



Project Administration Manual

Version 8 September 2015

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September 2015

Multitranche Financing Facility
Republic of Kazakhstan: Small and Medium
Enterprise Investment Program – Tranche 3

Asian Development Bank

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Project Administration Manual Purpose and Process

This Project Administration Manual (PAM) contains project data and information to enable the Government of the Republic of Kazakhstan (GoK), Ministry of Finance (MOF), Damu Entrepreneurship Development Fund (Damu), participating financial institutions (PFIs), other stakeholders, and the Asian Development Bank (ADB) to implement the Small and Medium Enterprise Investment Program (program)—Project 3 (project) on time, within budget, and in accordance with policies and procedures of the GoK, MOF, Damu, PFIs, and the ADB.

This PAM:

- Specifies roles and responsibilities of Damu, PFIs, and ADB for the various actions required for satisfactory project implementation;
- Contains a logical framework, including subsequent revisions that confirm the impact and outcome, outputs, activities, inputs, targets, indicators, key assumptions, and risks;
- Provides a framework and checklist for monitoring progress to allow remedial actions and midstream modifications to meet project objectives;
- Promotes systematic monitoring and evaluation of program activities, and assessment of impacts on project beneficiaries through periodic reporting and reviews, and assists Damu, PFIs, and ADB to anticipate problems and initiate timely remedial actions and recommendations;
- Provides the format and instructions for Damu, PFIs, and ADB to periodically update the project performance report (PPR);
- References ADB's Anticorruption Policy, indicating how ADB may be contacted about allegations of corruption and fraud; and
- References all available templates and instructions, either through links to relevant URLs or directly incorporated in the Project Administration Instructions (PAI).

This PAM is based on:

- The framework financing agreement (FFA) signed between the Republic of Kazakhstan, Damu, and the ADB on 12 May 2011 and as subsequently amended pursuant to a letter of amendment dated 12 February 2014;
- The Periodic Financing Request (PFR) submitted by Damu to ADB on 30 October 2014 and as subsequently amended pursuant to the minutes of negotiations for the project dated 8 December 2014;
- The additional PFR submitted by Damu to ADB on 6 March 2015;
- The report and recommendation of the President to the Board of Directors (RRP) on the Multitranche Financing Facility to the Republic of Kazakhstan for the Enterprise Investment Program dated 8 September 2010;
- The Tranche 3 Loan Agreement signed between Damu and ADB on [●];
- The Tranche 3 Guarantee Agreement signed between the Republic of Kazakhstan and ADB on [●];
- The Tranche 3 Project Agreements (PAs) signed between ADB and each of the Tranche 3 PFIs on [●];
- The Tranche 3 Subsidiary Loan Agreements signed between Damu and each of the Tranche 3 PFIs on [●]; and
- Relevant ADB handbooks and guidelines.

During the Tranche 3 loan negotiations held between Damu and ADB between 25 November and 10 December 2014, Damu and ADB agreed to the Project Administration Manual (PAM) for the project, and ensured consistency with the FFA and the legal agreements for the project. This agreement was reflected in the Minutes of the Loan Negotiations. The PAM was later updated to reflect the additional financing requested for Tranche 3, and was agreed to during loan negotiations held between Damu and ADB in 5–26 May 2015. In the event of any discrepancy among the PAM, the FFA, and the legal agreements for the project, the provisions of the FFA and the legal agreements shall prevail

After the ADB President's approval of Tranche 3, changes in implementation arrangements are subject to agreement and approval pursuant to relevant Damu and ADB administrative procedures, including the ADB's Project Administration Instructions (PAI), and upon such approval they will be subsequently incorporated in the PAM

CURRENCY EQUIVALENTS

(as of 28 May 2015)

Currency Unit	–	tenge (T)
T1.00		\$0.00538
\$1.00		T185.91

ABBREVIATIONS

ADB	–	Asian Development Bank
AFS	–	audited financial statements
AML	–	anti-money laundering
CAR	–	capital adequacy ratio
CTF	–	combating terrorist financing
Damu	–	Damu Entrepreneurship Development Fund
DMF	–	design and monitoring framework
EA	–	executing agency
ESMS	–	environmental and social management system
IA	–	implementing agency
KIB	–	KazInvest Bank
KKB	–	Kazkommertsbank
MBA	–	Master of Business Administration
MFF	–	multitranche financing facility
NPL	–	non-performing loan
PAM	–	project administration manual
PFI	–	participating financial institution
ROAA	–	return on average assets
SK	–	Samruk-Kazyna National Welfare Fund
SLA	–	subsidiary loan agreement
SME	–	small and medium-sized enterprise
SOE	–	statement of expenditures
TA	–	technical assistance
TSB	–	Tsesna Bank

NOTES

- (i) The fiscal year (FY) of the Government of Kazakhstan and its agencies ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2014 ends on 31 December 2014.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

I. PROGRAM DESCRIPTION

1. The \$500 million equivalent multitranche financing facility (MFF) for the Kazakhstan Small and Medium Enterprise Investment Program (the Program) was approved by the Asian Development Bank (ADB) on 29 September 2010.¹ This is ADB's first sovereign operation that provides local currency (tenge) fixed interest rate financial intermediation loans (FILs) which directly mitigate foreign exchange, interest rate and tenor mismatch risks for participating financial institutions (PFIs) and their small and medium-sized enterprise (SME) clients in Kazakhstan. Experience has shown that these financial risks have been a significant cause of stress for SMEs and their banks. Damu Entrepreneurship Development Fund (Damu) is committed to and has been implementing its support programs to develop SMEs in Kazakhstan as an integral part of its adopted "Action Plan to Improve SME Access to Finance (2010–2015)" (Appendix 1).

2. Because of the flexible nature of the MFF modality, each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project in question, capital market conditions, and ADB's financing policies, all of which are prevailing on the date of signing the legal agreements for such tranche. Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

3. The MFF, structured to have three or four tranches, is designed as a series of loans and other financing products which will be provided over the medium term. The MFF enables flexibility as it will allow ADB to provide different forms of support (direct loans or guarantees) to Damu to help fund its lending to PFIs in the local currency. The MFF also enables ADB to enter into a multiyear partnership with Damu while creating stability and credibility at the level of the financing plan.

4. For Project 3, Damu requested a loan of \$130 million from ADB's ordinary capital resources, guaranteed by the Republic of Kazakhstan (RoK), for its relending through subloans to qualified PFIs to fund their respective market-based working capital and investment loans, leases, and other financing products provided to eligible SMEs for eligible subprojects in Kazakhstan.² On 6 March 2015, Damu requested \$98 million additional financing for this loan, bringing the overall total amount of tranche 3 to \$228 million. The loan will be guaranteed by RoK and will have (i) a 5-year term, with one principal repayment at loan maturity; (ii) an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; (iii) a commitment charge of 0.15% per year on the full amount of the loan (less all drawdown amounts disbursed from time to time) commencing 60 calendar days after the date of the loan agreement; and (iv) such other terms and conditions as are set forth in the draft loan, guarantee and project agreements.³ To ensure that Damu and PFIs are not exposed to the currency risk and can lend to borrowers in local currency, ADB will require that hedging arrangements are in place for Damu and the PFIs.⁴

¹ ADB. 2010. *Report and Recommendation of the President to the Board of Directors: Proposed Multitranche Financing Facility to the Republic of Kazakhstan for the Small and Medium Enterprise Investment Program*. Manila.

² Given financial market conditions, the options for ADB to raise tenge funds to provide the loan in local currency are currently limited to the possibility of ADB issuing a local currency bond. While this option continues to be explored, such a bond may not be issued on time to fund tranche 3. Thus, a USD loan with appropriate currency hedging arrangements, similar to tranche 2 and consistent with the MFF, is the preferred option.

³ Framework Financing Agreement and PFR 3. There may also be an early repayment date to comply with conditions related to the sovereign guarantee of the Republic of Kazakhstan.

5. Project 3 is expected to be implemented from June 2015 to July 2016.

6. The impact for Project 3 is sustained job creation and economic growth through SME development. The outcome is SMEs with increased access to medium term credit on a sustainable basis.

7. Project 3 will have two outputs: (i) medium-term financing to SMEs; and (ii) improved financial outreach with a focus on women entrepreneurs and lending outside of the larger cities.

II. IMPLEMENTATION PLANS

A. Program Readiness Activities – Tranche 3

Indicative Activities	2014			2015				Responsible Entity
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	
1. Assess competitiveness, timing, legal, regulatory, and funding options (bond or swap)		•						ADB, Damu
2. Expression of interest process for potential PFIs and shortlisting of PFIs		•						ADB, Damu
3. Management, financial, integrity and safeguards due diligence on shortlisted PFIs conducted		•	•					ADB, Damu
4. Counter-guarantee arrangements initially agreed between MOF, Damu, and PFIs			•					Damu, MOF
5. Submit business plan for inclusion in the Government list of priority investment projects to MEBP			•					Damu
6. PFR 3 signed and submitted, including relevant attachments from Damu and MNE			•					Damu, RoK
7. Damu, MOF, and MNE confirm support for ADB funding strategy and confirm appropriate counter-guarantee structure			•					Damu, MOF, MNE
8. Prepare draft PFR Report including Tranche at a Glance, attachments, and draft legal agreements			•					ADB
9. Staff Review Management Meeting			•					ADB
10. Business plan approved and submitted to RBK as recommended by DBK			•					Damu
11. Loan negotiations			•					ADB, Damu, MOF
12. SLAs negotiated with selected PFIs			•					ADB, Damu, PFIs
13. Draft counter-guarantee documentation finalized and agreed			•					Damu, PFIs

⁴ Under Tranche 2, Damu and PFIs entered into swap agreements with each other, and the PFIs also entered into swap agreements with the National Bank of Kazakhstan. For Tranche 3, a similar arrangement could be used.

Indicative Activities	2014			2015				Responsible Entity
	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	
14. Confirmation of compliance and/or submission of action plans from PFIs			•					ADB, PFIs
15. Due diligence and update of project and legal documents for additional financing				•				ADB
16. Draft legal opinion for loan effectiveness provided					•			MOF, MOJ, Damu, PFIs
17. WAs and relevant documents attached to WAs finalized and explained to Damu and PFIs					•			ADB, Damu, PFIs
18. DAMU to open bank accounts for purposes under the imprest account procedure					•			Damu, PFIs
19. Signing of agreement on provision of sovereign guarantee					•			MRD, MOF, Damu
20. Revised PAM finalized and agreed					•			ADB, Damu, PFIs
21. Draft swap agreements between PFIs and the National Bank of Kazakhstan submitted to ADB for review (if needed)					•			PFIs
22. LA signed and submitted to ADB					•			Damu, MOF
23. PA signed and submitted to ADB					•			PFIs
24. SLAs signed and copies submitted to ADB					•			Damu, PFIs
25. Sovereign guarantee agreement signed					•			MOF, ADB
26. WAs and drawdown requests signed and submitted to Damu					•			Damu, PFIs
27. WAs signed and additional sheets to the WAs submitted to ADB					•			Damu, PFIs
28. Final legal opinion for loan effectiveness provided					•			MOF, MOJ, Damu
29. Loan Effectiveness Declared					•			ADB
30. Funds disbursed to Damu					•			ADB
31. Damu enters into swap agreement with the PFIs (if necessary)					•			Damu, PFIs
32. PFIs enter into swap agreement with the National Bank of Kazakhstan (if necessary)								PFIs, NBK
33. Funds disbursed to PFIs					•			Damu
34. Loans to qualified SMEs start					•			PFIs
35. Tranche 3 inception mission fielded					•			ADB

ADB = Asian Development Bank, Damu = Damu Entrepreneurship Development Fund, FFA = Framework Financing Agreement, GA = Guarantee Agreement, LA = loan agreement, MOF = Ministry of Finance, MOJ = Ministry of Justice, MNE = Ministry of National Economy, PA= project agreement, PFI= participating financial institution, NBK = National Bank of Kazakhstan, PFR = periodic financing request, RoK = Republic of Kazakhstan, SME = small and medium-sized enterprise, SLA = subsidiary loan agreement, WA = Withdrawal Application.

III. UPDATED PROGRAM MANAGEMENT ARRANGEMENTS

A. Project Implementation — Roles and Responsibilities

Asian Development Bank	Damu Entrepreneurship Development Fund Borrower; Executing and Implementing Agency	Participating Financial Institutions Implementing Agencies
<ul style="list-style-type: none"> • Responsible for overall coordination of the project activities, including utilization and disbursement of the Loan proceeds; ensure that the project is implemented in accordance with arrangements in the PAM. • Draft, execute, and oversee execution of the Framework Financing Agreement, Loan Agreements and Project Agreements, and monitor Damu's adherence to conditions; provide guidance to Damu on key ADB policies, guidelines, and procedures that should be incorporated into the SLAs between Damu and PFIs. • Provide financial intermediation loans and other financing products to Damu for its onlending to PFIs for subloans to SMEs. 	<ul style="list-style-type: none"> • Responsible for overall implementation of project activities including utilization and disbursement of the loan proceeds, in accordance with conditions in the relevant legal agreements for each tranche and liaison with the MNE, MOF, PFIs, and other key stakeholders. • Draft, execute, and oversee execution of SLAs with the PFIs and monitor PFIs' adherence to SLA conditions, including conditions relating to SME loans. Ensure that such PFI enters into a Project Agreement with ADB. If the loan is provided in USD, ensure the conclusion of swap agreement with each PFI and that each PFIs enters into a swap agreement with the National Bank of Kazakhstan, in terms acceptable to ADB. • Provide loans to PFIs; monitor disbursement of loans by PFIs including reviewing information concerning qualified SME borrowers, and terms and conditions in the SME loan agreements. 	<ul style="list-style-type: none"> • Responsible for onlending to viable SMEs at market-based interest rates; bear the credit risk associated with the SME loans to qualified SME borrowers under the program • Enter into an SLA with Damu for the relending of the proceeds of the Loan and enter into a Project Agreement with ADB. If the loan is provided in USD, enter into a separate swap agreements with Damu and the National Bank of Kazakhstan, in terms acceptable to ADB. Execute the SLA signed with Damu and ensure adherence to the conditions relating to SME loans and ADB policies and procedures. • Use its best efforts to onlend (i) at least 50% of the aggregate principal amount of the SME loans made under the program for investment purposes; (ii) at least 50% of the aggregate principal amount of the SME loans made under the program to SMEs located outside of Almaty and Astana cities; and (iii) at

Asian Development Bank	Damu Entrepreneurship Development Fund Borrower; Executing and Implementing Agency	Participating Financial Institutions Implementing Agencies
<ul style="list-style-type: none"> • Monitor Loan proceeds to ensure they are used only for the purpose of the Project and applied exclusively to the cost of goods, works and consulting services and other expenditure to be carried out in Qualified SME Subprojects. • Monitor PFI's action plans, as applicable. • Ensure that all goods, works, and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with ADB procurement policy embodied in 	<ul style="list-style-type: none"> • Ensure that Loan proceeds shall be used only for the purpose of the Project and shall be applied exclusively to the cost of goods, works and consulting services and other items of expenditure required to be carried out in Qualified SME Subprojects. • Monitor the PFIs' compliance with the eligibility criteria and action plans and report to ADB on the status of such compliance on a semi-annual basis. Ensure that PFIs that do not meet all the eligibility criteria prepare and submit to ADB and Damu an agreed action plan that is time bound and monitorable. In case of non-compliance by any PFI of the eligibility criteria, shall promptly notify ADB and exercise its rights under the SLAs in consultation with ADB. • Ensure that all goods, works, and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with ADB procurement policy embodied in relevant 	<p>least 33% of the aggregated number of SME Loans made by the PFI under the project to a) SMEs with a minimum of 50% women ownership; or b) SMEs with management controlled by women.</p> <ul style="list-style-type: none"> • Ensure that Loan proceeds shall be used only for the purpose of the Project and shall be applied exclusively to the cost of goods, works and consulting services and other items of expenditure required to be carried out in Qualified SME Subprojects. • Ensure compliance with the eligibility criteria for the duration of the SLA or to the action plan agreed to as part of the selection process. If failure to meet any of the eligibility criteria, immediately notify ADB and Damu, and submit to and agree with ADB and Damu an action plan that is time bound and monitorable. • Ensure that all goods, works, and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with ADB procurement policy embodied in

Asian Development Bank	Damu Entrepreneurship Development Fund Borrower; Executing and Implementing Agency	Participating Financial Institutions Implementing Agencies
<p>relevant provisions of the Procurement Guidelines and the Consulting Guidelines.⁵</p> <ul style="list-style-type: none"> • Provide guidance to Damu and PFIs on implementation issues to ensure objectives are achieved within the given time and resources. • Review and approve the PPMS prepared by Damu and undertake periodic program performance reviews in accordance with the agreed PPMS to evaluate the scope, implementation arrangements, progress, and achievements of objectives; monitor the achievements of the program targets established in the DMF. • Review oversight of compliance with ADB's Safeguard Policy Statement (2009). Conduct safeguards due diligence to assess potential environmental and social risks and impacts associated with qualified PFI likely future portfolios, along with their 	<p>provisions of the Procurement Guidelines and the Consulting Guidelines.⁶</p> <ul style="list-style-type: none"> • Appoint a project director with overall responsibility for implementation of the program including project preparation, implementation, and monitoring and reporting on results in adherence with ADB rules and procedures. • Set up PPMS in accordance with the DMF within three months from the date of loan effectiveness and submit it to ADB for review and comments. Undertake periodic program performance reviews in accordance with the agreed PPMS to monitor the scope, implementation arrangements, progress and achievements of objectives. • Oversee compliance (i) by qualified SME borrowers with ADB Safeguard Policy Statement (2009) and (ii) with applicable requirements of Kazakhstan's environmental, health, safety, labor, and social safeguards. laws and regulations. 	<p>relevant provisions of the Procurement Guidelines and the Consulting Guidelines.⁷</p> <ul style="list-style-type: none"> • Appoint staff who shall have overall responsibility in the timely and proper execution of the SLA and reporting on results in adherence with ADB rules and procedures. • Prepare and submit required reports to Damu and ADB in the agreed format which will be used as basis to monitor and update the PPMS. • Ensure that subloans to SMEs shall (i) conform to ADB's Safeguard Policy Statement (2009), (ii) comply with all applicable requirements of Kazakhstan's environmental, health, safety, labor, and social safeguards, (iii) be categorized as C or B for

⁵ A waiver to allow procurement from non-ADB member countries was approved by ADB's Board of Directors for the entire program.

⁶ A waiver to allow procurement from non-ADB member countries was approved by ADB's Board of Directors for the entire program.

⁷ A waiver to allow procurement from non-ADB member countries was approved by ADB's Board of Directors for the entire program.

Asian Development Bank	Damu Entrepreneurship Development Fund Borrower; Executing and Implementing Agency	Participating Financial Institutions Implementing Agencies
<p>commitment and capacity for environmental management.</p> <ul style="list-style-type: none"> • Train staff from Damu and the PFIs on ADB's SPS and assist Damu in designing a mechanism to monitor PFIs' compliance with the SPS and the safeguards provisions contained in the subsidiary loan agreements. • Each January and July, the Safeguards Unit of CWRD will provide Damu and the PFIs in writing with updated lists of pesticides, herbicides, ozone-depleting compounds, hazardous chemicals, endangered species, and waste or waste products referred to in footnotes 3-9 of the Prohibited Investment Activities List (Appendix 2)⁸ whose production or sale has been banned, 	<ul style="list-style-type: none"> • Assign staff who will be trained to monitor PFIs' compliance with ADB's Safeguard Policy Statement (2009) and the safeguards provisions contained in the subsidiary loan agreements. • Ensure PFIs submit Safeguards Monitoring Reports on their performance with regard to ESMS, including any corrective and preventative actions. Consolidate information on a semi-annual report. • Each January and July, Damu will ensure provision to the PFIs in writing of updated lists of pesticides, herbicides, ozone-depleting compounds, hazardous chemicals, endangered species, and waste or waste products referred to in footnotes 3-9 of the Prohibited Investment Activities List whose production or sale has been banned, restricted, or become subject to phaseout pursuant to an 	<p>environment and C for involuntary resettlement or/and indigenous people (Category A projects will be excluded from financing).</p> <ul style="list-style-type: none"> • Assign staff who will be in charge of ensuring compliance with ADB's Safeguard Policy Statement (2009) and the safeguards provisions contained in the subsidiary loan agreements. • Submit Safeguards Monitoring Report to Damu on the PFI performance with regard to the ESMS, including any corrective and preventative actions (semi-annually). • The PFIs shall have the responsibility of maintaining and applying current lists of pesticides, herbicides, ozone-depleting compounds, hazardous chemicals, endangered species, and waste or waste products whose production or sale is banned, restricted, or subject to phase out pursuant to national law or regulation to be applied to all subloans.

