

**EBRD Micro and Small Enterprise Finance Facility Kyrgyzstan
(MSFF)**

Quarterly Report

01 January – 31 March 2003

Highlights in reporting period:

- Increased regional expansion through 4 additional lending outlets
- Increase of monthly disbursement to 117 loans
- KKB Kyrgyzstan fully operational Partner Bank
- Increase of loan officer trainees to 55

Outlook for next quarter

- New Credit Lines by EBRD to AKB Kyrgyzstan and KKB Kyrgyzstan
- Further regional expansion
- Intensified training efforts
- Increase of lending to 200 loans monthly

1. General Situation

The general situation was calm in Bishkek and Osh. Politically, the referendum (02 February) was the most important development in Kyrgyzstan during the period of this report. Although there were some allegations of vote-rigging, voter-turnout was high (approx. 86%) and the changes to the constitution were approved by the majority (77%) without any noteworthy incidents. Both internationally and nationally, however, the changes to the constitution as well as the timing of the referendum were criticized as setting back the democratization process in Kyrgyzstan.

So far, the war in Iraq has not noticeably influenced day-to-day life, business activity or the attitude towards foreigners.

On the ground level no noticeable changes to the economy could be felt. Factual unemployment and crime rates continue to be high. On 15 January, President Akaev issued a decree to 'develop the investment climate and other entrepreneurial activity'. Support of MSE and SME activities has been reiterated as a clear goal of the government. Amongst others, the MSFF has been benefiting from this in terms of state agency organized PR measures.

As stated in last quarter's report, officially, the non-bank micro finance organizations had until February 03 to register as one of three possible types of micro finance institution (see last report). The process is not going as fast or as smooth as originally planned. In part this is due to the fact that the law on the micro finance institutions conflicts with other legislation. According to available information, Bai-Tushum and Mercy Corps have reregistered while FINCA is still undergoing the necessary preliminaries.

Under the MSFF a total of 245 loans for a volume of 491 634 USD were disbursed during the first quarter of 2003. At the end of March 03 a total of 504 loans for a volume of 849 852 USD were outstanding.

During the period of this report, the Ineximbank branch in Osh became fully operational and was officially opened with a big media splash on 20 February. Media coverage was good and, in conjunction with Ineximbank Osh's advertisement campaign resulted in unexpectedly high numbers of applications. This was especially noticeable in March. As a direct result of the intensified cooperation with Ineximbank and in line with regional expansion pushed by the MSFF, Ineximbank took the decision on 20 February to route all loans up to 50 000 USD through the MSFF.

Although the manager, M. Kunakunov, is cooperating well with the program, the same areas for concern remain. Most importantly, an undue influence of the shareholders continued to be felt. This became especially apparent with regard to the attitude of the Ineximbank branch staff in Osh towards the program representatives. Despite the satisfactory lending results in Osh, the program start at the branch can – at best – be characterized as 'bumpy'.

On a 'bigger' level, the expected 'fusion' with Temirbank is taking time. At the time of this report, the approval of the National Bank of Kazakhstan was still outstanding. Proceedings at

the National Bank of the Kyrgyz Republic can only start after Temirbank has received the approval of the National Bank of Kazakhstan.

Kazkommertzbank Kyrgyzstan, former Avtobank, also started active lending operations under the program. In Bishkek, active program operations commenced on 20 January and in Osh on 03 February. In cooperation with KKB, the MSFF is preparing the launch of the program in Tokmok. Tokmok is located in the Chuy region and has recently been elected to become an important administrative center. During the next quarter the MSFF and KKB plan to expand to Dzhahal Abad.

The indicators at AKB Kyrgyzstan improved. During a visit of E. Lefting and A. Lepp in Kyrgyzstan in February 03, the possibility of signing a credit agreement over one million USD was discussed with the bank. In view of this, and pending signing of a credit agreement, the MSFF has started investigating what AKB branches could be potential candidates for program inclusion.

Initially, the situation at Demir bank did not improve. The absence of clear support for the program on the part of some shareholders continued. As outlined in the last report, the MSFF had given the bank until the end of January to resolve its internal issues and take a clear stand concerning program participation. By the end of January there had been no significant changes. However, a meeting between F. Pillonel, M. Scheck and representatives of the largest shareholders on 14 February and subsequent meetings of E. Lefting, A. Lepp, M. Scheck and the management of Demir on 19 and 21 February resulted in a positive decision on program participation by the bank on 24 March. Nevertheless, for the time being, program activity at the bank has been scaled down. In view of the lessons learned during the second half of 2002, i.e. the limitations set by the bank's current credit policy and procedures, E. Lefting, A. Lepp, M. Scheck and the management agreed to reduce the current number of MSFF loan officers in the bank to one, only monitor the already outstanding portfolio without accepting new loan applications, and only restart full-scale active implementation once all necessary policies, procedures and other documents have been agreed and put in place.

