

Small Business Initiative

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# Support for the expansion of the Risk Sharing Framework (RSF) and other risk-sharing products for SMEs

Small Business Impact Fund

1 January – 31 December 2018



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## 1 Description

<b>Title of the Programme</b>	Support for the expansion of the Risk Sharing Framework (RSF) and other risk-sharing products for SMEs
<b>Programme value</b>	EUR 1 million
<b>Funded by</b>	Small Business Impact Fund (SBIF)
<b>Start date and end date of the reporting period</b>	January 2018 – December 2018
<b>Target countries</b>	All EBRD Countries of Operations
<b>Final beneficiaries / target group</b>	Local financial institutions participating in RSF, and eligible companies

## 2 Executive Summary

This Programme launched in 2017 is supporting the expansion and the scaling up of the EBRD’s activities under the Risk Sharing Framework (“RSF” or the “Framework”), and the development of new risk-sharing products to support SME growth in all EBRD’s countries of operations. The Framework is one of the key instruments deployed by the EBRD to lend to SMEs. Under RSF the EBRD finances local small and medium-sized enterprises together with local financial institutions, by sharing the risk under either a funded participation (i.e. providing the share of the loan amount to an end-borrower) or unfunded participation (i.e. by guaranteeing a share of the end-borrower’s risk). Although potentially available in all countries of operation, RSF can only be implemented when a co-financing agreement is in place between the EBRD and a local financial institution (“Participating Financial Institution” or “PFI”).

RSF performed well during 2018 with 24 transactions signed for the total amount of EUR 54.7 million, with almost 37% of the financings going to SMEs. The increase in the number of transactions (9% increase in deal count and 45% in volume compared to 2017) was mostly related to efforts made by the bankers of SME Finance and Development Group but also to a great support from the dedicated RSF consultants hired with the SBIF funding.

The funding under the Programme is being utilised to support PFIs and SME end-borrowers under RSF and is intended to serve two main purposes:

- 1. Skills transfer and capacity building to PFIs.** The EBRD assists PFIs in establishing a more prudent approach in their portfolio risk diversification; in managing larger and longer-term facilities; in strengthening their skills in risk assessment and financial modelling and in structuring project finance and working capital facilities.
- 2. Setting standards for corporate governance and business conduct.** In line with the EBRD’s policies and practices (requiring transparency of ownership, adequate management, sound

reputation and integrity, application of better financial reporting standards (including IFRS when possible), PFIs are to apply higher requirements to companies' corporate governance and business standards. The SBIF funding therefore contributes to promotion of sound business standards and corporate practices, which sends a signal to the local private sector that observing these standards will facilitate access to finance.

During 2018 the EBRD has been using the Programme's funds mostly for RSF knowledge expansion and training. The SBIF funding has also allowed for an independent review on a first PFI in Uzbekistan to participate in the EBRD's RSF, Hamkorbank (an RSF co-financing agreement with Hamkorbank was signed in October 2018). The funding also helped obtain legal advice from a local consultant to assess the local law implications of the standard RSF documentation in Jordan. As a result of all activities EUR 153,003 was used out of the Programme's budget during 2018.

### **3 Activities and results during the reporting period**

#### **3.1 Economic and business environment**

The economic and business environment in most EBRD's countries of operations remains challenging: many of the countries where RSF is introduced still face market instabilities and high currency fluctuations. SME lending by PFIs still remains rather limited there, and the SME sector suffers due to this lack of financing opportunities. This context reinforces the relevance of this Programme, which is intended to enhance the capacity of PFIs to provide SME lending, while at the same time increasing the bankability of local SMEs receiving financing, thus supporting access to finance.

Limited access to finance remains one of the key challenges in most countries where the EBRD operates, affecting the growth opportunities of small local businesses. The collateral requirements for loans as percentage to the loan value have been steadily increasing, discouraging businesses from applying for financing, and resulting in the overall decline in demand for credit. This is particularly true for SMEs, who face tough hurdles in accessing the financial resources required for business expansion and growth. At the same time, local banks are reluctant to lend to new SME clients, as they struggle to properly assess the risks associated: these firms are usually less likely to have audited financial statements, are unable to post collateral, do not necessarily have professional management, have limited financial transparency, lack capitalization, etc. The financial crisis has increased risk aversion on the part of financial institutions and disproportionately affected bank lending to SMEs.