⁸ Attachment to Schedule 2 of the Loan Agreement, attachment to the Schedule of each Project Agreement, and Annex 1 to each subsidiary loan agreement.

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<p>restricted, or become subject to phaseout pursuant to an international convention or agreement during the immediately preceding six months.</p> <ul style="list-style-type: none"> • Monitor compliance with GAP. • Periodically update and revise the PAM as and when necessary during each mission and following any changes in program investment costs, scope, or implementation arrangements. • Monitor that Damu and PFIs submit required AFS and project financial statements promptly. Review documents promptly to determine if the quality is satisfactory and that it complies with the provisions of the LA and PA. • Conduct periodic reviews of subloans (and basic due diligence sampling) as part of ADB review activities. 	<p>international convention or agreement during the immediately preceding six months.</p> <ul style="list-style-type: none"> • Implement relevant provisions of the GAP, collect data from PFIs and report to ADB on a semi-annual basis, or as requested by ADB. • Periodically review the PAM and recommend, for ADB's review and approval, changes to improve program implementation. • Submit to ADB in English its annual AFS and audited statement of utilization of funds in a manner satisfactory to ADB (see audit section in this PAM) within the first 6 months from the close of the fiscal year; review PFI external audit reports and monitor implementation of recommended follow-up actions. • Conduct periodic reviews of subloans (and basic due diligence sampling) as part of Damu review activities. 	<ul style="list-style-type: none"> • Implement relevant provisions of the GAP and provide data as requested by Damu and ADB. • Recommend to Damu and ADB revisions to the PAM to improve program implementation procedures. • Submit to Damu and ADB their annual AFS and audited annual statement of utilization of funds in a manner satisfactory to ADB within the first 6 months from the close of the fiscal year (see audit section in this PAM). • Provide ADB and Damu in a timely manner any supporting documents requested including documentation supporting creditworthiness assessments of each subborrower; allow Damu or ADB to conduct onsite reviews with full disclosure or any

Asian Development Bank	Damu Entrepreneurship Development Fund Borrower; Executing and Implementing Agency	Participating Financial Institutions Implementing Agencies
<ul style="list-style-type: none"> • Conduct off-site review of reports and other information provided from time to time by Damu and PFIs; at its option, conduct on-site inspections to confirm such compliance • Prepare a consolidated project completion report within 6 months from completion of each tranche and a consolidated program completion report within 6 months from completion of the program. 	<ul style="list-style-type: none"> • Conduct off site review of reports and other information provided from time to time by the PFIs; in the circumstances permitted by the SLAs, conduct on-site inspections to confirm such compliance; allow ADB's representatives to inspect any relevant records and documents maintained concerning the program. • Prepare a consolidated project completion report within 3 months from each project (tranche) closing date (and a consolidated program completion report within 6 months from program completion date). 	<ul style="list-style-type: none"> requested relevant documents. • Prepare a report for submission to Damu within 2 months from project closing date and provide information as necessary to Damu during the duration of the program.

ADB = Asian Development Bank, AFS = audited financial statements, Damu = Damu Entrepreneurship Development Fund, DMF = design and monitoring framework, ESMS = environmental and social management system, GAP = Gender Action Plan, LA = Loan Agreement, PA = Project Agreement, PAM= Project Administration Manual, PFI = participating financial institution, PFR = periodic financing request, MOF = Ministry of Finance, SME = small and medium-sized enterprise, MNE = Ministry of National Economy, PPMS = program performance monitoring system, SLA = subsidiary loan agreement, SPS = Safeguard Policy Statement.

Notes: **Category A:** Projects are categorized as "A" if they could have significant adverse environmental impacts, which are irreversible, diverse, or unprecedented. **Category B:** Projects are categorized as "B" if they could have some adverse environmental impacts, but of lesser degree or significance than those for category A projects, and impacts are site-specific, few if any of them are irreversible. **Category C:** Projects that have minimal or no environmental impacts. Involuntary Resettlement: Category A: If activities are likely to have significant involuntary resettlement impacts (200 or more persons will experience major impacts, which are identified as (i) being physically displaced from housing, or (ii) losing 10% or more of their productive assets (income generating). Category B: Involuntary resettlement deemed not significant. Category C: No involuntary resettlement impacts.

B. Key Persons Involved in Implementation

1. Executing and Implementing Agency

Damu Entrepreneurship Development Fund

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2. Asian Development Bank

8. The department responsible for the implementation of the program is the Central and West Asia Department (CWRD), represented by the Public Management, Financial Sector, and Trade Division (CWPF) and in coordination with Kazakhstan Resident Mission (KARM). CWPF has the overall responsibility for the implementation of the Loan in ADB. The updated list of the Program Team is in Appendix 3.

Public Management, Financial Sector and
Trade Division (CWPF)
Central and West Asia Department (CWRD)

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3. Implementing Agencies

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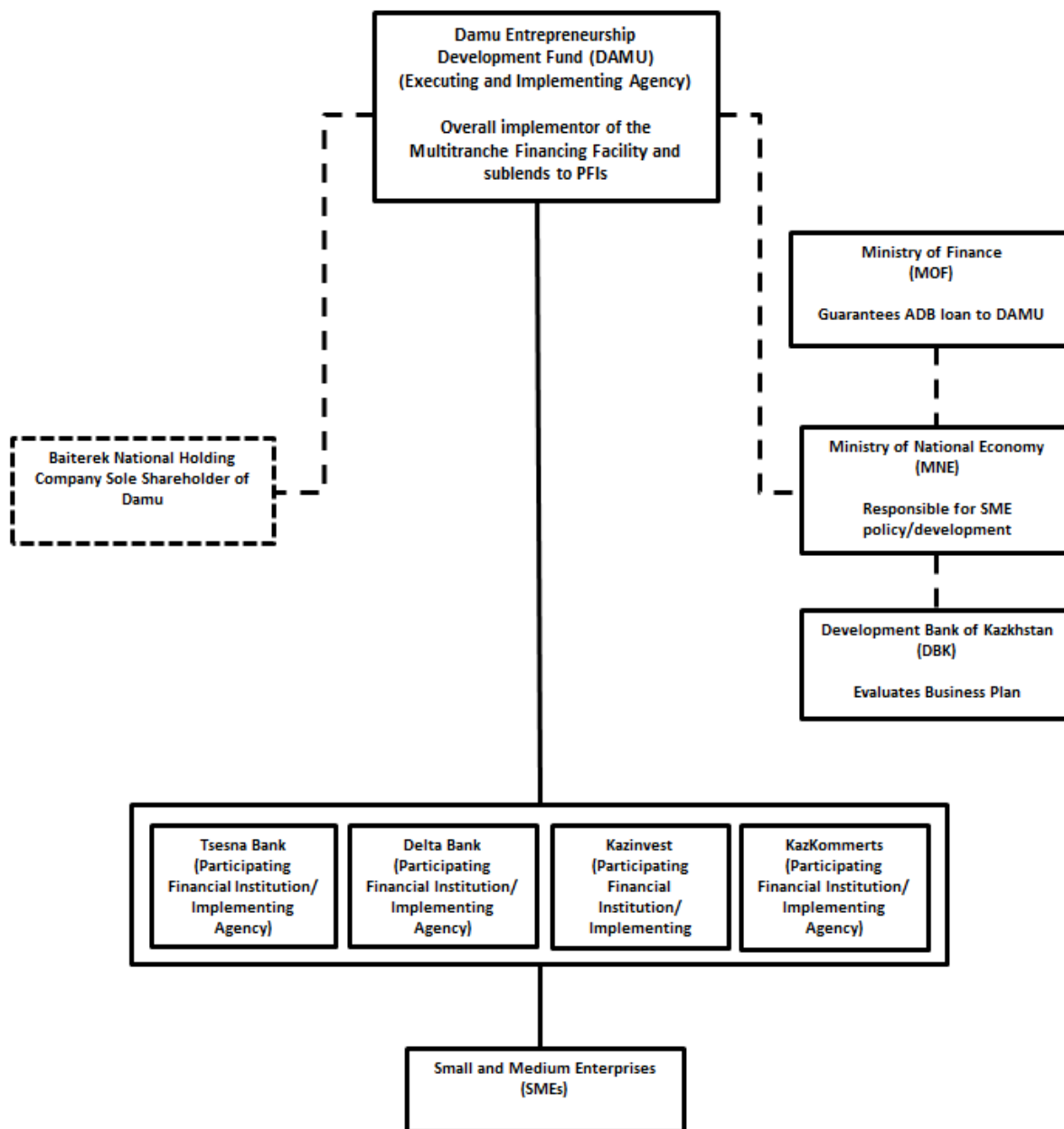
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C. Program Organization Structure

1. Tranche 3 Organization Structure



D. Summary of Key Features of the Facility

1. Investment Program

Procedures	<p>Each tranche to be provided under the MFF will be subject to the following procedures and undertakings:</p> <ul style="list-style-type: none"> ○ Damu will notify ADB of a forthcoming PFR in advance of the submission of the PFR ○ Damu will then submit the PFR to ADB ○ ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche ○ Once ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties
PFR Information	<p>Each PFR submitted under the MFF will contain the following details:</p> <ul style="list-style-type: none"> ○ Loan, guarantee, or cofinancing amount ○ Description of projects to be financed ○ Related cost estimates and financing plan ○ Implementation arrangements specific to the project in question ○ Confirmation of the continuing validity of and adherence to the provisions in the framework financing agreement signed by Damu and ADB in May 2011 and as subsequently amended pursuant to a letter of amendment dated 12 February 2014 ○ Confirmation of compliance with the provisions under previous legal agreements ○ Other information as may be required under the original FAM or reasonably requested by ADB
Availability Period	<p>The original availability period of the MFF was 5 years from ADB Board of Directors' approval (29 September 2010), has been extended to 8 years as per ADB policy. The availability period has been extended to 31 December 2018. The last date on or before which all closing dates of any financing under the MFF must fall was originally 31 December 2015, now extended to 31 December 2018.</p>
Eligibility Criteria	<p>Participating Financial Institutions</p> <p>Damu shall monitor PFIs' compliance with the following eligibility criteria and report to ADB on the status of such compliance on a semi-annual basis. In the event of any non-compliance by PFIs with any of the following eligibility criteria, the PFI shall notify ADB through Damu of such non-compliance, such notification to be made within 30 days of the PFI becoming aware thereof. Each PFI shall for the duration of its SLA:</p> <ul style="list-style-type: none"> (a) comply fully with requirements set by the agency responsible for banking and financial supervision in Kazakhstan (National Bank of Kazakhstan, NKB) or have an agreed action plan to do so; (b) have a credit rating of at least "B-" issued by a credit rating agency, or have such other rating acceptable to

	<p>ADB (provided that such rating shall not be two or more notches lower than the then current rating of the relevant PFI as of the date of the Project Agreement, unless the rating downgrade is an automatic downgrade as a result of the downgrading of the sovereign rating of the Guarantor);</p> <p>(c) be profitable (profit after tax) for its most recently completed fiscal year, or have an agreed action plan to become profitable; and</p> <p>(d) have a ratio of non-performing loans⁹ (NPLs) less than 10%, or have an agreed action plan to reduce NPLs to that level.</p> <p>Compliance with the criteria set forth in (a) hereinabove shall be confirmed based on the information reported on the English-language website of the NBK. The PFI shall submit to ADB, through Damu, within 60 days of each 30 June and 31 December, an English language copy of all information required to be submitted by PFI to such agency in order to permit such agency to determine compliance with such criteria for the period then ended. Compliance with the criteria set forth in subparagraphs (c) and (d) hereinabove shall be confirmed as indicated in subsection (c)(iii) of Section 3.06 of the Project Agreement (external auditors' letter).</p> <p>Eligibility Criteria for Qualified SME Borrower</p> <p>The PFIs shall ensure that each Qualified SME Borrower:</p> <p>(a) is a small and/or medium enterprise according to the definition stipulated in the Law on Private Entrepreneurship of the Republic of Kazakhstan; and</p> <p>(b) is not engaged in any prohibited investment activity listed in the attachment to the Schedule of the respective Project Agreements.</p> <p>Eligibility Criteria for Qualified SME Subproject</p> <p>PFIs shall ensure that each Qualified SME Subprojects shall be for activities that:</p> <p>(a) are not included in the list of prohibited investment activities set out in the attachment to the Schedule in the Project Agreement; and</p> <p>(b) comply with the environmental safeguards set out in paragraphs 9 to</p>
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⁹ Non-performing loans shall mean loans overdue by more than 90 days and shall include principal, accrued interest and penalties less discount.

	11 of the Schedule in the Project Agreement.
Loan Proceeds Utilization	<p>SME Loans</p> <p>a) PFIs shall ensure that each SME Loan:</p> <ul style="list-style-type: none"> (i) is used by a Qualified SME Borrower to (a) acquire fixed assets, (b) modernize existing fixed assets, and/or (c) finance working capital; (ii) is denominated in Tenge; (iii) has a market-based interest rate; and (iv) subject to subparagraph (b) below, has a repayment term as follows: (A) in the case of financing for working capital—up to 36 months; and (B) in the case of financing for acquisition and modernization of fixed capital assets—up to 84 months, <i>provided</i>, that such PFI shall be required to use its own funds to the extent the repayment term of such SME Loan extends beyond the principal repayment date of the Subloan of such PFI. For the avoidance of doubt, any principal amount of an SME Loan repaid may, subject to the terms of this subparagraph (a), be used by such PFI to make additional SME Loans. <p>b) none of the Subloan to a PFI is applied to the refinancing of existing loans;</p> <p>c) at any given time, no Qualified SME borrower or group of affiliated persons (as such term shall be defined in the applicable SLA) shall have outstanding borrowings, either individually from the PFI or collectively from all the financial institutions (including the PFI) to which the Borrower may lend money under the Investment Program for the same purpose as the SME Loan, of more than KZT[550 million] (\$3M equivalent) using funds made available by ADB under the Investment Program;</p> <p>d) such PFI uses its best efforts to cause that: (i) at least 50% of the aggregate principal amount of the SME Loans made by it under the Project are used by for investment purposes; and (ii) at least 50% of the aggregate principal amount of the SME Loans made by it under the Project are provided to SMEs located outside of Almaty and Astana cities;</p> <p>e) PFIs use their best efforts to cause that at least 33% of the aggregated number of SME Loans made by such PFI under the Project, are to, as applicable, the following:</p> <ul style="list-style-type: none"> (i) SMEs with a minimum of 50% women ownership; or

	<p>(ii) SMEs with management controlled by women.</p> <p>Qualified SME Subprojects (Screening, Categorization, and Environmental and Social Assessment and Planning)</p> <p>PFI shall ensure that before any proposed subproject is approved to be a Qualified SME Subproject for financing:</p> <ul style="list-style-type: none"> (a) PFIs have appointed designated staff for project implementation particularly for financial management and reporting, and monitoring and evaluation; (b) The environmental and social management system (ESMS) is used to screen and categorize the significance of potential environmental, indigenous peoples or involuntary resettlement impacts associated with such subproject; and (c) An environmental management plan is prepared for proposed subprojects as required pursuant to the ESMS for Category B projects. <p>PFI shall ensure that each proposed subproject does not involve any:</p> <ul style="list-style-type: none"> (a) involuntary resettlement or indigenous peoples impacts within the meaning of the SPS; (b) environmental impacts which can be categorized as Category A, in each case within the meaning of the SPS; or (c) activity referred to in the attachment to the Schedule of the Project Agreement. <p>Without limiting the paragraph immediately above, PFI shall ensure that, in respect of any proposed subproject that involves the acquisition or transfer of any interest in land, such acquisition or transfer is between willing parties and not under eminent domain.</p> <p>The PFI agrees that violation of the requirements stipulated in the subsidiary loan agreement will be considered as improper use of the loan by the PFI, in which case the PFI shall pay to Damu penalty for the improper use of the Loan under the subsidiary loan agreement.</p>
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2. Tranche 3

Loan Amount and Terms

The proposed Tranche 3 project will be financed by a loan of US\$228 million from ADB's ordinary capital resources to Damu.¹⁰ The loan will be guaranteed by RoK and will have (i) a 5 year term, with one principal repayment at loan maturity; (ii) an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility; (iii) a commitment charge of 0.15% per year on the full

¹⁰ Given financial market conditions, the options for ADB to raise tenge funds to provide the loan in local currency are currently limited to the possibility of ADB issuing a local currency bond. While this option continues to be explored, such a bond may not be issued on time to fund tranche 3. Thus, a USD loan with appropriate currency hedging arrangements, similar to tranche 2 and consistent with the MFF, is the preferred option.

amount of the loan (less all drawdown amounts disbursed from time to time) commencing 60 calendar days after the date of the loan agreement; and (iv) such other terms and conditions as are set forth in the draft loan, guarantee and project agreements.¹¹ To ensure that Damu and PFIs are not exposed to the currency risk and can lend to borrowers in local currency, ADB will require that hedging arrangements are in place for Damu and the PFIs.¹²

Final Repayment Date	The final repayment date of the loan will be approximately 5 years from the date of the loan agreement.
Withdrawals	Withdrawals under the loan and relending to PFIs through subloans are expected to take place at or about the same time as the loan becomes effective.
Subloans Interest Rate	<p>Damu will charge a market based margin to:</p> <ul style="list-style-type: none"> (i) cover its administrative costs; (ii) generate a fair return for risk taken on each PFI; (iii) cover the interest rate risk, if it borrows from ADB on LIBOR terms and onlends to PFIs at a fixed interest rate; (iv) pay a guarantee fee to the government for the sovereign guarantee; (v) pay counter-guarantee fees to guarantors pursuant to the Budget Code of Kazakhstan; and (vi) Cover currency swap fees for hedging currency risks.
Disbursement Period	Each PFI will have up to one year from the date of its receipt of the subloan proceeds from Damu to disburse funds to SMEs.
Credit Risk	Damu shall cause each PFI to: (a) bear the credit risk associated with the SME Loans made by it to Qualified SME Borrowers under the Project; and (b) independently determine the creditworthiness of each Qualified SME Borrower and the terms and conditions of the related SME Loans, in accordance with international best practices for lending or otherwise providing credit through financial leasing to SMEs (includes determination of margins and associated fees, security taken and proper legal documentation).
Period of Loan Utilization	The project is expected to be completed in a year after the loan becomes effective (tentatively June 2016). The loan closing date will be one year and 60 days from the day of the loan agreement from this tranche.
Implementation Arrangements	The executing agency will be Damu, which will be responsible for overall implementation, including administration and disbursement of the

¹¹ Framework Financing Agreement and PFR 3. There may also be an early repayment date to comply with conditions related to the sovereign guarantee of the Republic of Kazakhstan.

¹² Under Tranche 2, the PFIs entered into swap agreements with Damu and the National Bank of Kazakhstan. For Tranche 3 a similar arrangement could be used.

proceeds of the loan from ADB. Each PFI will act as Implementing Agency for the allocation under its SLA.

Using withdrawals under the loan from ADB, Damu will onlend the entire amount of US\$228 million equivalent to the PFIs in Tenge. The allocation per PFI is based on (i) estimated demand from SME subborrowers; (ii) Damu's credit exposure limits per PFI; and (iii) findings of ADB's due diligence related to financial absorptive capacity per institution. The tentative allocation will be: Delta: \$50 million equivalent; Kazinvest bank: \$9.7 million equivalent; Kazkommerts: \$82.3 million equivalent; and Tsesna Bank: \$86 million equivalent.

To hedge the foreign exchange risk, the PFIs and Damu will, no later than 30 calendar days upon receipt of the loan proceeds, execute a currency swap between Damu and the PFIs and between the PFIs and the National Bank of Kazakhstan (NBK) to obtain Tenge funds on terms acceptable to ADB.

PFIs will onlend the loan proceeds to SMEs at market-based interest rates and other terms and conditions in accordance with policies and procedures set out in this PAM previously agreed with ADB, and international best practices for market-based lending to SMEs (including determination of margins and associated fees, security taken and documentation). Damu will monitor each PFI's performance accordingly as specified in respective SLAs.

