

**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 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.



## **MSME Finance – a corner stone of EBRD operations in the transition region**

- 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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