

US SME Special
Fund, Russia
Small Business
Fund and
microfinance

04

“The United States places tremendous importance on the development of micro, small and medium-sized enterprises in the EBRD’s countries of operations and around the world.”

Mark Sullivan, Director for the United States, EBRD

Micro and small enterprise (MSE) lending programmes have been active since 1994. The programmes aim to provide local banks with technical assistance and funds for lending to local MSEs, which have the potential to provide employment and income. A range of programmes are currently active in the EBRD’s countries of operations. A list of MSE initiatives, including performance details, is shown in the table on page 35.

The MSE lending programmes have received significant volumes of support from donor agencies. Since 1994 contributions from official agencies have amounted to €225.6 million in the form of both technical cooperation funds (€133.1 million) and official investment co-financing funds (€92.5 million). As shown in the table on page 35, a total of 13 donor agencies have supported the MSE lending programmes, working either through the Russia Small Business Fund (RSBF) - which commenced in 1994 and is the largest of the individual programmes - or through individual MSE initiatives.

The United States has been the largest supporter of MSE programmes, contributing €65.6 million (almost 30 per cent of total

contributions) to date. The US supports the US SME Special Fund, the RSBF and a number of individual programmes, with funding being allocated to technical cooperation and on-lending windows. The EU has similarly provided significant support to the programmes, contributing €50 million through RSBF and other vehicles including the Investment Preparation Facility and stand-alone project support arrangements. Japan is the third largest MSE contributor, providing €32 million in support, mainly in the form of investment funds to RSBF. Major MSE support has also been provided by Canada, France, Germany, Italy, Switzerland and the United Kingdom.

Record lending volume in 2002

The MSE lending programmes have been effective instruments for converting donor support into loans to recipients. The programmes have disbursed over 260,000 loans to local businesses for an amount of over €2.2 billion, with loan repayment arrears over 30 days still at only 0.86 per cent. In 2002 alone, 124,000 loans were disbursed. December 2002 was a record month with 13,552 loans for €78 million, which indicates that growth is expected to continue apace in 2003.

During 2002 projects were initiated in Armenia, the Kyrgyz Republic and Romania, bringing the number of MSE projects to a total of 11 dedicated microfinance institutions (MFIs or micro banks). There are seven partner bank (PB) programmes with a total of 30 participating banks currently in operation. The most successful projects in terms of number and volume of loans extended to MSEs in this period were those in Bulgaria, Kazakhstan, Ukraine and in Russia, where growth has in some cases exceeded 200 per cent. The Kazakhstan Small Business Programme reached over 20,000 MSEs in 2002 and has steadily decreased its average loan size, providing smaller loans to micro businesses which are most in need of resources. KMB in Russia, the EBRD’s most successful microfinance bank, has reached nearly 50,000 borrowers since opening in 1999, more than doubling its outreach in 2002. In Bulgaria, the newly established MFI ProCredit Bank (which opened its doors to clients in October 2001) has exceeded all its targets, initiated the doubling of its share capital and is seeking further loan funding. It is now disbursing close to 800 loans each month.

Micro and small enterprise lending programmes in the EBRD's countries of operations

The following table indicates the performance of MFIs and programmes with partner banks.