IV. COSTS AND FINANCING

A. Allocation and Withdrawal of Loan Proceeds

9. The loan proceeds shall be used only for the purpose of the Project and shall be applied exclusively to the cost of goods, works and consulting services and other items of expenditure required to be carried out in Qualified SME Subprojects.¹³ For each withdrawal application submitted by Damu, the amount of ADB financing under the Project is 100% of the total amount requested by the Borrower under such withdrawal application.

10. The total cost of Project 3 (including additional financing) is estimated at \$285 million equivalent (Table 1). This is the estimated total investment made and or amount of working capital used by SMEs to finance the cost of expansion and modernization subprojects. It assumes that at least 20% of that amount will be contributed by SME subborrowers in the form of equity, collateral or third party guarantees as determined by the PFIs following international best practices for market based lending to SMEs.

Table 1: Tranche 3 Financing Plan for Tranche 3 with additional financing
(\$ million equivalent in US\$)

Item	Amount	Share of Total (%)
Financial intermediary loan ^a		
Subloans from PFIs	228.00	80
SME subborrowers (through equity) ^b	57.00	20
Total^c	285.00	100

PFIs = participating financial institutions, SME = small and medium-sized enterprise.

^a Using proceeds of the Asian Development Bank's financial intermediation loan to Damu

^b Estimated value of equity, collateral and third party guarantees contributed by SME sub-borrowers

^c Estimated total investment made and working capital used by SMEs to finance subproject costs

Sources: Asian Development Bank and Damu estimates.

B. Contract and Disbursement

11. The projected contract awards and disbursements for Tranche 3 are set forth in Table 2.

Table 2: Contract Awards and Disbursement (US\$ in millions)
–Tranche 3 (Projections)

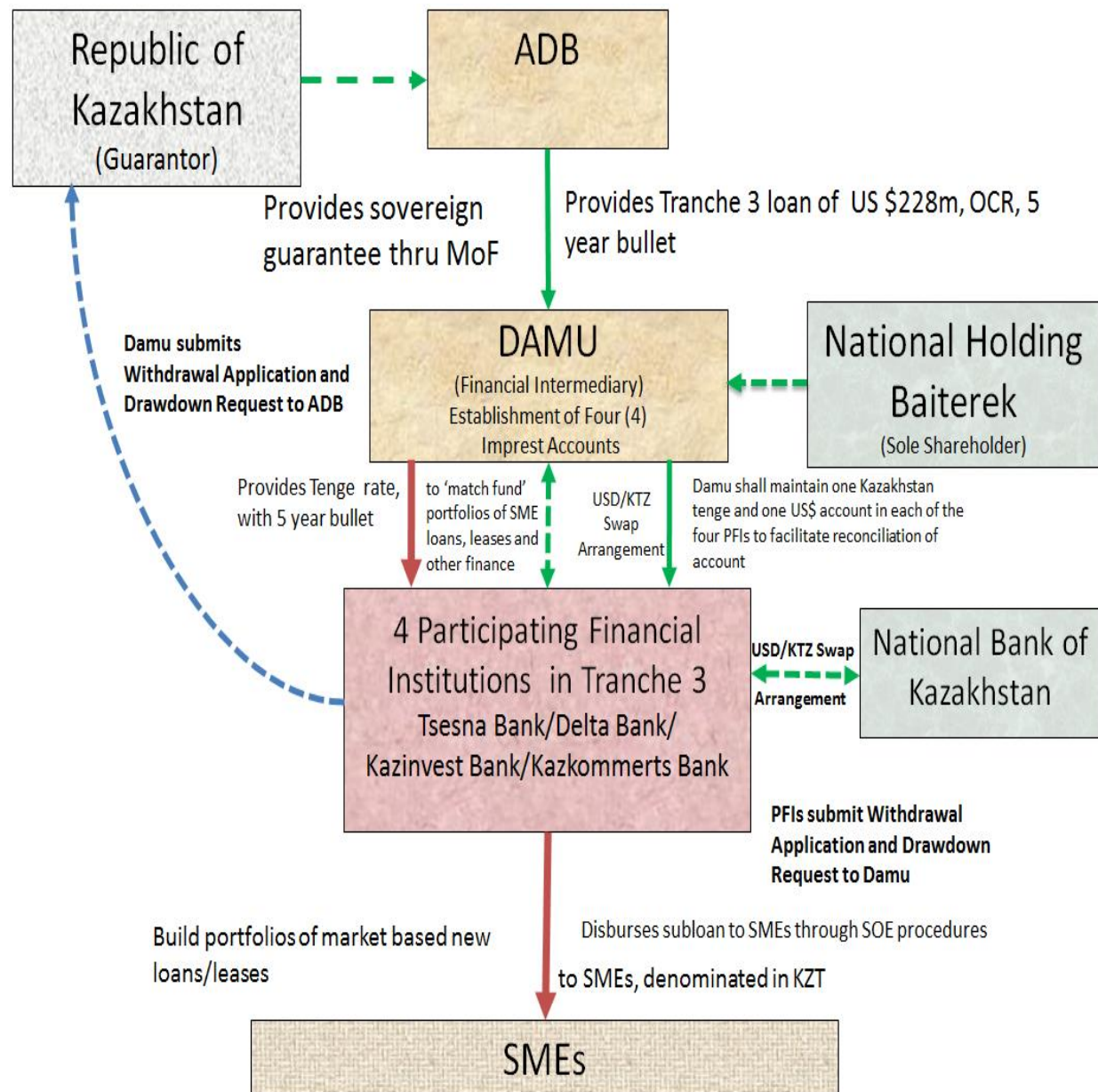
Disbursements					
	QTR 1	QTR 2	QTR 3	QTR4	Total
2015	0.00	0.00	228.00	0.00	228.00
TOTAL					228.00

Contract Awards					
	QTR 1	QTR 2	QTR 3	QTR4	Total
2016	45.60	45.60	68.40	68.40	228.00
TOTAL					228.00

¹³ A waiver to allow procurement from non-ADB member countries was approved by ADB's Board of Director and is applicable to all tranches of the Program.

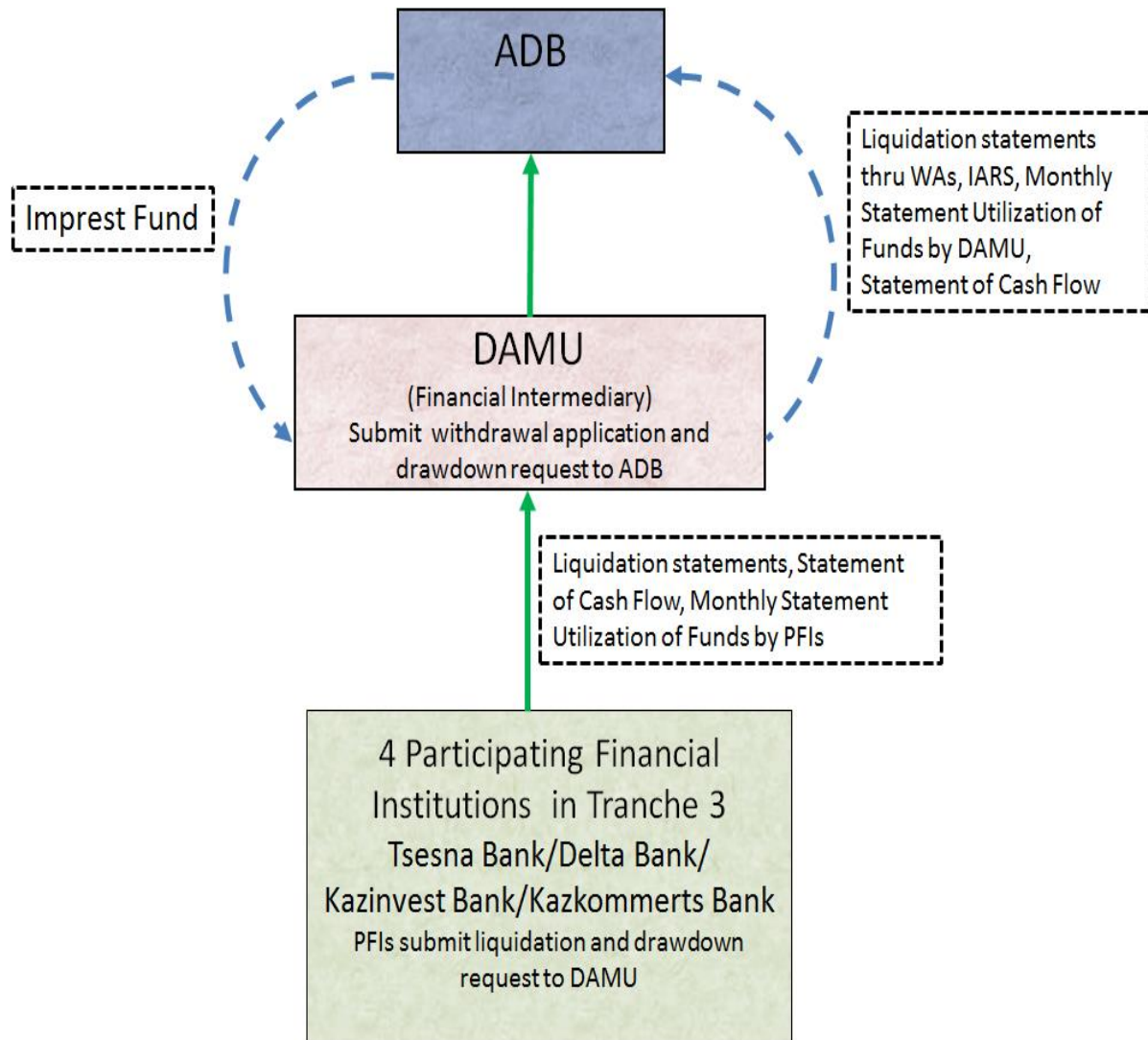
C. Fund Flow Diagram

Figure 1: Tranche 3 (with additional financing) Fund Flow Diagram



D. Document Flow Diagram

Figure 2: Tranche 3 Document Flow Diagram



V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

Country issues

12. Current risk-based characteristics of Kazakhstan's banking sector are as follows:

- (i) **Weak asset quality (high non-performing loans ratio).** Work out of non-performing loans (NPLs)¹⁴ will be a multiyear process due to, among other things, to difficulties with securing collateral; reluctance of banks to face write offs which would impact on capital cushions; tax impediments which constrain banks from restructuring loans through write-offs since these are non-neutrally taxed (recovery of loan-loss provisions are taxed while write-off related losses are not recognized for tax purposes); bank secrecy laws that prevent the Problem Loans Fund (PLF), an asset management company funded by the National Bank of Kazakhstan (NBK), from having access to loan documentation required to appraise the loans; and the PLF¹⁵ offers too steep discounts to banks to be attractive, does not allow for real estate loans and is underfunded, though the NBK has recently announced an additional recapitalization.
- (ii) **Poor profitability.** The banking sector is focused on addressing the quality of their loan books which requires on going provisioning which in turn affects profitability.
- (iii) **Low level of capitalization.** Ongoing provisioning and write offs related to the NPLs issues continue to eat into the capital bases of many banks requiring ongoing capital injections to meet prudential standards.
- (iv) **High deposit concentration.** While increased retail funding has improved the profile of banks' funding in recent years, there is a high dependence of big banks on large corporate deposits, posing significant concentration risks.
- (v) **Weak corporate governance and risk management systems.** While specific risk management units and formalized policies and procedures may exist, many banks lack the expertise required to implement strong risk management policies.
- (vi) **Lack of expertise in preparing financial information.** The financial reporting units of the banks are not sufficiently staffed with qualified accounting expertise. To compensate for this lack of technical knowledge, inappropriate reliance may be placed on auditors to support the preparation of financial reporting statements.
- (vii) **Weak regulation and supervision.** Banks have been able to evade the regulatory requirement on large exposures by lending to companies that are formally independent but in reality controlled by a single entity. The national legislation does not require identification and disclosure of ultimate financial beneficial ownership for

¹⁴ NPLs stood at 30% of gross loan portfolio at the end of August 2014 according to the National Bank of Kazakhstan.

¹⁵ The Problem Loan Fund with capitalization of \$1 billion deals only with a small portion of NPLs non-related to the construction and real estate sectors while the bulk of NPLs relates to the construction and real estate sectors.

corporate accounts, so the reported related-party exposures may be deceptive. Supervision is mainly compliance based than risk based.

- (viii) **Presence of pocket banks in the sector/involvement of Politically Exposed Persons (PEP) in ownership structures.** It is a generally recognized fact that many banks have PEPs behind them. The civil service law¹⁶ requires civil servants to transfer in trust management shareholdings in commercial entities.

Damu Entrepreneurship Development Fund

13. Damu Entrepreneurship Development Fund (Damu) was established in 1997 by the government to stimulate the development of SMEs. Damu reports to the Ministry of National Economy. Its sole shareholder since 28 August 2013 is the National Holding Baiterek JSC (Baiterek), which was established by a Presidential Degree dated 22 May 2013 to acquire Damu and other development and financial institutions held by the Sovereign Wealth Fund “Samruk-Kazyna” JSC (Samruk-Kazyna).

14. After the global financial crisis in 2007–2008, Damu became one of the government’s vehicles to help stabilize the banking sector and maintain a flow of credit to the economy. Prior to the crisis, Damu provided credit directly to SMEs and other entrepreneurs using its own funds. In the aftermath of the financial crisis, losses from these direct SME loans were significant enough that Damu redirected its development efforts to providing wholesale credit lines to banks for onlending to targeted SME markets. Other programs with partner banks include interest rate subsidies and guarantees for targeted loans. Damu also provides non-financial support for SMEs including training, consulting, knowledge and information sharing.

15. Since 2009, Damu’s total assets have steadily declined from T260.9 billion to T169.3 billion in 2013. Retained earnings have increased from an accumulated deficit in 2010 to a net income position by year-end 2012, and have increased again in 2013. In addition, new shares were issued totaling T28.25 billion during 2012, increasing Damu’s total equity up to over T80 billion in 2013. The increase in equity and the reduction in assets resulted in an almost 50% decrease in leverage. The debt to equity ratio has substantially declined from 7.7 in 2009 to 1.1 by year-end 2013. The capital adequacy ratio has doubled in the last 2 years, from 25% in 2011 to over 50% in 2013. Loans to banks and financial institutions accounted for over 79% of assets, amounting to T135 billion at the end-2013. Direct loans to SMEs amounted to less than 1% of total assets and are being recovered. Investments and cash and equivalents amount to almost 20% of total assets.

16. Damu profitability has remained stable. Return on average assets has been around 2% in the last three years. Return on average equity has declined significantly due to the increased equity and reduced leverage, moving from over 7.6% in 2011 to 4.5% in 2013. The spread between cost of funds and yield on assets has declined somewhat, although both cost of funds and yields have declined over the period. Interest income and expense have both declined over the period as assets and liabilities have been repaid. Net interest margin has increased from 3.0% in 2011 to 4.1% in 2013. Overhead has increased as a share of average assets and the efficiency ratio has increased, although it remains low relative to private sector standards.

¹⁶ The Civil Service Law of Kazakhstan: Law N453-I dated 23 July 1999 and amended on 3 July 2013. However the use of proxy shareholders to obfuscate *de facto* financial beneficial owners is known to occur and appears not to be uncommon.

17. Damu's accounting and reporting unit employs 14 staff. All are conversant in IFRS standards. Policies are visible. Their external auditor is Price Waterhouse Coopers. The internal audit function is carried out by 4 staff, who are well trained. An internal audit is performed in each of the 16 regional offices only every two years, but there are annual reports to the board of directors on actual audit activities. They use a risk-based approach to their audit planning. The main weakness is that the IT system is not fully integrated between headquarters and the regional offices, which restricts visibility. An IT integration upgrade is ongoing.

18. The risk management function is carried out by 6 staff. Damu's credit risk arises from its exposure to partner banks through wholesale funding credit lines and guarantees, with credit risk of the ultimate SME subborrower or subproject assumed by the partner bank. Exposure limits are determined individually by Damu, but then the overall exposures are assessed at holding level by Baiterek. On a case by case basis, Baiterek allows Damu to go beyond its individual limits, bearing in mind the overall exposure of the companies under the holding. Their bigger exposure is with Eurasia Bank (15%). For guaranteed loans to SMEs, collateral associated with the subborrower must be sold first before a partner bank can make a claim on Damu. NPLs are at 2.5%. A new Bad Debt Unit has been created for collateral management and recoveries. Damu has developed policies and procedures for the management of credit exposures, and establishes the limits for each bank. A Credit Committee is responsible for decision making and active monitoring of credit risk. Appropriate reporting systems are in place. Procedures for monitoring loans and other credit exposures are in place and actively used.

19. Damu obtained in 2014 its first sovereign rating, a BBB+, equivalent to the sovereign rating for Kazakhstan. In February 2015, S&P revised its long-term credit rating to Damu down to BBB. This was due to negative outlook of the sovereign rating of Kazakhstan and mirrored a similar sovereign downgrade. S&P is of the view that there is an almost certain likelihood of government sufficient extraordinary support to Damu if this was needed. Provision of additional capital or reimbursement for losses associated with directed lending or wholesale credit lines to partner banks under specific government programs is a critical aspect of Damu's long-term sustainability. Damu is actively seeking to diversify its wholesale funding profile.

20. Project 1 and related capacity development technical assistance (TA) under the Kazakhstan's Small and Medium Enterprise Investment Program provided Damu with its first opportunity to raise external financing since its de-listing. It supported the development and rollout of a new, market-based lending program. The TA also improved Damu's effectiveness and efficiency, to enable it to attract external financing over the longer term.

Qualified Participating Financial Institutions

1. Delta Bank

21. **Overview.** JSC "Delta Bank" (Delta) was founded in 1993. A new management team was put in place in 2011, bringing in significant banking experience, improving the financial profile and keen to diversify the banks' concentrated portfolio. By assets (as of September 2014) it is ranked as the 16th largest bank in Kazakhstan with a market share of 1.5%. As of end-2013, Delta had 11 branches. In August 2014, S&P have assigned Delta a Long-Term Credit Rating of B (stable) and there have been no updates in 2015. Delta is in compliance with all the required prudential standards of NBK.

22. **Key Financial Indicators.** Delta demonstrates adequate capitalization, though gradually declining as a result of rapid credit expansion. The capital adequacy ratio (CAR) decreased from 19.6% (2011) and 20.7% (2012) and 15.8% (2013) to 14.83% (2014). There has been a gradual improvement in profitability. The return on average assets (ROAA) amounted to 2.10% as of year-end 2014 and the return on average equity (ROAE) to 18.34%, down 0.08 and up 0.75 percentage points respectively. The net interest margin is 6.86% in end-2014 with 1.44 percentage points slightly reduced from end-2013.

23. **Assets.** The bank's loan portfolio grew by 57.8% by end-2014 from 45.2% the year before. The ratio of net loans to total assets has increased to 80.32% end-2014 from 75.5% end-2013. The bank still lacks business diversity and works mainly with corporate clients, mostly midsize companies in the volatile agribusiness sector. The new management team is developing a new business model that seeks to diversify the bank's portfolio. The bank is now actively targeting the SME sector, for which a new marketing plan has just been completed. Corporate loans dominate in the portfolio with 99.2% of the total loans. At end-2014, 70.9% of banks loan portfolio was in local currency reduced from 95.2% end-2013. Borrower concentration is very high but decreasing, with 37 borrowers representing over 84.1% of the total gross loans. Loans to related parties were nil in 2014. NPLs amounted to 0.17% from 0.35% end-2013.

24. **Liabilities.** Customer deposits are the bank's main funding source, making up 64.0% of total funding at end-2014, down from 76.0% at end-2013. The customer deposits growth rate is slowing down. The deposit base is highly concentrated, with the eight largest depositors making up to 70.1% of the deposit base as of end-2014. The bank has a high loan to deposit ratio of 158.5%. As of 31 December 2014, thanks to the short-term nature of the loan portfolio, the bank faces no asset-liability mismatches on loans.

