</tr>
<tr>
<td>Bank Ochrony Srodowiska</td>
<td>Poland</td>
<td>10</td>
<td>1.35</td>
<td>0.10</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>30</strong></td>
<td><strong>2.93</strong></td>
<td><strong>2.3</strong></td>
</tr>
</tbody>
</table>

### PROJECTS APPROVED BY THE CO-FINANCING MEMBERS BUT LOANS NOT YET SIGNED (MEUR)

<table>
<thead>
<tr>
<th>Participating Bank</th>
<th>Country</th>
<th>CEB/KfW Loan</th>
<th>Performance Fee</th>
<th>Other incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Czech Moravian Guarantee and Development Bank</td>
<td>Czech Republic</td>
<td>15</td>
<td>1.14</td>
<td>1.76</td>
</tr>
<tr>
<td>Sampo Bankas</td>
<td>Lithuania</td>
<td>5</td>
<td>0.65</td>
<td>0.35</td>
</tr>
<tr>
<td>Bank Handlowy Warszawie SA (BHW)</td>
<td>Poland</td>
<td>25</td>
<td>3.20</td>
<td>0.30</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td></td>
<td><strong>45</strong></td>
<td><strong>4.99</strong></td>
<td><strong>2.41</strong></td>
</tr>
</tbody>
</table>

As at August 2001, one other Project in Slovenia is being reviewed.

It can be noticed from the above table that one major improvement already obtained from the Facility is the actual leverage applied to the Phare resources, which is currently around 5/1 in favour of Phare.

It is expected that about 12 CEB/KfW Projects may be approved with the presently available resources by the end of 2001. Taking the involvement of EBRD into account, it may be expected under this programme to approve a total of between 38 to 40 Projects with the presently available total resources by the end of 2001 under the LGLW.
4. OBJECTIVE OF THIS FINANCING PROPOSAL

The primary objective of the SME Finance Facility with CEB/KfW 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 needs of SMEs in the candidate 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 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 CEB/KfW; (ii) to ensure greatest efficiency of the management of these complex financial schemes by delegating implementation to CEB/KfW, whose expertise is extensive in these areas.

The means to achieve these objectives is to mobilise further financing from CEB/KfW through the existing SME Facility’s Special Fund so as to provide additional tailored credit lines to support banks and leasing companies in the candidate countries. Each Project approved by the Commission and signed between CEB/KfW and the participating banks and/or the leasing companies correspond to the provision of sub-loans or financial leases to their SME clients.

5. DESCRIPTION OF SME FACILITY PHASE 2 with CEB/KfW

5.1 The Partners

The Council of Europe Development Bank

The Council of Europe Development Bank (CEB) is a multilateral development bank with a social vocation. As from 1 November 1999 the CEB replaces the Council of Europe Social Development Fund created in 1956.

CEB operates under the authority of the Council of Europe, although it has full legal independent status and it is financially autonomous. CEB is indeed a major instrument in the policy of solidarity developed by the Council of Europe. CEB has adopted a development strategy directed towards three major orientations:

1. extending activity to CEEC;
2. re-focusing activity on Council of Europe’s mission (aid to refugees and migrants, aid to regions hit by natural or ecological disasters);
3. striving for a better geographical and financial distribution of the loans portfolio.

CEB’s action mainly concerns the financing of projects for job creation and maintenance in small and medium sized enterprises (23% of disbursements) and for infrastructures linked to the protection of the environment (16%) and education (14%). In 2000, CEB approved 37 projects representing a total of around €1,887,660,831. The loans disbursed amounted to €817,274,145. Finally, in January 2001 a total of €176,700,000 was approved.
CEB projects involve, among other things, support to small and medium sized enterprises, education and vocational training, protection of the environment, rural modernisation. Within the framework of its projects, CEB strives to promote and develop job creation. As for the candidate countries, CEB sees the Commission’s Facility as an important tool for providing support to the small enterprises in the region.

**Co-operation with Kreditanstalt für Wiederaufbau (KfW)**

In order to maximise the success of the operations, CEB will cooperate with the Kreditanstalt für Wiederaufbau (KfW).

KfW is the Germany’s promotional bank for the domestic economy and the official development bank for countries in transition and developing countries. The German federation and the federal states (Länder) own the bank.

KfW was founded by law in 1948 as a corporation under public law domiciled in Frankfurt am Main / Germany. Its functions are those of a promotional bank for the domestic and increasingly for the European economy and a development bank for the developing countries. KfW is preparing and financing projects with an approach similar to the one of the IFIs (international know-how in the entire project cycle, non-profit-orientation). KfW has been active in the EU candidate countries for many years and its activities comprise a wide range of promotional measures.

