

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

Implemented by:  
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## Quarterly Report

**01 April – 30 June 2003**

### **1. General Situation**

There are no significant changes with regards to the political/security situation to report for the period of this report. Although the overall situation was calm, two incidents deserve mentioning: in the beginning of May a bomb exploded in a money exchange office in Osh, killing one person. Approximately one week later, a gang robbed a police weapons depot in Dzhalal Abad. Whereas the motivation of the first incident remains unclear, the second incident appears to have been a criminal act. According to available information most of the gang (former policemen) have been arrested and some of the weapons secured. On the other side of the border (in Kazakhstan), a gang of men dressed as policemen successfully and in a rather spectacular manner robbed a bus of small traders on their way from Almaty to Shimkent.

The economic situation appears to have deteriorated. In part this a result of the fact that the borders to China and Uzbekistan were closed for most of May and into the beginning of June. Additionally, the US Dollar – Kyrgyz Som exchange rate has changed noticeably over the past quarter (from approx. 46/47 KGS/USD to 39KGS/USD). Although the Kyrgyz Som has become stronger against the USD, the general reaction of the population (and bankers) is one of insecurity and uncertainty. Most bankers expect the exchange rate to return to its old levels (or even shoot beyond) in the fall. Turnovers at a number of MSFF clients are unseasonably low and the general attitude appears to be one of “let’s wait and see”.

In terms of demand, the May holidays took their toll. The usual seasonal slump was exacerbated by SARS, i.e. closure of the border to China as a preventive measure and uncertainty on when and how the border would be reopened. Rumors were rampant and available information changed nearly daily. As a result, effective demand for loans was down in May and the first half of June. Many clients withdrew their applications or rejected already granted loans. Demand levels only started recuperating during the second part of June but failed to come back up to usual levels. According to the counterparts at the partner banks these are the forebodings of the usual summer slow-down.

Overall, cooperation with the partner banks continued to develop within expected parameters. Nevertheless, program expansion at the banks moved forward slower than expected:

- Kazkommertsbank took the decision to close the branches in Tokmok, Karabalta and Balykchi and opted against maintaining small lending offices in the regions. The already outstanding MSFF loans at KKB Tokmok were closed and the clients transferred to the AKB Kyrgyzstan branch in Tokmok. The future of the branch in Dzhahal Abad is undecided. Furthermore, once again a key person – deputy manager A. Shetpibaev – has left KKB Kyrgyzstan. For the time being, his replacement, K. Nurtayev, is only an interim solution until the bank can find a long term replacement for the position;
- It is taking Ineximbank significantly longer than planned to set up the additional office in Bishkek. In the meantime the bank has moved the date for active operations of this office to mid-July.
- So far Demirbank has not brought policy, procedures and necessary documents in line with the MSFF requirements. Although the bank is willing to participate and publicizes the fact, internal processing and approval procedures are slow; on 25 June Demirbank and EBRD signed the Policy Statement as a first step to restarting active lending at the bank;

At the same time, there were positive developments that can serve as indicators for the growing importance of the MSFF in the overall economy:

- Vice Prime Minister D. Otorbaev personally visited the 500<sup>th</sup> client of the MSFF and stressed the importance of the MSFF for the Kyrgyz economy;
- In April, the MSFF successfully launched its operations in Tokmok.
- With Ineximbank being one of the leaders, interest rates have gone down (for the MSFF 15 – 25% p.a. in USD and 22 – 35% p.a. in KGS);
- Again, some of the other players active in the MSE market have made positive adjustments and improvements to their products to bring them more in line with those of the MSFF (e.g. FINCA now calculates interest differently)
- The EBRD/MSFF was invited to participate in an “expert group” tasked with highlighting the shortcomings in the proposed new collateral law and suggesting alternatives;
- AKB Kyrgyzstan has taken the strategic decision to increase its presence on or close to the major markets in Bishkek, Osh and Dzhahal Abad – a clear sign of the growing importance the bank allots to MSE as a target group.

