

# INTEGRATED SAFEGUARDS DATA SHEET CONCEPT STAGE

**Report No.:** ISDSC7389

**Date ISDS Prepared/Updated:** 06-Feb-2014

**Date ISDS Approved/Disclosed:** 14-Feb-2014

## I. BASIC INFORMATION

### A. Basic Project Data

<b>Country:</b>	Kazakhstan	<b>Project ID:</b>	P147705
<b>Project Name:</b>	KZ Competitiveness and Access to Finance (P147705)		
<b>Task Team Leader:</b>	Martin Melecky		
<b>Estimated Appraisal Date:</b>	19-May-2014	<b>Estimated Board Date:</b>	23-Sep-2014
<b>Managing Unit:</b>	ECSPF	<b>Lending Instrument:</b>	Investment Project Financing
<b>Sector(s):</b>	General industry and trade sector (60%), SME Finance (40%)		
<b>Theme(s):</b>	Micro, Small and Medium Enterprise support (60%), Other Private Sector Development (40%)		
<b>Financing (In USD Million)</b>			
<b>Total Project Cost:</b>	100.00	<b>Total Bank Financing:</b>	100.00
<b>Financing Gap:</b>	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			0.00
International Bank for Reconstruction and Development			100.00
Total			100.00
<b>Environmental Category:</b>	F - Financial Intermediary Assessment		
<b>Is this a Repeater project?</b>	No		

### B. Project Objectives

The project objective is to help increase economic competitiveness and diversification of the SME sector in Kazakhstan.

### C. Project Description

In order to increase SMEs' competitiveness and diversification, the project shall enhance, rationalize, and expand current government programs, and introduce new targeted interventions to improve (i)

capacity of entrepreneurs and SMEs for business development and (ii) ease access to investment finance. In addition, the project will explore innovative financing arrangements to extend its development impact to local currency markets and crowd-in private resources. The project shall have two components:

Component 1: Enhance capacity of entrepreneurs and SMEs. Entrepreneurs, owners and managers of SMEs in Kazakhstan lack adequate capacity to improve firm productivity to compete in external markets, and to pursue new business opportunities offered by opening market niches. Component 1 aims to address this market failure through activities in two sub-components.

- Sub-Component 1.1. Programs and policies for promoting SME development have largely been inherited by the newly established MRD. Within this context, the Ministry is responsible for deploying a national program that meets a variety of SME needs. Sub-Component 1.1 will begin with technical assistance focused on a diagnostic assessment and gap analysis of existing programs to support SMEs. The TA will determine the need for consolidation of existing programs, scaling down of ineffective programs, and even introduction of new programs.
- Building on the recommendations from Sub-Component 1.1, Sub-Component 1.2 will focus on quality enhancement and expansion of SME support programs, ensuring the introduction of global good practice, tailored to local context. This component will draw heavily upon recently published approaches to targeted SME support and entrepreneurship education and training with a focus on ensuring the appropriateness of program characteristics, outcome domains and moderating factors. The sub-component will fund the scaling up of the identified core SME capacity building programs throughout the country, with a view to significantly changing the landscape of support offered to new and existing firms.

Component 2: Ease access to investment finance for SMEs. SME investment in expansion, diversification, or innovation requires credit financing that has characteristics closer to those of equity financing (longer maturity with a grace period), because of the significant risks associated with such investment. Without access to this type of credit, SME development will be restrained.

- Banks and non-bank credit institutions (NCFIs) are challenged by difficult access to long-term liquidity, foreign currency risk exposures, the NPL stock, and deficient functioning of financial infrastructure and substandard financial sector regulation and supervision, among others. Sub-Component 2.1 will provide technical assistance to the integrated financial sector regulator (the NBK) to improve financial consumer protection of SMEs, the regulatory and supervisory framework for NCFIs, financial sector infrastructure related to credit history, the secured transaction (collateral) framework, NPL workouts related SMEs, and the insolvency framework for SMEs.
- Further, state financial support provided through the Entrepreneurship Fund (DAMU) neither meets the volume of SME demand for investment lending nor does it genuinely encourage SMEs to graduate into commercially viable borrowers. Sub-Component 2.2 shall stimulate provision of competitively priced investment loans to SMEs across regions channeled through eligible Banks, MFIs, and Leasing Companies. Exploiting several institutional channels of financial intermediation can help achieve the desired combination of secured and unsecured lending to SMEs and use different branch networks for diverse physical access to financial intermediaries to enhance the project M&E framework.

During the project preparation, the team will assess the need for a capacity building component for

the MRD in the area of M&E systems, and design and implementation of regional policy. A survey of entrepreneurs participating in the project will be regularly conducted using a third-party monitoring approach.

