



Kazakhstan: Support to Small and Medium Enterprises and Entrepreneurship Development

Project Name	Support to Small and Medium Enterprises and Entrepreneurship Development
Project Number	51406-001
Country	Kazakhstan
Project Status	Active
Project Type / Modality of Assistance	Technical Assistance
Source of Funding / Amount	TA 9496-KAZ: Support to Small and Medium Enterprises and Entrepreneurship Development Financial Sector Development Partnership Special Fund US\$ 225,000.00
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development
Sector / Subsector	Finance - Small and medium enterprise finance and leasing
Gender Equity and Mainstreaming	Some gender elements

Description	<p>Strategic context. Limited access to finance is one of the major challenges facing companies in Kazakhstan. Intrinsic difficulty in obtaining credit constrains firm development, undermines competitiveness, and lessens investment attractiveness for potential investors, limiting growth opportunities. A recent World Bank survey suggests that more than half of firms in Kazakhstan consider access to finance as a moderate to severe obstacle to their growth. A key factor hampering credit access is an underperforming financial sector that insufficiently responds to the needs of the private sector, especially for small and medium-sized enterprises (SMEs) outside the cities of Almaty and Astana.</p> <p>Difficulty in access to finance, especially for SMEs is increasing the vulnerability of the financial sector. Major issues in this regard include: (a) weak lending activity by commercial banks mainly caused by a large stock of non-performing loans, (ii) overreliance on the banking sector due to poor development of the country's capital market, (iii) poor financial literacy of the general population, and (iv) outdated information and communication technology and digitalization of the banking sector.</p> <p>In early 2017, the Kazakhstan Resident Mission (KARM) of the Asian Development Bank (ADB) together with the government of the Kostanay region of Kazakhstan held extensive discussions with local entrepreneurs to identify demand-side constraints to business development and financial intermediation. In September 2017, an ADB reconnaissance mission met with major commercial banks operating in the Kostanay region to analyze supply-side constraints for SME finance. The demand- and supply-side analyses revealed a substantial asymmetry of information between potential SME borrowers and local financial institutions (LFIs). The information available to LFIs on business creditworthiness of SMEs seemed to be fairly limited. While such deficiency constrains the LFIs' capacity to assess the risk of new loans to SMEs, LFIs often do not provide sufficient and timely information to local entrepreneurs on loan requirements and transaction costs. Local entrepreneurs lack knowledge and understanding of available financial products and services to make informed decisions on sources and structure of financing for investment projects.</p> <p>The existing asymmetry of information is a major factor behind the relatively high rejection rate on loan applications (particularly for women entrepreneurs), undermining long-term trust of the local businesses in the financial sector. More than 30% of surveyed firms in a recent World Bank country enterprise survey for Kazakhstan had loan applications rejected as opposed to 9% on average for the Europe and Central Asia (ECA) region. Only 19% of Kazakhstan's firms received a bank loan or a credit line, compared to an average of 36% for the entire ECA region.</p> <p>Discussions with the LFIs operating in the Kostanay region revealed that the resource and investment mobilization required to address credit needs of SMEs continue to be held up by the unattractive economics of financing SMEs. Given the Kostanay region's relatively large size and low population, LFIs don't see immediate benefits of scaling up formal banking infrastructure. In this regard, the ADB missions to Kostanay suggest that digital financial solutions (DFS) are needed to close gaps in financial inclusion and promote SME development. Such DFS enhance access to credit by allowing access to alternative data sources, such as payment transactions and telecommunications data, improving, in turn, customer profiling, credit risk assessment and fraud detection.</p> <p>The extensive dialogue conducted by KARM with the regional administration served to articulate a program for sustained assistance to: (i) better understand presence of SMEs in the region; (ii) develop a system to appreciate LFIs' creditworthiness; (iii) introduce DFS as needed; (iv) improve SMEs business functions (especially financial management); and (v) enhance the level of financial literacy in Kazakhstan. Consultations also pointed to the importance of conducting a needs assessment of SMEs' business development and review the design of dedicated state programs in support of SME and entrepreneurship development.</p> <p>The proposed support is consistent with lessons learned from previous lending and non-lending support to Kazakhstan's finance sector, including three loans provided by ADB facilitating of SME lending through the local Damu fund, and a recent technical assistance preparing for a new \$220 million loan providing financial support to micro and SMEs also through the Damu fund, which point to the need for improving financial literacy and DFS.</p> <p>The independent validation of the final review of ADB's previous strategy (2012-2016) recommended that ADB should broaden its involvement with micro and SMEs beyond providing credit line to addressing supply- and demand-side constraints to SME development. Suggestions included the importance of strengthening the enabling environment for entrepreneurship and SME development and to foster the capacity of LFIs and SMEs. The validation further recommended that ADB should make efforts to support enterprises at sector's lower segment to increase the scale and depth of outreach.</p>
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Project Rationale and Linkage to Country/Regional Strategy	The impact of the TA will be increased contribution from SMEs to the gross regional product of Kostanay region. The TA outcome will be increased lending by LFIs to SMEs in the Kostanay region.
Impact	Increased contribution from SMEs to the gross regional product of the Kostanay region.

Project Outcome

Description of Outcome	Increased lending by LFIs to SMEs in the Kostanay region.
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Progress Toward Outcome

Implementation Progress

Description of Project Outputs	1. Reduced information asymmetry between SMEs and local financial institutions 2. Improved availability of financial services to SMEs 3. Strengthened capacity of SMEs to access finance
Status of Implementation Progress (Outputs, Activities, and Issues)	
Geographical Location	Kostanay

Summary of Environmental and Social Aspects

Environmental Aspects

Involuntary Resettlement

Indigenous Peoples

Stakeholder Communication, Participation, and Consultation

During Project Design

During Project Implementation

Responsible ADB Officer Gulamov, Mirzo Iskandar Kadyrovich

Responsible ADB Department Central and West Asia Department

Responsible ADB Division Kazakhstan Resident Mission

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Timetable

Concept Clearance	-
Fact Finding	07 Dec 2017 to 07 Dec 2017
MRM	-
Approval	05 Feb 2018
Last Review Mission	-
Last PDS Update	07 Feb 2018

TA 9496-KAZ

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
05 Feb 2018	-	05 Feb 2018	28 Feb 2019	-	-

Financing Plan/TA Utilization						Cumulative Disbursements		
ADB	Cofinancing	Counterpart				Total	Date	Amount
		Gov	Beneficiaries	Project Sponsor	Others			
225,000.00	0.00	0.00	0.00	0.00	0.00	225,000.00	05 Feb 2018	31,640.19

Project Page <https://www.adb.org/projects/51406-001/main>

Request for Information <http://www.adb.org/forms/request-information-form?subject=51406-001>

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