25. **Financial Management.** Delta Bank is fully IFRS compliant, with all of its 10 financial reporting officers fully conversant with IFRS. KPMG has been the external auditors since 2008. However the audit team (managers and executives) was superseded on 2011. The three internal auditors have a minimum of ten years auditing experience and have MBAs (two) or a CIA (one). They report directly to the board of directors. Audit policies and procedures are formalized and visible to all audit staff. They include a *de facto* credit quality audit. The internal audit function, however, does not seem to cover IT security systems. The Risk Management Unit includes five risk management officers with basic university degrees and a minimum of five years' experience. There is a strong risk culture. The bank has recently updated its risk management framework to comply with the new rules of the central bank that entered into force on Jan 2015 by (i) increasing and strengthening role and level of responsibility of the Board of Directors and (ii) implementing capital adequacy management system and continuity of operations system. External and internal training takes place regularly. Internal policies and procedures are clear and visible to staff. There is a separate Anti-money Laundering (AML) unit, well versed in AML/ Combating Terrorist Financing (CTF) issues, that reports directly to the Board of Director (BOD). Formal policies and procedures are in place.

2. Kazinvestbank

26. **Overview.** JSC "Kazinvest Bank" (KIB) was founded in 1993. By assets, as of September 2014, it is ranked as the 25th largest bank in Kazakhstan with a market share of 0.5%. As of end-2013, the bank had seven branches. In June 2014, S&P have assigned Kazinvest Bank a Long-Term Credit Rating of B- (stable) which is below the average peer

group rating in Kazakhstan. S&P assigned the same rating in its review March 2015, a positive sign amidst several downgrades triggered by the overall financial situation. KIB's new chief executive officer¹⁷ was appointed in August 2014. A new three-year Strategic Plan, which includes a revised SME strategy, was approved in mid-October 2014. Kazinvest bank is in compliance with all the required prudential standards of NBK. EBRD, one of the bank's largest shareholders (with 25.6% of the shares), exited the bank on December 2014. As a result, two of the four largest shareholders increased their participation.¹⁸ This change may affect the bank's strategy in the future. KIB informed that a \$15 million shareholder capital increase is scheduled in Q2 2015. This will strengthen the bank's loss absorption capacity.

27. **Key Financial Indicators.** The capitalization of KIB is still moderately weak but improving, with the CAR increasing from 13.2% (2011) and 13.3% (2012) to 14.1% (2013). Profitability has improved, with the bank returning to profit in 2013 after recording losses the two years before. This is partly a result of a consolidation and rationalization of the bank's loan book and a focus on reducing the cost to income ratio. The sustainability of this trend remains to be confirmed. The ROAA was 0.2% in 2013 and ROAE was 1.7%. The net interest margin increased to 5.2% (up from 4.9%) but remains lower than that of peer banks. The cost-to-income ratio improved, decreasing from 71.8% by end-2012 to 56.2% by end-2013.

28. **Assets.** Loan portfolio growth of 1.3% by end-2013 (19.5% at end-2012) shows a very conservative growth strategy. The proportion of net loans to total assets increased to 77.4% at end-2013 from 62% at end-2012. Corporate loans make up the significant majority of the loan portfolio, amounting to 96.5% of the total loan portfolio. The bank had low exposure to the volatile real estate and construction sector. SME growth is a stated strategic priority. KIB's loan portfolio had a reasonably short maturity profile at end-2013 and 83.7% of banks loan portfolio was in the local currency. Large borrower concentration is high. Loans to related parties are minimal. The loan portfolio quality is very weak. NPLs are very significant at 19.39% of gross loans for 2013, but on a declining trend (down from 25% in 2011). Loan loss reserve coverage of NPLs is low at 57.3%. Unaudited financial information places this ratio just below 10% at the end of 2014, in line with the agreed Action Plan between ADB and KIB to ensure compliance with the project's selection criteria.

29. **Liabilities.** Customer deposits are the bank's primary funding source, making up 95.1% of total funding in 2013, down from 97.8% in 2012. The bank is predominantly funded by corporate deposits, which accounted for 93.9% of total liabilities at end-2013. The loan-to-deposit ratio was 106% YE2013, up from 81.3% in YE2012. Deposit growth deteriorated by 22.3% in 2013 after a positive growth of 58.3% in 2012. The deposit base is highly concentrated. At end-2013, customer deposits were 68.2% in the local currency. The bank exhibited positive maturity gap of 13.5% of total assets in up to one year at end-2013.

30. **Financial Management.** KIB is fully IFRS compliant with the majority of staff having IFRS practical experience. The financial reporting unit consists of 17 people (a reduction from 25 in 2013), who all have university degrees. PricewaterhouseCooper is their auditor since 2004. The four internal auditors, who have standard university degrees (three) and CIA (one), report directly to the board of directors. Only the Director seems to have sufficient IFRS and credit quality audit skills. Staff are not trained in credit quality methods but report using risk-

¹⁷ A former board member.

¹⁸ Mr Kaniyev's participation was raised from 17.56% to 30.36% and Mr. Pak's participation increased from 14.3% to 27.1%.

based auditing. The risk management unit consists of ten officers with university education. A new credit rating system has been introduced which is fully understood by staff. Policies are available on the bank's intranet. Training is conducted mainly in-house. There is a separate AML/CTF compliance unit and formal policies and procedures are in place. No changes in financial risk management have taken place since the previous due diligence.

3. Tsesnabank

31. **Overview.** JSC "Tsesna Bank" (TSB) was founded in 1992. By assets, as of September 2014, it is ranked as the 5th largest bank in Kazakhstan with a market share of 7.1%. As of end-2013 the bank had 22 branches and 130 subbranches. In June 2014, S&P have assigned TSB a long-term credit rating of B+ (stable) and there have been no recent updates. The authorized capital was replenished in November 2014 for the amount of KZT 5.4 billion. The equity increased will improve the bank's CAR. It has been awarded the Euro Money award for "Best Bank in Kazakhstan" and has been named Bank of the Year in 2013.¹⁹ TSB is in compliance with all the required prudential standards of NBK.

32. **Key financial indicators.** Capitalization is relatively weak with a decreasing CAR of 11.9 (2011), 11.8 (2012) and 11.0 (2013), which is just above the regulatory minimum of 10.0%. In 2014, TSB raised its share capital, bringing TSB's CAR to 12.1% as of September 2014. Profitability is satisfactory and has been improving significantly since 2010, as the bank grew into its capital base and increased earning assets. ROAA was 1.9% for end-2013 and ROAE was 24.4%. The net interest margin stood at a healthy 6%.

33. **Assets.** The loan portfolio grew by 40.9% by end-2013 and 42.4% the year before. The share of net loans to total assets remains stable at 76.4% for end-2013. Corporate loans dominate the portfolio comprising of 80.5% of the total gross loans. Loans to SME's further increased in 2013 to 55.3% from 26.6% in 2012. The largest sector exposures were in trading followed by services and production. Loan maturities are reasonably short with 53.8% of loans maturing within one year. At end-2013, 68.1% of banks loan portfolio was in the local currency. Large borrower concentration is still relatively high (exposure to top 20 borrowers amounted to 30.7% of gross loans for end-2013). Loans to related parties are minimal. NPLs amount to 4.01% of gross loans for end-2013, up from 3.6% the year before. Loan loss reserve coverage of NPLs is at 94% end-2013.

34. **Liabilities.** Customer deposits are the bank's primary funding source, making up 92.0% of total funding at end-2013, down from 95.6% at end-2012. The loan to deposit ratio is reasonable at 101.1% for 2013. The customer deposits growth rates are positive and deposit concentration is high. At the end of 2013, customer deposits were 65.4% in local currency. The bank faces no asset-liability mismatches on loans of all durations on a cumulative basis.

35. **Financial Management.** TSB is fully IFRS compliant with all 82 financial reporting staff having experience and competence in IFRS and tertiary university education. However only five are certified accountants. KPMG audits the bank since 2005. The internal audit unit of 30 officers (an increase of twelve since 2013) report directly to the board of directors. All 30 have tertiary university degrees and six have professional qualifications (CFA, CIA, IT). They adopt a risk-based approach to all audits. The risk management unit has 55 staff, however only five have professional qualifications (MBA). Internal and external training programs are

¹⁹ The Banker magazine.

implemented each year. Policies and procedures are documented, visible, accessible and regularly communicated to staff. TSB has a fully functional credit rating system and a newly created credit risk standards function that assesses and determines, inter alia, sector's credit risk appetite. There is a separate NPL unit that reports directly to the Management Board of the Bank (MB). There is also a specific AML unit, well versed in AML/CTF issues, that reports directly to the MB. Formal policies and procedures are in place.

4. Kazkommertsbank

36. **Structure.** Joint Stock Company "Kazkommertsbank" (KKB) was founded in 1990. As of September 2014, it is ranked as the 2nd largest bank in Kazakhstan with a market share of 15.3%. As of end-2013 the bank had 23 branches. In August 2014, Fitch Ratings have assigned KKB a Long-Term Credit Rating of B (stable). In March 2015, KKB bought 304.187 billion ordinary shares in BTA Bank from Mr. Kenes Rakishev. KKB's stake in BTA Bank increased to 94.83% from 47.41% while "Samruk-Kazyna" has retained a minority 4.26% which was transferred to KKB under a trust agreement. At the same time, in March 2015, Mr. Rakishev entered as a majority shareholder in KKB.²⁰ As a result, KKB has taken control over BTA Bank, with further plans to merge the two banks. After the completion of the transaction, which affected the period ended 30 June 2014, total assets increased by 67.9%. It is anticipated that the BTA merger will likely achieve economies of scale and provide opportunities for synergies and cost reductions. Currently, KKB is in compliance with all the required prudential standards of NBK.

37. **Key Financial Ratios.** KKB's capital adequacy is modest and may experience downside pressure from ongoing loan loss charges and weak earnings. As of end-2013, CAR was 17.8%. As of the first half of 2014, reflecting BTA acquisition, the CAR stood at 14.7%. KKB reported profitability in 2013, with a ROAA of 2.1% and a ROAE of 15.1%. The bank reported losses in 2012 as a result of high loan loss provisions. The net interest margin grew from 5.4% by end-2012 to 64% by end-2013.

38. **Assets.** The net loans to total assets ratio dropped to 73.5% as of end-2013 from 78.3% a year earlier. Corporate loans comprise 87.8% of the total gross portfolio. At end-2013, the largest sector exposures were in construction (45.8% of total loans) followed by real estate (10.3%) and trade (9.0%). At year-end 2013, 55.8% of banks loan portfolio was in foreign currency. Combined exposure to the largest borrowers amounted to 28.7% of the gross loans. Loans to related parties are minimal. As per IFRS 2013 audited financial statements, net impaired loans amounted to 20.44%.²¹ As publically reported by the bank, in the Q1 of 2014, bank's consolidated NPLs amounted to 63% of gross loans.²² The bank has large exposures to the construction sector.

39. **Liabilities.** Customer deposits are the bank's main funding source, making up 77.6% of total funding by end-2013, slightly up from 74.0% the year before. The loan-to-deposit ratio was very high, at 171.2% in 2013, but down from 185.4% 2012. KKB's funding is highly

²⁰ Rakishev, with 16% of the shares, becomes one the five majority shareholders. The other four are: Alnair Capital Holding (now with 28% of the shares), Central Asian Investment Company (23%) N.S. Subkhanberdin (18.6%) and Samruk Kazina (10.7%).

²¹ Information about NPLs was not provided on the due diligence questionnaire

²² Based on information found on: <http://www.halykfinance.kz>

concentrated with the top ten customers accounting for 47.3% of the total deposits at end-2013. The maturity gap amounts to negative 13.4% of assets at end-2013.

40. **Financial Management.** KKB is fully IFRS compliant and has 34 officers in the financial reporting unit, who have mostly basic university education and receive regular IFRS training. Approximately 20% of them have professional qualifications like MBA or an ACCA degree. Deloitte is their external auditor. The internal audit unit of 24 officers reports directly to the board of directors. The bank is currently introducing new internal risk management systems based on NBK's. The audits are risk-based, and key risk controls updated annually. The risk management unit consists of 65 staff with tertiary degree and a third have MBAs or ACCA diplomas. Policies and procedures are in place, though will need to be reviewed to reflect the impact of BTA's acquisition. The risk framework is guided by limits, but a formal credit risk appetite methodology is not in place. A separate Credit Recoveries Department was created four years ago given the rise in NPLs. This department reports directly to the chief executive officer.

B. Disbursement

41. Loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2012, as amended from time to time)²³ and detailed arrangements agreed between ADB and Damu and with the relevant PFI. Each PFI will have its own separate project agreement with ADB and subsidiary loan agreement with Damu which will describe the arrangements for the Project.

42. Disbursement procedures from ADB to Damu will be through the imprest fund procedure. In accordance with the Loan Disbursement Handbook, Damu shall establish a bank account under its name at each PFI in US\$ and Tenge ("Imprest Account").²⁴ The imprest account shall be established, managed, and liquidated in accordance with the Loan Disbursement Handbook and detailed arrangements agreed between ADB and Damu. The currency of the account will be in US dollars. Damu will conduct a swap arrangement with each PFI to obtain tenge funds from PFIs. The PFIs in turn will conduct the swap arrangement with NBK to provide tenge funds to Damu. Swap arrangements between Damu and PFIs and between PFIs and NBK shall be held within 30 calendar days. If funds withdrawn from the loan account are determined to be ineligible for ADB financing, Damu must arrange a refund as instructed by ADB.

43. Each PFI will receive the proceeds of the relevant Subloan from Damu in tenge. There shall be separate internal accounts to be established by PFIs for Tranche 3 only to record funds received from Damu and to record the payment to qualified SME borrowers or appropriation ADB's program Tranche 3 code (identification number). The requirements for disbursement are in Appendix 4.

44. Damu is responsible for following ADB procedures for submitting withdrawal applications (WAs) (Appendix 5) and liquidation forms (Appendixes 7 to 10) to ADB. Damu will submit to ADB sufficient evidence of the authority of the person/s who will sign WAs on behalf of the borrower, respectively, together with the authenticated specimen signature of each authorized person (Appendix 6). Upon receiving the loan, Damu will enter into a swap arrangement with each PFI, then each PFI, in turn, will enter into a swap arrangement with the

²³ Available at: <http://www.adb.org/sites/default/files/loan-disbursement-handbook.pdf> (English) and <http://www.adb.org/sites/default/files/loan-disbursement-handbook-ru.pdf> (Russian)

²⁴ Damu may use the existing USD or Tenge bank account from Tranche 2 if the beginning balance is zero and these accounts shall be only exclusive for the ADB project.

National Bank of Kazakhstan to obtain Tenge funds on terms acceptable to ADB. Such swap arrangements will ensure that the currency risk is hedged both for payment of principal and interest. If swaps are not executed within 30 calendar days upon receipt of the subloan proceeds from ADB ["Swap Execution Period"], the loan from ADB to Damu shall be prepaid by Damu. Damu shall provide tenge funds as a loan after finalization of swap arrangements to a specified internal account of PFIs for further disbursement of loans to SMEs

C. Liquidation

45. The statement of expenditures (SOE) procedure will be used to liquidate advances provided for individual payments for subloans under the imprest account. Damu will supply to ADB in a timely manner any supporting documents requested by external auditors or ADB including documentation supporting creditworthiness assessments of each subborrower.

46. The amounts disbursed to PFIs will be liquidated to Damu on a monthly basis. Each liquidation report by PFIs will include a (i) liquidation statement (Appendix 7); (ii) monthly statement of utilization of funds indicating a list of approved subloans (Appendix 8); and (iii) statement of cash flow (Appendix 9); and (iv) other information and supporting documents, as necessary, to substantiate the liquidation of the advances made. PFIs will be responsible for collecting and maintaining all supporting documents which will be made available for inspection by ADB and external auditors. For each subloan, the SOE shall show:

- a) the name and gender of the subborrower;
- b) the precise location of the subproject;
- c) the amount of the subloan in local currency;
- d) the amount of the subloan in US dollars (calculated by converting the local currency amount into US dollars using the foreign exchange rate used to convert the US dollar advance into local currency;
- e) the percentages of the subloan financed by ADB; and
- f) other relevant details required to support results-based reporting requirements of the Program as agreed among ADB, Damu, and the PFIs.

47. In turn, Damu will liquidate to ADB on a monthly basis. Damu will consolidate the liquidations made by the PFIs and submit to ADB (i) a consolidated monthly statement of utilization of funds using the form in (Appendix 8); and (ii) an Imprest Account Reconciliation Statement (IARS) (Appendix 10).

D. Accounting²⁵

(i) Under Tranche 3

48. Damu and each PFI will maintain, or cause to be maintained, separate books and records by funding source for all subloans financed out of ADB's loan proceeds relating to this Program. Damu and each PFI will prepare a monthly statement of utilization of funds and annual statement of utilization of funds for subloans approved and reimbursed by ADB under a cash receipts and disbursements systems of accounting.

²⁵ Appendix 11a of <http://www.adb.org/sites/default/files/loan-disbursement-handbook.pdf>

E. Auditing

(i) Under Tranche 3

49. Damu and each PFI will cause the Annual Statement of Utilization of Funds (Appendix 11) to be audited annually by an independent auditor acceptable to ADB, in accordance with international standards for auditing and or the national equivalent acceptable to ADB. The requirements for this audit are included in Appendix 12 and Appendix 13. This audited Statement of Utilization of Funds, audit report and management letter will be submitted in English to ADB within six months of the end of the fiscal year by Damu and PFIs (through Damu).

50. Damu and each PFI will also cause the their respective financial statements to be audited in accordance with International Standards on Auditing or the national equivalent acceptable to ADB, by an independent auditor acceptable to ADB. The audited Statements of Utilization of Funds, together with the auditors' report and management letter, will be submitted in English to ADB (through Damu, in the case of the PFIs) within six months of the end of the fiscal year.

For Damu

51. The annual audit report for the Statement of Utilization of Funds will include an audit management letter and audit opinions which cover (i) whether the Statement of Utilization of Funds present a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; (iii) use of the imprest fund procedure; and (iv) the use of the statement of expenditure procedure certifying to the eligibility of those expenditures claimed under SOE procedures, and proper use of the SOE and imprest procedures in accordance with ADB's Loan Disbursement Handbook and the project documents. The Management Letter shall identify any significant weaknesses based on a review of Damu's internal controls over PFI monitoring as outlined in its manual on Monitoring of Programs as attached in this Appendix 12.

For PFIs

52. The annual audit report for the Statement of Utilization of Funds will include an audit management letter and audit opinions which cover (i) whether the Statement of Utilization of Funds present a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; (ii) whether loan proceeds were used only for the purposes of the project or not; (iii) the level of compliance for each financial covenant contained in the legal agreements for the project; (iv) use of the imprest fund procedure; and (v) the use of the statement of expenditure procedure certifying to the eligibility of those expenditures claimed under SOE procedures, and proper use of the SOE and imprest procedures in accordance with ADB's Loan Disbursement Handbook and the project documents (Appendix 13).

53. Compliance with financial reporting and auditing requirements will be monitored during normal program supervision and through review missions, and followed up regularly with all concerned, including the external auditor.

54. Damu and each PFI have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited Statement of

Utilization of Funds.²⁶ ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the program's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures. Damu and PFIs will ensure that recommendations of the annual external audit are implemented accordingly.

55. Public disclosure of the audit report on the Statement of Utilization of Funds, will be guided by ADB's Public Communications Policy (2011).²⁷ After review, ADB will disclose the Statement of Utilization of Funds and the opinion of the auditors on the Statement of Utilization of Funds within 30 days of the date of their receipt by posting them on ADB's website. The Audit Management Letter and the entity level audited financial statements will not be disclosed.

²⁶ ADB's approach and procedure on delayed submission of audited project financial statements: (i) When audited Statement of Utilization of Funds are not received by the due date, ADB will write to the executing agency advising that (a) the audit documents are overdue; and (b) if they are not received within the next six months, requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed; (ii) When audited Statement of Utilization of Funds have not been received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of imprest accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (a) inform the executing agency of ADB's actions; and (b) advise that the loan may be suspended if the audit documents are not received within the next six months; and (iii) When audited Statement of Utilization of Funds have not been received within 12 months after the due date, ADB may suspend the loan.