**Table 1: Disbursements and Outstanding Portfolio of EBRD MSFF Micro and Small Loans for the second 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
<b>Bishkek</b>							
Apr	24	100	192849	1928	481	883808	1837
May	25	45	81231	1805	499	861261	1726
Jun	26	74	185154	2502	538	921692	1713
<b>Total Bishkek</b>	<b>26</b>	<b>219</b>	<b>459234</b>	<b>2097</b>	<b>538</b>	<b>921692</b>	<b>1713</b>
<b>Osh</b>							
Apr	13	29	32077	1106	114	95126	834
May	14	29	37689	1300	140	126949	907
Jun	12	32	39399	1231	164	154785	944
<b>Total Osh</b>	<b>12</b>	<b>90</b>	<b>109165</b>	<b>1213</b>	<b>164</b>	<b>154785</b>	<b>944</b>
<b>Tokmok</b>							
Apr	1	6	3511	585	6	3511	585
May	1	-	-		3	2390	797
Jun	3	11	5889	535	14	6636	474
<b>Total Tokmok</b>	<b>3</b>	<b>17</b>	<b>9400</b>	<b>553</b>	<b>14</b>	<b>6636</b>	<b>474</b>
<b>GRAND TOTAL</b>	<b>41</b>	<b>326</b>	<b>577799</b>	<b>1772</b>	<b>716</b>	<b>1083113</b>	<b>1513</b>

Comment: in May KKB took the decision to close its branch in Tokmok. At the same time AKB and the MSFF launched the program at the AKB branch in Tokmok. The KKB loans were closed and the clients received new loans at AKB. For technical reasons, the loans disbursed at AKB in May are legally AKB Bishkek loans. Consequently, the Tokmok loans are included in the Bishkek data for May. At the end of May there were still 3 loans outstanding at KKB Tokmok. In June these loans were closed.

The different banks accounted for disbursements as follows:

**Table 2: Disbursements and Outstanding Portfolio of EBRD MSFF Micro and Small Loans per Bank for the second 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
<b>Ineximbank</b>							
Apr	17	46	88347	1921	260	507600	1952
May	18	32	52663	1646	280	507201	1811
Jun	18	49	90257	1842	307	523386	1705
<b>Total</b>	<b>18</b>	<b>127</b>	<b>231267</b>	<b>1821</b>	<b>307</b>	<b>523386</b>	<b>1705</b>
<b>AKB Kyrgyzstan</b>							
Apr	10	49	57370	1171	231	304333	1317
May	9	18	26308	1462	233	285995	1227
Jun	12	42	58189	1385	259	300311	1160
<b>Total</b>	<b>12</b>	<b>109</b>	<b>141867</b>	<b>1302</b>	<b>259</b>	<b>300311</b>	<b>1160</b>
<b>Demirbank</b>							
Apr	1	-	-	-	20	33625	1681
May	1	-	-	-	20	29633	1482
Jun	1	-	-	-	19	24298	1279
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19</b>	<b>24298</b>	<b>1279</b>
<b>Kazkommertz-bank</b>							
Apr	9	40	82720	2068	90	136887	1521
May	11	24	39949	1665	109	167771	1539
Jun	10	26	81996	3154	131	235118	1795
<b>Total</b>	<b>10</b>	<b>90</b>	<b>204665</b>	<b>2395</b>	<b>131</b>	<b>235118</b>	<b>1795</b>
<b>GRAND TOTAL</b>	<b>41</b>	<b>326</b>	<b>577799</b>	<b>1772</b>	<b>716</b>	<b>1083113</b>	<b>1513</b>

## 2. Cooperation with the Partnerbanks

### Ineximbank

During the second quarter of 2003 127 loans for 231,267 USD were disbursed. The outstanding portfolio as of 30 June 2003 was 307 loans for 523,386 USD.

**Table 3: Disbursements and Outstanding Portfolio of EBRD MSFF Micro and Small Loans at Ineximbank for the second 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
<b>Ineximbank</b>							
Apr	17	46	88347	1921	260	507600	1952
May	18	32	52663	1646	280	507201	1811
Jun	18	49	90257	1842	307	523386	1705
<b>Total</b>	<b>18</b>	<b>127</b>	<b>231267</b>	<b>1821</b>	<b>307</b>	<b>523386</b>	<b>1705</b>

**Table 4: The current loan officer distribution at Ineximbank**

Time in Program/ city	More than 3 months	1 – 3 months	Less than 1 month	Selected but not yet in training	Total
Bishkek	8				8
Reserve Bishkek	2	2	1	1	6
Osh	6	3			9
Reserve Osh			1	2	3
<b>Total</b>	<b>16</b>	<b>5</b>	<b>2</b>	<b>3</b>	<b>26</b>

In Bishkek, four of the loan officers with more than three months' experience are on the payroll of the bank, which is partially ahead of the mandatory take over time prescribed by EBRD.

Although program implementation moved forward, the fusion with Temirbank started taking its toll. As stated in last quarter's report, the expected fusion with Temirbank resulted in unwillingness on the part of the management to make significant changes or take strategic decisions. At the same time the Temirbank representatives at Ineximbank were also not actively implementing any changes. This situation did not change for most of the period of this report. As a result the MSFF was dealing with counterparts only halfheartedly on the job for most of the period of this report. Summoning credit committees became more and more

difficult, and a true willingness to move forward in an active and consequent manner was lacking as exemplified by the delays in selecting and renovating the additional premises (initially promised by the bank for mid-May).