As was to be expected, demand levels for program loans and output of program loans were influenced by seasonal factors: January, February and March are months marked by holidays

and, especially January and February, are traditionally slow months. Consumption levels are down in the aftermath of the end-of-year spending spree. Although March has two major holidays, business activity picks up as the spring season starts. The lending results of the program reflect these seasonal tendencies.

Disbursements and Outstanding Portfolio of EBRD MSFF Micro and Small Loans for the first quarter of 2003 (in US\$)

	DISBURSEMENTS				OUTSTANDING PORTFOLIO		
	Number of loan officers*	Number of loans granted	Volume of loans granted	Average loan amount granted	Number of loans outstanding	Volume of loans outstanding	Average loan amount outstanding
Bishkek							
Jan	19	33	80002	2424	312	564764	1810
Feb	24	64	165269	2582	350	662428	1893
Mar	23	87	196499	2259	418	782735	1873
Total Bishkek	23	184	441770	2401	418	782735	1873
Osh							
Jan	6	10	3565	357	37	26541	717
Feb	9	21	23376	1113	57	47507	833
Mar	8	30	22923	764	86	67117	780
Total Osh	8	61	49864	817	86	67117	780
GRAND TOTAL	31	245	491634	2007	504	849852	1686

*only loan officers in training for more than 3 months are counted

The different banks accounted for disbursements as follows:

Disbursements and Outstanding Portfolio of EBRD MSFF Micro and Small Loans per Bank for the first quarter of 2003 (in US\$)

	DISBURSEMENTS				OUTSTANDING PORTFOLIO		
	Number of loan officers	Number of loans granted	Volume of loans granted	Average loan amount granted	Number of loans outstanding	Volume of loans outstanding	Average loan amount outstanding
Ineximbank							
Jan	12	23	61432	2671	177	313600	1772
Feb	14	40	131191	3280	198	404606	2043
Mar	13	45	109419	2432	232	469613	2024
Total	13	108	302042	2797	232	469613	2024
AKB Kyrgyzstan							
Jan	5	14	11900	850	153	242215	1583
Feb	8	23	26900	1170	169	244691	1448
Mar	9	41	69450	1694	201	284346	1415
Total	9	78	108250	1388	201	284346	1415
Demirbank							
Jan	3	3	9178	3059	16	34433	2152
Feb	4	5	12777	2555	20	41798	2090
Mar	1	0	0	0	20	37842	1892
Total	1	8	21955	2744	20	37842	1892
Kazkommertz bank							
Jan	5	3	1057	352	3	1057	352
Feb	7	17	17777	1046	20	18840	942
Mar	8	31	40553	1308	51	58051	1138
Total	8	51	59387	1164	51	58051	1138
GRAND TOTAL	31	245	491634	2007	504	849852	1686

2. Cooperation with the Partnerbanks

Ineximbank

During the first quarter of 2003 108 loans for a volume of 302 042 USD were disbursed. The outstanding portfolio as of 31 March 03 was 232 loans for a volume of 469 613 USD.

Program implementation at the bank continued to move forward. Nevertheless, areas for concern remain. The positive developments for the period include: The manager of the bank, M. Kunakunov, remained cooperative and interested in improving and expanding program operations. In January 03 the branch in Osh became fully operational and was officially launched with a big media-splash on 20 February. This date was selected by the MSFF consultants to coincide with the visit of E. Lefting and A. Lepp in Kyrgyzstan (19 – 22 February 03). The media received the branch opening well and in conjunction with Ineximbank's massive advertisement campaign resulted in unexpectedly high client turnout.

In Bishkek, a quite remarkable development was the fact that the MSFF sector swapped rooms with the 'regular' lending department at the end of February. The move to these premises, more than twice the size of the previous premises, clearly reflects the increasing importance of MSFF activities at the bank as well as the fact that the bank took the decision (20 February 03) to route all loans of up to 50 000 USD through the MSFF department. In order to improve the quality of the MSFF credit committees (see last quarter's report), the bank took the decision to re-man the credit committee, remove the head of the MSFF sector and agreed to have deputy bank manager R. Boronbaev directly supervise the sector and participate in the MSFF credit committees. The bank also agreed to set up additional MSFF lending outlets in both Osh and Bishkek. In Osh, premises for a client consultation office have been identified and are already operational.

