



Kazakhstan: MFF Small and Medium Enterprise Investment Program Tranche 3

Project Name	MFF Small and Medium Enterprise Investment Program Tranche 3								
Project Number	44060-025								
Country	Kazakhstan								
Project Status	Active								
Project Type / Modality of Assistance	Loan								
Source of Funding / Amount	<table border="1"> <tr> <td colspan="2">Loan 3231-KAZ: MFF Small and Medium Enterprise Investment Program Tranche 3</td> </tr> <tr> <td>Ordinary capital resources</td> <td>US\$ 130.00 million</td> </tr> <tr> <td colspan="2">Loan 3261-KAZ: SME Development Project T3 (Additional Financing)</td> </tr> <tr> <td>Ordinary capital resources</td> <td>US\$ 98.00 million</td> </tr> </table>	Loan 3231-KAZ: MFF Small and Medium Enterprise Investment Program Tranche 3		Ordinary capital resources	US\$ 130.00 million	Loan 3261-KAZ: SME Development Project T3 (Additional Financing)		Ordinary capital resources	US\$ 98.00 million
Loan 3231-KAZ: MFF Small and Medium Enterprise Investment Program Tranche 3									
Ordinary capital resources	US\$ 130.00 million								
Loan 3261-KAZ: SME Development Project T3 (Additional Financing)									
Ordinary capital resources	US\$ 98.00 million								
Strategic Agendas	Inclusive economic growth								
Drivers of Change	Private sector development								
Sector / Subsector	Finance - Small and medium enterprise finance and leasing								
Gender Equity and Mainstreaming	Effective gender mainstreaming								
Description	Tranche 3 will help Damu continue with the implementation of the government's Action Plan to increase access to medium term finance for SMEs. The funds will be relent in local currency (tenge) fixed-interest loans to qualified participating financial institutions (PFIs) to fund their respective market-based loans, leases and other financial products to small and medium-sized enterprises (SMEs).								
Project Rationale and Linkage to Country/Regional Strategy	Access to finance is one of the main impediments to business development, especially for SMEs in Kazakhstan. Most SME investment is financed by internal resources. SMEs contributed 17.3% to GDP in 2012, while the SME loans to GDP ratio was only 4.7%. Lending to SMEs dropped from over 22% of total bank loans in 2008 to less than 15% in 2011. Partly as a result of stimulus packages from government and development partners SME lending is gradually picking up, although it still remains below pre-crisis levels. The key constraint being addressed through this project is the PFIs' limited ability to provide medium-term local currency funding for SME clients, in particular outside the bigger cities and to women borrowers. This gap is due to banking sector vulnerabilities, tenge liquidity unpredictability, and high foreign currency risk, with SME borrowers preferring tenge borrowing to match the currency of their revenue streams.								
Impact	sustained job creation and economic growth.								

Project Outcome

Description of Outcome	SMEs have increased access to medium term credit on a sustainable basis.
Progress Toward Outcome	Performance target and indicator: Under Damu programs, SME lending increased to T233 million compare to the figures as of 01 August 2016 (baseline: T750 billion in 2013). Status: Damu reports that as of 01 January 2017, Damu's SME lending portfolio amounted to T 1,582.25 billion.

Implementation Progress

Description of Project Outputs	<ol style="list-style-type: none"> 1. Medium-term financing to SMEs 2. Improved financial sector outreach, with a focus on women entrepreneurs and lending outside of the bigger cities
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Status of Implementation Progress (Outputs, Activities, and Issues)	As of 01 January 2017, the share of women entrepreneurs in the number of borrowers remains at 51% (baseline: 33% in June 2014). Between August 2016 & December 2016, the total no. of financed projects is 217 in the amount of 34,588 million tenge. In the regions (except the cities of Almaty and Astana), total number of borrowers financed projects is 178 in the amount of 28,456 million tenge which accounts for 82% of the total number projects. As of 01 January 2017 share of women is 31% (total number of borrowers - 1,863, including 585 women entrepreneurs) under all tranches of ADB loan. As of 01 January 2017 in the framework of educational programs the share of women is as follows: the project "Senior Experts" - 41%, "Damu-Komek" - 60%. During the period of August 2016 to December 2016, there were 217 projects funded in the amount of T34,588 million including the regions. Most active regions are North Kazakhstan region, Akmolinsk and Pavlodar region. In the sectoral view, most active sectors are trade and industry. Sixty two percent of the funds were directed to finance working capital.
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Geographical Location	Others, Astana, Almaty
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Safeguard Categories

