UNIVERSITY OF CENTRAL ASIA
GRADUATE SCHOOL OF DEVELOPMENT
Institute of Public Policy and Administration

UCA

SME Finance in the Kyrgyz Republic – Current Situation and Challenges
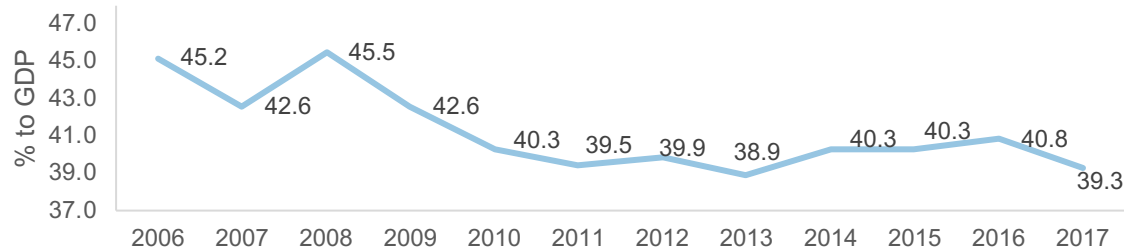
Kanat Tilekeyev

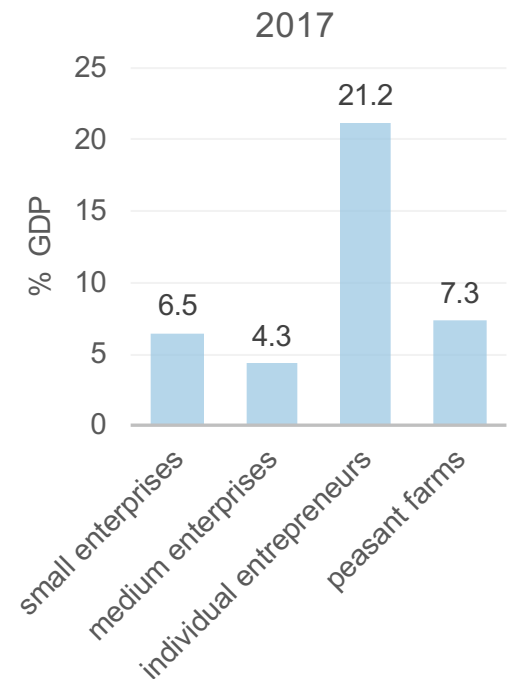*Institute of Public Policy and Administration of the University of Central Asia*

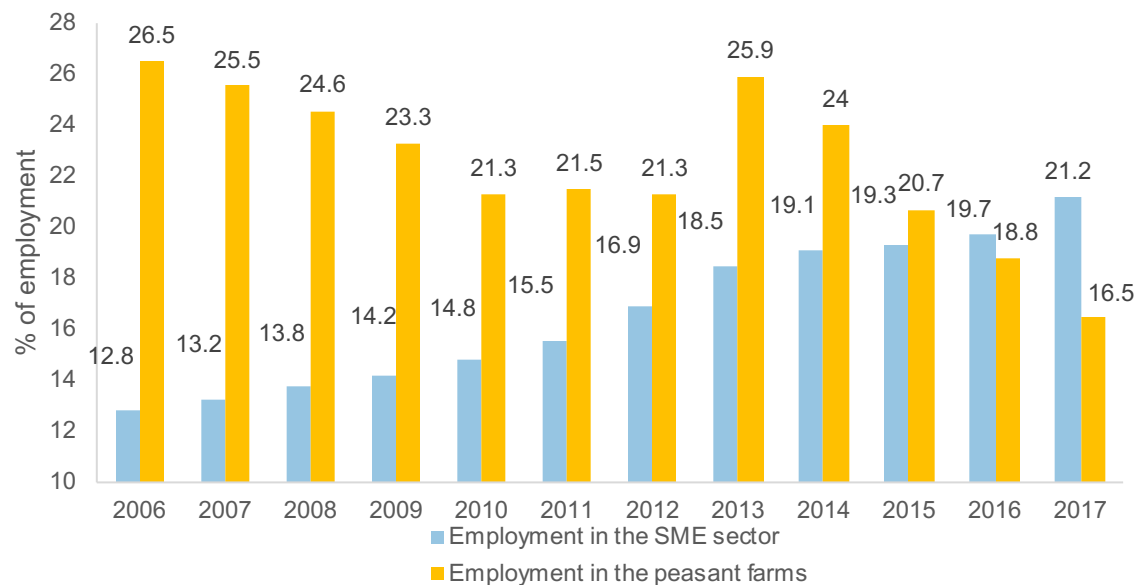**Astana, November 2018**

SME sector in Kyrgyzstan

SME share in the economy in 2006-2017, % of GDP

SME sector contribution by type of entrepreneurs in Kyrgyzstan in 2017, % of GDP
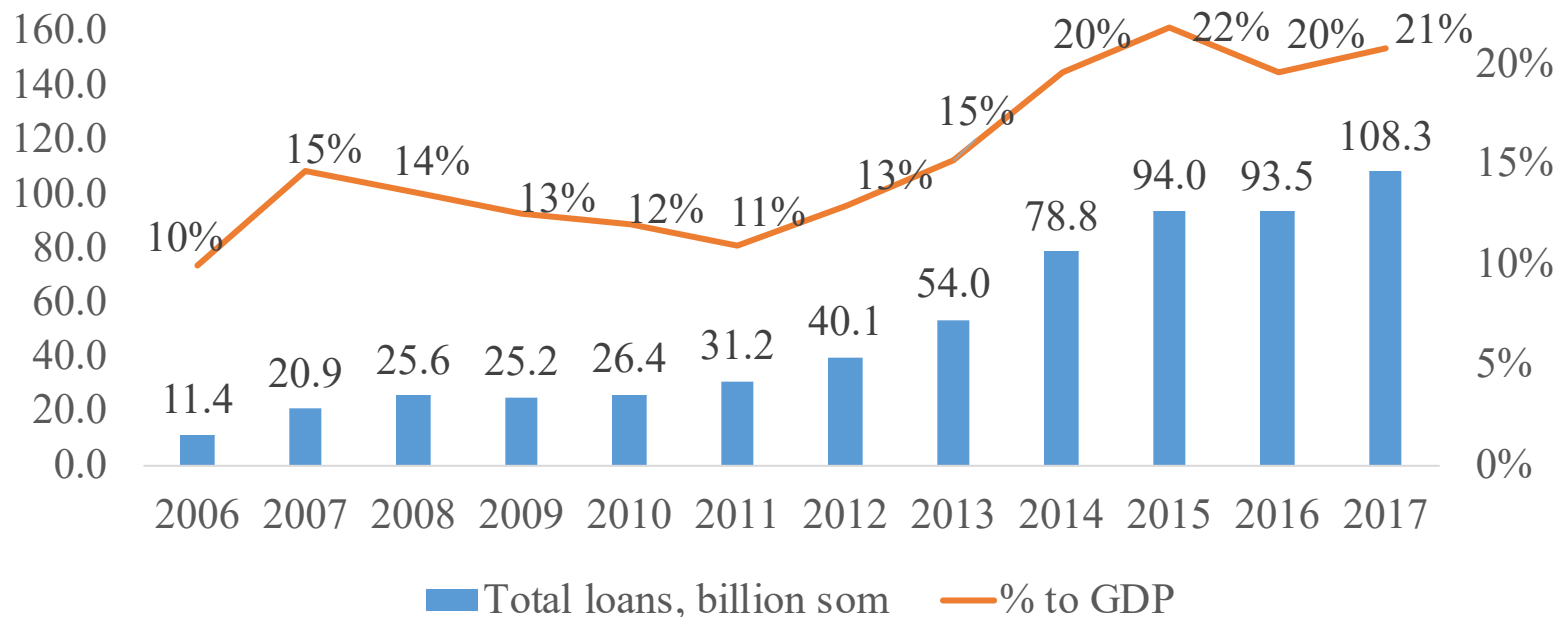