Although there was no real movement with regard to the capital increase, Temirbank has sent two representatives to Bishkek to tend to preliminaries: while one representative is looking into organizational issues, K. Burkutbaev has been named deputy manager of Ineximbank (next to R. Boronbaev) and has been tasked with looking into the lending activities at the bank. Based on the request of the consultants he has started participating in the 'jour fixe'

between M. Scheck and M. Kunakunov. So far he is rather passive and his role appears to be that of an observer/troubleshooter.

Despite these welcome developments at the bank, areas for concern remain. Communication with the MSFF as well as communication within the bank remains difficult. At the same time, undue influence of the shareholders can still be felt in many areas. The launch of the Osh branch reflects these issues: Whereas the management of the bank in Bishkek was briefing the consultants on clear strategic priorities set for the branch (developing the MSFF portfolio and getting legal entities into the bank for non-interest income operations) and endorsing these priorities on a regular basis, the actions of the branch management on the ground were not in tune with such targets. From the start the branch management (without having the necessary personnel or technical knowledge) was pushing for other lending products such as leasing, mortgage and student loans and was crediting (primarily and preferably) larger clients at relatively lax conditions. After the bank's decision to route all loans up to 50 000 USD through the MSFF (taken 20 February), the branch management tried to pressure the consultants and MSFF loan officers into "operatively" disbursing credits to clients whom the branch management had wooed with promises. This misbegotten approach to client acquisition resulted in the factual disbursement of a loan to an MSFF client by the branch management without awaiting the actual credit committee decision. As a result, the bank's management in Bishkek, in cooperation with the consultants, severely cut the branch limit for independent lending on 06 March.

The combination of the successful media-coverage of the branch opening on 20 February, involving E. Lefting, F. Pillonel, J. Galieva, J. Sivcova, A. Lepp, M. Scheck and J. Manning, the bank's management, several politicians as well as a subsequent (media-covered) visit of the EBRD/IPC team to the governor and a massive Ineximbank advertisement campaign had resulted in unexpectedly high numbers of applications. Already on 04 March, the consultants informed the bank that advertisement in Osh should be reduced/rescheduled to prevent creating an undue backlog of applications. The bank was unwilling to even give consideration to a rescheduling of the campaign and rejected the notion as "impossible" or "too expensive". The consultants repeatedly explained the dangers of not cooling down demand and warned the bank, that if the flow of applications would continue to increase, MSFF reputation would necessitate informing clients of expected waiting-times and the possibility of receiving an MSFF loan at KKB. By mid-March the situation had taken on such a form, that J. Manning

asked the loan officers to inform clients of the fact that they would have to wait several weeks before their loan application could be processed and asked the loan officers to inform clients of the alternative at KKB. The branch manager, unhappy about this step, discussed the issue with J. Manning and both reached the agreement that the loan officers would not make clients explicitly aware of KKB.

These occurrences again exemplify the shortcomings at the bank in terms of communication and shareholder/board member influence. It should be noted, that during the meetings regarding Osh, the management from Bishkek as well as the branch management made statements that – without explicitly faulting anyone in particular, nevertheless, implicitly and critically acknowledged interference and pressure from certain shareholders.

As stated above, there was not very much movement regarding the fusion with Temirbank. Once the necessary National Bank approvals will be received, the consultants expect major internal reorganization at the bank. This may (at least temporarily) negatively influence lending operations at the bank.

AKB Kyrgyzstan

During the first quarter of 2003 78 loans for a volume of 108 250 USD were disbursed. The outstanding portfolio as of 31 March 2003 was 201 loans for a volume of 284 346 USD.

Overall, the financial situation at the bank appears to have stabilized. The management seems to be trying to improve internal organization and management. Thus, there were some personnel changes. Most of these changes were internal reshufflings. Amongst others, the managers of the regional offices in Osh and Dzhahal Abad were swapped. According to the head of the bank, S. Sadebakasova this swap was conducted with a view of lessening the influence of informal relationships in day-to-day operations. Ms Sadebakasova appears to have delegated some true decision making authority within the bank. An increase in the decision making power of U. Shamkeev (in charge of lending) could be felt. On the downside, the former head of the head office branch and program counterpart in this branch was promoted and put in charge of the personnel department of the entire bank. The nomination of a replacement is expected in April.