²⁷ Available from <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting and Retroactive Financing

56. There is no retroactive financing and/or advance contracting in Tranche 3.

B. Procurement of Goods, Works and Consulting Services

57. 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, which is embodied in relevant provisions of the Procurement Guidelines (2013, as amended from time to time),²⁸ and the Guidelines on the Use of Consultants (2013, as amended from time to time).²⁹ Since many 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 procurement by SME borrowers from non-ADB member countries using loan proceeds.³⁰ This request reflects the market-based nature of the investment program, trade agreements, and SME demand and procurement history.

C. Consultants' Terms of Reference

58. No consultants are envisaged under Tranche 3.

²⁸ In English: <http://beta.adb.org/documents/procurement-guidelines>

In Russian: <http://beta.adb.org/sites/default/files/procurement-guidelines-ru.pdf>

²⁹ In English: <http://www.adb.org/documents/guidelines/consulting/Guidelines-Consultants.pdf>

In Russian: <http://beta.adb.org/sites/default/files/guidelines-consultants-ru.pdf>

³⁰ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila (Article 14[ix]) provides: "The proceeds of any loan, investment or other financing undertaken in the ordinary operations of the Bank or with Special Funds established by the Bank pursuant to paragraph 1(i) of Article 19, shall be used only for procurement of goods and services produced in member countries, except in any case in which the Board of Directors, by a vote of Directors representing not less than two thirds of the total voting power of the members, determines to permit procurement in a non-member country or of goods and services produced in a non-member country in special circumstances making such procurement appropriate, as in the case of a non-member country in which a significant amount of financing has been provided to the Bank."

VII. SAFEGUARDS

59. The goal of the ADB's Safeguard Policy Statement (SPS) is to promote the sustainability of project outcomes by protecting the environment and people from projects' potential adverse impacts by:

- (i) avoiding adverse impacts of projects on the environment and affected people, where possible;
- (ii) minimizing, mitigating, and/or compensating for adverse project impacts on the environment and affected people when avoidance is not possible; and
- (iii) helping borrowers/clients to strengthen their safeguard systems and develop the capacity to manage environmental and social risks.

60. This program has been categorized as financial intermediary (FI) with respect to environment safeguards, and FI (C) in relation to involuntary resettlements and indigenous people.³¹ The activities financed under the SME loans made by PFIs under any subproject shall:

- (i) conform to ADB's SPS (2009);
- (ii) comply with all applicable requirements of Kazakhstan's environmental, health, safety, and social safeguard laws and regulations;
- (iii) not involve in any of the activities listed in the ADB Prohibited Investment Activities List set out in Appendix 2;
- (iv) not have environmental impacts, which can be categorized as Category A within the meaning of the SPS;
- (v) not involve any involuntary resettlement or adverse impact on indigenous peoples; and
- (vi) not be carried out in disputed areas.³²

61. Tranche 3 under the MFF will also be treated as Category FI allowing category B and C subprojects for environment safeguard components based on ADB's Safeguard Policy Statement (SPS), 2009. For involuntary resettlement, tranche three is treated 'C' no impacts from land acquisition, and involuntary resettlement. Damu and each of the PFIs will have in place or establish an ESMS to be maintained as part of its overall management system to meet Kazakhstan national laws and norms and ADB's safeguards requirements. If at the time of the first disbursement the PFIs do not have an ESMS satisfactory for the financing of subprojects that have site-specific environmental impacts, PFI's activity will be limited to the subprojects with minimal or no environmental risk (Category C for environment). All PFIs will ensure that their subprojects are in compliance with applicable laws and regulations of Kazakhstan and ADB's Safeguard Policy Statement.

62. PFIs will prepare and submit to ADB semi-annual environmental monitoring reports on ESMS implementation. Sample subprojects will be checked during review missions. Damu has appointed a focal person to oversee operation of the PFI's ESMS. ADB's environment specialist will be supervise and support Tranche 3 implementation.

³¹ For an explanation of Indigenous Peoples, see ADB. 2009. *Safeguards Policy Statement*. Manila <http://www.adb.org/sites/default/files/pub/2009/Safeguard-Policy-Statement-June2009.pdf>

³² Disputed areas are geographic areas that are claimed by more than one country.

63. The responsibilities of the parties under the Tranche 3 subprojects are as follows:

(i) **SMEs:**

During project implementation

- a. Ensure compliance with all requirements of Kazakhstan's environmental, health, safety, and social safeguard laws and regulations;
- b. Provide information to PFI to prepare environmental screening checklists and categorization of subprojects;
- c. In case of Category B subprojects appoint or hire an environmental specialist to prepare an Environmental Management Plan (EMP) in accordance with ADB SPS;
- d. Ensure that the environmental management plan, including all proposed mitigation measures and monitoring programs, are properly implemented. In the case of unpredicted environmental impacts occurring during subproject implementation, immediately inform the PFI, prepare and implement a corrective action plan in coordination with the PFI;
- e. Provide awareness training in environmental management for all employees working on the subproject;
- f. Ensure that meaningful public consultation be undertaken with affected groups and local NGOs; and
- g. Submit the EMP to the PFI as part of the approval of subproject.

(ii) **PFI's :**

Prior to the effectiveness and first disbursement on the project

- a. Establish ESMS satisfactory to ADB.

During project implementation

- a. Prepare environmental screening checklists and categorize subprojects in close coordination with SMEs;
- b. Ensure that the SME obtained all regulatory clearances required by national environmental and health legislation before starting the subproject;
- c. Prepare and submit to the Damu and ADB a semi-annual environmental monitoring report reflecting implementation of EMPs on SMEs subprojects;
- d. In the case of unpredicted environmental impacts occurring during subproject implementation, immediately notify Damu and ADB, and prepare a corrective action plan in coordination with the SME; and
- e. Submit semi-annual Environmental Monitoring Reports (EMRs) to Damu. and ADB.

(iii) **Damu**

During project implementation

- a. Oversee implementation of the ESMS by PFIs confirming status;
- b. In the case of unpredicted environmental impacts occurring during subproject implementation, immediately notify ADB; and

- c. Review PFI's EMRs and send feedback to the PFIs.

(iv) **ADB:**

Prior to declaring the loan effective

- a. Ensure that PFI's ESMSs are satisfactory to ADB.

During project implementation

- a. Ensure that functioning of PFI's ESMSs is satisfactory during routine (annual) audits;
- b. Review and disclose environmental monitoring reports on the ADB website; and
- c. Provide assistance to PFIs, if required, in carrying out its responsibilities and safeguard capacity building.

64. **Grievance redress mechanism.** Each PFI will work closely with Damu to establish, before any loan disbursements, a SME grievance redress mechanism acceptable to ADB to enable people who are, or may in the future be, adversely affected by the Program to submit complaints. A summary of the complaints received and status of resolution will be compiled by the PIU and included in the annual performance reports. Any complaints received by Damu or any PFI will be copied to Damu and resolved in close coordination between Damu and the appropriate PFI.

VIII. GENDER AND SOCIAL DIMENSIONS

65. The program is designed to support the government's Development Strategy 2020, which targets SMEs as a key engine of economic growth. The program is expected to contribute to SME growth, increased employment opportunities, and increased personal income and tax revenues. SMEs are expected to benefit from better access to medium-term finance to be used for investment and working capital. The impact on poverty is through expected direct and indirect job creation as a result of successful project implementation.

66. Damu and the Government of the Republic of Kazakhstan shall ensure that all the requirements prescribed under Schedule 5 of the Framework Financing Agreement and the Gender Action Plan that have been prepared with respect to the Facility and the first tranche are complied with during the processing and implementation of relevant projects and subprojects under the Facility.

67. A GAP activity in Tranche 1 was a comprehensive survey of gender issues in the SME sector.³³ Results indicated women entrepreneurs are more frequently engaged in trade (41% vs. 26%), services sector (accommodation, food and tourism (8% vs. 5%), and other services (17% vs. 15%). Focus-group discussion data suggests problems specific to female entrepreneurship. Besides problems that are typical for entrepreneurship such as *access to funding, information, highly skilled personnel*, there are other more gender specific problems related to:

- (i) the need to balance work with the family and child care;
- (ii) limited ability in time and travel management;
- (iii) huge physical exertion, hard work and long working hours leading to health problems;
- (iv) absence of family support; and
- (v) social stereotypes and traditions requiring a woman to keep a more passive position.

68. Tranche 3 (with additional financing) of the investment program is categorized as effective gender mainstreaming because it is expected to promote better monitoring, outreach and access to finance for women entrepreneurs seeking to expand or modernize their businesses. For example, Damu's outreach to this target group will increase lending from 10%³⁴ to 33%. Additionally, monitoring data will be expanded to enable analysis of women's loan performance, rather than simply quantitative data, with an aim to making a business case for women borrowers. The Gender Action Plan for Tranche 3 with additional financing is reflected below.

³³ Sange Research Center. 2013. Kazakhstan: Improving Capacity to Support SME Development. Almaty.

³⁴ Refers to lending under Tranche 1 of the MFF only.

GENDER ACTION PLAN
TRANCHE 3 WITH ADDITIONAL FINANCING

Activities	Indicators and Targets	Responsibility	Timeframe
Output 1: Medium-term financing to SMEs			
1.1 Damu continues to collect sex disaggregated data on number of borrowers, loan accounts opened; new jobs created, amount of loan in US\$, purpose of loan, business sector of borrowers, and analyzes the data semi-annually to produce monitoring data on loan type, amount (etc.) by sex	<ul style="list-style-type: none">Database is updated monthly and analyzed twice per year	<ul style="list-style-type: none">DamuData from PFIs	2015-2016
1.2 Damu reports on an indicator in its sex disaggregated MIS on loan performance (payment timeliness/delinquency, satisfactory repayment/bad loans)	<ul style="list-style-type: none">Periodic reports on SME loan portfolio performance by sex		
1.3 Damu (and PFIs) target at least 33% of borrowers to be women entrepreneurs	<ul style="list-style-type: none">At least 33% of borrowers are women entrepreneurs (baseline: 33% in 2014)		
Output 2: Improved financial sector outreach, with a focus on women entrepreneurs			
2.1 Damu outreach activities to women entrepreneurs to create more effective demand for finance and raise awareness on availability and terms of financing, business development and other Damu services	<ul style="list-style-type: none">46% of business development services for women entrepreneurs maintained (baseline: 46% in 2014)Evidence of advertisements, targeted information (Damu's business support centers, women associations), radio or TV slots at times when women's interest programs are aired	<ul style="list-style-type: none">DamuPFIs	2015-2016
2.2 Damu analyzes, uses and disseminates the results of T2 portfolio gender analysis to PFIs	<ul style="list-style-type: none">Evidence that Damu has informed PFIs and its own business support programs in response to gender analysis of T2 aggregated portfolio gender analysis.		
2.3 Damu discusses with each PFI the possibility to improve products (e.g. Working Capital Loans, Term Loans, Equipment Financing, Letters of Credit) and services (mobile or internet banking) for women entrepreneurs	<ul style="list-style-type: none">Discussion held with each PFI by the end of June 2016At least one feasible action agreed by each PFI to engage women clients by the end December 2016		

Damu = Damu Entrepreneurship Development Fund, MIS = management information system, PFIs = participating financial institutions, SMEs = small and medium-sized enterprises.

^a Women entrepreneurs are those SMEs with a minimum of 50% women ownership or SMEs with management controlled by women.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

A. PROGRAM DESIGN AND MONITORING FRAMEWORK

DESIGN AND MONITORING FRAMEWORK (Tranche 3 with additional financing)

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Sustained job creation and economic growth	By the end of 2018 SME sector's contribution to gross domestic product reaches T10.0 trillion (baseline: T5.4 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	Macroeconomic stability Strong government commitment for reforms Increased aggregate SME lending and leasing results in increased aggregate output of SMEs Risks Limited absorptive capacity of government agencies to implement legislative and regulatory reform agenda (doing business) Regional geopolitical crisis does not affect SME development in Kazakhstan
Outcome SMEs have increased access to medium-term credit on a sustainable basis	By the end of 2016 Under Damu programs, SME lending increased to T1,060 billion (baseline: T750 billion in 2013)	Damu annual reports PFI progress reports Damu annual reports PFI progress reports	Adequate demand for 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 Risks Downturn in economic activity in Kazakhstan

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
			<p>reducing SMEs' repayment capacity</p> <p>Government subsidized lending programs distort market competition</p>
<p>Outputs</p> <p>1. Medium-term financing to SMEs</p> <p>2. Improved financial sector outreach, with a focus on women entrepreneurs and lending outside of the bigger cities</p>	<p>By the end of 2016³⁵ Number of new SME loan accounts opened by PFIs reach 3,100 (baseline: zero)</p> <p>Volume of SME loans by PFIs increased by T50 billion (baseline: tbd)³⁶</p> <p>Percentage share of borrowers that are women entrepreneurs maintained at 33% (baseline: 33% in June 2014)</p> <p>By the end of 2016 Percentage share of women entrepreneurs supported under Damu's Business Development Services maintained at 46% (baseline: 46% in June 2014)</p> <p>At least 50% of new lending goes outside of the cities of Almaty and Astana (baseline: zero)</p>	<p>Damu annual reports</p> <p>PFI monthly reports</p> <p>Damu annual reports</p> <p>PFI monthly reports</p>	<p>Risks Higher than expected delinquency rate on SME loans cause PFIs to stop lending.</p> <p>PFIs face constraints to expand SME portfolios due to limited experience with non-collateral based lending</p> <p>Control or ownership of a PFI changes resulting in the PFI not meeting the selection criteria.</p>

³⁵ Indicators here refer to PFI portfolio funded through Tranche 3 of the Project. Baselines are taken from Tranche 1 and projections for Tranche 2.

³⁶ Baseline data to be provided by T3 PFIs at the time of loan signing.

Activities with Milestones (Overall Project)	Inputs
<p>1. Medium-term financing to SMEs</p> <p>1.1. Damu submits applications for withdrawal backed by matching drawdown/withdrawal requests from PFIs (June 2015)</p> <p>1.2. If required, arrangements for obtaining tenge funds are implemented, so that PFIs risk exposure remains in local currency (unchanged)</p> <p>1.3. PFIs onlend loans to SMEs (June 2015 to July 2016)</p> <p>2. Improved financial sector outreach, with a focus on women entrepreneurs</p> <p>2.1. Damu outreach activities to women entrepreneurs to raise awareness on availability and terms of financing, business development and other services of Damu (June 2015 to July 2016)</p>	<p>ADB Million (OCR loan)</p> <p>\$130 (current) \$ 98 (additional) \$ 228 (overall)</p> <p>SME Sub-borrowers Million</p> <p>\$ 32.5 (current) \$ 24.5 (additional) \$ 57 (overall)</p>

ADB = Asian Development Bank, Damu = Damu Entrepreneurship Development Fund, OCR = ordinary capital resources, PFI = participating financial institution, PFR = periodic financing request, SME = small and medium-sized enterprise, T = Kazakhstan tenge.

Source: Asian Development Bank.

B. Monitoring

a. Performance Monitoring

69. Damu will ensure that a Project Performance Monitoring System (PPMS) in form and substance satisfactory to ADB is set up within 3 months of the effectiveness of the tranche loan. The PPMS will include monitoring indicators related to disbursement of subloans, including those in the Design and Monitoring Framework (DMF) for such tranche. Damu will establish baseline data for each of the selected indicators and update ADB on the progress against each indicator. Thereafter, Damu will submit semi-annual monitoring and evaluation reports to ADB for the duration of the program. The PPMS will monitor and evaluate the program information and data to ensure that planned interventions achieve the desired result under each project, including key impact and outcome indicators and associated assumptions with corresponding target dates. PPMS activities will be conducted periodically to gather information from multiple sources to determine whether the input deliveries for implementing project activities have rendered expected benefits to the intended beneficiaries. The PPMS will aim to detect any deficiencies and discrepancies between the plan and the execution of the program in using the resources efficiently so that timely corrections can be made to adjust the design of the program and thus improve its benefits, outcomes, and impact. The PFIs will undertake periodic performance reviews to evaluate the scope, implementation arrangement, and progress and achievements of objectives of the program.

2. Compliance Monitoring

70. PFIs' compliance with project agreement's covenants will be monitored by Damu on the basis of the PFIs' periodic reports, audited financial statements, and audited project accounts and will be reported to ADB on a semi-annual basis. PFIs will be required to prepare and submit monthly and annual report to Damu to confirm compliance with the stated requirements. ADB

will conduct periodic review missions, will review progress reports by the PFIs, conduct random spot checks on subloan documents, SOE review by ADB Controllers and review of PFIs audited financial statements and audited statement of utilization of funds.

3. Safeguards Monitoring

71. ADB will oversee and review safeguards performance of the project against the commitment of the borrower as described in the loan agreement. Monitoring of the implementation of Environmental and Social Management Systems will be described in semi-annual Environmental Monitoring Reports (EMRs) submitted by PFIs to Damu and ADB. The EMRs will be disclosed on the ADB web-site after incorporating comments from Damu and ADB. No confidential information will be included in the EMRs.

4. Gender and Social Dimensions Monitoring

72. While Kazakhstan has a good record in gender equality and related issues, the unemployment rate of women is higher than men (7.9% as compared to 5.3%). Currently, 33.7% of women are employed by small enterprises and 46.2% by medium sized and large enterprises. Based on more limited employment opportunities, women become individual entrepreneurs engaged in small trade activities, with limited opportunity for expansion based on limited access to economic resources. The investment program is categorized as effective gender mainstreaming because it is expected to promote better monitoring, better outreach, and better access to finance for women entrepreneurs seeking to expand or modernize their businesses. For example, under Tranche 3, Damu's outreach to this target group will allow to keep the share of this group at 33% of the overall lending (up from a 10% baseline under Tranche 1). Additionally, monitoring data will be expanded to enable analysis of women's loan performance, rather than simply quantitative data, with an aim to making a business case for women borrowers.

73. GAP implementation and social aspects of the program will be implemented by Damu and the PFIs. Damu will monitor compliance with GAP indicators and will submit a semi-annual report to ADB (using PFIs and their own data), or as requested by ADB.

C. Evaluation

74. Review missions are necessary to review and discuss overall progress on implementation of the program, including reviewing reports prepared by the EA and IAs. The following missions will be fielded by ADB during the duration of the program:

ADB REVIEW MISSIONS

Type of Mission	Timing	Activities
Inception Mission This continues the work done during processing to its next stage and initiates the process of program implementation. Tranche 3:	Within 1 month after loan effectiveness	<ul style="list-style-type: none"> • Establish working relationships with Damu and PFIs directly involved in implementing the Tranche 3; • Advise Damu on establishing independent project records and accounting systems and PPMS for the program and projects; • Discuss initial PPMS prepared by Damu and provide inputs; • Explain ADB's reporting requirements for the program; and agree on a reporting format, allocation of responsibility in line with the program design and monitoring framework that captures the key inputs, outcome, outputs and activities required for the PPR, and a reporting schedule; • Discuss with Damu the timing for the first review mission; and • Finalize and discuss in detail with Damu and PFIs the PAM, which was initiated and drafted during project appraisal. The revised draft PAM will be attached to the MOU to be signed by Damu and the mission.
Review Missions Reviews overall implementation of Tranches Tranche 3:	Twice a year or as necessary	<ul style="list-style-type: none"> • Examine implementation problems and work out measures with Damu and PFIs to resolve them; • Review PFIs' progress on disbursement, and assess their performance; If there is delay, discuss proposed remedial measures with them; • Assess the likelihood of attaining the tranche's immediate development objective as indicated in the assumptions and risks sections of the PPR; • Review PFIs' audited financial statements; • Examine any other matter related to the project that requires ADB's attention; • Sample review subloan documents and meet subborrowers; and • Review monitoring reports in ESMS, gender and DMF results reporting.
Midterm Review Mission Assess whether attainment of the program's immediate objective (purpose in terms of the design and monitoring framework) is still likely		<ul style="list-style-type: none"> • Review institutional, administrative, organizational, technical, environmental, social, economic, and financial aspects of the program based on the assumptions and risks included in the design and monitoring framework and updated PPR;

Type of Mission	Timing	Activities
Tranche 3:	Nine months after first Tranche 3 disbursement	<ul style="list-style-type: none"> • Review covenants to assess whether they are still relevant or need to be changed, or waived due to changing circumstances; • Assess need to restructure or reformulate the program and the effects of this on the immediate objectives (purpose) and long-term goals of the project; and • Update the project's design and monitoring framework where restructuring or reformulation is necessary or its immediate objectives will change. • Results of the midterm review shall be discussed by Damu, PFIs and the ADB and if required, appropriate corrective measures shall be formulated to ensure successful program implementation and achievement of the program objectives.
Tranche 3 Completion Review Mission Evaluates the adequacy of preparation; design; appraisal; implementation arrangements; and performance of Damu, PFIs, and ADB Tranche 3:	One month after submission of the Project Completion Report	<ul style="list-style-type: none"> • Evaluate the processing and design of each project, both by ADB and Damu; • Assess the performance of Damu and the PFIs in managing and implementing the project, in complying with ADB's guidelines, policies, practices, procedures; • Review problems encountered during implementation and the effectiveness of measures to resolve them, by Damu, the PFIs, and ADB • Assess whether Damu, the PFIs, and ADB monitored progress effectively in comparison with quantifiable and monitoring targets;
		•

ADB = Asian Development Bank, Damu = Damu Entrepreneurship Development Fund, PAM = project administration manual, MOU = memorandum of understanding, PFI = participating financial institution, PPMS = program performance management system, PPR = project performance report, TA = technical assistance.

