

KfW in Ukraine

Strengthening Ukraine's SME-Sector



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KfW

DEUTSCHLANDS GROSSE FÖRDERBANK

Ukraine: SME-Development

Key problems during transition:

- Unfavourable regulatory and legal environment
- Underdeveloped financial institutions and financial services
- Small enterprises sector without access to the banking sector
- Lack of adequate human resources
- Lack of technical knowledge

Response of KfW

- Policy and legal advice to the Ukrainian Government by the German Advisory Group and the Institute for Economic Research and Policy Advice
- ***German-Ukrainian Fund***
- ***Micro Finance Bank***
- ***Branch Centres (Bakery, Meat & Milk Processing)***
- Technical Advice to Ukrainian SME
- Training (Internships, Management Initiative)



German-Ukrainian Fund: First Micro-Lending Programme in Ukraine



Founders: KfW, NBU. MinFin with a financing contribution of DM 10 Mio. each

- Non-banking financial institution under Ukrainian law with an exemption from profit tax
- Technical assistance to train partner-banks
- Partner-Banks: Privat Bank, Aval Bank, Kiev Privat, Forum, Micro Finance Bank
- GUF among the founders of Micro Finance Bank Ukraine



German-Ukrainian Fund

Objectives:

- strengthening of the Ukrainian SME-sector
- development of the Ukrainian banking sector
- contributing the improvement of the Ukrainian employment situation
- fostering societal change by developing self-initiative and responsibility

German-Ukrainian Fund

Main Results I:

- from 1997 until now almost 3500 loans totalling more than e 32 Mio. disbursed (2001 –1755 loans for almost e 9 Mio.)
- visible contribution to the development of the Ukrainian SME-sector
- more than 25.000 new jobs created or secured
- creation of sustainable micro and small lending facilities in Ukrainian banks

German-Ukrainian Fund

Main Results II: Impact on the Banking Sector

- Increasing capacities of the Partner Banks demonstrated by
 - selection of promising enterprises with strong growth potential
 - financing a multitude of sectors to spread risks evenly
 - intensive training of personnel
- Contribution to strengthen the Banking sector
 - improved loan analysis
 - high portfolio quality
 - professional loan administration and management
 - expansion of the range of services and broadening of the customer base

German-Ukrainian Fund

Future:

- Evolving into an European-Ukrainian Fund
- Inviting new Donors to join the Fund
- Development of new programme loans, such as:
 - agriculture, including refinancing of credit unions
 - housing loans
 - energy saving loans
 - environmental programmes
 - technology and innovation

Micro Finance Bank Ukraine

- Founders: German-Ukrainian Fund (KfW), EBRD, IFC, Western Enterprise Fund, DOEN, IMI
- Headquarters in Kiev, branch offices in Charkiv, Lviv, Doneck, Slavutich, Odessa, Bila Tserkva (5 more to be opened this year)
- Technical assistance be German Government, TACIS, USAID, CIDA



Micro Finance Bank Ukraine

- In the first year of operation 2000 loans totalling more than e 18 Mio. disbursed
- Initial capital of e 10 Mio.
- Sources of refinancing:
 - German-Ukrainian Fund
 - EBRD credit line
 - IFC credit line
 - Western NIS Enterprise credit line