In terms of active MSFF operations the status quo agreed to in the summer of 2002 was observed, i.e. no new branches or outlets were added and the bank continued to use its own resources for MSFF lending. The MSFF continued to operate out of the two branches already included in the program. On the operational level, performance of the bank under the MSFF continued to be satisfactory.

In view of these developments, during the visit of E. Lefting and A. Lepp to Kyrgyzstan in February, the possibility of signing a credit agreement for one million USD was discussed with Ms Sadebakasova on 19 February. In subsequent meetings M. Scheck and S. Sadebakasova have started looking into the possibilities of an increase of MSFF activities at the bank. The bank favors the offices in Tokmok, Osh and Dzhalal Abad in addition to one more branch within Bishkek.

Currently, all players are awaiting the EBRD due diligence before more concrete steps regarding the signing of a credit agreement or expansion of MSFF activities at the bank can be taken.

Demirbank

During the first quarter of 2003 a disappointing 8 loans for 21 955 USD were disbursed. The outstanding portfolio as of 31 March 2003 was 20 loans for 37842 USD.

As stated above, the situation did not significantly improve during January. MSFF implementation continued to be hampered by the currently valid credit policy, the lack of full support on the part of the management and largest shareholders. In view of the fact that representatives of the largest shareholders and E. Lefting were expected in mid-February, it was decided to hold off making a final decision on the bank's future as a partner for the MSFF until such meetings had taken place. The shareholders' meeting in November had failed to give the bank the necessary full thumbs up for program participation. This was primarily due to the critical attitude of the majority shareholders (see last report).

On 14 February, F. Pillonel and M. Scheck met with Supervisory Board Members T. Bark and H. Akchakayalioglu. Both appeared critical of MSE lending in Kyrgyzstan and preferred discussing the issue of EBRD's commitment regarding the capital increase. Nevertheless, both appeared interested in learning more about the program and MSE lending in Kyrgyzstan.

On 17 February, M. Scheck learned from Demir Kyrgyz International manager A. Parmaksiz, that "his" shareholders appeared convinced of the merits of the program for Kyrgyzstan and would be willing to participate in the MSFF under the condition that EBRD would finally go ahead with the capital increase. On 19 February, this basic attitude was restated in the meeting between A. Parmaksiz, E. Lefting, A. Lepp and M. Scheck. This attitude exemplified a lack of commitment to MSE lending and the dependence of the management's decisions on the attitude of the largest shareholders. Consequently, E. Lefting and the consultants informed the bank that cooperation under the MSFF would be terminated. Surprisingly, the next day, the management contacted the consultants and E. Lefting with the request for another meeting.

On 21 February, this second meeting took place at which the management reiterated its interest in participation. Mr. Parmaksiz informed E. Lefting and the consultants, that the shareholders would not make participation dependent on the capital increase. They would also be willing to make all necessary changes to policies and procedures to permit efficient MSFF implementation at the bank.

In view of this, E. Lefting, A. Lepp, M. Scheck and A. Parmaksiz agreed to the following: for the time being, the MSFF would scale down activities at the bank. Two of the three loan officers would be moved to other banks and the one remaining loan officer would not accept any new clients but only process already accepted applications and monitor outstanding loans. The Supervisory Board of the bank would officially agree to the EBRD Policy Statement regarding the MSFF. Then the bank and the consultants would prepare and agree to detailed policies and procedures for the MSFF at the bank (incl. standard agreement versions, loan processing forms, etc.). Only, once all of these documents would be prepared and officially accepted by the bank would the MSFF restart active operations at the bank.

On 24 March the Board of the bank officially agreed to the EBRD Policy Statement on the MSFF. The bank has also already included space for the MSFF in its plans for a new branch

building in Osh. B. Moldobekova (assistant manager of the bank) and M. Scheck have started working on agreeing and designing the necessary policies, procedures and documents.

On a more general note: the bank has introduced a network of debit card teller machines in Bishkek (and some in Osh) becoming the first bank to offer such services on a wider scale. Regretfully, the bank also became the victim of a robbery. At the branch in Osh approximately 80 000 USD were stolen. Evidence, although not conclusive, would point to an “inside job”.

