



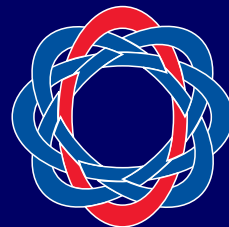
Improving Legal and Regulatory Frameworks for Financing Innovation in Central and Eastern Europe

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Meeting of Experts

« Financing for Innovative Development »

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WORLD SAVINGS BANKS INSTITUTE

General Outline

- Brief Introduction to the WSBI-ESBG
- Membership in Central and Eastern Europe (CEE)
- Savings Banks and MSE Financing
- Legal and Regulatory Constraints to MSE Financing
- General Policy Recommendations

Introduction to the WSBI-ESBG

- The global voice of savings and retail banking
- Present in 89 countries
- 103 members (direct or via national associations)
 - ✓ 34 European members
 - ✓ 31 African members
 - ✓ 22 Asian members
 - ✓ 16 American members

Introduction to the WSBI-ESBG(2)

❖ **Membership**

Efficiently operated, competitive institutions on all continents with three characteristics (« the 3Rs »):

- Retail
- Regional
- Responsible

❖ **WSBI priorities**

- Promote diversity of retail banking services providers
- Enlarge Access to finance
- Profile WSBI members' model as a reference for socially responsible banking activities

WSBI Membership in CEE:

An overview

- **Bulgaria**
 - Bulgarian Postal Bank
 - DSK Bank
- **Czech Republic**
 - Ceska Sporitelna AS
 - Ceskoslovenka Obchodni, a.s. (CSOB)
 - Waldviertler Sparkasse von 1842
- **Hungary**
 - Országos Takarékpénztár és Kereskedelmi Bank Rt (OTP)
 - Erste Bank Hungary Rt.
- **Poland**
 - Powszechna Kasa Oszczednosci Bank Polski
- **Romania**
 - Banc Post
 - Casa de Economii si Consemnatiuni
- **Russia**
 - Sberbank
- **Slovak Republic**
 - Slovenska Sporitelna AS
- **Ukraine**
 - Oschadny Bank Ukrainy

Savings Banks and MSE Financing

Business Models

Microfinance in CEE countries is predominantly about financing MSE

- Balance sheet-based model (*MSE financing is part of the savings bank regular activities. It is a typical commercial relationship*)
- Off Balance sheet-based model (*Predominant in Western Europe where savings banks operate foundations carrying general interest activities : e.g.:, France, Spain*)
- Agency-based model (*national/international financial institutions (e.g., EBRD, EIB, EIF, KFW, etc.) work through the savings bank to finance MSE*)

Savings Banks and MSE Financing

Fact and figures (2)

	SME financing	
DSK Bank (Bulgaria)	€ 157 million (2005) EBRD, EIB Credit lines (€ 10–20 million)	DSK involved in specialised joint programmes with Government and industry organisations (e.g; Cham- ber of Commerce and Industry)
Powszechna Kasa Oszczednosci Bank Polski (Poland)	€ 2 billion (2004) EBRD Credit line (€20 million)	Joint programmes for farmers with the Ministry of Agriculture

Savings Banks and MSE Financing

Fact and figures (3)

	SME financing	
Banc Post (Romania)	€ 28 million (SBB - 2005)	Small Business Banking (SBB) targets small companies with turnover < € 500,000 Loan size : € 2,000 to 350,000
Casa de Economii si Consemnatiuni (Romania)	€ 40 million (2005) EBRD Credit line (€ 10 million)	< 10 employees Max : € 30,000 < 100 employees Max : € 125,000

Legal and Regulatory Constraints to MSE Financing

❖ Legal constraints

No or very recent and often too restrictive legislations governing microfinance activities in most CEE countries.

« *microfinancing company: legal entity established for the purpose of granting micro credits to beneficiaries, which can not engage in deposit taking activities or attract other reimbursable funds from the public.....The microfinancing companies are financial companies established as joint stock companies.....* » Microfinance Law 2005 in Romania (art 2 & 3)

Legal and Regulatory Constraints to MSE Financing (2)

❖ **Regulatory Constraints**

A survey carried in 2004 by the Microfinance Centre about the sector development in CEE showed that Regulatory Constraints were top on the list of factors perceived by the Microfinance Institutions as preventing their growth.

- MSE lack sufficient collaterals, in particular cash and superior mortgages
- Banks often ask higher value collaterals to secure loans.

General Policy Recommendations

- **Encourage pluralism in the sector**

Banks (financial coop's, SORBs, commercial banks,..) should be allowed to downscale in microfinancing.

- **Regulate activities not institutions**

Microfinance portfolio should be separated from other operations of the banks and submitted to microfinance regulations

- **Look beyond microcredit**

Microfinance encompasses other financial instruments (capital risk, leasing, etc.) needed by MSEs and key for financing innovations.

General Policy Recommendations (2)

- **Encourage collateral substitutes** (surety agreements other than mortgage, promissory notes) and guarantee schemes
- **Assess the impact of prudential regulation** (e.g. capital requirements) on the ability of banks to provide microcredit
- **Adopt a tier structure allowing graduation** options from one tier to the next but not down grading.
- **Interest rate regulations** should allow fair pricing of services (low usury rate could have a counterproductive effect).

END

Thank You !

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