

12 February 2014

Bolat B. Zhamishev
Minister
Ministry of Regional Development
Republic of Kazakhstan
Ministries House, Entry 10
Astana, 010000
Kazakhstan

Lyazzat Y. Ibragimova
Chairperson
JSC "Entrepreneurship Development Fund 'Damu' "
111 Gogol Street
Almaty, 050004
Kazakhstan

Dear Mr. Zhamishev and Ms. Ibragimova:

Subject: MFF 0048-KAZ: Small and Medium Enterprise Investment Program Amendments to Framework Financing Agreement

1. We refer to the framework financing agreement (FFA) dated 12 May 2011 among JSC "Entrepreneurship Development Fund 'Damu' " (Damu), Republic of Kazakhstan (RoK) and Asian Development Bank (ADB). The FFA was entered into for the purpose of assisting Damu in financing projects under the above-captioned investment program (Investment Program) through a multitranche financing facility (MFF) provided by ADB. All capitalized terms used but not defined herein shall have the meaning given thereto in the FFA, unless the context requires otherwise.

2. Following a request from Damu during the ADB review mission held from 17 to 30 April 2013, ADB approved, on 19 August 2013, changes to the indicator definitions, baseline and achievement years and data sources of the design and monitoring framework (DMF) for the MFF. In addition, following a request from Damu dated 22 November 2013, ADB approved, on 5 December 2013, changes to the MFF in respect of (i) the margin which Damu may charge on subloans to participating financial institutions (PFIs), (ii) the permissible environmental impact of subprojects financed by PFIs under the Investment Program, (iii) the maximum amount that may be borrowed by any single small or medium-size enterprise (SME) or group of related SMEs under the Investment Program, and (iv) the MFF availability period. To give effect to the changes, ADB proposes that the FFA be amended as follows:

- (a) The reference to the year "2015" in the heading of the table under the sub-section of the FFA titled "Financing Plan" (under the heading "Multitranche Financing Facility") is deleted and replaced with the year "2018".
- (b) The sub-section of the FFA titled "Availability Period" (under the heading "Financing Terms") is deleted and replaced by the following: *"The last date on*

which any disbursement under any tranche may be made will be 31 December 2018. The last financing tranche is expected to be executed no later than 31 December 2017."

- (c) In Schedule 1, MFF Constituents, of the FFA, all references to the year "2015" are deleted and replaced with the year "2018".
- (d) Schedule 2, Design and Monitoring Framework (for the Multitranche Financing Facility), of the FFA is deleted and replaced by the Attachment hereto.
- (e) Paragraph 1 of Schedule 3, Implementation Framework, of the FFA is revised to include the underlined language indicated below:


"1. Damu will use withdrawals of loan proceeds under each tranche to make subloans to PFIs in accordance with subloan agreements (SLAs) with PFIs. Damu, in close coordination with ADB, will screen and qualify PFIs. The selection criteria will consider, among other things, the financial soundness of the PFIs (solvency, liquidity, profitability), risk management, corporate governance, branch network, portfolio in non-subsidized SME intermediation, and internal environmental and safeguard procedures. Damu may apply market-based margins to subloans to PFIs to reflect their creditworthiness, cover associated costs and earn a reasonable return on investment. PFIs will, in-turn, on-lend loan proceeds to SMEs at market-based interest rates in accordance with policies and procedures set out in the SLAs and the FAM. Damu will monitor each PFIs performance in accordance with the relevant SLA. The SLAs and the FAM will set out ceilings on subloans from Damu to PFIs, and on SME loans from PFIs to SMEs, respectively; provided, however, that Damu's total exposure to any single SME or group of related SMEs under the Investment Program will not at any point in time exceed \$3 million equivalent on an outstanding basis. Subloans may also include other terms and conditions as agreed to among ADB, Damu and PFIs. The PFIs will bear the credit risk associated with their loans to SMEs."

- (f) Paragraph 2 of Schedule 3, Implementation Framework, of the FFA is deleted and replaced by the following: *"The overall implementation period for the MFF is expected to commence in September 2011 and completed by December 2018."*
- (g) Paragraph 2 of Schedule 5, Social and Safeguard Requirements, of the FFA is deleted in its entirety and replaced by the following:

"2. The SME loans made by PFIs under any subprojects shall conform to ADB's Safeguard Policy Statement (2009) (SPS) and shall comply with all applicable requirements of Kazakhstan's labor and environmental legislation and regulations. Damu shall ensure that no PFI uses the proceeds of any financing provided under the Facility to finance a subproject by an SME that has either (i) involuntary resettlement or indigenous peoples impacts within the meaning of the SPS or (ii) environmental impacts which can be categorized as Category A, in each case within the meaning of the SPS. Furthermore, no PFI shall use the proceeds of any financing provided under the Facility to make a loan to an SME which engages in any activity listed in 'Prohibited Activities List' attached hereto (Attachment 2)."