Kazkommertsbank Kyrgyzstan KKB (former Kyrgyz Avtobank)

During the first quarter of 2003 51 loans for a volume of 59 387 USD were disbursed. The outstanding portfolio as of 31 March 03 was 51 loans for 58 051 USD. Of these, 14 loans for a volume of 8299 USD were outstanding in Osh.

As stated in last quarter’s report, the decision had been taken to wait with active program implementation until the BOD of KKB Kazakhstan had officially sanctioned all procedures and necessary documents and “Avtobank” had been officially re-registered as “Kazkommertsbank Kyrgyzstan”. Consequently, active lending with the bank started 20 January in Bishkek and 03 February in Osh. Initially, Deputy Manager A. Zhetbisbaev, a former KKB Kazakhstan branch manager with experience in program lending under the KSBF, took clear possession of his new role. He also appeared to have a better rapport with the local staff than his predecessor. He actively worked on increasing the bank’s client base for non-interest income operations and clearly supported MSFF lending as a strategic priority. Consequently, MSFF implementation in Bishkek (bar the usual initial difficulties in getting office supplies and working telephones) went swiftly. Credit committees could be operatively summoned and benefited from the previous experience MSE lending experience of some credit committee members from the Kazakhstan Small Business Programme.

During March, A. Zhetbisbaev and M. Scheck visited both Tokmok and Karabalta with a view of potential program inclusion. The decision was taken to launch MSFF lending in Tokmok in April. To this effect first loan officer candidates were selected and underwent training in Bishkek. The branch has the necessary space and the city appears promising in terms of potential demand. A. Zhetbisbaev and M. Scheck decided to hold off on Karabalta

for the time being as the branch has insufficient premises and will most likely be relocating in the near future. It should be noted, that KKB has not yet taken a final decision on the mid-term future of these branches. Even if KKB should take the decision to close these branches, the MSFF and KKB agreed that simple MSFF outlets could be retained or (worst case scenario) outstanding portfolios could be maintained from Bishkek as both cities are within a reasonable driving distance from Bishkek (approx. 1 hour).

MSFF implementation in Osh is not moving forward at the same pace as in Bishkek. On location, credit committees are going well but demand is significantly lower than at Ineximbank. This is due to the fact that the branch has not engaged in any noticeable image rebuilding as “Kazkommertsbank Kyrgyzstan”. In addition, operations are hampered by the working conditions in the current premises. Especially the intermittent electricity supply slows down loan processing. According to A. Zhetbisbaev, the bank is looking into the issue of new premises.

The branch appears to be lacking clear guidance from Bishkek. Thus, A. Zhetbisbaev or other members of the management only rarely visit Osh. J. Manning feels that the branch, after going through an initial burst of energy, is falling back into a rather slow-paced speed. It is his impression, that the branch management perceives the situation as lack of attention from the Bishkek head office. It would seem that the branch management is not sure how to react to the situation. This insecurity has resulted in a kind of lethargy and unwillingness to engage in significant changes. Several times, A. Zhetbisbaev promised to visit Osh and Dzhahal Abad, actually made plans to go there and then cancelled such visits at rather short notice. M. Scheck has shared J. Manning’s perceptions with Mr. Zhetbisbaev.

In this connection it needs to be pointed out that A. Zhetbisbaev is frequently absent. Similar to the situation with the previous deputy manager, A. Ramazanov, these absences to “Almaty” happen on short notice and are not always communicated. During these absences it is difficult to reach Mr. Zhetbisbaev. The number and the length of these absences increased during March and started to have a negative impact on the summoning of credit committees. The consultants are concerned regarding continued smooth implementation of the programme and running of the bank. EBRD is informed and in dialogue with KKB Headquarters.

3. Seminars and Training

Month	No. of LO candidates selected
Jan	5
Feb	0
Mar	19
Total	24

During the first quarter of 2003 six loan officer selection cycles were conducted resulting in the selection of an additional 18 loan officer candidates in Bishkek and six in Osh. 15 loan officers were sent to Kazakhstan for on the job training and/or attendance of the micro loans seminar in Almaty. In addition to on-going on the job training measures and evening mini-seminars on selected issues, a two-day seminar on bookkeeping and accounting was conducted on 09/10 March. 11 loan officers from Bishkek and three loan officers from Osh attended this seminar. This seminar was designed to familiarize loan officers with a “talent” for bigger clients with the “old” Kyrgyz accounting standards and the “new” international accounting standards that are replacing the old standards.

