

PROJECT PREPARATORY TECHNICAL ASSISTANCE

A. Justification

1. Project preparatory technical assistance (TA) is required to carry out the economic, financial, poverty, gender, safeguards and procurement due diligence. It will assist in ensuring that the project provides types and levels of assistance that are suitable to the development needs of this market. The TA will also support the start of implementation of the project.

B. Major Outputs and Activities

2. **Output 1. Microfinance apex fund (FFSA) conforms to international best practices.**

The TA will support: (i) financial and managerial needs assessments of microfinance institutions (MFIs); (ii) assessment of FFSA suitability and existing gaps; (iii) revised apex corporate plan, including (a) expected sectoral impact; (b) legal structure, ownership and regulatory fit; (c) financial projections, performance requirements, exit strategy; (d) details on governance, internal controls (including MIS and reporting systems), staffing; and (e) description of operational guidelines; and (iv) project investment and financing plan for apex infrastructure and operations, including identification of potential commercial investors.

3. **Output 2. Project economic, financial, environmental, and social assessments completed.**

The TA will support: (i) review of the micro and SME government's sector strategies and institutional support mechanisms and mapping of MSMEs in Kazakhstan, including sectoral structure, business size distribution, performance in terms of GDP, productivity, employment and exports; (ii) identification of MSME key operating constraints in sectors' prioritized for industrial development, and definition of selection criteria for subsectors to focalize ADB support; (iii) mapping of business development services providers, including gaps and options for collaborative support; (iv) design of operational guidelines for the Business Development Fund; (v) Assessment of recent trends in MSME lending in Kazakhstan, including data breakdown by size of firm, gender, regions (urban/rural divide), economic sector, and loan terms; (vi) assessment of alternative financing mechanisms and financial infrastructure to support SME access to finance, including leasing, asset-backed financing, export development and risk-sharing mechanisms; (vii) economic analysis of the project; (viii) financial analysis, financial management assessment and integrity due diligence of the proposed executing agency, implementation agencies and potential participating financial institutions (PFIs); (ix) procurement capacity of proposed executing agency; (x) assessments of the social, gender and environment dimensions of the project; and (xi) identification of suitable mechanisms for monitoring, evaluating, and measuring results.

4. The major outputs and activities are summarized in Table A3.1.

Table A3.1: Summary of Major Outputs and Activities

Major Outputs	Expected Completion Date
Micro and SME sector assessment	October 2015
Apex corporate plan	November 2015
Assessment of innovative financing mechanism for SMEs	September 2015
Business Development Fund operational guidelines	December 2015
Social, gender and environment assessments	November 2015
Economic analysis	November 2015
Financial analysis and financial management assessments	December 2015
Project procurement risk assessment	December 2015

C. Cost Estimate and Proposed Financing Arrangement

5. The TA is estimated to cost \$1,000,000 equivalent, of which the entire amount will be initially financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources). After ADB's approval of the TA, the government will reimburse ADB 76% of the TA cost by depositing \$760,000 into the TASF account. Other government counterpart support of an in-kind nature includes: counterpart staff, translation, office space, and training and workshop venues for the TA activities. The detailed cost estimate is presented in Table A3.2.

Table A3.2: Cost Estimates and Financing Plan
(\$'000)

Item	ADB ^a		Cofinancing		Total Cost
	Amount	%	Amount	%	
1. Consultants					
a. Remuneration and per diem					
i. International consultants (20 person-months)					433.0
ii. National consultants (21 person-months)					115.0
b. International and local travel					133.0
c. Reports and communications ^b					64.0
2. Workshops, training, seminars, and conferences ^c					
a. Facilitators ^d					70.0
b. Training program					25.0
3. Surveys					100.0
4. Miscellaneous administration and support costs					10.0
5. Contingencies					50.0
Total	240		760		1,000.0

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources) and the Government of Kazakhstan, on a reimbursement basis.

^b Includes translation costs

^c Workshops, training, seminars, and conferences

Purpose (tentative)	Venue
Best practices in cluster development	Tbd
Financial mechanisms for SME export support	Tbd
Best practices in SME lending	Tbd
Alternative mechanisms for SME financing	Tbd

^d Includes honorarium, travel cost, and per diem of resource speakers engaged as speakers and facilitators. Resource persons are not expected to be engaged for more than 10 days.

Source: Asian Development Bank staff estimates.

D. Consulting Services

6. A total of 11 consultants will be required, 7 international and 4 national. Eight individual consultants (5 international: Micro and SME finance Specialist, Private Sector Development Specialist, Business Incubator Specialist, Procurement Specialist and Social Impact Specialist; and 3 national: Environment Specialist and Micro and SME Finance Specialist) and one firm (to recruit the 3 financial management specialists) will be recruited in accordance with ADB's *Guidelines on the Use of Consultants*. The number of person-months is reflected in Table A3.3 below. The firm will be recruited using a quality-based selection method (80/20).¹⁷

Table A3.3: Summary of Consulting Services Requirement

Positions	Person-Months Required
International	
Micro and SME Finance Specialist	5
Financial Management Specialists (2)	4.5
Social Impact Specialist	2

¹⁷ The use of output-based (lump sum) contracts will be considered for consulting services.

Private Sector Development Specialist	4.5
Procurement Specialist	1.5
Business Incubator Specialist	2
National	
Micro and SME Finance Specialist	8
Private Sector Development Specialist	5
Financial Management Specialist	4
Environmental Specialist	3

SME = small and medium-sized enterprise.

Source: Asian Development Bank staff estimates.