The team continues to encourage PFIs in different countries to improve SME lending through RSF. Banks in many of the EBRD countries of operations often need to manage the risk on relatively large exposures (e.g. such a need has been recently expressed by banks in Romania, Hungary and Croatia). This presents the EBRD with an opportunity to encourage such banks to increase their SME lending. In order to achieve this, EBRD would enter into RSF framework arrangements with these banks on the condition that, in exchange for the EBRD's participation in non-SME exposures, they commit to expand their SME lending. This would be documented in the respective partner bank framework agreements and will be monitored regularly.

### 3.2 Small business investment

During 2018 the EBRD increased the RSF volume and deal count by signing 24 transactions for the total amount of EUR 54.7 million (compared to 22 transactions with EUR 44.2 million in 2017 respectively) with nine partner banks in Albania, Belarus, Georgia, Kyrgyz Republic, Moldova, Mongolia, Tajikistan and Turkey. The list of signed sub-loans is attached in Annex 2.

The EBRD is expanding its RSF operations, with the first RSF PFI relationship established in Uzbekistan (Hamkorbank) and Morocco (BMCE). Stimulation of RSF activities in its countries of operation allows the EBRD to help further increase access to financing for SMEs, including in local currency.

The key activities and achievements of the Programme in 2018 are the following:

- The EBRD held two sets of trainings in Istanbul by certified trainers in financial modelling and RSF project appraisal for 14 PFIs from the Morocco, Jordan, Bulgaria, Kyrgyz Republic, Tajikistan, Uzbekistan and Mongolia. The Programme funding covered the cost of the trainings for 40 participants. The primary objective of the training was to teach complex financial models to verify each project's financial viability and credit appraisal. These skills help PFI bankers to structure and execute successful projects under RSF.
- The EBRD organised two workshops, one in Tbilisi in March and the other in Amman in October 2018, to promote the knowledge on the product and its specifics among existing and potential PFIs. The main objectives of the workshops were: (i) to explain the dynamics of the RSF product structure and key terms and conditions; (ii) to introduce PFI specialists to main financial and non-financial criteria set by the EBRD for RSF transactions; (iii) to inform the participants of the existing advisory options and introduce the donors who support RSF, and (iv) to provide examples of successful past deals. The workshops were attended by more than 70 participants.
- After an RSF consultant hired in 2017 trained credit officers of the First Microfinance Bank in Tajikistan, the EBRD signed an RSF loan together with the First Microfinance Bank to help a local producer of plastic pipes for water supply and sewage system buy equipment. Another RSF sub-loan was signed in Tajikistan with Eshkhat Bank (Eshkhat Bank has been participating in RSF for a while and its staff benefitted from specialised RSF trainings) to support a regional producer of dried fruit.
- In the Kyrgyz Republic, an RSF consultant coached and supported PFIs in preparing seven sub-loans (two transactions approved by the EBRD end-2017 and five - in 2018), which were signed in 2018.
- In Mongolia, with the strong assistance from an RSF Consultant three RSF sub-projects were approved by the EBRD in 2018; one of them - signed. Moreover, the consultant has greatly supported amending the existing RSF agreements with both existing PFIs to include financing in local currency.
- The EBRD used the SBIF funds to assist Bank Al Etihad in Jordan to hire a local legal counsel to assess that the RSF product could be adapted to the local legal framework. As a result an RSF framework agreement with the Jordanian bank is expected to be signed in H1 2019.

- In Georgia, the EBRD signed RSF transactions with the local TBC Bank for the total of EUR 44.7 million. The loans are to support expansion plans of five local SMEs.
- The EBRD has hired an external RSF expert to conduct an external review of Hamkorbank (at the time just a prospective RSF PFI) in Uzbekistan. The consult was to review Hamkorbank’s in-house credit appraisal, loan structuring capabilities and to provide an opinion on further cooperation with the bank under RSF. As a result of this assignment the EBRD has approved and signed two framework agreements (for both funded and unfunded participation) with Hamkorbank for the total amount of USD 15 million.