On 05 June, the fusion with Temirbank was officially celebrated with a reception although the actual capital increase is only expected for July. In mid-June additional Temirbank staff arrived at the bank to strengthen existing staff. Currently, the consultants are discussing expansion of the program at the bank and the future organization of the MSFF at the bank with the management. On 25 June, EBRD (E. Lefting, J. Galieva) and IPC (M. Scheck), met with CEO, M. Kunakunov and the newly arrived staff from Temirbank, to discuss the future strategy of the bank for regional expansion. Although the bank is not planning on adding any full-fledged branches this year, the bank is investigating the possibility of opening additional smaller offices in the Chuy and Osh region.

### **AKB Kyrgyzstan**

During the period of this report 109 loans for 141,867 USD were disbursed. As of 30 June 2003 the outstanding portfolio was 259 loans for a volume of 300,311 USD.

**Table 5: Disbursements and Outstanding Portfolio of EBRD MSFF Micro and Small Loans at AKB Kyrgyzstan for the second 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
<b>AKB Kyrgyzstan</b>							
Apr	10	49	57370	1171	231	304333	1317
May	9	18	26308	1462	233	285995	1227
Jun	12	42	58189	1385	259	300311	1160
<b>Total</b>	<b>12</b>	<b>109</b>	<b>141867</b>	1302	<b>259</b>	<b>300311</b>	1160

**Table 6: The current loan officer distribution at AKB Kyrgyzstan**

<b>Time in Program/ city</b>	<b>More than 3 months</b>	<b>1 – 3 months</b>	<b>Less than 1 month</b>	<b>Selected but not yet in training</b>	<b>Total</b>
Bishkek	9				9
Reserve Bishkek	1	2	2	1	6
Tokmok	2	3	1		6
Reserve Tokmok					
<b>Total</b>	<b>12</b>	<b>5</b>	<b>3</b>	<b>1</b>	<b>21</b>

Not included are two loan officer candidates from Dzhalal Abad currently undergoing training.

The bank continued to use its own resources for MSFF lending. As discussed in a meeting between EBRD (E. Lefting, J. Galieva), IPC (M. Scheck) and CEO S. Sadebakasova, signing of a credit agreement with EBRD for 2.0 to 3.0 million USD (including up to USD 1.5 million IFC funds) is expected in mid-July or the beginning of August. On the operational level cooperation with the bank continued to go well. The launch of the program at the Tokmok branch went smoothly. The bank operationally resolved all key issues, i.e. furniture, equipment, phone lines and resources for the branch. The bank was also cooperative in refinancing those clients that had originally received a loan at the Kazkommertsbank Kyrgyzstan branch in Tokmok.

Currently, the consultants are preparing the ground for including the AKB branches in Osh and Dzhalal Abad.

In view of increasing crime, especially shuttle traders are becoming more reluctant to travel with large amounts of cash. AKB Kyrgyzstan is reacting to this by expanding its network of so-called “Sberkassi” (savings and deposit offices) at or close to important markets. Foremost, the bank is looking at adding such offices in Bishkek and in the south. The bank and the consultants are highly interested in using these offices for the MSFF and designing procedures in such a way that clients can physically receive their loans and make their loan payments at these offices. This strategic decision of the bank clearly exemplifies the management’s growing interest in MSE as a target group.

## Demirbank

As the cooperation with Demirbank has been suspended by EBRD until all procedural and policy questions are resolved, during the period of this report no loans were disbursed. As of 30 June 2003 19 loans for 24,298 USD were outstanding.

**Table 7: Disbursements and Outstanding Portfolio of EBRD MSFF Micro and Small Loans at Demirbank for the second 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
<b>Demirbank</b>							
Apr	1	-	-	-	20	33625	1681
May	1	-	-	-	20	29633	1482
Jun	1	-	-	-	19	24298	1279
<b>Total</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19</b>	<b>24298</b>	<b>1279</b>

**Table 8: The current loan officer distribution at Demirbank**

Time in Program/ city	More than 3 months	1 – 3 months	Less than 1 month	Selected but not yet in training	Total
Bishkek	1				1
Reserve Bishkek					
Osh					
Reserve Osh					
<b>Total</b>	<b>1</b>				<b>1</b>

On 24 March, the Board officially agreed to the EBRD Policy statement on the MSFF. The bank also included office space for the program loan officers in its plans for the new branch premises in Osh. Nevertheless, the internal procedures and decision-making structures at the bank are slowing down the actual completion of the prerequisites for a restart of active MSFF implementation. Since March, the bank has been working on redesigning its internal procedures to allow for efficient MSE lending based on the skeleton versions/templates provided by the MSFF. On 25 June, in a meeting between the EBRD (E. Lefting, F. Pillonel),

IPC (M. Scheck) and the bank (A. Parmaksiz, B. Moldobekova), the EBRD and Demirbank signed the Policy Statement. It was agreed to strive for completion of all the necessary changes to procedures/documents and policies by the end of July.

