

# Small business

## EBRD sector factsheet



**European Bank**  
for Reconstruction and Development

Since the Bank was established, more than €8.4 billion has been provided through its small business lending programmes to support micro, small and medium-sized enterprises.

Roughly speaking a micro enterprise has financing needs of US\$ 10,000 or less and a small business has financing needs of US\$ 100,000 or less. A medium-sized firm has 250 or fewer employees.

The EBRD's lending programmes provide individual entrepreneurs and firms with access to otherwise scarce finance. Typically the EBRD makes credit available to local banks (some of which are micro-finance institutions setup through the programme) which then 'on-lend' funds to small businesses.

In order for the loan funds to be used efficiently and reach the intended clients, the EBRD organises 'technical cooperation' donor funds. These grants provide specialised advisors to selected banks to train staff and set up swift lending procedures for small business clients.

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The EBRD has long supported micro and small enterprises (MSEs) and small and medium-sized enterprises (SMEs) because they contribute fundamentally to the Bank's mandate of promoting market economies and democracies. It is in smaller businesses that entrepreneurship, competition and innovation will thrive, technology will advance and jobs will be created.

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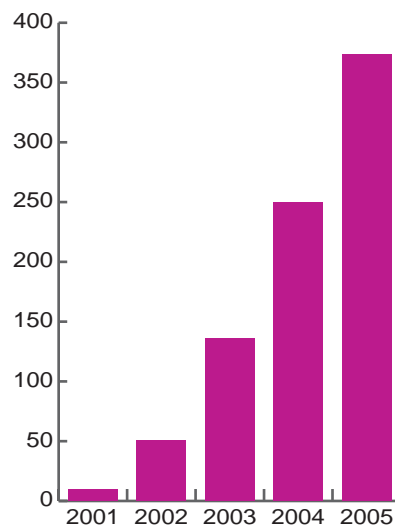


## The US/EBRD SME Financing Facility



The US/EBRD SME Financing Facility was established in July 2000 with \$150 million (\$50 million from the US and \$100 million from the EBRD) to promote private sector growth and economic development in South Eastern Europe (SEE) and other early and intermediate transition countries. The Facility provides financing to financial intermediaries for SME lending as well as technical cooperation funds for institution building and policy dialogue. Since its inception the Facility has leveraged 816,003 loans, totalling over \$4.94 billion.

Loans disbursed by year ('000)



During 2005 alone, 373,235 were disbursed for a total volume of \$2.36 billion. Micro and small businesses receive financing throughout Albania, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, FYR Macedonia, Romania, Ukraine, Serbia and Montenegro and Tajikistan.

### Reaching entrepreneurs in Bulgaria

To reach entrepreneurs who have no access to formal finance, ProCredit Bank Bulgaria is providing an innovative form of mobile finance. The bank is using a small van staffed by two loan officers to serve remote regions on the Black Sea coast. Short-term loans of up to \$3,000 are being provided to small villages close to the Turkish border allowing recipients to meet their working capital needs.



Through local banks, the EBRD mobilises funding for projects that are too small for it to handle directly. The EBRD's lending programmes provide individual entrepreneurs and firms with access to otherwise scarce finance.

### Micro and small enterprise lending

The EBRD takes a comprehensive approach to small business finance by cooperating both with existing commercial banks (and recently with non-bank micro-finance institutions) and also by setting up brand new, specialised micro-finance banks. This strategy delivers financing to MSEs quickly while also providing an example to the banking sector of "best practice" in such lending.

**Wide regional coverage is a key EBRD objective, including well trained and committed personnel.**

The EBRD has MSE lending programmes in 20 countries (mostly countries in the early stages of transition to market economies, now including Mongolia). The programmes' greatest success is often in remote regions where businesses have little or no access to finance. Wide regional coverage is a key EBRD objective, including well trained and committed personnel. In this context technical cooperation funds from donor agencies have been instrumental in setting up 1,030 MSE lending departments in 55 partner financial intermediaries in towns and cities across our countries of operations. Currently, over 4,970 dedicated MSE lending staff provide finance throughout this network to more than 2,400 businesses every working day.

Since their inception the MSE lending programmes have disbursed over 1,277,841 loans totalling over €7 billion. In 2005 alone, 492,936 MSEs received financing via the EBRD's programmes, and currently 41,000 enterprises are financed each month for €2.7 billion. Repayment is typically above 99 percent.

Since 1994 donor agencies have contributed €285.1 million to the EBRD's micro-finance programmes. Of this, €162.6 million was for 'technical cooperation' advisors and €122.5 million was in the form of credit lines, risk-sharing funds and other direct investments in MSE financial institutions. The United States, the EU and Japan are the largest supporters, contributing €73 million, €61 million, and €32 million respectively. Canada, France, Germany, Italy, Luxemburg, Netherlands, Norway, Switzerland, Taipei China and the United Kingdom have also made valuable contributions.

### Small and medium-sized enterprise lending

Over the last year, the Bank has used credit lines equity funds and technical cooperation to support small and medium sized businesses. Over time, the markets in central and eastern Europe (CEE) and the Commonwealth of Independent States (CIS) have become more segmented and the Bank has adapted its small business programme accordingly. In less advanced economies dominated by the state sector, the Bank's microlending programmes have often proved to be the most successful tool for reaching small businesses. In countries with better developed private sectors SME credit lines targeted to larger borrowers have had more impact. Equity and venture funds focus on those SMEs that have higher prospective returns and require longer-term risk capital.