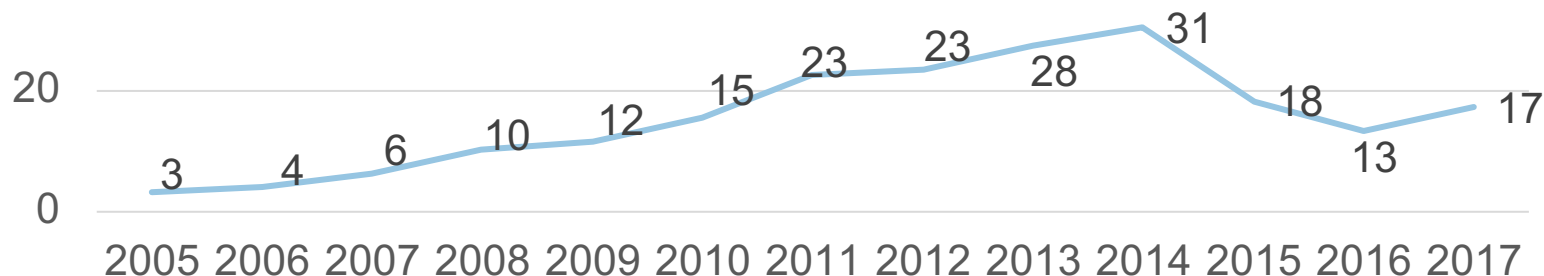## Employment in SME sector in Kyrgyzstan in 2006- 2017, %

Access to finance

- ## Access to finance improved in Kyrgyzstan

Total volume of loans (billion som) and share to GDP (%)
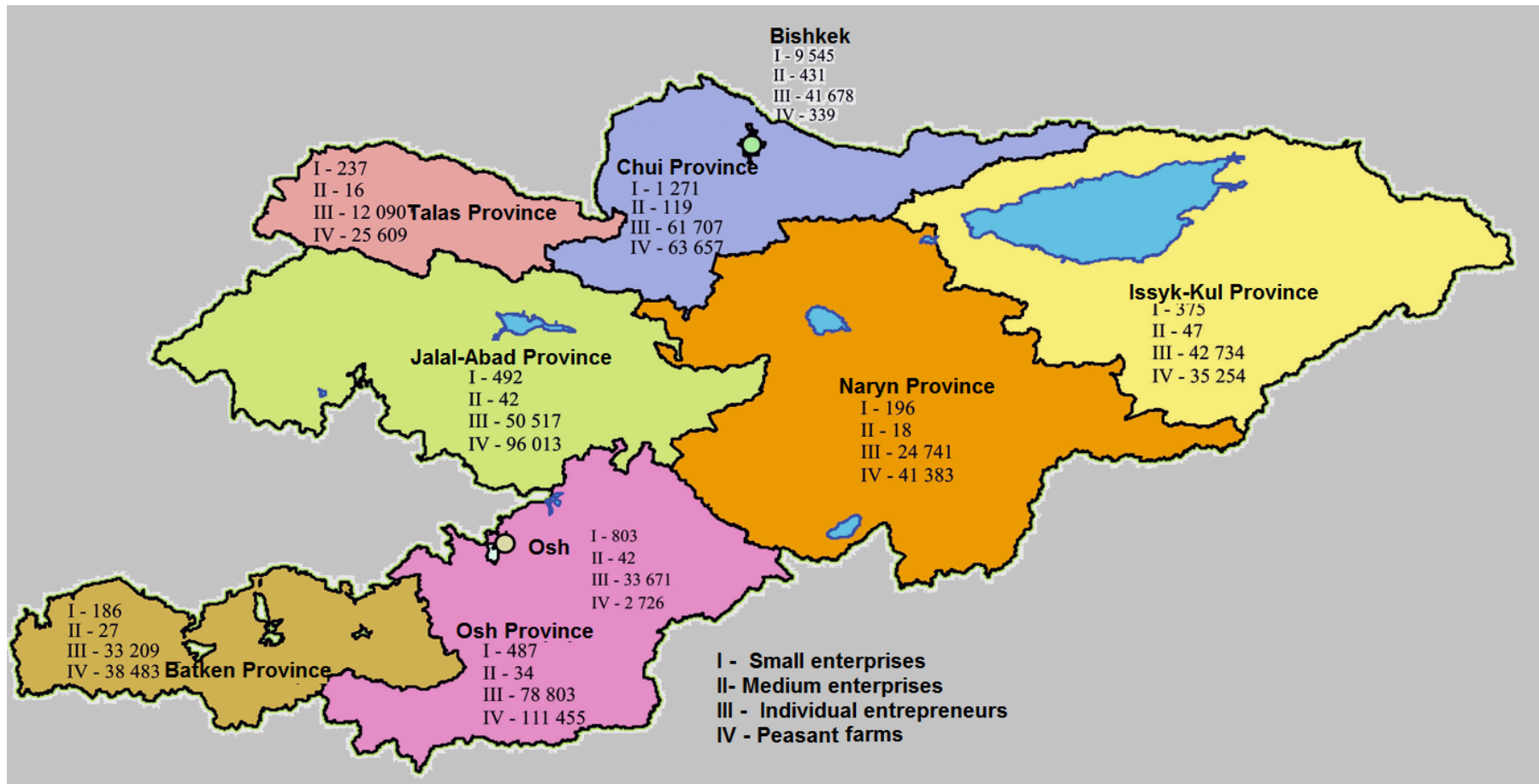

Volume of microcredits, billion som

SME financial inclusion

- Two types of SME
  - Firms (medium and small enterprises)
  - Individual entrepreneurs, including farmers
- Most SME concentrated in Bishkek and Chu Province

Bishkek
I - 9 545
II - 431
III - 41 678
IV - 339

I - 237
II - 16
III - 12 090 **Talas Province**
IV - 25 609

Chui Province
I - 1 271
II - 119
III - 61 707
IV - 63 657

Issyk-Kul Province
I - 375
II - 47
III - 42 734
IV - 35 254

Jalal-Abad Province
I - 492
II - 42
III - 50 517
IV - 96 013

Naryn Province
I - 196
II - 18
III - 24 741
IV - 41 383

I - 803
II - 42
III - 33 671
IV - 2 726
Osh

I - 186
II - 27
III - 33 209
IV - 38 483 **Batken Province**

Osh Province
I - 487
II - 34
III - 78 803
IV - 111 455

I - Small enterprises
II - Medium enterprises
III - Individual entrepreneurs
IV - Peasant farms

SME financial inclusion (2)