### **Kazkommertsbank Kyrgyzstan KKB (former Kyrgyz Avtobank)**

During the second quarter of 2003 90 loans for 204,665 USD were disbursed. The outstanding portfolio as of 30 June 2003 is 131 loans for 235,118 USD.

**Table 9: Disbursements and Outstanding Portfolio of EBRD MSFF Micro and Small Loans at Kazkommertsbank for the second 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
<b>Kazkommertzb ank</b>							
Apr	9	40	82720	2068	90	136887	1521
May	11	24	39949	1665	109	167771	1539
Jun	10	26	81996	3154	131	235118	1795
<b>Total</b>	<b>10</b>	<b>90</b>	<b>204665</b>	<b>2395</b>	<b>131</b>	<b>235118</b>	<b>1795</b>

**Table 10: The current loan officer distribution at KKB Kyrgyzstan:**

Time in Program/ city	More than 3 months	1 – 3 months	Less than 1 month	Selected but not yet in training	Total
Bishkek	4	1	1		6
Reserve Bishkek	1				1
Osh	4	1	2		7
Reserve Osh				1	1
<b>Total</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>15</b>

The concerns outlined in last quarter's report proved well founded. Deputy Manager and MSFF counterpart A. Shetpisbaev left the bank in mid-May. Throughout April and until his resignation in May, his unexplained absences increased in frequency and length. K. Nurtayev (previously Director of the Department of Commercial Network Sales Support at KKB in Almaty) has replaced A. Shetpisbaev. Furthermore, the bank took the decision to close the branches in Tokmok, Karabalta and Balykchi. In addition, the bank decided against the

originally agreed concept of maintaining MSFF lending outlets in these regions. As a result, the MSFF, which had only launched lending at the KKB branch in Tokmok in April, closed its operations at the Tokmok KKB branch in May. As the MSFF launched lending at the AKB Kyrgyzstan branch in Tokmok in May, the already outstanding MSFF clients were routed to AKB.

Nevertheless, this unexpected change in the strategy of KKB has implications for the expansion plans of the MSFF. As outlined in last quarter's report, the MSFF was looking at KKB as one partner in rapid regional expansion. The new strategy of the bank, concentrating on developing business in the main cities of the country and the bank's rejection of the notion of maintaining small lending outlets in the regions means that – at least in the mid-term – KKB will not be a partner for expansion into the more rural areas of the country. It should be noted that KKB Kazakhstan Managing Director, B. Apsenbetov, warned the MSFF to hold off on expansion to Dzhahal Abad as the future of this branch remains undecided as well. A decision on Dzhahal Abad is expected in July. At the same time, the bank increased its presence in Bishkek by opening a second branch in the city. The MSFF is also present at this second branch.

Overall, performance of the bank in those branches already included in the MSFF was disappointing. The personnel and strategy related changes at the bank resulted in delays and additional difficulties in daily operations. Budget issues, interest rate corridors and operational limits for the respective branches took unduly long to decide. In a meeting on 25 June, E. Lefting and M. Scheck discussed these issues with K. Nurtayev and expressed their dissatisfaction with results to date. Mr. Nurtayev explained the delays with the change in personnel, reiterated the bank's interest in developing MSE lending and its strategic priority of developing activities in Osh.

### 3. Seminars and Training

**Table 11**      **Number of loan officer candidates selected**

Month	No. of LO candidates selected
Apr	8
May	4
Jun	6

During the second quarter of 2003 seven loan officer selection cycles were conducted resulting in the selection of an additional 10 loan officer candidates in Bishkek and 8 in Osh. 17 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 special communications seminar for the loan officers from Bishkek and Tokmok was organized. In preparation for launching “express” loans, i.e. micro loans with simplified processing and collateral requirements, a first group of loan officer candidates from Bishkek and Osh was sent to Almaty for “express micro” training.