### Leasing makes available to small businesses the equipment they cannot afford to buy.

The Bank has made equity investments in banks that serve SMEs. Also, in countries with more developed operating environments the Bank supports leasing companies because leasing makes available to small businesses the equipment they cannot afford to buy.

## EU/EBRD SME Finance Facility



The EU/EBRD SME Finance Facility provides financing to small businesses in 11 countries in Central Europe. This is channelled through local banks, leasing companies and equity funds. Eligible countries include EU candidate countries (Bulgaria, Croatia and Romania) and new EU members (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovak Republic and Slovenia).

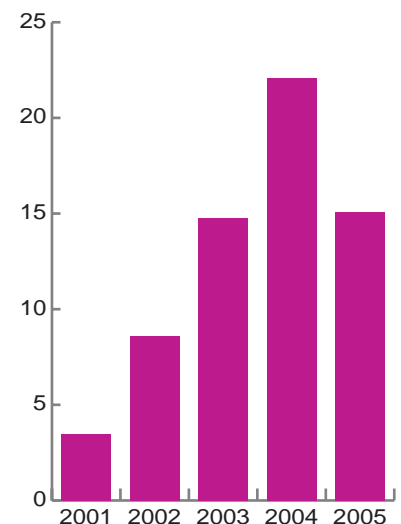
The EBRD's making €1.1 billion available through this facility, including at least €50 million earmarked for farmers and small businesses in rural areas where financing is in short supply.

The European Commission's contribution to the programme totals €157 million. In addition to funding, the programme provides training to local staff to improve the quality of service for small businesses and to increase efficiency levels. It also provides financial incentives to local participating financial intermediaries to encourage them to provide financing to SMEs.

By the end of 2005, the EBRD had provided 87 credit lines totalling €935 million to 34 banks and 32 leasing companies. In total, over 63,200 transactions worth over €1.4 billion have been undertaken with small businesses throughout the region. The average sub-loan size for each business is as low as €23,100 while leases average €18,200. These low levels ensure that even very small businesses are able to benefit from the facility.

The EBRD, the EC, private investors and private fund managers have established equity funds under the programme to provide much-needed equity support to small enterprises. Four funds have been signed to date, totalling €32.5 million. The funds are active in Czech Republic, Estonia, Hungary, Latvia, Lithuania, the Slovak Republic, Romania and Bulgaria.

Loans disbursed by year ('000)



## Russia Small Business Fund (RSBF)

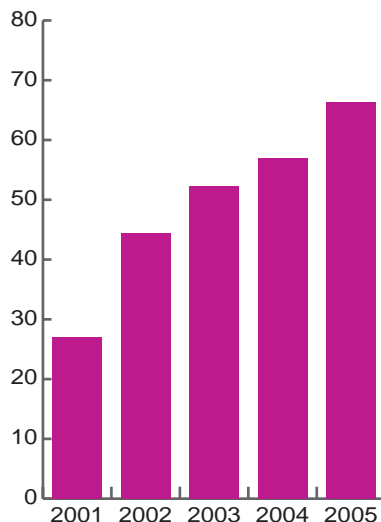


Russia is a showcase for the Bank's SME lending programme, which was pioneered with the launch of the Russia Small Business Fund (RSBF) programme in 1994. The model has since been replicated in other EBRD countries of operations. The RSBF was established with a pledged contribution of US\$ 150 million from the EBRD and the same amount from donor countries.

The United States has thus far provided US\$ 42 million in grants and loan funds to the RSBF followed by Japan with US\$ 30 million. The UK, France and Germany granted US\$ 15 million each, Canada provided \$8.1 million and Switzerland US\$ 4.5 million. The EU has provided the RSBF with grant funds of €26.5 million. So far 291,474 loans have been disbursed to micro and small enterprises across Russia for a total of US\$ 2.64 billion.

The bulk of SME lending under this programme is through KMB Bank (of which the EBRD is a founding shareholder). Current active participating banks in the RSBF are KMB Bank, NBD Bank, Chelindbank Sibakadembank, Uraltransbank, Uralvneshtorg and Ural-Siberian Bank. The RSBF programme operates through 294 partner bank branches across Russia. During 2005, the banks participating in the programme disbursed 66,392 loans to their MSE/SME clients for a total of US\$ 729 million.

Loans disbursed by year ('000)



## Financing methods

### Loan finance

Micro loans up to €8,000 for sole proprietors and micro enterprises employing up to 10 people.

Small loans, up to €160,000 for small and medium-sized enterprises employing up to 100 people.

### Leasing

Financial and operating leases for small businesses are available from EBRD-supported leasing facilities.

### Equity

Equity finance is available from EBRD supported private equity funds, donorsupported equity funds and directly from the EBRD.

### Direct investment

Equity finance of up to €2.5 million for businesses led by experienced entrepreneurs is available directly from the EBRD through the Direct Investment Facility (DIF).

## Contacts

### Headquarters general contact

EBRD

One Exchange Square

London EC2A 2JN

Tel: +44 20 7338 6000

Fax: +44 20 7338 6100

### Financial Institutions Group

Ph: +44 207 338 6548

Fax: +44 297 338 7380

### Group for Small Business

Ph: +44 207 338 6511

Fax: +44 207 338 7163

### Project proposals

Tel: +44 20 7338 7168

Fax: +44 20 7338 7380

Email: [newbusiness@ebrd.com](mailto:newbusiness@ebrd.com)

### Publications

Tel: +44 20 7338 7553

Fax: +44 20 7338 6102

Email: [pubsdesk@ebrd.com](mailto:pubsdesk@ebrd.com)

[www.ebrd.com](http://www.ebrd.com)