Average annual value added for all types of SMEs in Kyrgyzstan in 2005-2017, thousand US dollars per 1 business entity
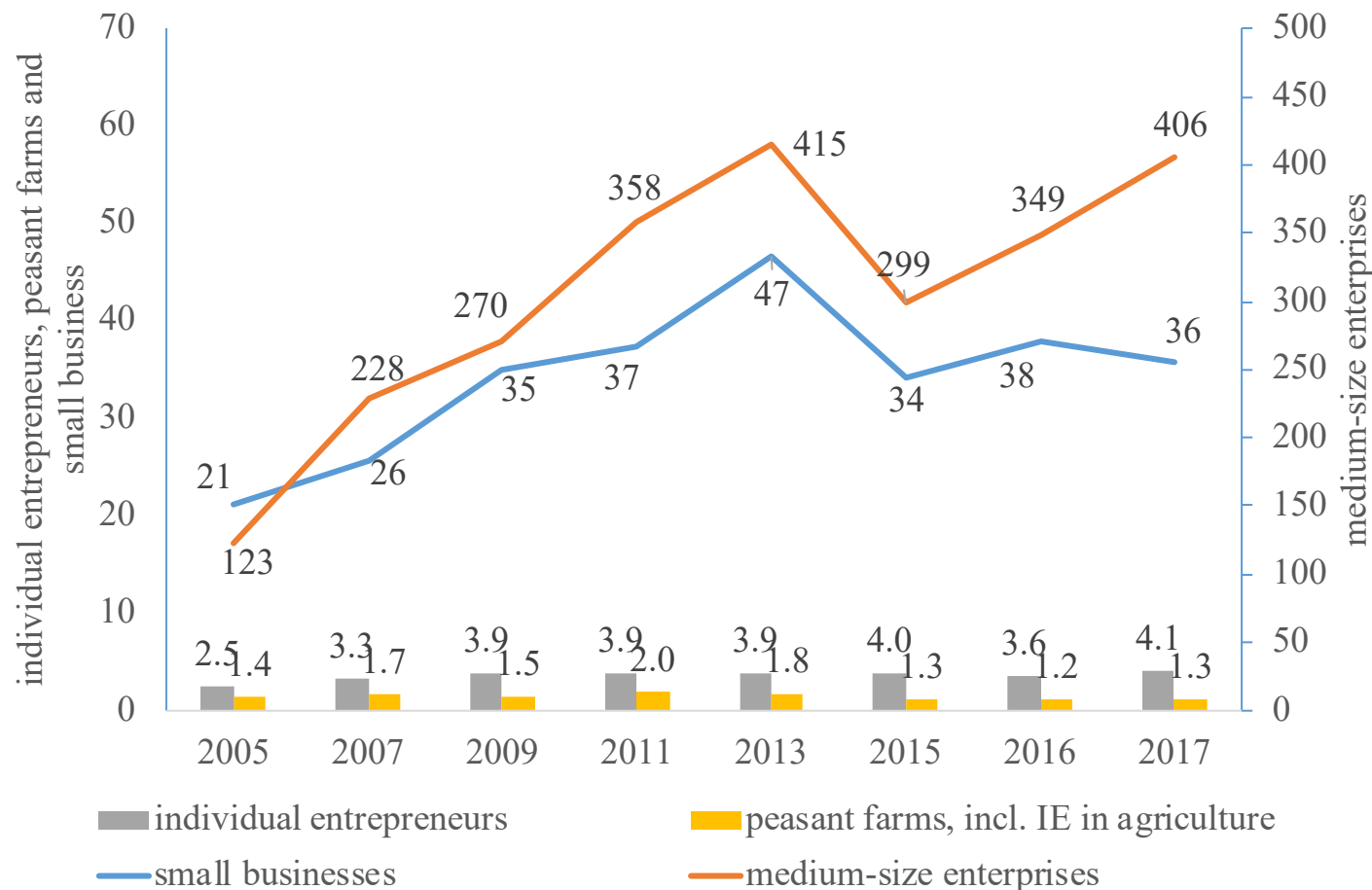
SME financial inclusion (3)

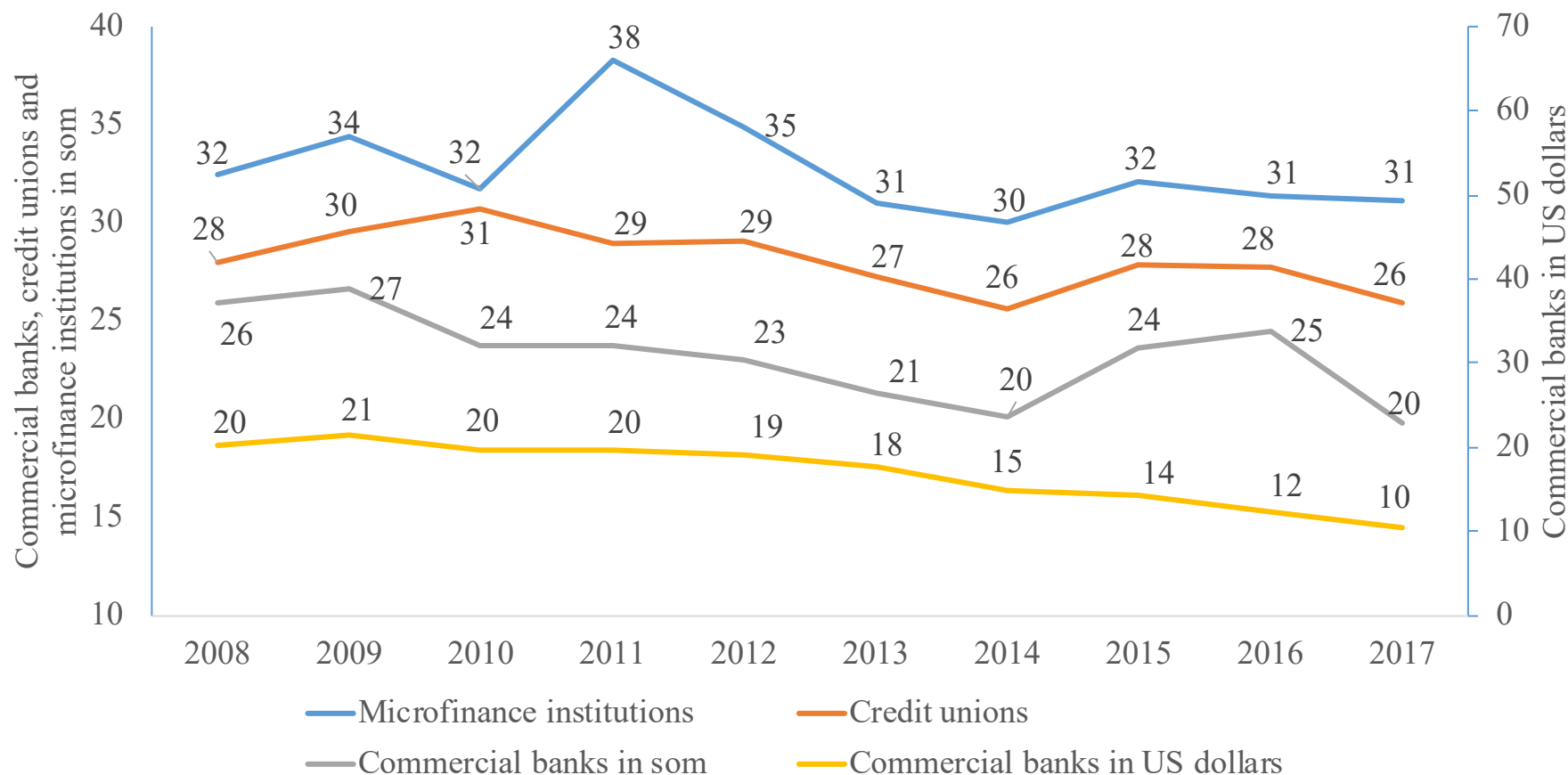**The dynamics of the bank credit in Kyrgyzstan in national and foreign currencies in 2008-217, billion som**
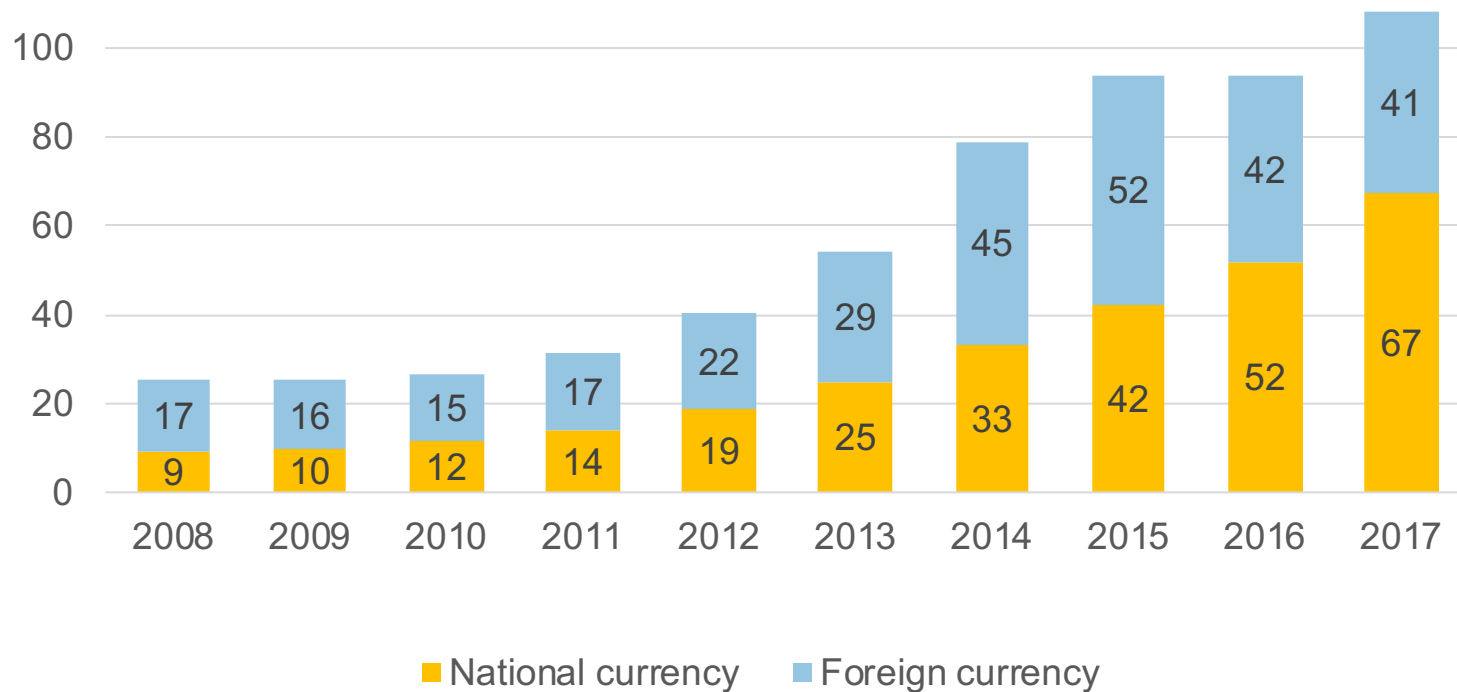
SME financial inclusion (4)