3. Save and except to the extent set out above, the FFA remains unchanged.
4. Pursuant to ADB's Public Communications Policy (PCP) on disclosure and exchange of information, the amendments to the FFA will be posted on ADB's website within two weeks from the date that the amendments become effective, after removing any information that falls within the PCP exceptions as specified by Damu and RoK.
5. Please indicate the concurrence of Damu and RoK to the amendments set out in paragraph 2 of this letter agreement and to the terms of this letter agreement by countersigning each of the two original of this letter agreement in the space indicated below. Please retain one signed original of this letter agreement for your records and return the other to ADB. The proposed amendments shall take effect on the date of receipt by ADB of a signed original of this letter agreement.

Yours sincerely,


Klaus Gerhaeusser
Director General
Central and West Asia Department

- A. Accepted and agreed.
- B. Confirmed that the amendments to the FFA do not contain information falling within the PCP exceptions.

For and on behalf of

JSC "Entrepreneurship Development Fund 'Damu' "


By: 

Name: Lyazzat Y. Ibragimova

Designation: Chairperson

Date: 07.04.2014

Ministry of Regional Development, Republic of Kazakhstan

By: 

Name: B. Maminov

Designation: Minister

Date: 19.05.14r.

Attachment: Design and Monitoring Framework for the Investment Program

cc: M. Westfall, Country Director, KARM

DESIGN AND MONITORING FRAMEWORK FOR THE INVESTMENT PROGRAM

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Sustained job creation and economic growth	By the end of 2021, SME sector's contribution to gross domestic product doubled (baseline: KZT5.4 trillion in 2009) SME sector employment increased to [3.5] million (baseline: 2.1 million in 2009)	Statistics Agency of Kazakhstan Quarterly and Annual Bulletin	Assumptions Macroeconomic stability Strong government commitment for reforms Global economy recovers from financial crisis Increased aggregate SME lending and leasing results in increased aggregate output of SMEs Risk Weak absorptive capacity of government agencies to implement legislative and regulatory reform agenda (doing business)
Outcome SMEs have increased access to medium-term credit on a sustainable basis.	By the end of 2018, SME lending, under Damu programs, increased to KZT850 billion (baseline: KZT388 billion in 2009)	Damu reports	Assumptions Adequate demand for SME credit on market terms by SME borrowers PFIs have sufficient risk-taking capacity and willingness to deliver medium-term credit to SMEs in a sustainable manner. Government implements measures to improve other SME and finance sector distortions Risk Downturn in economic activity reducing SMEs' demand for credit and repayment capacity
Outputs 1. Medium-term financing to SMEs	By the end of 2018, Loan accounts opened by SMEs increased to 5000 (baseline: zero in 2009)	Damu reports PFI progress reports	Assumptions PFIs provide financing to SMEs at market interest rates SMEs use funds under the

Design Summary	Performance Targets and Indicators	Data Sources and Reporting Mechanisms	Assumptions and Risks	
	SME loans increased to KZT82.5 billion (baseline: zero in 2009) At least 26% of borrowers are women entrepreneurs (baseline: zero in 2009)		investment program to expand their businesses Risk Higher-than-expected delinquency rate on SME loans and leases	
2. Improved effectiveness and efficiency of Damu	Damu meets requirements needed to get a credit rating Damu business processes and procedures streamlined and adopted by 2014	Damu reports Credit rating agency report		
3. Improved financial sector outreach, with a focus on women entrepreneurs	At least 26% of loan applications received from women entrepreneurs (baseline: zero in 2009)	Damu reports PFI progress reports		
Activities with Milestones 1. Medium-term financing to SMEs 1.1 FFA signed by ADB, Damu, RoK; PFR 1 submitted by Damu (May 2011) 1.2 Tranche 1 loan agreement, sovereign guarantee, subloan agreements signed; applications for withdrawal submitted backed by matching drawdown/withdrawal requests from PFIs; ADB obtains Tenge funds and disburses in full to Damu (and then Damu to PFIs) (July to September 2011) 1.3 PFIs make loans, leases, credit lines or guarantees to SMEs using funds from Damu borrowed from ADB (October 2011 to July 2013) 1.4 Subsequent tranches prepared; PFR reports approved; loans, guarantees and cofinancing (as available) provided with sovereign guarantee; transactions entered into to fund local currency loans, etc. (November 2012 to December 2018) 2. Improved effectiveness and efficiency of Damu 2.1 Damu takes steps recommended by consultants to improve corporate governance, among other things needed to achieve a domestic credit rating (August 2012 to December 2015) 3. Improved financial sector outreach, with a focus on women entrepreneurs 3.1 Damu implements new financial products and training which cater to women entrepreneur's needs (July 2012 to December 2015)			Inputs	
			ADB OCR loans	\$500 million MFF
			Cofinanciers	\$100 million
			Participating financial institutions	\$1.4 billion
			Government	\$800 million
			Total	\$2.8 billion

ADB = Asian Development Bank, Damu = JSC "Entrepreneurship Development Fund 'Damu'", FFA = framework financing agreement, PFIs = participating financial institutions, PFR = periodic financing request, RoK = Republic of Kazakhstan, SME = small and medium-size enterprise.