



Conclusions

Action points

Timeline

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Vienna Initiative Working Group
on IFI products supporting investment
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Conclusions

1. IFIs have been playing an important role in supporting access to finance of the private sector in CESEE. They have been providing various types of loans, guarantees, equity products, and hedging instruments to private sector entities in the CESEE, supporting a wide range of policy objectives. Representatives of the private sector participating in the working group acknowledge the active role the IFIs played in the development of the banking and venture capital markets in CESEE region, and that their participation adds value in many business areas – often involving higher risk – which would not have been possible to finance through private sources only.

2. Looking ahead, IFIs could play a catalytic role in the transition of the region's economies towards a new growth model, based on productivity growth through human capital development and home-grown innovation. IFIs could best contribute to this aim by tailoring their product palette appropriately, focusing on the following areas:

- Products supporting R&D, innovation, and innovative firms.
- Development and preservation of human capital.
- Addressing the remaining infrastructure gaps such as transport, energy, digital infrastructure.
- Supporting capital markets development to provide alternatives to bank financing.
- Overcoming the issue of low collateral through providing credit guarantees.
- Supporting the region's banking system to overcome the legacy of the crisis, and to adjust to the changes of the regulatory environment
- Enabling businesses to finance themselves in local currency.

Conclusions

3. Better and more accessible data on IFI activity and product supply could help IFI products to reach the clients and stakeholders of the region, and could promote better coordination among IFIs. Since the conclusion of the Joint IFI Action Plan (JIAP), comprehensive information on IFI activity in the region is very limited. Our own, simple data collection exercise has proven that such a database could provide useful strategic insight.

The Vienna Initiative is a potential platform to launch such a data collection exercise. The working group suggests the Vienna Initiative to launch an annual exercise on a) collecting an update on the product list of IFIs in CESEE, and b) collecting quantitative data on IFI activities (by IFIs, by policy objective, and by type of instrument, by private/public nature of the beneficiaries).

Conclusions

4. To support lending to SMEs and MidCaps, capital relief products are at the moment more in need than liquidity support. While banks' liquidity is currently ample, capital is a scarce resource partly as a legacy of the crisis, and partly induced by the tightening of the regulatory environment. Credit guarantee and securitisation products add particular value. They increase the SMEs' access to finance by reducing the cost of finance and through alleviating the collateral constraints. For the banks, they bring partial capital relief, decreased credit risk and shorter recovery periods.

Credit guarantee and securitisation instruments bring significant and tangible benefits, but they could be further tailored to suit the needs of the CESEE region. According to financial intermediaries, despite earlier efforts, the homogenous treatment of regulatory capital relief for credit guarantees and securitisation across the countries of the region is still yet to be achieved. IFIs' participation in the discussions with the relevant local regulatory authorities could help to recognise these instruments' eligibility to the capital relief. Further potential areas of improvements include a) stronger focus on working capital, b) more flexible repricing of guarantees, c) simplification and standardisation of the reporting structures of these instruments, and d) broadening the eligible clients towards mid-caps.

5. The introduction of minimum requirement for own funds and eligible liabilities (MREL) will represent a challenge for the banks operating in the region in the coming years. The low level of development or non-existence of capital markets for private debt securities can hinder the issuance of MREL-eligible instruments. The consultation on this issue within the framework of the Vienna Initiative should continue, in order to ensure that the introduction of this regulation does not put unnecessary constraints on lending to the private sector in the region. The members of this working group support the organisation of a dedicated workshop, with the participation of IFIs, commercial banks, national and EU-level regulatory authorities, and the credit rating agencies.

Conclusions

6. The negative experience with foreign currency borrowing in CESEE during the crisis led to an abrupt shift in demand towards local currency products. Clients are much more aware of the exchange rate risk embedded in FX-denominated loans, while also there is a much tighter control of FX-denominated financial instruments by the local regulatory and supervisory authorities. To reflect this shift, IFIs should consider further broadening of their domestic currency-denominated product palette, and ensure that their pricing advantage is similarly attractive for local currency products than for the EUR-denominated ones.

7. EU-funded venture capital programmes such as the JEREMIE boosted the entire VC ecosystem and start up world in the region. Looking ahead, to match the development of the markets, similar initiatives in the future would bring further benefits by focusing increasingly on qualitative results of building the local markets, too, beyond the increasing it in terms of quantities. For instance:

- IFI-supported PE/VC programmes could aim at broadening the local investor base, by involving local insurance and pension funds and corporations into limited partnership positions. Products and services should also build more on fund management teams.
- Programmes with a more gradual build-up, with staggered launches of the various funds, could avoid many similar funds chasing similar investments at the same time.
- The participation of international expertise – along with the national authorities – in the public procurement and tendering procedures could support ensuring the desired policy outcomes.

Conclusions

8. IFIs could provide a more attractive financing option for the corporates of the region by adapting their product offers to the specificities of CESEE. While IFIs have already been responsive by adapting their product offer to specific market needs and policy objectives (e.g. agriculture or energy efficiency), untapped potentials still exist. Due to their smaller size, very few privately owned local corporates in the CESEE region have access to IFI loans directly. By providing smaller ticket sizes, together with more flexibility in the loan structures, quicker decision-making and refined marketing, direct IFI financing could provide a more viable alternative for the corporate sector of the region.

9. Using grants in combination with financial instruments is an efficient way support investments with high socio-economic impact, and such combinations have a high potential for use in CESEE. Nevertheless, putting such instruments in practice is often cumbersome due to the complex regulatory and legal framework that governs their usage. In the future, it is recommended to pave the way for easier implementation of true blending, i.e. when a financial intermediary and the final beneficiary deal with one financial product where grants and FI are already integrated. In addition, eligibility and state aid rules between the different EU funds should be aligned in a single set of rules. Furthermore, a higher degree of flexibility is required on the grant intensity of the blended product to adjust products to changes in the market situation, such as changing interest rates.

Conclusions

Anything else?

- NPBIs?
- Private sector infrastructure?
- Post 2020 MFF?

Action points

- **Dissemination of the results/conclusions within IFIs**
- **MREL workshop**
- **Data collection**
- **Close monitoring of the post-2020 MFF process - VI financial instruments workshop later on?**

Next steps

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| 1 September | all contributions arrive to EIB |
| 15 September | final draft circulated |
| Late September | Conference call for for last round of modification/approval |
| Early October | final report circulated and submitted to the steering committee |

EBCI

Vienna Initiative



JOIN US FOR DINNER

19:00 @ Restaurant 'Barrels'
21 Allée Scheffer on Limpertsberg