Weighted average interest rate of the commercial banks and non-banking financial institution in 2008-2017, %

SME financial inclusion (5)

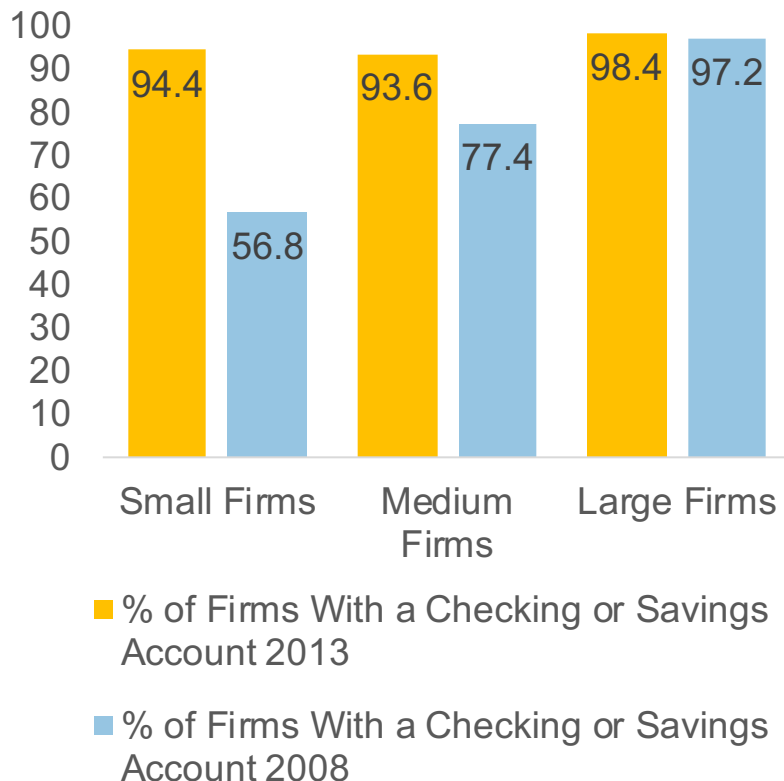| #		Total credits in 2017	Including		Total credits in 2016
			Banks	Microcredit org.	
I	Total volume of credits at the end of year, million som	122,607	108,749	13,858	100,531
1	Agriculture	21%	20%	25%	22%
2	Processing production	7%	8%	1%	8%
3	Construction	8%	8%	8%	5%
4	Trade & repair services	27%	29%	15%	33%
5	Transport & warehouses	2%	2%	2%	1%
6	Hotels & restaurants	1%	1%	0%	1%
7	Mortgages (housing credits)	9%	9%	1%	4%
8	Consumer credits	13%	10%	33%	12%
9	Other sectors	12%	13%	15%	14%

Financial knowledge

- **Financial literacy of population is weak**
- **National Bank support assessment of the financial literacy and promote financial knowledge dissemination**
- **www.finsabat.kg**

Barriers to SME finance

- ## Access to finance improves for SME segment

Firms with the bank account in Kyrgyzstan in 2008 and 2013,%

Bar chart: Firms with bank account
- Small Firms: 94.4 (2013), 56.8 (2008)
- Medium Firms: 93.6 (2013), 77.4 (2008)
- Large Firms: 98.4 (2013), 97.2 (2008)

■ % of Firms With a Checking or Savings Account 2013

■ % of Firms With a Checking or Savings Account 2008

Firms with the credit in Kyrgyzstan in 2008 and 2013,%

Bar chart: Firms with credit
- Small Firms: 24.4 (2013), 13.7 (2008)
- Medium Firms: 28.1 (2013), 19.2 (2008)
- Large Firms: 42.3 (2013), 50.6 (2008)