Table 12: The current distribution of loan officer candidates

Time in Program/ Bank	More than 3 months	1 – 3 months	Less than 1 month	Selected but not yet in training	Total
Inexim	8				8
AKB Kyrgyzstan	9				9
Demir	1				1
KKB	4				4
Reserve*	4	5	4	2	15
<b>Total Bishkek</b>	<b>26</b>	<b>5</b>	<b>4</b>	<b>2</b>	<b>37</b>
<b>Osh</b>					
Inexim	6	3			9
KKB	4	1	2		7
Reserve*			1	3	4
<b>Total Osh</b>	<b>10</b>	<b>4</b>	<b>3</b>	<b>3</b>	<b>20</b>
<b>Dzhalal Abad</b>					
AKB	0	2			2
KKB					
Reserve*					
<b>Total Dzhalal Abad</b>		<b>2</b>			<b>2</b>
<b>Tokmok</b>					
AKB	2	3	1		6
KKB					
Reserve*					
<b>Total Tokmok</b>	<b>2</b>	<b>3</b>	<b>1</b>		<b>6</b>
<b>Total</b>	<b>38</b>	<b>14</b>	<b>8</b>	<b>5</b>	<b>65</b>

\*not yet allocated to a specific bank

#### 4. Regional Expansion

In April, the MSFF expanded its activities to Tokmok. For the early fall (September), the MSFF is looking at expanding activities to Karabalta via AKB Kyrgyzstan. Currently, the MSFF is preparing the inclusion of AKB in Osh (July). In preparation for launching lending activities in Dzhalal Abad, the MSFF has started selecting and training loan officer candidates

from Dzhahal Abad. Initially, the MSFF will launch lending activities at AKB in Dzhahal Abad. This is planned for August/September 03.

## **5. Other Banks**

Due to lack of additional banks with sufficient financial strength, corporate governance and commitment to MSEs, at this time, no other banks are under consideration for inclusion into the MSFF. It is hoped however, that further investments from regional banks will have a positive impact on the banking sector, further widening the range of potential partner banks and lending channels.

## **6. Other Issues**

The establishment of a Credit Information Bureau<sup>1</sup> moved forward with the help of MSFF – although only slowly. In the meantime most of the larger financial institutions engaged in lending have declared their intention of participating.

The project of a new pledge law as proposed by the Ministry of Justice once again moved into the limelight. Already last year, the consultants and EBRD had made the Ministry of Justice and other offices of the administration aware of the shortcomings in the proposed law. The draft foresees mandatory registration of moveable property, does not provide for efficient and effective out-of-court settlement possibilities and procedures and, in some parts, conflicts with other legislation. M. Scheck participated in a inter-organizational working group comprising representatives of donors, commercial banks, MFOs, legal advisers, the NBKR, the Ministry of Justice, and other administration representatives, established with the goal of highlighting the issues and proposing alternatives. The group succeeded in slowing down the parliamentary process and putting forward alternative suggestions for review of the respective bodies.

In preparation for the EBRD MSE support project in Tadzhikistan, consultant S. Dziurman visited the MSFF to study the borrowers under the program.

## **7. Outlook**

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<sup>1</sup> The MSFF project manager, Marga Scheck, is a board member of the Credit Information Bureau.

During the second quarter of 2003, program expansion was slower and lending results lower than planned. The combination of seasonal factors, the noticeable exchange rate changes and the SARS related uncertainties played a role as well as the unexpected change in KKB's strategy and the slower than planned development of Ineximbank and Demirbank. Nevertheless, the program included Tokmok and preparations for expansion within Osh and to Dzhalal Abad are under way. At the same time, the developments of the last quarter once again exemplify the dependence of the program on the availability of reliable partner banks with a potential for out-reach and large-scale sustainable MSE lending.

The new concept of AKB Kyrgyzstan to open up small outlets at major markets is a welcome development in terms of increasing feasible lending opportunities. At the same time, the quality of the branch network of AKB Kyrgyzstan remains an area for concern. In view of the signed Policy Statement and agreement with Demirbank, active lending at this bank will most likely be resumed in August. During the fall, but depending on the future developments at the branch in Osh (there still are repercussions of the theft of 80 000 USD – see last report), Demirbank Osh may be included. The actual reorganization at Ineximbank will only go ahead during the second part of the year and will most likely temporarily negatively impact the efficiency of MSFF operations at the bank. The decision of KKB to concentrate business in two or at most three cities and the unexpected rejection of the lending outlet concept reduces the number of feasible opportunities for rapid regional expansion. Consequently, for the next quarter the MSFF will concentrate on expanding its presence in already included regions and on adding the Dzhalal Abad region.