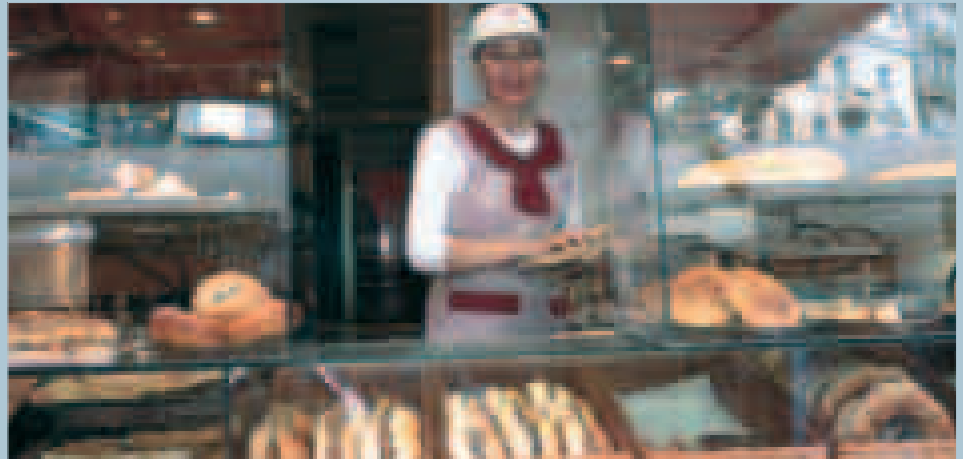
Country	Project	Project start date	No. of loans granted	US\$ amount of loans granted	US\$ average loan amount	US\$ amount of loans outstanding	No. of loans outstanding	US\$ arrears > 30 days	Arrears % > 30 days
Albania	FEFAD Bank	Jan-96	13,291	87,389,597	6,575	33,039,970	4,782	641,026	1.94%
Armenia	SME Credit Line	Oct-02	27	1,467,000	54,333	915,164	24	22,467	2.45%
Azerbaijan	MFBA	Nov-02	331	381,428	1,152	298,545	320	0	0.00%
Belarus	Micro Lending	Apr-01	558	7,201,786	12,906	3,170,600	333	13,460	0.42%
Bosnia and Herzegovina	MEB	Nov-97	16,458	83,391,184	5,067	33,965,356	6,077	228,058	0.67%
Bulgaria	ProCredit	Oct-01	8,375	50,509,645	6,031	32,250,198	5,758	12,228	0.04%
Georgia	MBG	May-99	21,051	102,011,820	4,846	28,590,275	7,208	785,361	2.75%
Georgia	SME Credit Line	Oct-00	824	3,770,250	4,576	1,676,713	510	42,945	2.56%
Kazakhstan	KSBP	May-98	44,365	259,314,750	5,845	75,918,198	18,387	459,883	0.61%
Kosovo	MEB	Feb-00	9,960	65,624,074	6,589	27,540,401	5,532	143,210	0.52%
Kyrgyz Republic	MSEFF	Apr-02	457	984,912	2,155	709,935	407	0	0.00%
Moldova	MEC	Dec-99	2,672	11,886,422	4,449	4,274,942	1,316	461	0.01%
Romania	MIRO	Jan-00	3,689	19,946,834	5,407	10,922,672	2,718	53,521	0.49%
Russia	RSBF (inc KMB)	Aug-94	121,532	1,115,575,027	9,179	187,064,767	33,992	1,918,682	1.03%
Serbia & Montenegro	MFB	Apr-01	7,205	58,432,487	8,110	37,712,513	5,365	201,662	0.53%
Ukraine	UMLP (inc MFB)	Sep-98	30,779	208,100,075	6,761	58,531,325	14,840	343,819	0.59%
Uzbekistan	J-USBP	Apr-01	1,814	5,060,625	2,790	1,094,397	788	58,985	5.39%
Average					7,343				0.92%
Total			283,388	2,081,047,915		537,675,970	108,357	4,925,767	

Donors supporting micro and small enterprise lending programmes

Donor	RSBF TC Funds	Other TC Funds	RSBF Investment Funds	Other Investment Funds (On-lending, First Loss)	Total (€)
Canada	4,730,841	801,808	2,844,100	–	3,645,908
EU*	23,499,122	15,571,850	–	10,937,500	50,008,472
France	5,407,196	–	8,611,495	–	14,018,692
Germany	3,392,523	3,274,410	10,626,168	–	17,293,101
Italy	1,574,994	–	9,640,187	–	11,215,181
Japan	3,738,318	3,990,282	24,299,065	–	32,027,665
Luxembourg	–	500,000	–	–	500,000
Netherlands	–	36,400	–	–	36,400
Norway	–	341,272	–	874,326	1,215,598
Switzerland	1,448,399	235,000	2,803,738	2,523,364	7,010,501
Taipei China	–	262,412	–	3,738,318	4,000,730
United Kingdom	14,058,656	201,241	–	–	14,259,897
United States	29,345,140	20,662,446	7,570,748	8,054,376	65,632,709
Total	87,195,190	45,877,121	66,395,502	26,127,884	220,864,855

* provided on a parallel basis

Photo: Small business support



Ukraine Micro Lending Programme

Following the success of lending operations under the Russia Small Business Fund, the EBRD designed a similar programme in Ukraine in 1998. Originally the Ukraine Micro Lending Programme (UMLP) began with five banks which since 1997 had been participating in the German-Ukraine Fund run by KfW. The UMLP is currently working with six banks, including MFB Ukraine, in which the EBRD is a shareholder. The Bank currently provides TC funds originating from KfW, the EU and USAID, as well as on-lending funds for the development of competent MSE loan departments.

