Kyrgyz Republic and UNECE
Regional Capacity-building Seminar

Financing Innovative MSMEs

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EBRD - Background

• AAA-rated international financial institution established in 1991, owned by 61 national and 2 supranational shareholders

• Shareholders include CEE, CIS and EU member states, USA, Canada, Japan, Australia, New Zealand, EU, and EIB

• Promotes market-based economies in 29 countries from central Europe to central Asia by providing equity and debt financing to both state and private sector projects

• Representative offices in all countries of operation

• Capital base of €20.0 billion
Early Transition Countries Initiative (ETCI)

- launched in April 2004 with primary focus on stimulating investment in the local private sector.
- Under the ETC Initiative EBRD will support smaller transactions in 7 ETC countries.
- 19 in 2003 and now over 100 in each of 2007 and 2008.
- Combination of custom made products (DLF, DIF, and MCFF), delegation of authority, new Banking team, multi-donor ETC Fund.
ETCI / DLF – Direct Lending Facility: Financing Criteria

- Size of individual loans: €0.5 mil to €10 mil.
- Existing business with a proven track record and sound credit history, or alternatively start-up with reputable strategic investor. Majority privately owned and controlled.
- Sound reputation, integrity, corporate governance practices.
- Adequate management capacity, sound management and organizational structure.
- Sound financial structure to be demonstrated by financial statements prepared in accordance with local accounting standards or IFRS.
- Compliance with the Bank's procurement and environmental requirements.
ETCI / DIF Direct Investment Facility: Investment Strategy

• Suitable for equity, quasi-equity, or debt with equity features.

• Investment situations can vary, but usually for expansion of their businesses into new markets, products or capacities.
  
  – Investment range generally €0.5 mil to €6 mil – for equity stakes up to 49% with relevant minority blocking rights.
  
  – Investment horizon 3 – 7 years- with a clear and profitable prospect of realizing the investment via a joint sale to a strategic investor, a public sale, or a sponsor / management buyback.

• Sponsors with demonstrable management record of successfully growing the enterprise.
SMEs, including micro enterprises (MSMEs), form the backbone of the economies in the transition region.

Ensuring availability of finance for MSMEs is a key pillar of the EBRD’s financial sector strategy.

Portfolio of EUR 2.9 billion at 31 May 2009.

MSME credit lines in 26 countries of operations.

219 financial intermediaries.
How to improve MSME’s access to finance?

• To improve MSMEs’ access to finance through institution building
• To build FI’s confidence to extend finance to MSMEs, with an additional focus on microfinance
• To enhance the capacity of FIs to assess and monitor MSME related risks and manage their exposure
• To strengthen and deepen the MSME credit markets and improve financial intermediation
• To promote geographical diversification – outside capital cities, rural areas
Impact of the crisis on MSMEs

- Crisis in the region hit MSMEs early and hard, with downturn in domestic and export demand for their goods and services
- Crisis in construction industry impacted MSME sector
- Local banks very cautious to expand their exposure to the vulnerable MSME sector - rising levels of arrears and defaults
- High interest and collateral requirements - reduced capacity of MSMEs to access longer term funds
- MSMEs focus on short-term survival – working capital needs - capital investment plans put on hold
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