■ % of Firms With Bank Loans/Line of Credit 2013

■ % of Firms With Bank Loans/Line of Credit 2008
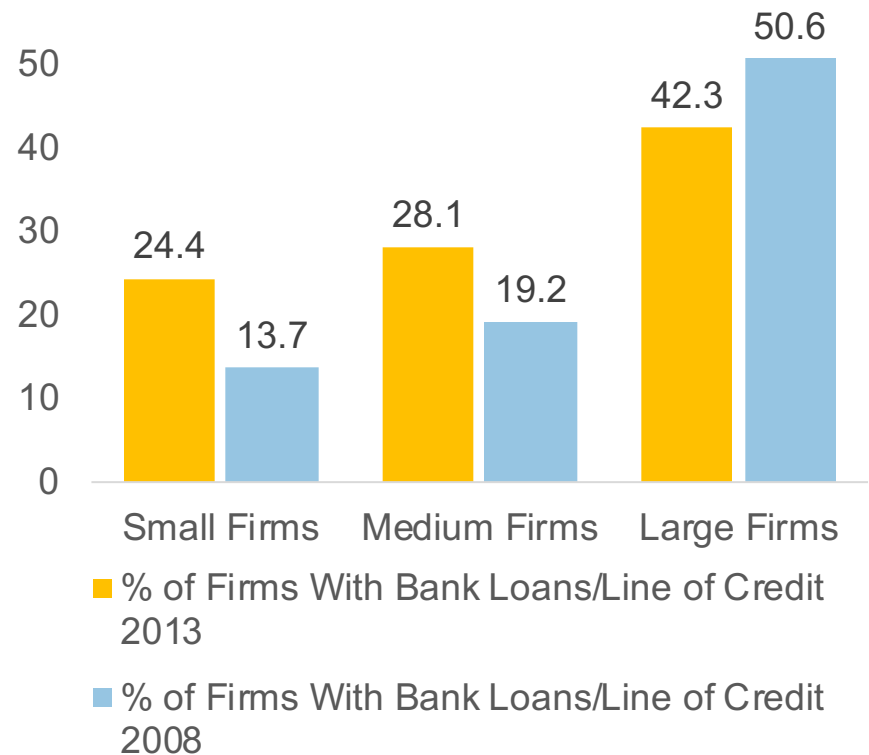
Source: Enterprise Survey The World Bank (2014), SME Diagnostic (2012)

Barriers to SME finance (2)

Financing sources for investment in Kyrgyzstan in 2013, %
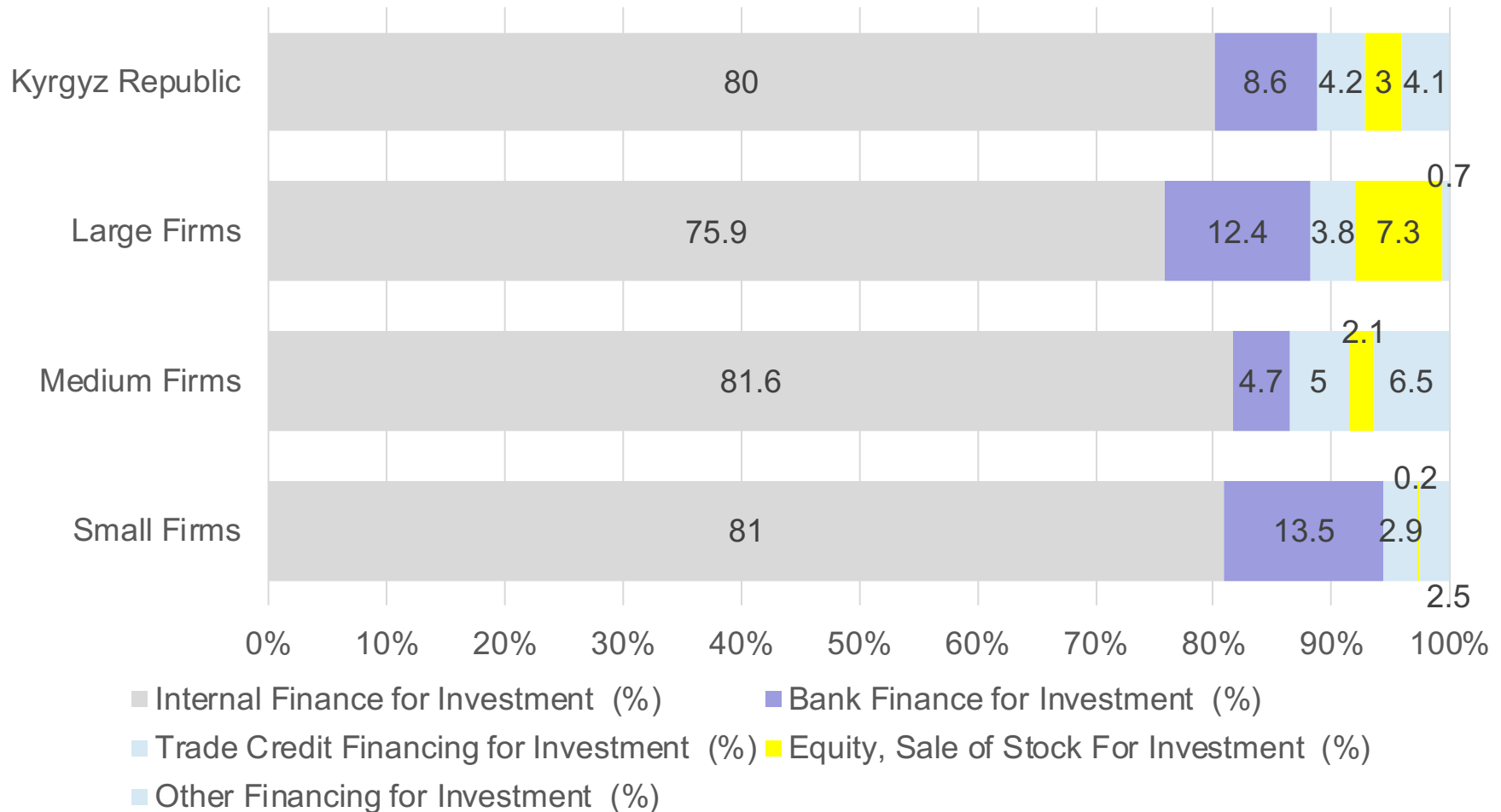
Source: Enterprise Survey, World Bank (2014)

Barriers to SME finance (3)

Assessment of the getting credit in Kyrgyzstan in 2018

Indicator	Kyrgyz Republic	Europe and Central Asia	OECD countries
Strength of legal rights index (0-12)	9	6.6	**6.0**
Depth of credit information index (0-8)	6	6.3	**6.6**
Credit registry coverage (% of adults)	0.0	22.2	**18.3**
Credit bureau coverage (% of adults)	**37.0**	**42.8**	**63.7**

Source: World Bank (2018) Doing Business

Dairy Sector Value Chain

Structure of the export of milk and milk products from Kyrgyzstan in 2006 – 2017, million US dollars