KfW has developed and is still developing promotional credit programmes either with promotional banks (partly previously advised by KfW on a broader basis) or with commercial banks doing business with the target group (especially local SMEs) in the EU countries of Central and Eastern Europe. KfW’s assistance is not limited to giving advice, but includes also refinancing of the co-developed credit programmes at attractive conditions. Under the Financial Co-operation between the Federal Republic of Germany and the candidate countries, KfW is currently implementing projects in the financial and trade sectors in Bulgaria and Romania. Furthermore KfW is active as a Twinning partner in an environmental project in Hungary. Finally KfW also runs co-ordination offices in Warsaw, Budapest, Lubljana, Bratislava, Riga and Vilnius.

The Commission also invites the CEB to take into consideration other national financial institutions as possible partners for future similar collaborations under the Facility.

**5.2 Co-ordination**

CEB/KfW 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 or any additional sponsor that may be involved in the future;

(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.

5.3 The rationale for the development of the current Phase 2 with CEB/KfW

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 coverage offered by the Facility by involving the leasing companies as potential beneficiaries.

Through this Financing proposal, the Commission will grant the necessary support to the Loan and Guarantee Projects and to Leasing Projects by providing an additional amount of 30 MEUR to CEB/KfW under the LGLW. The sponsors are expected to contribute additional 150 MEUR. The management and co-ordination of the programme have also been carefully considered. In particular, the main role of the Commission within the Steering Committee is to guarantee the necessary co-ordination between the partners while ensuring the confidentiality of the operations of each partner with the CEEC financial intermediaries.

5.4 The Contribution Arrangement and its amendment

To maximise the efficiency of the programme’s implementation, CEB will continue administering the Fund with the Phare contribution and KfW will continue managing and supervising the Projects co-financed under this programme.

Under the LGLW, CEB/KfW provide funding from their resources (i) to the PBs which channel funding to SMEs, either directly or through on-lending banks or through Intermediary Leasing Companies or (ii) to PLCs who provide financial leases to SMEs.

To be noted that the resources remaining available under the previous financing proposal approved on July 2000 may be used under the LGLW as described in the present Financing Proposal.

5.5 The Operations to be financed

CEB/KfW will provide the loan funds or credit lines to the Participating Banks or Participating Leasing Companies at market rates. On the other hand, the Phare contribution is intended to stimulate the local Participating Banks or Leasing Companies to develop and sustain their lending and leasing operations with SMEs. In addition, in the case of leasing operations, CEB/KfW envisage to operate mainly according to a scheme whereby provided lending is to the PBs (essentially commercial banks), which will in turn refinance the Leasing Companies.
The SME Facility Phase 2 with CEB in co-operation with KfW

**Funds**
From Phare and CEB-KfW

**Project Proposals**
Tailored packages directed at Participating Banks or Participating Leasing Companies

**Project Approval by the Co-Financing Members**
Commission, CEB and KfW approve project proposals

**Project Agreements**
- KfW contracts signed with relevant Participating Banks/Participating Leasing Companies
  - Contain tailored components from the Loan Guarantee and Leasing Window of the Facility

**Participating Bank**
Implements the agreement signed with KfW by providing individual loans to individual SMEs or implements the agreement through On-Lending Banks or Intermediary Leasing Companies.

**On-Lending Bank**
Provides loans to individual SMEs

**Intermediary Leasing Company**
Provides financial leases to individual SMEs

**Participating Leasing Company**
Implements the agreement signed with KfW by providing individual financial leases to individual SMEs

SME
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5.6 Project description

LGLW Projects financed under the Facility will involve provision of Phare funds and CEB/KfW resources through specific agreements with Participating Banks (PBs) or Participating Leasing Companies (PLCs). 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 CEB/KfW loan or credit line and a contribution from Phare, which may be used for one or more of the following components in varying proportions depending on the Project’s specific needs.