7. The outline terms of reference for the project preparatory TA consultants are described in paras. 8 to 16.

8. **Micro and SME finance specialists (1 international for 5 person-months; and 1 national for 8 person-months).** *Qualifications:* The expert will have at least a master's degree in finance, economics, law, or related field. The international expert will have at least 15 years of experience working in the development of microfinance sector in various countries, including regulation of microfinance service providers and establishment of microfinance apex. Prior experience in the region and in Kazakhstan will be valued. *Tasks include:* (i) Assessment of the MSME finance market; (ii) review the policy and regulatory framework for microfinance; (iii) define criteria for selection of participating institutions suitable to receive funding from an apex; (iv) identify a potential number of microfinance institutions that could benefit from apex funding, and supervise a preliminary assessment of their governance and financial structure, operational and earnings performance, pricing, and portfolio (with inputs provided by national microfinance specialist and financial management specialists); (v) assess suitability FFSA, gaps against international best practices and help draft the apex corporate plan including operational guidelines; (vi) prepare an assessment on recent trends in SME finance in Kazakhstan, including an assessment of the secured lending framework; (vii) assess development potential of alternative financial products for SMEs including leasing, factoring and other forms of supply chain finance; (viii) assess options to widen access to credit for SMEs through guarantee schemes or other alternative financial mechanisms; (ix) prepare a MSME sector assessment; (x) prepare an economic analysis of the proposed project following ADB's guidelines for economic analysis of projects; and (xi) assist ADB team in preparing cost estimates and financing plan for the project.

9. **Financial management specialists (2 international for a total of 4.5 pm; 1 national for 4 person-months).** Key qualifications: Each financial management expert will be a chartered accountant, chartered financial analyst or equivalent, have at least 10 years working experience with extensive experience with frameworks for accounting and auditing, and IFRS standards. *Tasks include:* (i) definition of PFI selection criteria and identification of shortlisted PFIs; (ii) conduct financial management assessment, financial analysis, and integrity due diligence¹⁸ of the proposed apex fund (FFSA), shortlisted PFIs, and other proposed IAs (Damu, others) following ADB's Financial Institutions' Appraisal Checklist and Financial Management Guidelines; (iii) prepare a report covering the three listed areas for each of the institutions reviewed, and a summary financial analysis and financial management report; (iv) prepare the proposed disbursement mechanisms and flows for the project; and (v) identifying gaps for developing SME lending capacities in PFIs.

10. **Procurement specialist (1 international for 2 person-months).** The specialist will have a degree in a relevant field, and preferably 8 years of relevant experience in the recruitment of consulting services. The consultant will assist the EA and the project processing

¹⁸ Integrity due diligence may be contracted out under a separate contract.

team in the preparation of the procurement and consulting services. The consultant will: (i) carry out a project procurement risk assessment, and prepare an action plan to address capacity, procedural and organizational constraints; (ii) assist in the preparation of the procurement plan; (iii) support advanced contracting actions, including the preparation of the Request for Proposals for the firms to be hired under the project.

11. **Social impact specialist (1 international for 2 person-months).** The specialist will have a degree in a relevant discipline and at least 5 years of experience in social, gender, and poverty assessments. The specialist will help identify the social, poverty and gender impacts of the proposed interventions and will help shape up the design to maximize social and gender-inclusiveness. Tasks will include, (i) reviewing the social, poverty and gender impacts of previous ADB SME support projects and drafting some case studies as illustrative examples, (ii) preparing a summary poverty reduction and social assessment for the project; (iii) designing a gender action plan, and (iv) providing inputs to the design and monitoring framework.

12. **Private sector development specialists (1 international, 4.5 person-months; and 1 national, 5 person-months).** The consultants should have a postgraduate degree in economics, finance or business, and at least 10 years' experience in private sector development reforms in developing countries. Experience in SME development, export promotion or industrial policy, including clusters, is required. The consultants will (i) identify binding constraints for SME development related to productivity and export development, in particular in government's priority sectors; (ii) identify potential subsectors where ADB could focalize cluster development support and define selection criteria; (iii) identify business development services needs and potential suppliers in the market; (iv) assist ADB in conceptualizing SME development support in selected clusters; and (v) draft operational guidelines for a matching fund facility.

13. **Business incubator specialist (1 international, 2 persons-months).** The consultant should have a postgraduate degree in economics, finance or business, and at least 10 years' experience in private sector development reforms in developing countries. Experience in SME development, including clusters or business incubators, is required. The consultant will assess the feasibility of developing business incubator program in Kazakhstan and develop operational guidelines to design and implement such a program through the project.

14. **Environmental specialist (1 national, for 3 persons-months).** The consultant should have a master's degree in Chemistry, Biology, or related science with at least seven years of experience in environmental management, impact assessment or auditing of industrial, energy and natural resource sectors. He/she should have proven knowledge of the ADB's safeguard requirements. Tasks include: (i) assess the Environmental and Social Management Systems of PFIs; (ii) train PFIs and IAs on ADB's requirements and procedures for screening and categorizing subprojects; (iii) assist PFIs and IAs in setting up or upgrading their ESMS; and (iv) assist PFIs and IAs (Apex, Damu) in making rapid environmental and social assessment and categorizing subprojects in accordance with the ADB's Safeguard Policy Statement (SPS) 2009.

E. Implementation Arrangements

15. The TA's executing agency will be the Ministry of National Economy, through the Committee for Entrepreneurship Development. ADB will be the implementing agency, with the Central and West Asia Department Public Management, Financial Sector and Trade Division acting as the focal point and coordinator of consultants' inputs. Close coordination regarding consultants' work and dissemination of outputs is expected between ADB and the MNE focal point. All disbursements under the TA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The TA will be implemented over 1.5 years, from July 2015 to December 2016.