Legend:
- Milk and cream
- Milk and cream concentrated
- Buttermilk, yoghurt, kephir
- Whey
- Butter
- Cheese and curd
- Ice cream
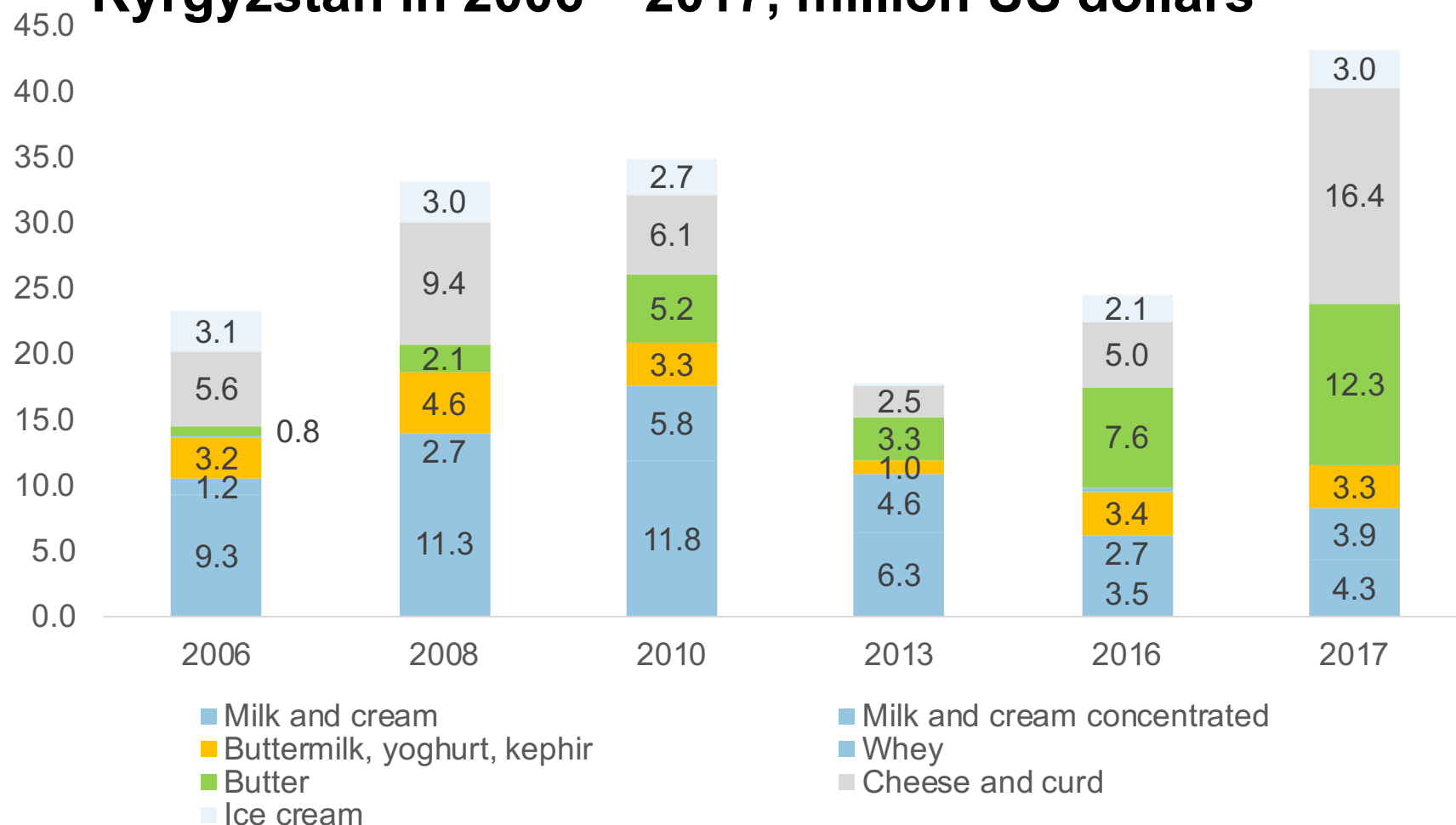
Source: UN Comtrade, Eurasian Economic Commission (http://www.eurasiancommission.org/)

Dairy Sector Value Chain (2)

Milk Export Value Chain Structure

Farmers:
more than 10 thousand milk farmers

Agents (Milk Collectors):
around 200

Milk Factory:
15 exporting milk factories

Domestic retail networks
100 supermarkets and 1000 shops

Trading Partners-Exporters:
10-12 firms

Kidney Bean Sector Value Chain

Export of goods and kidney beans share in exports in 2009-2017

	2009	2010	2011	2012	2013	2014*	2015	2016	2017
Export of goods, million USD	1,178.3	1,488.4	1,978.9	1,683.2	1,773.2	1,640.6	1,441.5	1,544.6	**1,7839.7**
Export of beans, million USD	29.6	35.1	51.8	48.2	73	62	43.7	55	**45.2**
Export of beans, thousand tons	53.3	57	76.4	61.4	61.7	53.1	66.7	83.7	**54.6**
Share of beans in the export, %	**2.5%**	**2.4%**	**2.6%**	**2.9%**	**4.1%**	**3.8%**	**3.0%**	**3.6%**	**2.5%**

Source: UN COMTRADE, * State Customs Service under the Government of the Kyrgyz Republic

Kidney Bean Sector Value Chain (2)

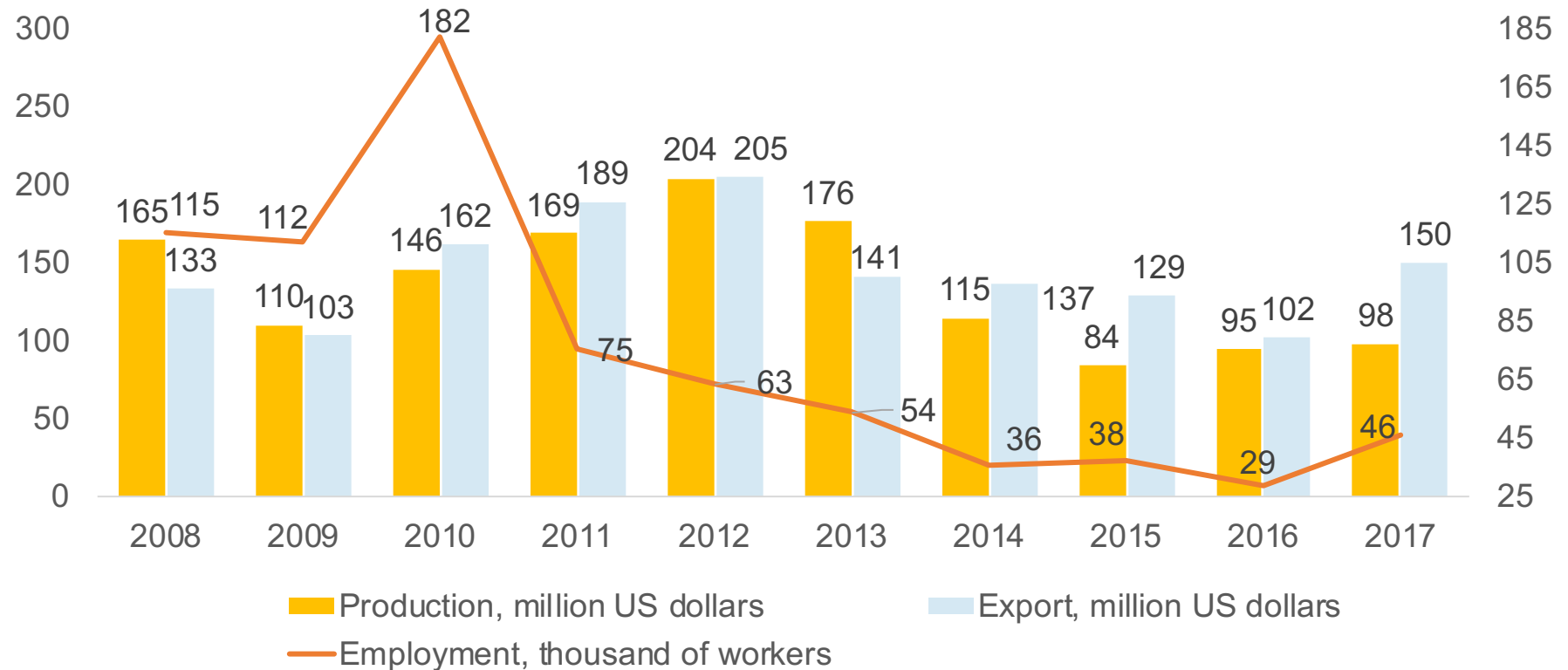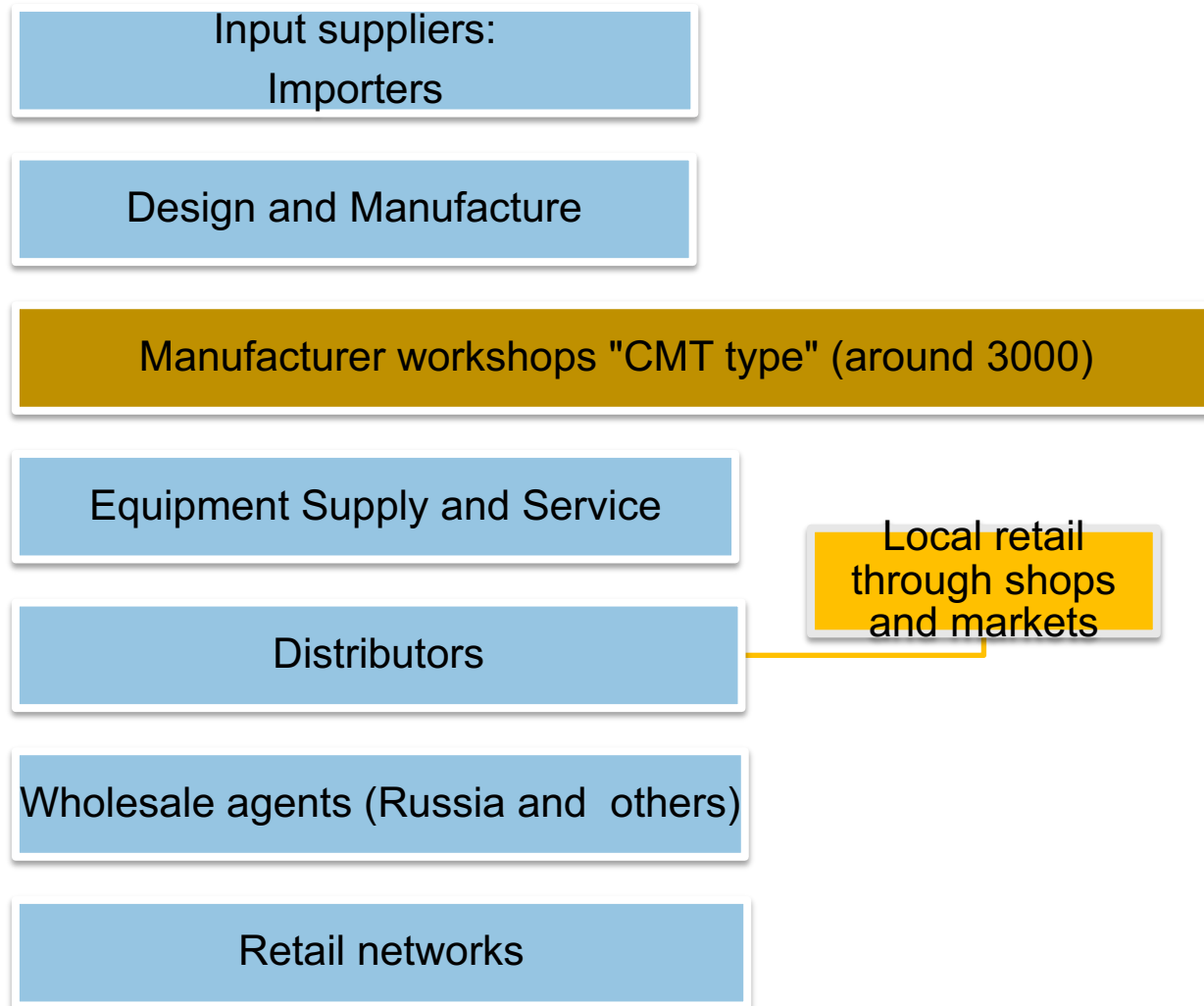| Farmers: more than 12.5 thousand producers | Farmers-Agents: around 1 thousand | Wholesale Agents: around 300 | Exporters: 10-12 firms | Transport companies: 2500- 3000 trucks |