Assignments under the Programme in 2018	Dates
Tbilisi: Support for expansion of RSF	March 2018
Amman: Unfunded RSF Bank Al Etihad - Legal	October 2018
Tashkent: RSF Expert to Hamkor Bank as RSF PB	April 2018
Istanbul: Financial Modelling Training	May 2018
Istanbul: RSF Academy Training	April 2018
Amman: RSF Workshop	October 2018

Below please find an example of a small company in Kyrgyz Republic that could get access to finance thanks to the Programme:

### Case study: The EBRD works with URFA to enhance access to medical care



URFA LLC is the leading player in the private medical services market of Kyrgyzstan. The company provides a wide range of medical services, varying from diagnostics to rehabilitation of patients. Additionally, it provides dialysis treatment to patients with kidney failure and supplies consumables and medical equipment to medical centres in Kyrgyzstan. The company currently operates in Bishkek, Osh and

Jalal-Abad. The project was fully supported by the services of the RSF consultant based in Bishkek, who provided assistance in preparation of an approval memorandum including market and technical assessments and the financial model, which led to signing of the deal.

#### EBRD exposure:

URFA received an investment loan from DKIB with a guarantee for an up to 50% of the USD 5 million loan amount from the EBRD under an unfunded RSF. The loan proceeds were used to expand and upgrade medical equipment. The company also was supported with financing to expand its operations by launching another diagnostic center in Bishkek and building a storage warehouse for dialysis and other consumables.

### 3.3 Small business advice

The EBRD will continue to combine provision of on-the-job training to PFI specialists with business advice to SMEs when required, whether it relates to financial transparency, social and environmental aspects, technical and technological know-how, market knowledge expansion and

other operational risks to mitigate pre and post financing. Thanks the availability in 2018 of other sources of financing to support end-borrowers (e.g. the EBRD Shareholder Special Fund and the EU), the EBRD concentrated on helping and educating PFIs.

#### **4 Lessons learned**

The use of RSF consultants, whose services become available thanks to the funding from the Programme, delivers visible results: on-the-job training, knowledge and timely responses on PFIs' queries help to maintain the best working relationship and win respect among the participants of the Framework.

#### **5 Communications and donor visibility**

The EBRD ensures that the donors' contribution be acknowledged publicly whenever appropriate, including in official publications, through media coverage, official notices and press releases, reports and publications referring to RSF.

The story behind the loan to the Kyrgyz medical care provider, URFA, was published on the EBRD website: <https://www.ebrd.com/news/2018/improving-healthcare-in-the-kyrgyz-republic.html>. The EBRD also produced a video <https://www.youtube.com/watch?v=ZlyK-sgaYUI> that was viewed a hundred times.

The SBIF contribution to the progress of RSF in Uzbekistan was not only recognised in the EBRD Blueprint but in publications in local press (both in English and Russian):

<http://uzdaily.com/articles-id-46090.htm>

<https://strategieast.org/ebd-uzbek-hamkorbank-sign-a-15-million-risk-sharing-agreement/>

<https://www.gazeta.uz/ru/2018/10/10/hamkorbank/>

<https://www.trend.az/business/economy/2963318.html>

The Programme is listed on the website that the SME Finance & Development Group launched in 2017 to cover the EBRD activities in the SME sector and particularly SBIF: <https://smallbusiness-ebrd.com/our-fund/>

#### **6 Conclusion and next steps**

The EBRD will continue expanding its efforts to finance more projects under RSF to achieve operational efficiency and meet the demand from local banks for capital relief and single obligor exposure management. More resources, including on the advisory side, will be allocated to developing the pipeline and processing transactions. Efforts to attract more suitable PFIs with a focus on SME lending and sufficiently high underwriting standards are underway.

Hiring dedicated RSF consultants and providing on-the-job training for PFIs' specialists in the field has resulted in an increase of the number of transactions signed with PFIs and in disseminating financing knowledge on RSF across the countries of operations. The EBRD will be continuing to support PFIs by hiring additional consultants to help local financial institutions in credit appraisal, financial modelling, preparation of project documentation and in monitoring the existing portfolio of projects. The EBRD's outreach to PFIs requires technical assistance to equip them with quantitative and qualitative skills via organising specially designed RSF academies or workshops in the countries/ regions where the RSF needs to be utilised better (Armenia, SEMED and Western Balkans). The EBRD will also plan to launch RSF programmes in the Central European countries, potentially Hungary, Romania and Croatia.

