

Kyrgyz Republic



European Bank
for Reconstruction and Development

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The EBRD's operations in the Kyrgyz Republic are focused on private sector development, especially support for micro, small and medium-sized enterprises (MSMEs). The financial and infrastructure sectors are also important priorities. Transition challenges remain significant but there seems to be serious commitment from the new government towards reform.

Highlights in 2012

Despite a difficult economic situation in 2012 the EBRD signed 12 transactions in the Kyrgyz Republic, worth €15 million in total.

The Bank signed six corporate sector projects in 2012. These included a US\$ 500,000 loan to Osko, a leading Kyrgyz dried fruits producer to improve its production and storage, as well as financing for one of the best office buildings and a new-mid-market hotel and expansion of an existing one in Bishkek, the capital city. The Bank has also funded energy efficiency equipment and modernised storage facilities for a major distributor and processor of sea products in the country.

Through the Business Advisory Services programme in the Kyrgyz Republic, funded by the government of Switzerland, the Bank implemented 112 projects with MSMEs and provided €474,000 in grants to help local enterprises work with local consultants to improve performance, quality, energy efficiency and export potential.

In the finance sector, the EBRD continued to support the country's local banks and microfinance institutions by signing four agreements in local currency – an important part of the Bank's work in the country. These included a loan to Bai Tushum and Partners to help the microfinance institution transform itself into a bank (see case study). It also saw the creation of a new US\$ 20 million Kyrgyz Sustainable Energy Efficiency Facility (KyrSEFF) to provide finance, technical assistance and other support for small-size energy efficiency

improvements in the residential, service, agribusiness, SME and industry sectors. The Bank also engaged in policy dialogue and technical cooperation throughout the year to help stabilise the banking sector, strengthen deposit insurance, enhance regulation of the microfinance sector and develop local currency capital markets.

In the municipal infrastructure sector in 2012 the Bank has signed a project to improve water supply and wastewater treatment in the city of Kara-Balta, implemented a tender to purchase new trolleybuses in Bishkek and opened the co-financed Osh-Isfana road to improve regional infrastructure.

The Bank has also assisted the Kyrgyz government's adoption of the EU Directive on Energy Performance of Buildings, bringing standards in the country in this area in line with the EU member states. The Bank engaged in policy dialogue as well providing software tools, training modules and capacity building support to help in this achievement and the legislation means Kyrgyz Republic becomes the first CIS country to adopt EU best practice in this area. The measures are expected to create a thriving new market in the country for energy efficiency in buildings and high performing sustainable energy technologies.

In 2013, the Bank will continue to provide technical assistance, policy dialogue and direct investment to improve the investment climate, develop local markets and strengthen governance throughout the country.

At a glance

Number of operations signed
93

Net cumulative business volume
€421 million

Cumulative disbursements
€347 million

Portfolio
€201 million

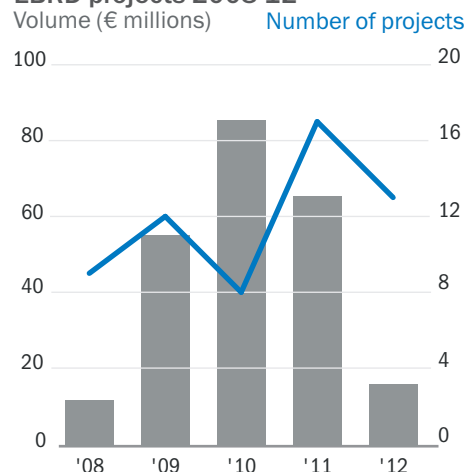
Number of active operations
42

Operating assets
€131 million

Private sector share of portfolio
76%

Business volume year to date
€1 million

EBRD projects 2008-12



Country strategy

The EBRD's main priorities in the Kyrgyz Republic, as defined in the country strategy (approved in 2011), are to foster the private sector, stabilise and develop the financial sector, support critical infrastructure and continue policy dialogue and technical cooperation in selected areas.

In developing the corporate sector the EBRD targets direct and co-financing with local banks to private businesses with the aim of increasing productivity, the production of higher value-added goods that can be competitive in foreign markets, raising business standards and improving energy efficiency. The Bank will also enhance small business support

activities with a particular focus on the agricultural sector, particularly in rural areas.

In the financial sector, the EBRD will continue to focus on promoting stabilisation, intermediation and confidence-building by providing its partner financial institutions with targeted loans – where possible in local currency – to reduce financial institutions' foreign exchange risks. It will also seek opportunities for co-financing road rehabilitation and regional and municipal infrastructure, including water supply, solid wastewater management and urban transport to cover more cities in the country.

Using local currency loans to reach smaller entrepreneurs in Kyrgyz Republic

The EBRD responded to increasing demand for local currency funding from small companies and entrepreneurs in the Kyrgyz Republic with a new local currency loan, worth the equivalent to US\$ 4 million, to microfinance bank Bai Tushum and Partners.

Bai-Tushum is a long-standing partner of the EBRD and has a strong record in reaching out to small entrepreneurs throughout the country. The loan will be used to expand Bai Tushum's lending to MSMEs and help meet growing demand for local currency funding, especially in agribusiness and in the remote

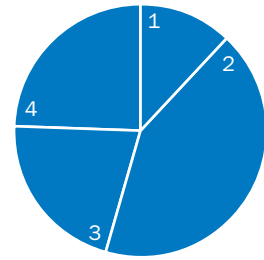
southern regions of the country.

The loan will also be used to support the transformation of the microfinance company into a bank, the first successful example in the region, which will have a positive impact on the competitiveness of the banking sector.

Local currency funding plays an important role in the EBRD's lending strategy as a way of reducing foreign currency exposure for borrowers and is especially important in Kyrgyz Republic where there is a severe shortage of local currency lending and market hedging instruments.



Sector breakdown of current projects



1	Industry, Commerce & Agribusiness	12%
2	Energy	42%
3	Financial institutions	21%
4	Infrastructure	24%

- 1 Corporate comprises agribusiness, manufacturing and services, property and tourism and telecommunications
- 2 Energy comprises natural resources and the power sector
- 3 Financial sector includes investments in micro, small and medium-sized enterprises via financial intermediaries
- 4 Infrastructure comprises municipal environmental infrastructure and transport

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