Production and export of textile sector, employment in the sector in 2008-2017 in Kyrgyzstan

Legend:
- Production, million US dollars
- Export, million US dollars
- Employment, thousand of workers

Production (million US dollars): 2008: 165, 2009: 110, 2010: 146, 2011: 169, 2012: 204, 2013: 176, 2014: 115, 2015: 84, 2016: 95, 2017: 98

Export (million US dollars): 2008: 133, 2009: 103, 2010: 162, 2011: 189, 2012: 205, 2013: 141, 2014: 137, 2015: 129, 2016: 102, 2017: 150

Employment (thousand of workers): 2008: 115, 2009: 112, 2010: 182, 2011: 75, 2012: 63, 2013: 54, 2014: 36, 2015: 38, 2016: 29, 2017: 46

Value chain in manufacturing- Textile (2)

Input suppliers:
Importers

Design and Manufacture

Manufacturer workshops "CMT type" (around 3000)

Equipment Supply and Service

Local retail through shops and markets

Distributors

Wholesale agents (Russia and others)

Retail networks

Value chain in services - Tourism

Export of tourism services in Kyrgyzstan in 2008-2017, million US dollars

Year	Value
2008	332
2009	240
2010	148
2011	347
2012	411
2013	514
2014	408
2015	410
2016	416
2017	418
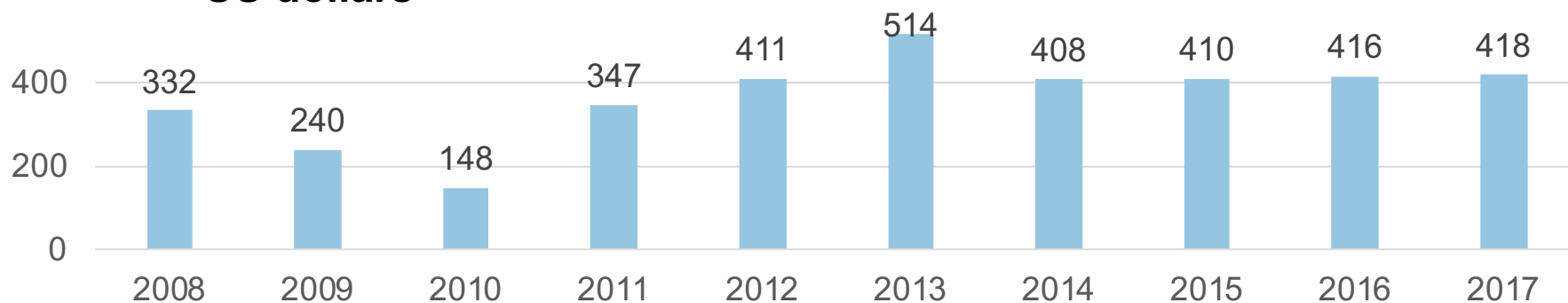
Number of foreign visitors passing borders of Kyrgyzstan in 2008-2017 by countries, thousand people

	2008	2012	2015	2017
Kazakhstan	738	1676	1989	1834
Russia	205	365	529	471
Uzbekistan	566	72	6	480
Tajikistan	219	135	118	251
Other	118	159	310	225