**Annex 1: Results framework – progress to date**

Specific objective	Outputs	Target (2022)	Result (31 Dec 2018)
Improved access to finance for SMEs through restarting lending to the economy by PFIs	Number of PBs' staff coached by consultants or through training	200	181
	Number of SMEs received TC support for assessments	30	6 <sup>1</sup>
	<b>Outcomes</b>		
	Number of SMEs financed by EBRD	50	28
	Volume of SME financing by EBRD	EUR 50,000,000	EUR 45,142,500

<sup>1</sup> No SMEs received TC under the Programme in 2018.

**Annex 2: List of signed RSF sub-loans in 2018**

Partner Bank	Op Id	Opeartion name	Sector	Country	Signed date	SME	ABI (EURm)
TBC Bank	50605	RSF - TBC Bank - Svaneti HPPs	Power and Energy	Georgia	21 Dec 2018	SME	6.0
	49682	RSF - TBC Bank Toyota Centre Tegeta	Manufacturing & Services	Georgia	05 Jul 2018	SBI	3.5
	50075	RSF - TBC Bank GBC	Agribusiness	Georgia	24 Aug 2018	SME	3.0
	50313	RSF - TBC Bank - Rooms Hotel Bakuriani	Property and Tourism	Georgia	19 Dec 2018	SME	2.4
	49729	RSF-TBC-McDonalds Georgia	Agribusiness	Georgia	08 Nov 2018	SBI	7.5
Bank Intesa	50742	RSF Intesa: GSA - Energy Trading	Power and Energy	Albania	31 Dec 2018	SBI	7.5
	50745	RSF Intesa: GSA - FeCr Production	Manufacturing & Services	Albania	26 Dec 2018	SBI	1.5
Xac Bank	50512	RSF - Xac Bank M-Oil	Natural Resources	Mongolia	07 Nov 2018	SBI	6.8
DKIB	49879	RSF - DKIB Unfunded URFA Diagnostic Centre	Manufacturing & Services	Kyrgyz Republic	12 Feb 2018	SME	3.6
	50522	RSF DKIB Unfunded URFA 2	Manufacturing & Services	Kyrgyz Republic	15 Nov 2018	SME	0.8
TSKB	50298	RSF-TSKB Sarbak Metal	Manufacturing & Services	Turkey	13 Aug 2018	SBI	3
	50795	RSF - TSKB - Besel Basim	Manufacturing & Services	Turkey	24 Dec 2018	N/a	1
Priorbank	49908	RSF - Priorbank Coswick 2	Manufacturing & Services	Belarus	23 Apr 2018	SBI	1.2
	49868	RSF - Priorbank Coswick	Manufacturing & Services	Belarus	09 Apr 2018	SBI	0.5
Mobiasbanca	49951	RSF - Mobiasbanca - Credit Rapid	Financial Institutions	Moldova	13 Apr 2018	SBI	1.1
	49951	RSF - Mobiasbanca - Credit Rapid	Financial Institutions	Moldova	04 Sep 2018	SBI	1.1
	49692	RSF Mobiasbanca - Farm Meat Modernization	Agribusiness	Moldova	27 Apr 2018	SME	0.6
KICB	49724	RSF - KICB Stolichniy Warehouse Bishkek	Agribusiness	Kyrgyz Republic	18 Sep 2018	SME	0.9
	50402	RSF KICB Alkan Business Centre	Property and Tourism	Kyrgyz Republic	07 Sep 2018	SME	0.9
	50768	RSF Unfunded KICB Kaindy Kant USD Working Capital	Agribusiness	Kyrgyz Republic	21 Dec 2018	SME	0.5
	50300	RSF Unfunded KICB Kaindy Kant LCY Working Capital	Agribusiness	Kyrgyz Republic	21 Dec 2018	SME	0.5
	49706	RSF - KICB Garden Inn	Property and Tourism	Kyrgyz Republic	09 Feb 2018	SME	0.5
FMFB	50265	RSF - FMFB TojPlast	Manufacturing & Services	Tajikistan	21 Dec 2018	SME	0.2
Eskhata	50409	RSF - Bank Eskhata Oro Isfara	Agribusiness	Tajikistan	17 Aug 2018	SME	0.1
<b>Total</b>							<b>54.7</b>