5.6.1 Categories of Incentives Financed from Phare resources

Towards Participating Banks (PBs) and OLBs/ILCs where applicable

(1) Performance fee (PF)

In the form of a grant partly compensating for the interest to be paid by the PBs to CEB/KfW. 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. Where applicable Performance fee will be paid on loans and credit lines provided by PBs to On-lending Banks (OLBs) or to Intermediary Leasing Companies (ILCs);

(2) Technical Co-operation (TC)

Phare resources may be provided to PBs and OLBs/ILCs for institution building purposes. The aim of Technical Co-operation is among other things to:

- install management information systems specifically geared towards SME portfolios;
- recruit and train PBs’, and/or OLBs’ and ILCs’ staff in SME customer support and small loan or financial lease appraisal, supervision and administration skills;
- assist in the introduction and implementation of organisational and managerial procedures and practices involved with SME lending or leasing;
- 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 and OLBs. This guarantee is limited to a maximum of 40% of the loss per Sub-Project.

Towards Participating Leasing Companies (PLCs)

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

(5) Technical Co-operation

Phare resources may be provided to PLCs for institution building purposes. The aim of Technical Co-operation 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 Participating Banks and OLBs/ILCs and Participating Leasing Companies

(6) Other incentives

Subject to specific approval of the Co-financing Members -representing the Commission and CEB/KfW- other appropriate incentives may be granted.

5.6.2 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 CEB/KfW- 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 (TC)

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

The most appropriate combination of Phare and CEB/KfW resources (type of support and amounts) will be determined case by case. The following examples illustrate how the resources may be used in various specific cases.

As an example an arrangement offered to a Participating Bank on a Project for On-lending to SMEs may consist in:

1. A loan or credit line for on-lending to the SMEs. The combination of CEB/KfW 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. Where the OLBS are actually on-lending to SMEs, part of the PF will benefit to the OLB.
2. Where justified, a partial first-loss guarantee for a fixed percentage of losses on the SME loan portfolio managed by the PB and the OL.

3. Technical assistance to perform institution building in the PB (e.g. adjust organisational 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.

Similarly, an arrangement offered to a PB for refinancing an ILC, which ultimately will establish a financial lease contract to SMEs, may consist in the combination of a KfW refinancing with Phare incentives to be shared between the PB and the leasing company.

The examples are purely illustrative: 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.

5.7 Procedure of Project approval and management

CEB and KfW shall prepare the Project proposals for support under the SME Finance Facility with the relevant Participating Bank and where appropriate the relevant Participating Leasing Company in the candidate countries.

The Co-financing Members (the Commission, CEB and KfW) 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 unanimous agreement from the Co-financing Members is required.

In accordance with the existing practice, KfW will continue managing the Projects and engaging the PBs and where appropriate the PLCs in the candidate countries to provide finance to or to establish financial lease agreements with SMEs, either directly or via OL or ILCs as the case may be.

5.8 The Administrative Structure

The Fund

The Commission and CEB/KfW have agreed to allocate the additional Phare contribution in the already existing Special Fund created in the framework of the SME Finance Facility and managed by the CEB.

The Steering Committee and co-ordination issues

The Commission through the Steering Committee will supervise the correct implementation of the Facility. The Steering Committee comprises three representatives of the Commission and one representative of each, respectively, IFIs and FIs having signed similar Contribution Arrangements with the Commission.

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

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 Co-financing Members and approval of Projects*

Project proposals will be submitted to and agreed only by the Co-financing Members, 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 two representatives of CEB/KfW). 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 has a budget of 30 MEUR to be used out of the Community budget. Included in this figure is the management fee of up to 1.25% of the actual net amount paid out by CEB/KfW under this Financing Proposal (corresponding to a maximum amount of 0.375 MEUR). The Commission shall pay a management fee equal to 1.25 percent of each tranche of the Contribution released to the Fund towards covering the cost of implementing all tasks under the Arrangement. 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 CEB and KfW costs resulting from this Arrangement.

**Figure 6a: Phare Contribution**

<table>
<thead>
<tr>
<th>Sector</th>
<th>Allocation</th>
<th>Investment*</th>
<th>IB*</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>
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<tr>
<td>TOTAL</td>
<td>100%</td>
<td>100%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

* Investment Support, Technical Assistance and Institution Building 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>CEB/KFW</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 or PLCs will be encouraged but will vary depending on the circumstances of the Project.

7. IMPLEMENTATION ARRANGEMENTS

Implementation will continue to be delegated to CEB in co-operation with KfW 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 made 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 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 CEB. To this end, the Community Contribution shall be paid into the existing interest bearing account termed the “SME Facility Special Fund” in CEB. The modalities are set down in the Contribution Arrangement agreed between the Commission and the CEB/KFW.

(4) After an initial advance, the Commission approves 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 Finance Facility according to the same rules and procedures.