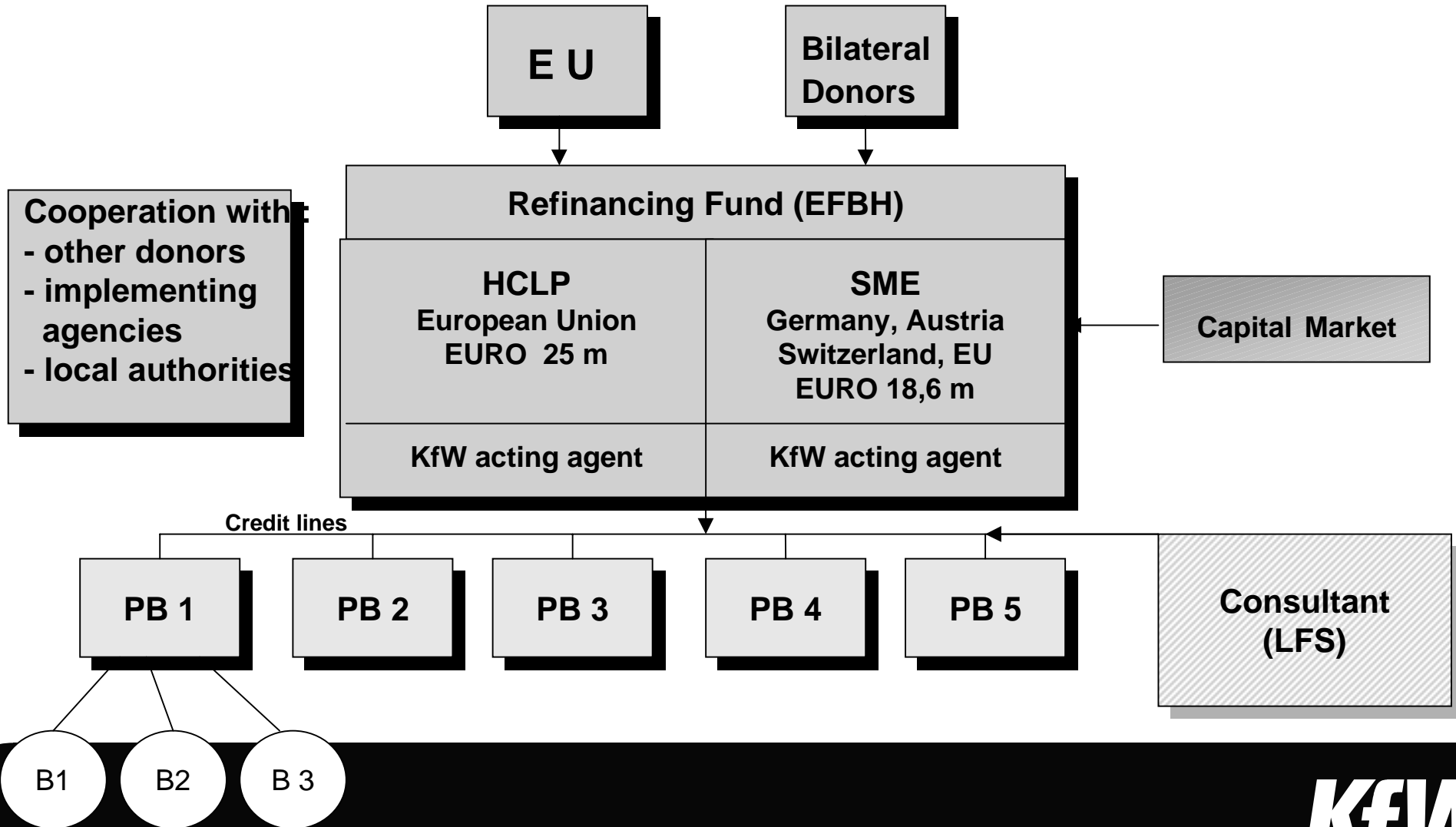
German-Ukrainian Branch Centres

Bakery, Milk&Meat-Processing

- Training in co-operation with local vocational training institutions, universities and employment offices
- Advice for start-ups
- Restructuring and refurbishing advice for SME in the respective sectors
- Close co-operation with European training institutions, equipment manufacturers and investors
- Set-up of investment fund “Interchlib” as a PPP-venture



European Fund for BiH: A Model for Ukraine



Benefits for the EC

1. Quick and effective implementation of a successful programme with EC-funds
2. Clear visibility of EC-funding
3. Relief of the EC's strained capacities from administrative tasks
4. Mobilisation of additional funds from bilateral donors
5. Use of KfW banking capacities to tap the capital market
6. Effective donor co-ordination leading to an increased credibility of the Commission's external aid
7. Preparation, administration and supervision of the programme by the KfW in line with the EU- guidelines

Benefits for the EC II

8. Establishment of a continuously growing Fund, reducing the pressure providing new funds
9. Emergence of the EC as major actor in the banking sector of Ukraine enabling it to implement easily EC's development objectives in the financing sector
10. Synergy-effects: experience gained from the credit programmes can be used in other FSU countries