D. Reporting

75. The following reports will be submitted by Damu and the PFIs which will be used by ADB in monitoring and updating its program performance monitoring system:

Summary of Damu and PFI Reporting Requirements under the Program

Type of Report	Description and Report Content	Timing	Damu	PFI
Monthly Consolidated Liquidation Report	Submit to ADB a consolidated liquidation report made by PFIs to SMEs containing the following information: (i) original principal amount of the SME loan, (ii) outstanding principal balance, (iii) interest rate, (iv) maturity date, (v) number of employees of the SME, (vi) whether the SME is classified as “female” by determining whether the SME is (a) at least 50% of its equity owned by women, and (b) managed by a woman; (vii) SME location, and (viii) SME sector of activity. Each report should also highlight any problems encountered during the reporting period.	Within 30 days of the end of each reporting period until loans are disbursed to PFIs	•	•
Project Progress Reports	<ul style="list-style-type: none"> • Using Damu’s PPMS, report on status of indicators related to disbursement of loans and other reflected in the DMF • Validity of key operation assumptions and risks • Assessment of progress implementing project to date and external environment factors, including updates on Government’s Action Plan to Improve SME Access to Finance (2010-2015) under Government’s Strategy 2020 and any other Government’s initiatives to support SMEs. • Information on Damu or PFI’s internal operations that may impact project operations • PFIs compliance with eligibility criteria and action plans, if any. • Implementation of Stakeholder Communication Strategy 	Semiannual (April and September each year)	•	
Safeguards compliance report	<ul style="list-style-type: none"> • Submit to Damu with a copy to ADB a report on status of compliance with ADB’s safeguard requirements 	Semiannual (April and September each year)	•	•
Gender Action Plan monitoring report	<ul style="list-style-type: none"> • Description of progress in relation to activities and indicators of the GAP. 	Semiannual	•	•

Type of Report	Description and Report Content	Timing	Damu	PFI
(can be included in Project progress report)				
Audited financial statements and audited project accounts	<ul style="list-style-type: none"> • (refer to relevant section of this PAM) 	Annual, within 6 months of end of fiscal year.	•	•
Project Completion Report	<ul style="list-style-type: none"> • project implementation accomplishments, • benefits, • impacts, • costs • status of performance indicators, • problems encountered and actions taken to address them, and • compliance with project covenants 	Within 2 months of the completion of Tranche 3	•	

E. Stakeholder Communication Strategy

76. The following key communication objectives need to be met under the program:
- (i) to communicate and reinforce the key messages of this program to a large audience of stakeholders and other beneficiaries;
 - (ii) inform the major banking and finance players about the concept, scope, successes and benefits of the program;
 - (iii) to gain support for the program, highlighting its benefits to PFIs, other financial institutions, development partners, government authorities and other key stakeholders; and
 - (iv) to explain the program process, structure, deliverables and timeframes to all beneficiaries
77. The information related to this program would be provided by ADB and Damu.
78. ADB will provide a semiannual update on the program on its website. Damu will provide information on the program on its website and in its annual report.
79. Damu will organize and fund from its own resources all outreach and communication activities designed to attract more borrowers, especially women entrepreneurs.

Stakeholder Communication Strategy under the Program

Stakeholder Strategic Elements						Work plan Elements			Evaluation
Communication Objectives	Risks	Audiences/ Stakeholders	Desired Behavior	Messages/ Information	Activity/ Channels	Timeline	Responsibility	Resources Needed	Expected Outcome
Program design considers results of stakeholder community consultation	Insufficient information and consultation result to poor design	ADB Government agencies	Open dialogues among stakeholders	Program information and its desired outcome	Consultation and meetings with stakeholders	Q3 2011 – Q3 2016	ADB team Damu and PFIs	ADB staff resources Damu and PFIs staff resources and funds	Wide public support of the program
Increased understanding of stakeholders, targeted beneficiaries, and program social messages to increase financial literacy, consumer rights, and environmental awareness	Limited outreach to targeted beneficiaries	Local Government	Socially-inclusive application and evaluation processes	Information on program objectives and processes, and social messages to increase financial literacy, awareness of consumer rights and environmental awareness	Multimedia public information campaign that includes TV, radio, newspaper, magazine, brochures, regular community outreach, linked to government and PFI websites				Increased access to SME finance by targeted beneficiaries
	Inadequate competition for new SME loans	Women's Committee	Women apply and have greater opportunity with collateral to access finance						Greater participation of small businesses
	Poor governance due to lack of transparency and accountability of processes	Citizen Groups							Greater competition and value for money
		Participating financial institutions and potential participating banks							Greater financial literacy and awareness of consumer rights, and environmentally sustainable approaches
			High level of interest and competition by small businesses						
			Transparent and accountable processes ensure greater governance						

X. ANTICORRUPTION POLICY

80. ADB reserves the right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the program. To support these efforts, relevant provisions of ADB's Anticorruption Policy are included in the loan regulations for the program. During review missions, the financial management, governance, and anticorruption risk assessments will be updated to ensure their provisions remain valid and are helping to realize the program's objectives. All subprojects financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and financial statements of the executing and implementing agencies and all Program subborrowers, contractors, suppliers, consultants, and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in any ADB-financed activity and may not be awarded any contracts under the Facility.

81. To support these efforts, relevant provisions will be included in the legal agreements. During project processing, financial management assessment and integrity due diligence were conducted on PFIs. ADB's handbooks on Anticorruption Policy and Anticorruption and Integrity will be provided to government and PFIs during loan negotiations.

XI. ACCOUNTABILITY MECHANISM

82. People who are, or may in the future be, adversely affected by the Program may address complaints to ADB, or request the review of ADB's compliance under the Accountability Mechanism.³⁷ The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted Programs can voice and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make a good faith effort to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.³⁸

³⁷ Reference for details: <http://compliance.adb.org/>.

³⁸ For further information see: <http://www.adb.org/Accountability-Mechanism/default.asp>.

ACTION PLAN TO IMPROVE SME ACCESS TO FINANCE (2010–2015) UNDER GOVERNMENT'S 2020 DEVELOPMENT STRATEGY

Vision: Ensure that SMEs have access to necessary working capital as well as medium to long term finance

Impact:

Sustained job creation and economic growth

Indicators: GDP increases from T 16.1 trillion in 2009 to T 27.5 trillion in 2015.

Increase in the contribution of SME sector to GDP from 17% in 2009 to 30% in 2015.

SME sector employment increases from 26% in 2009 to 35% in 2015.

Objective	Outcome	Activities	Measurement	Responsible party
Improve financial sector outreach	Increased effectiveness and efficiency of Damu	Streamline and improve business processes and procedures Capacity building of Damu staff Improve SME data base by disaggregating data based on gender	Number of Damu staff trained Number of SMEs receiving Damu support (sex disaggregated) Damu keeps a credit rating	MOE, Damu
Improve financial sector access	Improved capacity of SMEs	Training and consulting (financial and business planning for SMEs)	Number of entrepreneurs trained and consulted (disaggregated by sex).	Damu
	Improved availability of business development services throughout Kazakhstan	Institutionalize framework for peer to peer learning with a regional business development training provider Prepare registry of business development service providers and framework for updating, and make registry publicly available Provision of business development services for SMEs	Increase in availability of BDS services available. Increase in use of BDS services by SMEs Number of entrepreneurs eligible for receiving business advisory services under ADB project	Damu

Objective	Outcome	Activities	Measurement	Responsible party
			Number of SMEs who receive magazine annually (2010-2014)	Damu
		Create a centralized information system to integrate information on organizations and resources that support SMEs, improve analytical information available on SMEs, and provide public (web-based) access to such information	Business portal for SMEs is created (2011)	Damu
		Develop call center to provide advice for SMEs	Number of SMEs using this service	Damu
Increase availability of credit for SMEs for expansion and modernization		Improve system for registering collateral	Period for registering collateral reduced from 3 weeks to less than one week by 2020. Period for conducting a search for registration of collateral shortened from 5 days to 2 days by 2020.	MOE
		Improve enabling framework to promote greater use of leasing (legal and tax)	Increased use of leasing	MOE
		Implement subsidized lending programs for enterprises engaged in priority sectors of the economy (e.g. manufacturing)	Number of SMEs in priority sectors which have been able to borrow	MOE, Damu

Objective	Outcome	Activities	Measurement	Responsible party
		Implement program to supply equipment to SMEs on deferred payment with guarantee to help SMEs modernize	Number of SMEs availing of program	MOE, Damu
		Develop and implement program to provide market based medium term loans for SMEs for expansion and modernization	<p>SME loan accounts opened increases from 16,000 in 2009 to 56,000 in 2015.</p> <p>Increase in tenors of loans provided to SMEs.</p> <p>Increased lending to women entrepreneurs under Damu programs</p> <p>Increased lending (amount and number of SME borrowers) to SMEs</p>	Damu

**Action Plan for Road Map to Improve SME Access to Finance (2010-2015)
under Government's 2020 Development Strategy
STATUS as of September 2014**

Vision: Ensure that SMEs have access to necessary working capital as well as medium to long term finance					
Impact: Sustained job creation and economic growth			Indicators: GDP increases from KZT16.1 trillion in 2009 to KZT27.5 trillion in 2015. Increase in the contribution of SME sector to GDP from 17% in 2009 to 30% in 2015. SME sector employment increases from 26% in 2009 to 35% in 2015. <u>Performance:</u> In 2011, GDP increased to KZT27.5 trillion; Contribution of SME sector to GDP reached 28%; (Contribution of SME sector to GDP was 17.5% according to the National Statistics). SME sector employment increased to 29%. In 2012 GDP increased to KZT30.1 trillion; Contribution of SME sector to GDP amounted to 27%. (Contribution of SME sector to GDP was 17.3% according to the National Statistics). SME sector employment increased to 28% of total employment. In 2013 GDP increased to KZT33.5 trillion; Contribution of SME sector to GDP amounted to 27%. (Official data on contribution of SME sector to GDP is not published by now). SME sector employment increased to 31% of total employment.		
Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
Improve financial sector outreach	Increased effectiveness and efficiency of Damu	Streamline and improve business processes and procedures Capacity building of Damu staff Improve SME data base by disaggregating data based on gender	Number of Damu staff trained Number of SMEs	In 2011 - 185 Damu staff were trained; In 2012 – 192 Damu staff were trained; In 2013 – 226 Damu staff were trained In the first half of 2014 – 118 Damu staff were trained Under Conditional Placement	Damu

Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
			receiving Damu support (sex disaggregated)	<p>Program (credits to SME from Damu own resources, Samruk Kazyna and Government sources): A number of entrepreneurs received SME loans: In 2009 – 5,409 of whom 1499 (28%) are women; In 2010 – 3,090 entrepreneurs of whom 1023 are women (33%); In 2011 – 2,297 entrepreneurs of whom 827 are women (33%), In 2012 – 2,125 entrepreneurs of whom 584 are women (27%) In 2013 – 2,159 entrepreneurs of whom 656 are women (27%) In the first half of 2014 – 1,452 entrepreneurs of whom 371 are women (26%)</p> <p>Under the state program “Business Road Map-2020” subsidies provided to: In 2011 – 741 SME projects, including 116 projects on women entrepreneurships (16%); In 2012 – 1,978 SME projects, including 499 projects on women entrepreneurships (25%); In 2013 – 3,275 SME projects, including 691 projects on women entrepreneurships (21%). In the first half of 2014 - 3,890 SME projects, including 940 projects on women entrepreneurships (24%).</p> <p>Guarantees were provided: In 2010 – 3 entrepreneurs of whom 1 is woman entrepreneur (33%);</p>	

Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
				<p>In 2011 – 24 entrepreneurs of whom 11 are women entrepreneurs (46%); In 2012 – 87 entrepreneurs of whom 30 are women entrepreneurs (34%); In 2013 – 148 entrepreneurs of whom 49 are women entrepreneurs (33%). In the first half of 2014 - 113 entrepreneurs of whom 35 are women entrepreneurs (31%).</p> <p>Provision of Service Support: In 2011 – 20,286 services provided to 10,698 SMEs. In 2012 – 66,883 services provided to 13,124 SMEs of whom 6,168 are women entrepreneurs (47%); In 2013 – 45,020 services provided to 8,580 SMEs of whom 4,204 are women entrepreneurs (49%); In the first half of 2014 – 5,769 services provided to 2,862 SMEs of whom 1,317 are women entrepreneurs (46%);</p> <p>Official credit rating assigned by Standard&Poor's Credit Market Services Europe Limited to Damu is "BBB+/A-2 and the national scale "kzAAA". Expectations on rating change (outlook) – Stable.</p>	
Improve financial sector access	Improved capacity of SMEs	Training (financial and business planning for SMEs)	Number of entrepreneurs trained (disaggregated by sex).	<p>Under the 4th direction of state program "Business Road Map-2020" total number of provided trainings were: In 2011 – 16,356 entrepreneurs were trained of whom 9,099 are women SMEs (56%); In 2012 – 18,374 entrepreneurs were</p>	Damu

Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
				<p>trained of whom 10,522 are women SMEs (57%); In 2013 – 20,870 entrepreneurs were trained of whom 10,411 are women SMEs (50%); In the first half of 2014 – 14,062 entrepreneurs were trained of whom 4,631 are women (33%).</p> <p><i>Including:</i> <i>Under the “Business – Advisor ” program:</i> In 2011 - 15,645 people, including 8,824 women (56%); In 2012 - 17,142 people, including 10,002 women (58%); In 2013 - 19,274 people, including 9,609 women (50%); In the first half of 2014 – 12,810 people, including 4,177 women (33%).</p> <p><i>Under the “Business – Advisor II ” program:</i> In the first half of 2014 – 1,327 people, including 731 women (55%);</p> <p><i>Under “Young Entrepreneur’s School” program:</i> In 2012 - 400 people, including 165 women (41%); In 2013 - 632 people, including 418 women (66%); In the first half of 2014 – 611 people, including 214 women (35%).</p> <p><i>Under “SME top management Training” program:</i> In 2011 - 210 people, including 84</p>	

Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
				<p>women (40%); In 2012 - 210 people, including 88 women (42%); In 2013 - 420 people, including 159 women (38%); In the first half of 2014 – 308 people, including 118 women (38%).</p> <p><i>Under “Business contacts” program:</i> In 2011 - 501 people, including 191 women (38%); In 2012 - 622 people, including 267 women (43%); In 2013 - 544 people, including 225 women (41%); In the first half of 2014 – 333 people, including 122 women (37%).</p>	
	Improved availability of business development services throughout Kazakhstan	<p>Institutionalize framework for peer to peer learning with a regional business development training provider</p> <p>Prepare registry of business development service providers and framework for updating, and make registry publicly available</p> <p>Provision of business development services for SMEs</p>	<p>Increase in availability of business development services available.</p> <p>Increase in use of business development services by SMEs</p> <p>Number of entrepreneurs eligible for receiving business advisory services under ADB project</p>	<p>Business development services (BDS): In 2012 the following work has been done to increase participation of population with entrepreneurial initiatives in the state programs and BDS provision:</p> <ul style="list-style-type: none"> • Entrepreneur Service Centers were opened in Almaty and Shymkent in October 2012 which provided 2,844 consultations to 2,043 potential and active entrepreneurs. • Entrepreneur Support Centers for entrepreneurs have been opened in 12 company towns monocities (Jezkasgan, Saran, Balkhash, Karazhal, Karatau, Zhanatas, Kentau, Zyryanovsk, Serebryansk, Kulsary, Zhitikara, Arkalyk) by November 2012. These centers provided 661 consultations to 540 potential and 	Damu

Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
				<p>active entrepreneurs.</p> <ul style="list-style-type: none"> Mobile Support Centers for entrepreneurs operate in 5 regions since November 2012 (Pavlodar, South Kazakhstan, Karaganda, Kostanay). They provided 582 services to 540 potential and active entrepreneurs. <p>In 2013 as a result of implementation of three-level entrepreneur support system:</p> <ul style="list-style-type: none"> Opened 15 more Entrepreneur Service Centers in 13 regional centers and in Astana, Semey cities. In general 22,677 services provided to 8,874 SMEs and potential entrepreneurs. In all 27 company towns (monocities) Entrepreneur Service Centers are active. In general 19,742 services provided to 13,153 SMEs and potential entrepreneurs. Mobile Support Centers operate in 14 regions. In general 9,120 services provided to 6,714 SMEs and potential entrepreneurs. <p>As on 1 August 2014 as a result of implementation of three-level entrepreneur support system:</p> <ul style="list-style-type: none"> In 17 Entrepreneur Service Centers 56,768 services provided to 39,041 SMEs and potential entrepreneurs. In all 27 company towns (monocities) Entrepreneur Service Centers are active. In general 18,852 services provided to 9,297 SMEs and potential entrepreneurs. 	

Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
				<ul style="list-style-type: none"> Mobile Support Centers operate in 14 regions. In general 8,602 services provided to 4,608 SMEs and potential entrepreneurs. As of 1 September 2014: <ul style="list-style-type: none"> 161 Entrepreneur Service Centers were opened in regions; In general 3,746 services provided to 2,310 SMEs and potential entrepreneurs. 	
		Prepare monthly magazine for entrepreneurs "My business Kazakhstan"	Number of SMEs who receive magazine annually (2010-2014)	Damu financially supported "My business Kazakhstan" magazine until January 2011. It is an independent magazine and required support at the beginning. (the project is completed)	Damu
		Create a centralized information system to integrate information on organizations and resources that support SMEs, improve analytical information available on SMEs, and provide public (web-based) access to such information	Business portal for SMEs is created (2011)	On the corporate business portal "Business territory" section of "Women entrepreneurship" has been updating on a regular basis. In 2014 on the business portal 37 information materials on women entrepreneurship were posted. <i>On business portal:</i> As of September 2014: <ul style="list-style-type: none"> Number of page views amounted 1,952,185; Number of visitors – 333,586; Business portal is visited by 1,513 users daily; Daily average page views amounted 8,617. 	Damu
		Develop call centers to provide advice for SMEs	Number of SMEs using this service	Call center become operational in March 2011 and provides consultations on the state program "Business Road Map-2020". Since June 2011 the call center started	Damu

Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
				<p>consultations for all Damu programs. Call center provides 2,500 consultations every month.</p> <p>In 2011 – 25,274 calls were received of which 2,638 calls on Business Road Map-2020 program and 307 calls on Damu programs; In 2012 – 35,018 calls of which 3,700 calls on Business Road Map-2020 program and 917 calls on other Damu programs; In 2013 – 30,114 calls of which 2,344 calls on Business Road Map-2020 program and other programs; As of September 2014 – 25,915 calls were received of which 5,026 calls on Business Road Map-2020 program and 393 calls on Damu programs. More than 8,500 consultations provided via on-line chat and e-mail.</p>	
Increase outreach to credit for SMEs for expansion and modernization		Improve enabling framework to promote greater use of leasing (legal and tax)	Increased use of leasing	<p>The Government's Resolution N357 as of 27 March 2012 "Rules on Subsidies for lending rates in the financial lease agreements under the first component «new business initiatives support» and third component «FX risk reduction» of the Business Road map-2020 were approved.</p> <p>Internal leasing, bank leasing, full and partial leasing are subsidized. Return leasing, secondary leasing and subleasing are not subsidized.</p> <p>Damu implements the following SME support programs:</p> <ul style="list-style-type: none"> • <i>Program on leasing financing in manufacturing, through banks and leasing companies since 2009.</i> 	

Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
				<p>As of January 2011 – KZT762.3 million was issued to 26 entrepreneurs.</p> <p>As of January 2012 – KZT1.6 billion was issued to 51 entrepreneurs.</p> <p>As of January 2013 – KZT1.8 billion was issued to 59 entrepreneurs.</p> <p>As of January 2014 – KZT2 billion was issued to 62 entrepreneurs.</p> <p>As of August 2014 – KZT2.1 billion was issued to 63 entrepreneurs</p> <ul style="list-style-type: none"> • <i>Program on leasing financing since 2011 from the own resources of Damu.</i> <p>As of January 2013 KZT1.7 billion was provided to 54 entrepreneurs.</p> <p>As of January 2014 KZT3.9 billion was provided to 139 entrepreneurs.</p> <p>As of August 2014 - KZT4.9 billion was provided to 184 entrepreneurs.</p>	
		Implement subsidized lending programs for enterprises engaged in priority sectors of the economy (e.g. manufacturing)	Number of SMEs in priority sectors which have been able to borrow	<p>Under the state program “Business Road Map-2020” subsidies provided to:</p> <p>In 2011 – 741 SME projects, including 116 projects on women entrepreneurships (16%);</p> <p>In 2012 – 1,978 SME projects, including 499 projects on women entrepreneurships (25%);</p> <p>In 2013 – 3,275 SME projects, including 691 projects on women entrepreneurships (21%).</p> <p>In the first half of 2014 - 3,890 SME projects, including 940 projects on women entrepreneurship (24%).</p>	Damu
		Develop and implement	New funds disbursed by	In 2009 banks issued KZT753 billion,	Damu

Objective	Outcome	Activities	Measurement	Current status (as on first half of 2014)	Responsible party
		program to provide market based medium term loans for SMEs for expansion and modernization	<p>banks of small businesses¹ increased from KZT753 billion in 2009 to KZT1.2 trillion in 2015.</p> <p>Increased lending to women entrepreneurs under Damu programs²</p> <p>Increased lending (amount and number of SME borrowers) to SMEs</p>	<p>In 2010 banks issued KZT690 billion, In 2011 banks issued KZT794 billion, In 2012 banks issued KZT1050 billion, In 2013 banks issued KZT890 billion.</p> <p><i>Total number of provided funds to women entrepreneurs under Damu programs:</i> In 2009 – 1,499 women entrepreneurs received financing under Damu programs; In 2010 – 1,023 women entrepreneurs, In 2011 – 834 women entrepreneurs, In 2012 – 702 women entrepreneurs, In 2013 – 788 women entrepreneurs. In the first half of 2014 – 407 women entrepreneurs.</p> <p>In 2011 SME lending through conditional placements via commercial banks increased by KZT82.7 billion which was disbursed to 2,330 borrowers. In 2012 – by KZT78 billion to 2,125 borrowers. In 2013 – by KZT104.7 billion to 2,159 borrowers. In the first half of 2014 – by KZT79.9 billion to 1,452 borrowers.</p>	

¹ NBK provides data only on small businesses including individual entrepreneurs and small enterprises.

² Damu's liquidity support programs only (subsidies and guarantees programs are excluded).

ADB PROHIBITED INVESTMENT ACTIVITIES LIST

- a. production or activities involving harmful or exploitative forms of forced labor¹ or child labor;²
- b. production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phaseouts or bans, such as (a) pharmaceuticals,³ pesticides, and herbicides,⁴ (b) ozone-depleting substances,⁵ (c) polychlorinated biphenyls⁶ and other hazardous chemicals,⁷ (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora,⁸ and (e) transboundary trade in waste or waste products;⁹
- c. production of or trade in weapons and munitions, including paramilitary materials;
- d. production of or trade in alcoholic beverages, excluding beer and wine;¹⁰
- e. production of or trade in tobacco; (Footnote 10)
- f. gambling, casinos, and equivalent enterprises; (Footnote 10)
- g. production of or trade in radioactive materials,¹¹ including nuclear reactors and components thereof;
- h. production of, trade in, or use of unbonded asbestos fibers;¹²
- i. commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests;
- j. marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats; and
- k. any activity prohibited by the law of the Republic of Kazakhstan.

¹ Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.

² Child labor means the employment of children whose age is below the host country's statutory minimum age of employment or employment of children in contravention of International Labor Organization Convention No. 138 "Minimum Age Convention" (www.ilo.org)

³ A list of pharmaceutical products subject to phaseouts or bans is available at <http://www.who.int>

⁴ A list of pesticides and herbicides subject to phaseouts or bans is available at <http://www.pic.int>

⁵ A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phaseout dates. Information is available at <http://www.unep.org/ozone/montreal.shtml>

⁶ A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985

⁷ A list of hazardous chemicals is available at <http://www.pic.int>

⁸ A list is available at <http://www.cites.org>

⁹ As defined by the Basel Convention; see <http://www.basel.int>

¹⁰ This does not apply to Qualified SME Borrowers who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a Qualified SME Borrower's primary operations. Not substantially involved with respect to alcoholic beverages (excluding beer and wine) and tobacco means that their sales do not comprise more than 30% of the relevant Qualified SME Borrower's average gross annual revenue.

¹¹ This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which ADB considers the radioactive source to be trivial and adequately shielded

¹² This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%

**Small and Medium Enterprise Investment Program
PROGRAM TEAM**

Asian Development Bank

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Damu Entrepreneurship Development Fund**Participating Financial Institutions**

REQUIREMENTS FOR DISBURSEMENT

1. After SLAs are signed, legal opinions are issued, imprest account are rendered and established by Damu, and the loans are declared effective (requiring prior approval of ADB of the PFIs ESMS) the following actions are needed prior to initiating withdrawal:

- (i) assignment of qualified accountant/s and establishment of sound internal control and accounting systems; and
- (ii) establishment of record keeping systems to maintain all signed contracts, and receipts and relevant evidentiary transaction documentation, for eligible expenditures.¹

2. ADB will only finance eligible expenditures. Expenditures eligible for financing are detailed in the loan agreement. Damu shall relend all of the Loan proceeds to the PFIs. The PFIs shall onlend all Loan proceeds to Qualified SME Borrowers.

3. Damu will submit signed original Withdrawal Application (WAs). For all withdrawals of loan proceeds, ADB must receive a withdrawal application in the prescribed format (Appendix 7). The WA will be signed by Damu's duly authorized representative(s). In accordance with the Loan Regulations and loan agreement, ADB requires Damu's representative/s designated in the loan agreement to furnish sufficient evidence of the authority of the person(s) who will sign the withdrawal application together with their authenticated specimen signatures. The evidence of this with regard to Damu must reach ADB before submission of the first withdrawal application. The signed original copies of the withdrawal applications are submitted to ADB. The application for withdrawal shall contain, among other things, the following information: the PFIs to whom the loan proceeds will be relend and the amount requested to be withdrawn from the Loan Account.

4. Damu may at any time upon loan effectiveness, request an interest rate conversion from a floating to a fixed rate applicable to all or any portion of the principal amount of the loan outstanding.

Alterations on the application forms are initialed by Damu's/PFI's authorized representative/s. Supporting documents maybe submitted as photocopies containing the following information: (i) the PFI to whom the Loan proceeds will be relend; and (ii) the total amount requested to be withdrawn from the Loan Account. In the event there is a change in the authorized person(s) in the future, Damu shall furnish the ADB with a new authorization letter, accompanied by the specimen signature(s) to ensure uninterrupted processing of loan disbursements. Withdrawal application forms and other loan financial information can be downloaded from ADB's Loan and Grant Financial Information System (LFIS/GFIS) at <http://lfis.adb.org>. Access to the LFIS/GFIS can be requested by submitting the requisite form/s in Appendix 14.²

¹ Executing and implementing agencies are required to retain all records (e.g., contracts, purchase orders, invoices, bills, receipts, subloan agreements) evidencing eligible expenditures and to enable ADB's representative to examine such records. Such records should be retained for at least 1 year following receipt by ADB of the final audited financial statements or 2 years after the loan closing date, whichever is later. The executing and implementing agencies are responsible for ensuring that they retain documents for any longer period required by law or regulation.

² Form available at http://www.adb.org/Documents/Handbooks/Loan_Disbursement/Request-LFIS-Web-Access.doc

WITHDRAWAL APPLICATION

WITHDRAWAL APPLICATION FORM FOR IMPREST FUND

Asian Development Bank



Date: _____

To: Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Attention: Loan Administration Division, Controller's Department (CTLA)

ADB Loan No. _____

Application No. _____

Type of Disbursement

- ☐ Initial Advance
- ☐ Additional Advance
- ☐ Liquidation and Replenishment
- ☐ Liquidation Only*

Sir/Madam:

1. In connection with the Loan Agreement dated _____ between the Asian Development Bank and the _____ (Borrower), please pay from the loan account for the purpose of establishing/replenishing the imprest fund.

Currency	Amount in Figures	Amount in Words

2. The borrower certifies and agrees as follows:

- The said amount is required for payment of eligible expenditures as described in the attached estimate of expenditures sheet(s) from _____ (date/month/year) to _____ (date/month/year).
- Any advances by the Asian Development Bank (ADB) to the imprest account may be limited to a sum equal to or smaller than the amount requested for advances or replenishment.
- The undersigned has not previously withdrawn or applied for withdrawal of any amounts from said loan account nor obtained or will obtain any loan, credit, or grant for the purpose of fully or partially meeting the expenditures described in the estimate of expenditures sheet(s), Summary Sheet(s), and/or statement of expenditures (SOE).
- The goods or services have been procured in accordance with the Loan Agreement and the cost and terms of the purchase thereof are reasonable and in accordance with the relevant contract(s).
- The goods or services were or will be produced in and supplied by a member country of ADB as specified in the attached summary sheet(s) or SOE.
- The expenditures described in the attached estimate of expenditures sheet(s), Summary Sheet(s), and/or SOE are to be made for the purposes specified in the Loan Agreement and in accordance with its terms and conditions.
- The undersigned will furnish supporting documents satisfactory to ADB to liquidate the advance, or will refund any unliquidated advance.
- For expenditures to be liquidated on the basis of an SOE, all authenticating documents will be retained in the appropriate location (e.g., executing/implementing agency's office) and will be made available for examination by auditors and ADB representatives upon request.
- As of the date of this application, there is no existing default under the Loan Agreement, the Project Agreement, or the Guarantee Agreement, if any.
- If any funds withdrawn pursuant to this application are returned, the current value of such funds will be applied as credit to the loan account or, if the amount is small, applied to the next loan service payment due.

3. Payment Instructions (*Not required in the case of liquidation only):

A. Payee's Name and Address

Payee's Name _____

Payee's Address _____

B. Name and Address of Payee's Bank and Account No.

Bank Name _____

Bank Address _____

Payee's Account No. _____

SWIFT Code _____

C. Correspondent Bank (If payee's bank is not located in the country whose currency is claimed, enter the name and address of their bank's correspondent in the country whose currency is to be paid.)

Bank Name _____

Bank Address _____

Account No. of _____

Payee's Bank _____

SWIFT Code _____

D. Special Payment Instructions and Other References

4. This application consists of _____ pages including _____ pages of Summary Sheets or SOE.

From:

Signature of Authorized Representative(s)_____
Printed Name/Position/Title of Authorized Representative(s)

**Instructions for preparing the Withdrawal Application Form for Imprest Fund
(ADB Form No. ADB-IFP)**

General Instructions

1. Submit original withdrawal application (WA) form to the Asian Development Bank (ADB) (or to its resident/regional Mission, if instructed).
2. Number WAs consecutively, not exceeding five digits or characters.
3. For replenishment of advances, consolidate claims until the amount being withdrawn is at least US\$100,000 equivalent or an amount advised by ADB.
4. When the application is completed, verify completeness of supporting documentation and accuracy of details before passing to the authorized representative(s) for signature. Mistakes and omissions result in delayed payment.

Withdrawal References

5. **Date:** Enter the date WA is signed by authorized representative(s), not the date it was prepared.
6. **Loan Number:** Show ADB loan number clearly.
7. **Application Number:** Number WAs consecutively. If the project has more than one executing agency (EA) or implementing agency, the project coordinator should assign an alpha identification for each EA, e.g., A0001 to A9999 for EA no. 1 and B0001 to B9999 for EA no. 2.
8. **Type of Disbursement:** Indicate in the appropriate box the type of WA claim, whether for initial advance, additional advance, liquidation and replenishment, or liquidation only.

Estimate of Expenditures Sheet (ADB Form No. ADB-IFP-EES)

For Initial Advance and Additional Advance:

9. Provide all details as required in form ADB-IFP-EES. Estimated expenditures should normally be based on the amount of contracts awarded and to be awarded.
10. For expenditures related to operational costs, the amount should be linked to the project's annual budget provision.

For Liquidation and Replenishment:

11. In addition to 1 and 2 above, before submitting the WA, obtain appropriate procurement contract summary sheet (PCSS) numbers from ADB's sector division/resident mission concerned.
12. Where the statement of expenditures (SOE) is not allowed, submit full supporting documents required under section 10.35 of the handbook.

Payment Instructions

13. **Payee's Name and Address:** Indicate full name and address of payee for identification of payment.
14. **Name and Address of Payee's Bank and Account No.:** Indicate full name and address of the payee's bank, which may include a banker and/or branch designation. Account number is important. Give SWIFT code if payee's bank is a member of SWIFT.
15. **Correspondent Bank:** Where payment is to be made to a bank not located in the country of the currency to be paid, indicate its full name and address. Provide SWIFT code if the bank is a member of SWIFT.
16. **Special Payment Instructions:** Indicate any particulars, special instructions, or references to facilitate payment or identification of payment.
17. **Name of Borrower:** Fill in the name as it appears in the Loan Agreement.
18. **Authorized Representative(s):** Pass this application to authorized representative(s) for signature. Verify if the list of authorized representative(s) has been changed.

ADDITIONAL SHEET TO WITHDRAWAL APPLICATION FORM FOR IMPREST FUND

Date: _____

To: Asian Development Bank (ADB)
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

ADB Loan No.: _____

Application No.

--	--	--	--	--

Attention: Loan Administration Division, Controller's Department (CTLA)

Sir/Madam:

1. This forms part of the withdrawal application form to which this notice is attached.
2. Defined terms used in this Additional Sheet shall have the meanings given to them in the Loan Agreement between ADB and the Borrower dated on or about _____ (the Loan Agreement).
3. For purposes of the Withdrawal Application:
 - (i) the PFI to whom the Loan proceeds will be relent:
 - (ii) the total amount requested to be withdrawn from the Loan Account:
USD _____ (in words);
 - (iii) 5-year fixed interest rate with a bullet repayment of principal of the Option Drawdown Amount on the Final Repayment Date, subject to proviso as set out in the Loan Agreement

JSC "ENTREPRENEURSHIP DEVELOPMENT FUND 'DAMU' " as Borrower

Signature of Authorized Representative(s)

Name:

Position:

LETTER OF AUTHORITY TO SIGN

[NOTE: Please use Letterhead of the representative of Damu/PFIs]

[DATE]

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines
Attention: Controller's Department, Loan Administration Division (CTL/CTLA)

Dear Sir/Madam:

**Subject: Loan No. _____ -KAZ: Small and Medium Enterprise Investment Program
Tranche 3**

I refer to the Loan Agreement (the "Agreement") between the Asian Development Bank ("ADB") and [name of borrower {recipient}] (the "borrower" {the "recipient"}), dated _____, providing the above Loan. For the purposes of Article [put appropriate Article number] as defined in the Agreement, the person(s) whose authenticated specimen signature(s) appear below is authorized on behalf of the Damu/PFIs to sign withdrawal application(s) and other supporting documents under this Loan:

[Name], [position]

Specimen Signature:

(Stipulate if more than one person needs to sign withdrawal applications, and how many or which positions, and if any thresholds apply.)

Sincerely
/ signed /

Signed by:

[Title of the Borrower/Recipient's Designated Representative,
as provided in the Loan/Subsidiary Loan Agreement]

PRO FORMA LIQUIDATION STATEMENT

LIQUIDATION OF ADVANCE for

☐

Tsesna

☐

Delta

☐

Kazinvest

☐

Kazkommerts

Asian Development Bank



To: Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Loan No.: Loan No. ____-KAZ

Application No.:¹

Attention: Loan Administration Division, Controller's Department (CTLA)

Attached to this Liquidation Statement is the Statement of Expenditures for the period from _____ to _____
for expenditures in the sum of:

Currency	Amount (in figures)	Amount (in words)
<u>USD</u>	_____	_____

incurred under the Loan Agreement of the Asian Development Bank.

CATEGORY	DESCRIPTION	AMOUNT (KZT)
_____	<u>Loans to SMEs</u>	_____

¹ For the prefix, use "BC" Bank CenterCredit, and "TB" for Tsesna Bank beginning with 001 series. For example, BC001, TB002, etc.

Reviewed and Endorsed by:

Damu Entrepreneurship Development Fund

Phone.: +7 (727) 244 55 66, 244 55 77

Fax: +7 (727) 278 07 76

Authorized Signatory

Name: _____

Title: _____

Signature: _____

Date Signed: _____

PROFORMA MONTHLY STATEMENT OF UTILIZATION OF FUNDS BY PFIS

MONTHLY STATEMENT OF UTILIZATION OF FUNDS FOR Loan _____-KAZ

For the Period _____ to _____

 Tsesnabank

 Delta Bank

 Kaninvest

 Kazkommerts

Asian Development Bank



No.	Region ¹	Name of SME Borrower	SME Type ²	SME Loan / Credit Line Amount (KZT)	SME Loan Disbursement Date dd/mm/yy	SME Loan /Credit Line Amount Disbursed (KZT)	Exchange Rate	US\$ Equivalent	% of Subloan financed by ADB	SME Loan Maturity (in months)	Grace Period on Repayment of Principal Loan	Grace Period on Repayment of Interest	Interest Rate	Effective Interest Rate	Outstanding SME Loan / Credit Line Balance ³	Location of SME	General Loan Purpose ⁴	Specific Loan Purpose	SME Sector of Activity	SME Sub-Sector of Activity	No. of New Jobs Created	Registration No.	Decision Date dd/mm/yy	SME Loan Agreement Registration No.	SME Loan Agreement Date dd/mm/yy	Borrower's Taxpayer Registration Number	SME Gender Classification (Female) ⁵ Yes or No	No. of Employees ⁶
1.																												
2.																												
3.																												
4.																												
5.																												
6.																												
7.																												
8.																												
9.																												
10.																												
				0		0									0							0						

¹ Insert Almaty City, Astana City, or name of Oblast.² Indicate whether LLP, Individual Entrepreneur, Owner-Operated Farm, Cooperative³ As of 01 day of the month following the reporting month⁴ Indicate whether (i) financing working capital, (ii) acquiring and modernizing fixed capital assets⁵ An SME is classified as "female" if (i) at least 50% of its equity is owned by women, or (ii) managed by a woman. See SLA⁶ At the time of submission of loan application

CERTIFICATION

It is hereby certified that the above amounts have been paid for proper execution of project activities within the terms and conditions of the Loan Agreement. All documentation authenticating these expenditures have been retained in [name of bank, branch location] will be made available upon request by ADB. It is further certified that SME Loans have not been split to enable them to be less than the KZT550,000,000 threshold prescribed under paragraph 9 of Schedule 2 of the Loan Agreement.

Submitted by: Name of PF

Address:

Authorized Signatory

Name:

Title:

Signature:

Date Signed:

Tel. No:

Fax No.

Email:

PROFORMA CONSOLIDATED MONTHLY STATEMENT OF UTILIZATION OF FUNDS BY DAMU

STATEMENT OF UTILIZATION OF FUNDS FOR Loan _____KAZ

For the Period _____to _____



No.	Bank Name	Region ¹	Name of SME Borrower	SME Type ²	SME Loan / Credit Line Amount (KZT)	SME Loan Disbursement Date dd/mm/yy	SME Loan /Credit Line Amount Disbursed (KZT)	Exchange Rate	US\$ Equivalent	% of Subloan financed by ADB	SME Loan Maturity (in months)	Grace Period on Repayment of Principal Loan	Grace Period on Repayment of Interest	Interest Rate	Effective Interest Rate	Outstanding SME Loan / Credit Line Balance ³	Location of SME	General Loan Purpose ⁴	Specific Loan Purpose	SME Sector of Activity	SME Sub-Sector of Activity	No. of New Jobs Created	Registration No.	Decision Date dd/mm/yy	SME Loan Agreement Registration No.	SME Loan Agreement Date dd/mm/yy	Borrower's Taxpayer Registration Number	SME Gender Classification (Female) ⁵ Yes or No	No. of Employees
1.																													
2.																													
3.																													
4.																													
5.																													
6.																													
7.																													
8.																													
9.																													
10.																													
					0		0									0							0						

¹ Insert Almaty City, Astana City, or name of Oblast.