While the EBRD programme started out relatively well with loans typically in the range of US\$ 7,000 to US\$ 50,000 (€6,350 to €45,000), most of the local partner banks were reluctant to adopt the procedures necessary for mass level lending. They were not willing to go down in loan size to micro clients, as it was apparent that this was not a target group they particularly wanted to acquire. Moreover, the banks became extremely conservative following the Russian crisis of 1998, even though their MSE portfolios did not suffer any losses.

Given the failure to make satisfactory progress with the partner banks, it was clear that if the EBRD wanted to reach MSEs at any significant level, a specialised microfinance bank would be needed. This would also give the Bank leverage in dealing with partner banks which had become less than enthusiastic about the target group. Starting a specialised bank, MFB Ukraine, provided the impetus needed to get partner banks to move down in loan size, accept advice and training and improve conditions for micro and small firms. The partner banks are now disbursing more than 1,300 loans per month compared with 250 prior to the establishment of MFB, while MFB has already reached over 1,200 loans per month. The average disbursed loan size for PBs has decreased from above US\$ 10,000 (€9,100) to US\$ 5,000 (€4,500), which compares well with MFB's average loan size of US\$ 4,600 (€4,200). Growth in lending is strong, with an increase of 38 per cent in monthly disbursements over the last quarter alone. Given the positive development, other banks have shown interest and it has been possible to include two new partner banks and further expand the programme.

The UMLP has trained more than 600 loan officers and set up MSE loan departments in 33 regions across the country. The challenge now is to engage the whole branch network of the partner banks in MSE finance and expand the operations of MFB.

Selena: a UMLP case study

Selena, a small family-run soft toy production company, is one of a number of projects successfully financed by the Ukraine Micro Lending Programme (UMLP). Suffering from a lack of resources, Selena tried to get a US\$ 5,000 (€4,500) loan from two banks, but was unsuccessful because the loan amount was too small. The problem for Selena was that the production cycle from purchasing raw materials to finally receiving cash from clients was long, and with their limited working capital they could only sustain a small production volume. The company finally received a loan but only under the condition of US\$ 5,000 (€4,500) cash collateral. They were told this was needed to establish a 'credit history'. The company received its first MFB loan in February 2001, days after the opening of the bank. Processing time was quick and the collateral provided was goods on turnover. The initial amount was US\$ 11,250, (€10,200) with a further US\$ 17,000 (€15,400) subsequently granted. The company purchased raw materials in Poland with the loan proceeds. The loans have enabled Selena to significantly increase turnover and to free up capital for investment into the expansion of production capacities. Since February 2001 Selena has increased its staff from eight to 25 employees. The company is currently in the process of constructing new premises in their courtyard.

In order to expand on the continuing success of the EBRD's MSE lending programmes, TC funds are needed to enable the programmes to operate in more regions and in more banks. Demand for MSE financing is growing across the EBRD's countries of operations, particularly in south-eastern Europe and in early and intermediate transition countries

where entrepreneurship is now beginning to flourish. MSE lending programmes with partner banks and the establishment of dedicated MFIs have begun to address this demand, but more outreach is necessary to encourage the creation and expansion of micro and small enterprises, with all the benefits they bring to local economies.

Further expansion of the Russia Small Business Fund, the UMLP, the MFIs in Azerbaijan, Georgia, Moldova, Romania and Serbia and Montenegro, and the full-scale micro lending programme in Belarus is urgently needed. Funding is being sought to ensure the presence of an adequate number of MSE lending branches in these countries.

EBRD countries of operations where MSE lending programmes are in place

- | | |
|---------------------------|--------------------|
| 01 Belarus | 09 Bulgaria |
| 02 Ukraine | 10 Russia |
| 03 Moldova | 11 Georgia |
| 04 Romania | 12 Armenia |
| 05 Serbia and Montenegro | 13 Azerbaijan |
| 06 Bosnia and Herzegovina | 14 Uzbekistan |
| 07 Albania | 15 Kyrgyz Republic |
| 08 FYR Macedonia | 16 Kazakhstan |