The current distribution of loan officer candidates is as follows:

Time in Program/ Bank	More than 3 months	1 – 3 months	Less than 1 month	Selected but not yet in training	Total
Inexim	5	3	2	6	16
AKB Kyrgyzstan	11	2	2	-	15
Demir	1	-	-	-	1
KKB	5	-	1	-	6
Total Bishkek	22	5	5	6	38
Inexim	5	3	-	2	10
KKB	3	2	-	2	7
Total Osh	8	5	-	4	17
Total	30	10	5	10	55

4. Regional Expansion

In January 03 the Ineximbank branch in Osh became fully operational. In addition, KKB started active program lending in Osh in February. In March a second Ineximbank/MSFF outlet was opened as a client consultation office in the center of the city. J. Manning has started looking into selecting loan officer candidates from Dzhalal Abad. The MSFF hopes to launch program lending with KKB in Dzhalal Abad during the next quarter. In March, KKB and the MSFF prepared the ground for launching program lending at the KKB branch in Tokmok. Active program implementation is scheduled for 01 April.

Tentatively, the MSFF has started analyzing AKB offices in Tokmok, Osh and Dzhalal Abad with a view of expanding with AKB once a loan agreement will have been signed.

5. Other Banks

As stated in the last report, the only other bank under consideration for program inclusion at this time was Ecobank. The consultants detailed their concerns about the commitment of the bank to MSE lending and its motivation for inclusion in the MSFF. On 22 January, literally a few days before the scheduled audit was to commence, the bank withdrew its application and rejected participation in the MSFF. It would seem that the bank was not willing to undergo the audit or make all required information available, nor was the bank willing to make all the necessary procedural and organizational changes to allow for efficient MSFF implementation.

At this time, no other banks are under consideration for program inclusion.

6. Other Issues

The MSFF had a number of visitors during the period of this report including the visits by E. Lefting, J. Sivcova (EBRD) and A. Lepp (IPC) (19 – 21 February).

On 18 February, M. Scheck participated in the press conference in Almay in honor of the signing of a new credit agreement between EBRD and Kazkommertsbank Kazakhstan at which B. Apsembetov asked the consultant to make a short presentation of KKB's

engagement in Kyrgyzstan. In a subsequent meeting with Mr. Apsemetov the consultant presented the MSFF strategy for 2003 and its plans for developing MSE lending with KKB in Kyrgyzstan.

On 26 February, M. Scheck attended a SECO hosted dinner at which representatives from Switzerland met with representatives of the different SECO funded projects. The purpose of this dinner was to give the Swiss an opportunity to familiarize themselves with the different projects in preparation for designing a future strategy for their engagement in Kyrgyzstan. The consultants also met with representatives from IFC, USAID and the German embassy.

As fall-out of President Akaev's confirmation of MSE/SME development as a governmental priority, the NBKR hosted a press conference on the MSFF on 18 March 03. At this conference, F. Pillonel and M. Scheck presented the program. Although media coverage was good and feedback from viewers positive, it did not directly influence demand levels, however reflects the importance of the NBK assigns to the MSFF for the improvement of the financial sector and the demonstration effect of prudent banking, portfolio diversification and training.

On 05 March 03, the MSFF received an official reply from the NBKR regarding accepting personal belongings in the form of jewelry as collateral. The NBKR now officially acknowledges that such collateral does not conflict with the law on precious metals. Banks have the right to take such collateral but must design concrete and safe procedures. The MSFF, which is still in the process of agreeing "tailor-made" policies and procedures for the MSFF at each of the partner banks will include procedures for taking such collateral.

The establishment of the Credit Information Bureau (a TACIS project) moved forward. The board (of which M. Scheck is a member) selected a director and the CIB was established as a legal entity under Kyrgyz law.

7. Outlook

In view of the given environment and numerous holidays, overall program development during the period of this report was satisfactory. The MSFF launched two additional branches (KKB in Bishkek and Osh) as well as established a branch and an additional client

consultation office with Ineximbank in Osh. In April, the MSFF will launch active lending in Tokmok. The inclusion of Dzhalal Abad is planned for the next quarter. In addition, the MSFF hopes to establish additional outlets with KKB and Ineximbank in Bishkek. The MSFF will push the expansion with AKB Kyrgyzstan in view of the planned credit agreement with EBRD. The official acceptance of the EBRD Policy Statement by the BOD of Demirbank removed the first hurdle in re-starting active MSFF implementation with this bank. Once all procedures, policies are in place active lending can be resumed with this bank. During the summer, the Demirbank branch in Osh may come in as an additional player in Osh.