(5) At a minimum, CEB and KfW 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 CEB/KfW and Phare resources in the proportion of 5 to 1 for the SME Finance Facility Phase 2 (263 MEUR/51 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 CEB and/or KfW in accordance with the rules set down in the Contribution Arrangement.

(7) The Facility 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.
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 Partners and Fund Resources and will ensure that relevant provisions will be incorporated in the agreements between the Participating Banks/Participating Leasing Companies and the SMEs.

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. CEB and KfW are 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

Selection of Participating Banks will concentrate on their credit worthiness and branch networks and will take into account their possible previous involvement in institution building programmes. The criteria will include, among other things, geographic location, market competition between banks, 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 privatisation and the existence of credible financial and commercial autonomy.

Participating Leasing Companies

Selection of Participating Leasing Companies will concentrate on their financial soundness and their regional presence and take into account their possible previous involvement in previous institution building programmes. The criteria will include, among other things, geographic location, market competition between leasing companies, business potential, branch management competence, commitment to SME operations, openness to new technology and willingness to devote personnel.

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 other activities excluded by CEB/KfW’s.
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 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 KfW and CEB, Project proposals will be presented to the Co-financing Members representing the Commission, CEB and KfW. 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 has access to all relevant information in connection with the Project proposals.

The Co-financing Members 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, exceptions to these general guidelines and limits may be proposed to the Co-financing Members. The particular exceptions shall be highlighted and justifications shall be provided, 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 is undertaken by CEB 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 CEB/KFW and respectively the Participating Bank 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. The documents thereof 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 signed by PBs or PLCs respectively with OLBs, ILCs and SMEs as appropriate. In addition Project agreements have to encompass specific, objectively verifiable criteria by which Sub-Project compliance with agreed rules are controlled.

In the case of default on project agreements, KfW will undertake recovery proceedings in respect of Fund Resources on the best effort basis. The incremental cost incurred by KfW will be borne by the European Communities on the basis of the Commission’s prior approval of such costs.

8. MONITORING, ASSESSMENT AND EVALUATION

The Partners will continue being responsible for monitoring the implementation of actions 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 loan/lease 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/OLBs/ILCs 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 KfW and CEB 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 check-ups 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 administer the information in this field shall apply.

The Project agreements to be concluded by the CEB/KfW 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 CEB/KfW, 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 announcements by KfW and the Commission in the country concerned. KfW will also inform each PB or PLC of the European Community's Contribution to the SME Facility Phase 2 (CEB/KfW) and ensure that OLBs, ILCs and the SME beneficiary of each Sub-Project will be made aware of the European Community's Contribution.

Finally, CEB and KfW will report on the activities under the Facility Phase 2, informing on the co-operation with the Commission, in their usual respective Annual Reports.

11. SPECIAL CONDITIONS

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. The Phase 2 of the Facility with the CEB/KFW shall terminate on 31st December 2011.

The funding of the SME Facility Special Fund may be terminated if CEB or KfW or the Commission fails to perform any of their material obligations under the Facility. The Contribution Arrangement will specify the provisions, which shall apply with respect to the resources related to the Contribution upon termination.

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.
12. RISKS AND ASSUMPTIONS

At the operational level, the principal risk is that the Banks and Leasing Companies supported by the SME Facility will not continue their SME operations once the Facility support has ended. This risk is considered very low, since experience with similar programmes elsewhere clearly 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 that the Facility has introduced, the risks of poor impact would seem reduced.
Annexes

1. Definitions
2. Project proposal format
3. Log-frame Matrix
4. Cumulative contracting and disbursement schedule
5. Visibility/ Publicity
6. Article 118 summary for the Official Journal
ANNEX 1

DEFINITIONS

Capitalised terms have the meanings attributed to them in this article:

(1) **Contribution** – the contribution to the Fund of 51 MEUR 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 CEB and 1 representative of KfW.

(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 are 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 CEB working in association with KfW. Other IFIs may be involved in the future.

(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**: they 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) **Intermediary Leasing Company (ILC)**: a Leasing Company establishing Sub-Projects under an agreement with a Participating Bank. The ILC may be a subsidiary of the PB.

(11) **On-Lending Bank (OLB)**: a commercial bank establishing Sub-Projects under an agreement with a Participating Bank. A PB lending through OLBS is in principle a Promotional Bank, i.e. a financial institution with economic policy objectives in one of the Eligible Countries.

(12) **Participating Bank (PB)** – the Bank establishing a Project with CEB and/or KfW that shall lend directly to the SMEs or through OLBs, or the bank that shall lend to an ILC that will establish Financial Lease agreements with SMEs. The PBs are banks operating in the Eligible Countries, including locally registered entities and also subsidiaries or branches of EC banks.