Environment	FI
Involuntary Resettlement	FI-C
Indigenous Peoples	FI-C

Summary of Environmental and Social Aspects

Environmental Aspects	The tranche is categorized as FI for environment and FI (treated as C) for IR and IP. A safeguard due diligence was conducted in October 2014 and gaps in PFIs ESMSs identified. The safeguard assurances were prepared and included in the PFR. The EARF was updated, coordinated with DAMU and disclosed on ADB's website on 10 November 2014.
Involuntary Resettlement	The tranche is categorized as FI for environment and FI (treated as C) for IR and IP.
Indigenous Peoples	The tranche is categorized as FI for environment and FI (treated as C) for IR and IP.

Stakeholder Communication, Participation, and Consultation

During Project Design	During project design the team held regular consultations with development partners involved in SME and private sector development. The European Bank for Reconstruction and Development, International Finance Corporation, United States Agency for International Development and the World Bank have supported SME development in Kazakhstan through (i) training to nongovernment organization business service providers; (ii) technical assistance to help banks introduce credit scoring and improve SME lending policies; and (iii) FILs to and equity investments in banks that provide loans to SMEs. ADB has worked closely with these partners, mindful of lessons on the need to mitigate foreign exchange and tenor mismatch risk, the importance of developing the local bond markets, and governance issues related to PFIs. Consultations have also taken place with business associations and representatives of the private sector.
During Project Implementation	It is expected that consultation with business associations and development partners (EBRD, WB, IFC) will continue to take place regularly, as part of the review missions.

Business Opportunities

Consulting Services	No consultants are envisaged under Tranche 3.
Procurement	The goods, works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the ADB procurement policy. Given the existing trade flows in the country, since SMEs will be importing goods, works and consulting services from or are engaged in trade with both ADB and non-ADB member countries, including the Russian Federation, the ADB Board approved a waiver to allow procurement by SME borrowers from non-ADB member countries using loan proceeds. This request reflects the market-based nature of the investment program, trade agreements and SME demand and procurement history.

Responsible Staff

Responsible ADB Officer	Song, Dai Chang
Responsible ADB Department	Central and West Asia Department
Responsible ADB Division	Public Management, Financial Sector and Trade Division, CWRD
Executing Agencies	<i>DAMU Entrepreneurship Development Fund</i> <i>BMUKUSHEV@FUND.KZ</i> <i>Gogol St., 111, Almaty</i> <i>Kazakhstan</i>

Timetable

Concept Clearance	-
Fact Finding	-
MRM	12 Nov 2014
Approval	15 Dec 2014
Last Review Mission	-
Last PDS Update	29 Mar 2017

Loan 3231-KAZ

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
15 Dec 2014	11 Sep 2015	09 Oct 2015	10 Nov 2016	10 Nov 2017	-

Financing Plan			Loan Utilization			
	Total (Amount in US\$ million)		Date	ADB	Others	Net Percentage
Project Cost	162.50		Cumulative Contract Awards			
ADB	130.00		15 Dec 2014	0.00	0.00	0%
Counterpart	32.50		Cumulative Disbursements			
Cofinancing	0.00		15 Dec 2014	130.00	0.00	100%

Status of Covenants						
Category	Sector	Safeguards	Social	Financial	Economic	Others
Rating	-	-	-	-	-	Satisfactory

Loan 3261-KAZ

Milestones					
Approval	Signing Date	Effectivity Date	Closing		
			Original	Revised	Actual
24 Jun 2015	11 Sep 2015	09 Oct 2015	10 Nov 2016	10 Nov 2017	-

Financing Plan			Loan Utilization			
	Total (Amount in US\$ million)		Date	ADB	Others	Net Percentage
Project Cost	122.50		Cumulative Contract Awards			
ADB	98.00		24 Jun 2015	0.00	0.00	0%
Counterpart	24.50		Cumulative Disbursements			
Cofinancing	0.00		24 Jun 2015	98.00	0.00	100%

Status of Covenants						
Category	Sector	Safeguards	Social	Financial	Economic	Others
Rating	-	-	-	-	-	Satisfactory

Project Page	https://www.adb.org/projects/44060-025/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=44060-025
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