In project preparation, the team will identify and analyze gender issues relevant to the project objectives or components, report relevant findings and determine whether it is meaningful to incorporate gender into the design and/or M&E to address gender issues.

The project will explore innovative financing arrangements to extend its development impact to local currency markets and crowd-in private resources. More innovative approaches can eliminate foreign currency risk from the project and extend the project's development impact to local currency markets.

#### **D. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

The project will operate throughout Kazakhstan. Eligibility criteria should prioritize SMEs in non-extractive sectors of the economy with export potential and location in priority regions. Note that these criteria do not exclude firms in non-extractive sectors that operate upstream or downstream from larger corporations in the extractive sector. The project will not finance category A projects, projects in extractive industry nor SMEs involved in any activities which are inconsistent with WB policies (e.g. arms, tobacco, etc.). Project will also not finance activities that might trigger Natural Habitats policy.

While Component 2 is the primary focus of the SG policies, opportunity is seen to introduce capacity building through Component 1 on environmental and social aspects of good global practice.

SME Loans and trainings will be provided to eligible Banks, MFIs, and Leasing Companies. The eligibility criteria are expected to prioritize SMEs in non-extractive sectors of the economy with export potential. These criteria do not exclude from the project the firms in non-extractive sectors that are in the upstream or downstream from the firms in the extractive sector. The project will explore innovative financing arrangements to extend its development impact also to local currency markets and crowd in private resources. The following models are possible: (a) Government of Kazakhstan (GoK) borrows from the Bank in USD using standard WB lending instruments; (b) GoK borrows from the Bank in KZT taking advantage of a possible USD/KZT swap arrangement; (c) GoK borrows in local markets through issuance of a KZT-denominated bond, partially guaranteed by the Bank, and crowds in private resources.

#### **E. Borrowers Institutional Capacity for Safeguard Policies**

The main implementing agency for the project is DAMU Fund, an implementing arm of the Ministry of the Regional Development. It is a national development institute whose explicit mission is to promote quality development of SMEs in Kazakhstan. This is the first engagement of the Bank with DAMU. At this stage the borrower capacity needs to be further explored. The World Bank team will work closely with the DAME expert to build the capacity during project preparation period. The team is aware that while this is the first engagement of DAMU with the Bank, the borrower has previous experience of implementing credit lines with funding from the Asian Development Bank.

The WB team will discuss with the client possibility of using performance standards for the project.

#### **F. Environmental and Social Safeguards Specialists on the Team**

Lola Ibragimova (ECSSO)

Natasa Vetma (ECSEN)

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## II. SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/ BP 4.01	Yes	Environmental Management Framework will be prepared for the project and will define environmental procedures and due diligence for participating SME and FIs. EMF will also introduce in sub-project evaluation which will include due diligence review to confirm that the SME's are in compliance with environmental (including safety) national laws and regulations and have no pending legal actions or complaints against them. Procedures for financing of proposed action plans prepared based on due diligence will also be described. Site specific EMPs or limited scope EIAs depending on the environmental impact. These environmental due diligence documents will be prepared when SME loans /sub -projects are identified during project implementation.
Natural Habitats OP/BP 4.04	No	Project will not finance any activities that might trigger OP 4.04.
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/ BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	Yes	The OP 4.12 is triggered and a Resettlement Policy Framework will be prepared on a precautionary basis to allow for the possibility that minor land acquisition might be needed for some of the investments proposed for financing under the line of credit. As the loan applicants will be private companies, any land acquisition is expected to be through purchase rather than expropriation, but provision might need to be made for displacement of informal occupants or users of the purchased land. The RPF will set out the appropriate requirements, including clarifying that it applies to any land acquired specifically for the purposes of the sub-project proposed for Project financing, even if the

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		acquisition was made prior to the loan application. In addition, the investment loans for SME sub-projects will be screened to: (1) ensure compliance with the exclusion list, (2) ensure that no sub-projects with significant impacts of a Category A type are supported.
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

### III. SAFEGUARD PREPARATION PLAN

**A. Tentative target date for preparing the PAD Stage ISDS:** 05-May-2014

**B. Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing<sup>1</sup> should be specified in the PAD-stage ISDS:**

The safeguards documentation, including the consultations on EMF, is expected to be conducted by the end of June, 2014.

### IV. APPROVALS

Task Team Leader:	Name: Martin Melecky	
<b>Approved By:</b>		
Regional Safeguards Coordinator:	Name: Agnes I. Kiss (RSA)	Date: 11-Feb-2014
Sector Manager:	Name: Paloma Anos Casero (SM)	Date: 14-Feb-2014

<sup>1</sup> Reminder: The Bank's Disclosure Policy requires that safeguard-related documents be disclosed before appraisal (i) at the InfoShop and (ii) in country, at publicly accessible locations and in a form and language that are accessible to potentially affected persons.