(13) **Participating Leasing Company (PLC)** – the Leasing Company establishing a Project with CEB and/or KfW, 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.

(14) **Project** - a financial package with a PB or a PLC, which would include Fund and CEB/KfW 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, contribution to down-payment and other approved incentives for arrangements with PLCs.

(15) **Sub-Project** – sub-loan or Financial Lease to an individual SME.
ANNEX 2

PROJECT PROPOSAL FORMAT

KfW will submit 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. Where applicable, statement of KfW referring to the due diligence by PBs on OLBs or ILCs.

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 statement on commitment to long term lending or financial leasing to SMEs
   3.3 Additionality
   3.4 Modalities of Project 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

<table>
<thead>
<tr>
<th>Objectives</th>
<th>Indicators of Achievement</th>
<th>Sources of Information</th>
<th>Assumptions and Risks</th>
</tr>
</thead>
<tbody>
<tr>
<td>To induce financial intermediaries in the ten eligible countries to expand and to maintain in the long term financing operation to SMEs</td>
<td>Participating financial intermediaries’ approach to SME operations after Facility’s closure.</td>
<td>participating financial intermediaries</td>
<td>financial intermediaries will not be able to sustain lending/leasing in the long term</td>
</tr>
<tr>
<td></td>
<td></td>
<td>participating SMEs</td>
<td></td>
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<td></td>
<td></td>
<td>Annual reports</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>economic policies conducive to SME development are not implemented, thereby undermining Facility and participating FI efforts</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>financial intermediaries will not be able to sustain lending/leasing in the long term</td>
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<tr>
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<td>economic policies conducive to SME development are not implemented, thereby undermining Facility and participating FI efforts</td>
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<td></td>
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<td></td>
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</tr>
<tr>
<td>Outputs</td>
<td>Indicators of Achievement</td>
<td>Sources of Information</td>
<td>Assumptions and Risks</td>
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<tr>
<td></td>
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</tr>
<tr>
<td>Greater access to finance among participating SME’s in the region.</td>
<td>Increased SME lending related to the Facility operations in each PB/PLC compared with appropriate indicators.</td>
<td>participating financial intermediaries</td>
<td>financial intermediaries will not be able to sustain lending/leasing in the long term</td>
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<td></td>
<td></td>
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<td>assessment reports</td>
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<td>SME sector studies</td>
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<td>Central banks data on SME lending/leasing</td>
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<td></td>
<td></td>
<td>WB, EBRD, CEB, KfW or equivalent study in the beneficiary countries</td>
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<tr>
<td>Expanded capacities of Participating Banks (PBs), Participating Leasing Companies (PLCs), On-Lending Banks (OLBs) and Intermediary Leasing Companies (ILCs) to serve the needs of SMEs.</td>
<td>Approach of PB/PLC to SME operations in terms of: lending/leasing policy in place; SME tailored system of appraisal; trained staff.</td>
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<td>financial intermediaries will not be able to sustain lending/leasing in the long term</td>
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<td>WB, EBRD, CEB, KfW or equivalent study in the beneficiary countries</td>
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<td>Example to other potential financial intermediaries that operating with SME’s is possible.</td>
<td>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.</td>
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<td>WB, EBRD, CEB, KfW or equivalent study in the beneficiary countries</td>
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### Project 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/OLBs/ILCs including as appropriate loan funds, performance fees, guarantees, technical assistance, incentives for leases and other approved incentives.
2. Each Project will ultimately finance individual Sub-Projects which are defined as loans or financial leases with individual SMEs.

| Inputs | | | |
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| Projects | | | |
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ANNEX 4

Cumulative contracting and disbursement schedule

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</tbody>
</table>

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

Visibility / Publicity
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.

summary for the Official Journal
SME Finance Facility (Phase 2) with the Council of Europe Development Bank (CEB) in co-operation with Kreditanstalt für Wiederaufbau (KfW)

The Commission has agreed on further financing to the multicountry programme SME Finance Facility (Phase 2) with the Council of Europe Development Bank (CEB) in co-operation with Kreditanstalt für Wiederaufbau (KfW).

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 CEB/KfW 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 SME Finance Facility extending the co-operation to CEB/KfW under a new Phase 2 in 2000. Now with additional 30MEUR of financing the Commission intends to further develop its co-operation with CEB/KfW under this programme.

Further information about the SME Finance Facility 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