Kazakhstan ▪ Russia ▪ Uzbekistan ▪ Tajikistan ▪ Other
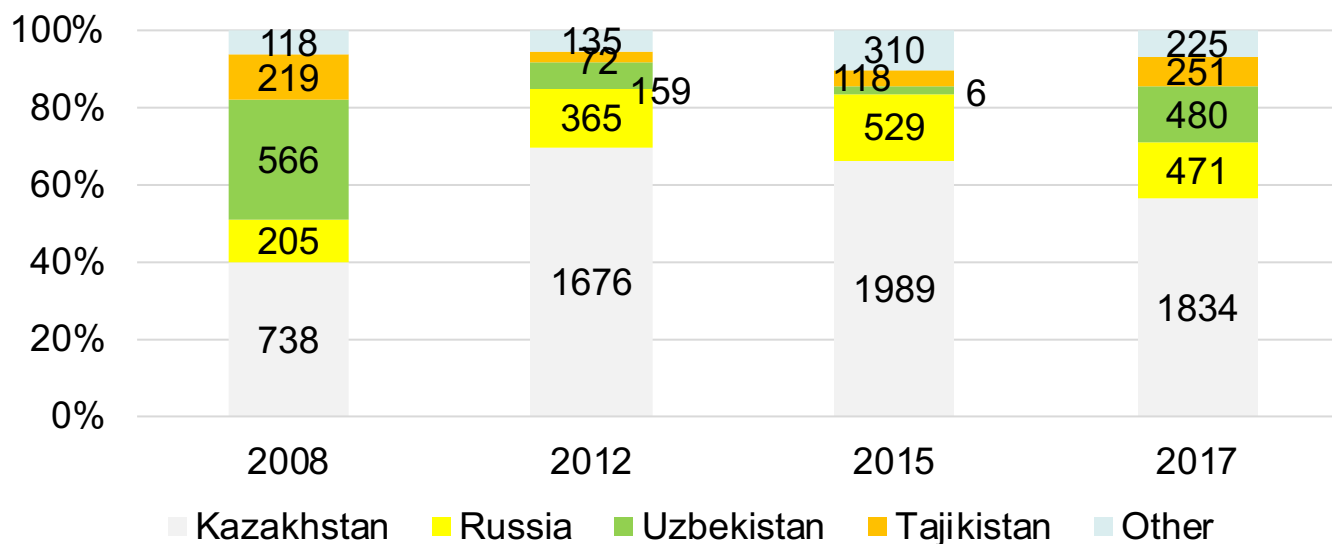
Value chain in services – Tourism (2) Value Chain

Travel Agencies, Tour operators

International airlines

Transport

Hotels, guest houses

Resorts (Core product- Tours, Routes, Issyk-Kul)

Regional tours, guest houses, community tourism

Additional services:
Local Farmers (Food), Souvenirs, Events,
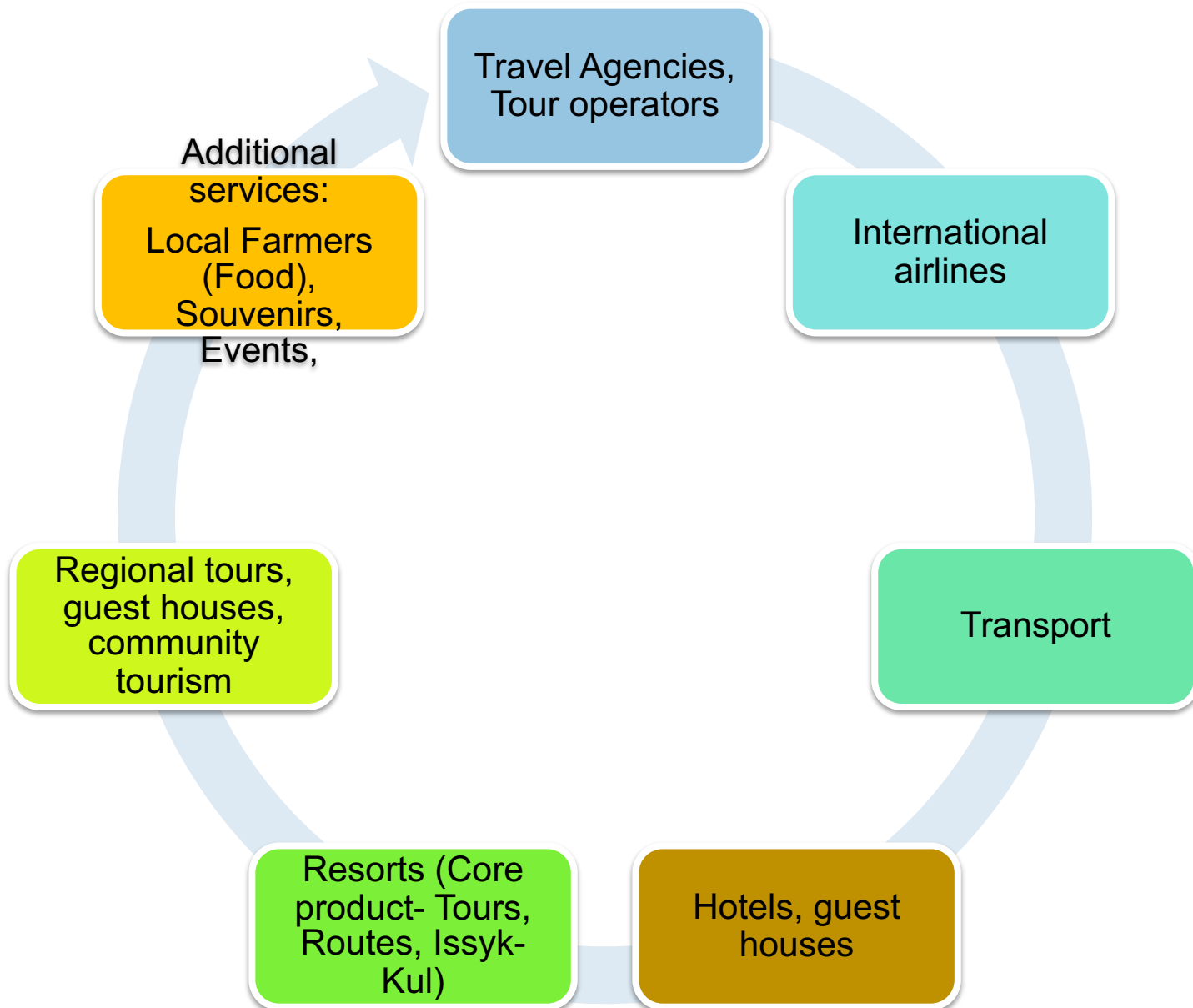
Conclusions

1. Access to finance in Kyrgyzstan and to SME sector increased
2. Regional disparity is significant in financial markets.
3. Access to finance is different for different sectors
4. Financial inclusion indicators increased
5. Barriers to SME declines over time
6. Value chains
   - Milk value chain needs more credits to farmers, key player - market agent- milk collector
   - Kidney bean – provides specific case of clan-based financing scheme
   - Textile sector - Investment and support to finance and re-training and capacity building of the sector's workers
   - Tourism sector - Infrastructure and hospitality management is the key obstacles

Recommendations

- Regional disparity - need to subsidize the remote areas to boost regional centers of economic growth.

- Milk value chain – small farmers and market agents need to be financed as a group client. Leasing schemes will be interested in a market agent, while small farmers may get credits with the lowered interest rate. The market agent may play the role of monitoring and supervising agent of the bank. Thus cooperation of the different levels of the value chain may improve productivity and increase chances to reach economy of scale effect.

- Kidney beans - A positive example of the clan-based financing scheme might be applied to the level of the local community. Trust funds of the municipal council may play the role of consolidating force of the dozens and hundreds of small farmers to get financing on the bean production. During the fall financing of the trust funds with the beans will gave chance to smaller farmers to participate in the profit sharing.

- .Textile industry lack of credit resources. The government need support improved access to industrial enterprise, specifically for the garment sector. State program with the lowered rates similar to the applied program in agriculture needs to be supported for a garment sector too.

Recommendations (3)

- Financial literacy programs for entrepreneurs need to be linked to the subsidized programs for SME sector. Performance of the small entrepreneur (results of the test) should be linked to the interest rate to increase the motivation of entrepreneurs to study.

- Subsidized program for farmers need to transparent.

- Definition of SME provided need to be reformed according to the international recognized practice of separate survey and defining of the threshold for small and medium producers in all sectors of the economy by a number of parameters, e.g. updated regularly annual turnover, number of employed people, average land plot (for farmers) or other production features. It will help also to define clearly the difference between SME and other business entities