² Indicate whether LLP, Individual Entrepreneur, Owner-Operated Farm, Cooperative

³ As of 01 day of the month following the reporting month

⁴ Indicate whether (i) financing working capital, (ii) acquiring and modernizing fixed capital assets

⁵ An SME is classified as "female" if (i) at least 50% of its equity is owned by women, or (ii) managed by a woman. See SLA

⁶ At the time of submission of loan application

CERTIFICATION

It is hereby certified that the above amounts have been paid for proper execution of project activities within the terms and conditions of the Loan Agreement. All documentation authenticating these expenditures have been retained in [name of bank, branch location] will be made available upon request by ADB. It is further certified that SME Loans have not been split to enable them to be less than the KZT550,000,000 threshold prescribed under paragraph 9 of Schedule 2 of the Loan Agreement.

Submitted by: Damu Entrepreneurship Development Fund

Address: _____ Authorized Signatory _____

Name: _____

Tel. No: _____ Title: _____

Fax No. _____ Signature: _____

Email: _____ Date Signed: _____

STATEMENT OF CASH FLOW

Date	Reference Number	Particulars	Receipts from Damu	Payments Sub-loans	Balance
xx-xx-xxxx		Opening Balance			xxxx
xx-xx-xxxx	xxxx				
xx-xx-xxxx	xxxx	(Name of sub-borrowers)		xxxx	xxxx
	xxxx	(Name of sub-borrowers)		xxxx	xxxx

PRO FORMA RECONCILIATION STATEMENT

IMPREST ACCOUNT RECONCILIATION STATEMENT (IARS)

Loan _____-KAZ: Small and Medium Enterprise Investment Program Tranche 3

Application Number _____ Bank _____

Account Number _____ Bank Address _____

☐ Delta Bank ☐ KazKommerts

☐ Tsesna Bank ☐ Kazinvest

1 Present Outstanding Amount Advanced to the Imprest Account Not Yet Recovered

- a. Delta Bank
- b. Tsesna Bank
- c. Kazinvest
- d. Kazkommerts



USD 0.00

2 BALANCE of Imprest Account as of _____
per bank statement (copy attached) USD 0.00

3 ADD: Amount of eligible expenditures claimed in the attached
application (WA No. _____)

Withdrawal Application No.

Amount in KZT

XXX, XXX.XX

XXX, XXX.XX

USD XXX, XXX.XX

4 ADD: Amount claimed in previous applications not yet credited
at date of bank statement (Not applicable) USD 0.00

5 TOTAL expenditures withdrawn from Imprest Account but not yet
claimed for liquidation (Amount not yet submitted for liquidation) USD XXX, XXX.XX

a. Delta Bank

c. KazInvest

b. Tsesna Bank

d. KazKommerts

6 TOTAL ADVANCE ACCOUNTED FOR USD XXX, XXX.XX

Prepared by:

Damu Entrepreneurship Development Fund

Phone.: +7 (727) 244 55 66, 244 55 77

Fax: +7 (727) 278 07 76

Authorized Signatory

Name: _____

Title: _____

Signature: _____

Date Signed: _____

**PRO-FORMA ANNUAL STATEMENT OF UTILIZATION OF FUNDS FOR DAMU AND
PFIS**

Loan _____-KAZ: Small and Medium Enterprise Investment Program Tranche 3

A. For Damu

**ANNUAL STATEMENT OF UTILIZATION OF FUNDS
Damu Entrepreneurship Development Fund
For the Year Ended [dd/mm/yyyy]**

(in USD)

		2015	2016	Cumulative
Cash at beginning of year				
Received from ADB				
	Loan to (Delta Bank)			
	Loan to (Tsesna Bank)			
	Loan to (Kazinvestbank)			
	Loan to (KazKommertsbank)			
Cash at end of the year				

B. For PFIs

**ANNUAL STATEMENT OF UTILIZATION OF FUNDS
Name of Participating Financial Institution
For the Year Ended [dd/mm/yyyy]**

(in USD)

		2015	2016	Cumulative
Opening balance				
Received from DAMU				
	Loan to SMEs			
Ending balance				

For DAMU**Project Name: KAZ: Small and Medium Enterprise Investment Program Tranche 3****<Loan/Grant> No: _____****Notes to Special Purpose Statement of Utilization of Funds****For the <Year> Ended 31 December _____****Accompanying Notes:****1. BACKGROUND, NATURE OF OPERATIONS AND ACTIVITIES**

{Briefly describe and confine to pertinent information to help readers understand and assess the performance and financial position of the project}.

[Example: DAMU has received financial assistance from the Asian Development Bank (ADB) in the form of a loan amounting to \$228 million to finance Small and Medium Enterprise Investment Program Tranche 3. The main purpose of the project is to <describe briefly the project, its objectives and latest status and progress>.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

The Special Purpose Statement of Utilization of Funds (Statement) has been prepared in accordance with *International Financial Reporting Standards Under The Cash Basis of Accounting*. Accordingly, they are prepared for the special purpose of the project management and ADB in accordance with the agreements between the Government of the Republic of Kazakhstan and ADB. In accordance with 5.03 a(ii-v), Article V of the Loan Agreement (Particular Covenants), Damu shall prepare the Consolidated Statement of Utilization of Funds (CSUF) for the Project annually in accordance with principles acceptable to ADB and audited by independent auditors whose qualifications, experience, and terms of reference are acceptable to ADB. The audit shall be in accordance with international standards for auditing or the national equivalent acceptable to ADB. As part of each audit, the auditors shall prepare a report (which includes the auditors' opinion on the consolidated Statement of Utilization of Funds, use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement as well as on the use of the procedures for the imprest fund and statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any). The report shall be provided to ADB, no later than 6 months after the end of each fiscal year. ADB shall disclose the annual audited consolidated Statement of Utilization of Funds and the opinion of the auditors by posting them on ADB's website within 30 days of the date of their receipt.

The accounting policies have been applied consistently throughout the <year><period>.

Reporting entity

The CSUF solely reflects the financial status and position of the Small and Medium Enterprise Investment Program funded by ADB and implemented by Damu Entrepreneurship Development Fund (Damu).

Reporting Period

The reporting period for this Project shall be the fiscal year ending for each financial reporting period.

Reporting currency

The currency of reporting is [US\$/Tenge].

Cash and Cash Equivalent

Cash and cash equivalents represent the balance remaining in the Imprest Account held with <bank name> [and cash in hand].

3. Status of Funds and Uncommitted Amounts by Funds

The project is financed by ADB through a loan. The total funds financing the project and the available funds for future commitments as of <31 December 2014> are as follow:

	Total financing	Total committed as of 31/12/2014	Available balance as of 31/12/2014
Asian Development Bank	\$130 m	\$130m	

4. Imprest Account

Explain the movement of the imprest account balances.

5. Subloan

Subloan no.	Subloan name	Subloan cost	ADB commitment	Amount received	Balance
		(USD)	(USD)	(USD)	(USD)
1	PFI1				
2	PFI2				
3	PFI3				
4	PFI4				

For PFIs**Project Name: KAZ: Small and Medium Enterprise Investment Program – Tranche 3****<Loan/Grant> No: _____****Notes to Special Purpose Statement of Utilization of Funds****For the <Year> Ended 31 December _____****Accompanying Notes:****1. BACKGROUND, NATURE OF OPERATIONS AND ACTIVITIES**

{Briefly describe and confine to pertinent information to help readers understand and assess the performance and financial position of the project}.

[Example: [PFI]_ has received financial assistance from Damu in the form of a loan amounting to \$XX million to finance Small and Medium Enterprise Investment Program – Tranche 3. The main purpose of the project is to <describe briefly the project, its objectives and latest status and progress>.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of preparation**

The Special Purpose Statement of Utilization of Funds (Statement) has been prepared in accordance with *International Financial Reporting Standards Under The Cash Basis of Accounting*. Accordingly, they are prepared for the special purpose of the project management and ADB in accordance with the agreements between GoKaz and ADB. In accordance with 5.03 a(ii-v), Article V of the Loan Agreement (Particular Covenants), Damu shall prepare the Consolidated Statement of Utilization of Funds (CSUF) for the Project annually in accordance with principles acceptable to ADB and audited by independent auditors whose qualifications, experience, and terms of reference are acceptable to ADB. The audit shall be in accordance with international standards for auditing or the national equivalent acceptable to ADB. As part of each audit, the auditors shall prepare a report (which includes the auditors' opinion on the consolidated Statement of Utilization of Funds, use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement as well as on the use of the procedures for the imprest fund and statement of expenditures) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any). The report shall be provided to ADB, no later than 6 months after the end of each fiscal year. ADB shall disclose the annual audited consolidated Statement of Utilization of Funds and the opinion of the auditors by posting them on ADB's website within 30 days of the date of their receipt.

The accounting policies have been applied consistently throughout the <year><period>.

Reporting entity

The CSUF solely reflects the financial status and position of the Small and Medium Enterprise Investment Program funded by ADB and implemented by Damu Entrepreneurship Development Fund (Damu).

Reporting Period

The reporting period for this Project shall be the fiscal year ending for each financial reporting period.

Reporting currency

The currency of reporting is [US\$/Tenge].

Cash and Cash Equivalent

Cash and cash equivalents represent the balance remaining in the Imprest Account held with <bank name> [and cash in hand].

3. Status of Funds and Uncommitted Amounts by Funds

The project is financed by Damu through Subloan. The total funds financing the project and the available funds for future commitments as of <31 December ____> are as follow:

Participating Financial Institution	Total financing	Total committed as of 31/12/ ____	Available balance as of 31/12/ ____

4. Subloan

Subloan no.	Subloan name	Subloan cost	ADB commitment	Amount received	Balance
		(Tenge)	(Tenge)	(Tenge)	(Tenge)
1	SME 1				
2	SME 2				

**TERM OF REFERENCE FOR AUDIT OF STATEMENT OF UTILIZATION OF FUNDS AND
SPECIFIC AUDIT ASSURANCES REQUIRED UNDER LOAN____: KAZ TRANCHE 3
[DAMU]**

A. Background

1. [Project background and description]

B. Audit Requirements

2. With regard to the **Statement of Utilization of Funds**, ADB requires the following on an annual basis:
 - a) Audit of the Statement of Utilization of Funds: The purpose of the audit of Statement of Utilization of Funds is to enable the auditor to provide an independent and objective professional opinion on whether the Statement of Utilization of Funds gives a true fair view or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
 - b) Specific additional audit assurances with respect to:
 - Compliance with Imprest Account and SOE Procedures: to confirm or otherwise, whether adequate supporting documentation has been maintained to support liquidations submitted to ADB in accordance with the ADB Disbursement Handbook and that the expenditures are eligible for financing under the loan agreement
 - c) Management Letter: identifying any material weaknesses in the accounting and internal control systems that were identified during the audit of the Statement of Utilization of Funds, and recommendations to rectify identified weaknesses and clients comments on the findings and status of significant matters raised in previous management letters. In addition, Management Letter shall identify any significant weaknesses based on a review of Damu's internal controls over PFI monitoring as outlined in its manual on Monitoring of Programs as attached in this Appendix 12. Management Letter should include only those issues which do not affect the fairness of the Statement of Utilization of Funds. Serious issues which affect the auditor's opinion as to whether the Statement of Utilization of Funds gives a true and fair view, should be referred to in the audit opinion.
3. The audited Statement of Utilization of Funds, audit report on specific assurances and Management Letter will all be provided in the English language no later than 6 months after the end of the fiscal year to which they relate.
4. ADB shall disclose the annual audited Statement of Utilization of Funds and the opinion of the auditors thereto within 30 days of the date of their receipt by posting them on ADB's website. The Audit Management Letter will not be disclosed.
5. All audit assurances should be provided under International Standard on Assurance Engagements ("ISAE") 3000 "Assurance Engagements other than Audits or Reviews of

Historical Financial Information”. Please note that the auditor is required to perform a reasonable assurance engagement.

6. Auditors engaged to audit program expenditures should understand the program and the entity being audited, including the contents of the RRP and legal agreements. Auditors should also familiarize with ADB’s guidelines and documents.¹

C. Standards

7. Audits will be carried out in accordance with the International Standards on Auditing as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). The auditors should accordingly consider materiality when planning and performing the audit(s) to reduce audit risk to an acceptable level that is consistent with the objective of the audit. Although the responsibility for preventing irregularity, fraud, or the use of loan proceeds for purposes other than as defined in the Project Agreement remain with Damu, the audits should be planned so as to have a reasonable assurance of detecting material misstatements in the Statement of Utilization of Funds.

D. Client’s Input and Counterpart Personnel

8. The auditors will have full and complete access, at all reasonable times to all records and documents including books of account, legal agreements, bank records, invoices, and any other information associated with the project and deemed necessary by the auditor. Damu will have no objection to auditor’s access to consultants, contractors, and other persons or firms hired by Damu.

9. The auditor will be provided with full cooperation by all employees of Damu, whose activities involve, or may be reflected in, the Statement of Utilization of Funds.

E. Record Keeping

10. The auditors will pay particular attention to whether all necessary supporting documents, records, and accounts have been kept in respect of all project activities, with clear linkages between the accounting records and the Statement of Utilization of Funds. This will include: (i) computation and recalculation, including checking the mathematical accuracy of estimates, accounts, or records; (ii) reconciliation, including reconciling related accounts to each other, subsidiary records to primary records and internal records to external documents; and (iii) tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

F. Independence

11. The auditors will be impartial and independent from any aspects of management or financial interest in the entity under audit. In particular, the auditors should be independent of the control of the entity. The auditors should not, during the period covered by the audits, be

¹ Available from <http://www.adb.org/>. ADB’s revised audit requirements are explained in the *Handbook for Borrowers on the Financial Management and Analysis of Projects* (2006), http://www.adb.org/Documents/Handbooks/Borrowers/Fin_Gov_Mgt_Investment/default.asp, and *Financial Management and Analysis of Projects* (2005), <http://www.adb.org/Documents/Guidelines/Financial/default.asp> or their updated versions.

employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditors should not have any close personal relationships with any senior participant in the management of the entity. The auditor must disclose any issues or relationships that might compromise their independence.

12. The auditors must be authorized to practice in the country and be capable of applying the agreed auditing standards. The auditors should have adequate staff, with appropriate professional qualifications and suitable experience, including experience in auditing the accounts of entities comparable in nature, size and complexity to the entity whose audit they are to undertake. To this end, the auditors are required to provide curriculum vitae (CV) of the auditors who will provide the opinions and reports, together with the CVs of managers, supervisors and key personnel likely to be involved in the audit work. These CVs should include details of audits carried out by these staff, including ongoing assignments.

DAMU's Manual on Monitoring of Programs (Guidelines)

The purpose of monitoring is to ensure the banks' compliance with conditions of disbursement, lending purposes and lending parameters established by ADB and loan agreements, in order to minimize risks associated with the inefficient use of funds.

Monitoring activities carried out by Damu projects:

- ☐ preliminary monitoring of banks;
- ☐ documentary monitoring of banks;
- ☐ monitoring of borrowers' on-site projects.

The monitoring process is conducted by Monitoring unit, Credit unit, Credit Risk Management unit, Accounting unit.

Frequency of monitoring is following:

- ☐ Preliminary monitoring of banks shall be performed not later than 1 month from the receipt full package of documents from the bank confirming the initial disbursement of the Loan Agreement;
- ☐ Documentary monitoring of the banks made not later than 3 months after the completion of the development of the Primary disbursement of ADB Programme funds;
- ☐ On-site monitoring of beneficial borrower is conducted for the following projects:
 - ✓ in the event of violations revealed by the documentary monitoring, which require an additional on-site monitoring;
 - ✓ if determined by the decision of the authorized body of Damu (based on the size of loans);
 - ✓ on which the request was received either from government agencies or from ADB.

Preliminary procedure for monitoring:

As Damu receives project documents from the bank, it verifies compliance with the disbursement on the basis of submitted documents confirming Primary disbursement.

Conditions of development are determined in accordance with the Program, the loan agreement signed between Damu and banks. Conditions of disbursement may include:

- Date of the Primary disbursement by banks;
- Size of the loan granted to the final borrowers in the region (s);
- Size of the loan granted to the final borrowers of a certain category ;
- Size of the refinancing of existing loans to ultimate borrowers at the expense of the Program;

- Limit on the amount of funding per final borrower under the Program ;
- Restriction on obtaining loans by final borrowers in different banks within the same program;
- Other conditions determining the order and timing of the disbursement of funds received under the Loan Agreement by banks.

Loan purpose is determined in accordance with the terms of the Program and the Loan Agreements . The purposes of lending may include:

- conditions that determine the final borrower categories , including the absence of debts to the budget , the size of the enterprise, the basis of residence , industry , regional and other characteristics;

- conditions that limit the purpose of the loan (consumer and mortgage refinance loans, purchase of the share of the capital , repaying debts to the budget and to the third parties with the exception of co-borrowers , etc.) or directly stated purposes of loans (refinancing of existing loans , investment objectives , for working capital, etc.) , which can extend loan by banks to the final borrowers.

Loan parameters are determined in accordance with the Program and loan agreements. Loan options may include:

- currency of the Loan;
- maximum term of financing of the final borrower;
- marginal interest rate (nominal and effective annual) on the Loan;
- providing preferential repayment terms to the final credit borrowers (exemption period of repayment of principal and / or interest);
- the size of the commissions on loan paid by the final borrower to the bank.

In case of violations of conditions of disbursement, a letter of detecting violations of conditions of disbursement is sent to the bank.

In the letter Damu may grant bank a period to remedy violations. If violations are not corrected, Damu can decide to apply enforcement actions against the bank stipulated in the Loan Agreement.

Preliminary results of monitoring programs is considered by the authorized body of Damu.

Procedure of Documentary monitoring.

Documentary monitoring is conducted on the basis of a plan for conducting of monitoring for the beneficial borrower.

On the basis of the analysis report is drawn up for the authorized body of Damu regarding the conducted Documentary monitoring of the bank containing the findings of the

Bank's compliance with loan covenants , the violations and proposals to correct them, as well as proposals for the application of the bank enforcement actions stipulated in the Loan Agreement.

Authorized body of Damu considers a summary report about the Documentary monitoring and analytical note regarding bank compliance with bank loan covenants, and in the case of violations decides to implement enforcement actions.

Procedure of monitoring the beneficial borrower by visiting the on-site implementation of the project.

Monitoring of the beneficial borrower by visiting the on-site implementation conducted:

- in the event of violations revealed by the documentary monitoring, which require an additional on-site monitoring;
- if determined by the decision of the authorized body of Damu according to the monitoring plan for the beneficial borrower;

in the event of received information of the fact of violations and by the request of the government agencies or ADB.

Monitoring by visiting the on-site implementation of the project is conducted in order to

clarify issues related to the intended use of the loans from banks by final borrower, as well as the implementation of the project.

Possible enforcement actions against banks for breach of Programs and Loan Agreements.

These measures are defined by loan agreements and other documents signed between Damu and banks.

For violation of loan covenants Damu may apply to banks following measures (if appropriate item in the Loan Agreement)

- Fine (penalty);
- Substitution of funds received by bank under the Loan Agreement and used for the issuance of credit, under which an infringement by own funds of the bank;
- Withdrawal (full or partial) of funds provided to Banks under the Loan Agreement;
- Elimination of violations within the time limit set by the Fund;
- Other sanctions provided in the Loan Agreement, or other documents signed between the Bank and Damu.

In order to gain control over the monitoring of the ADB loan Damu approves the Regulation of interaction of internal units of JSC "Entrepreneurship Development Fund "Damu" to support the loan of Asian Development Bank.

Under the terms of loan agreements between Damu and banks for monitoring, the Bank provides Damu with the following statements:

1) on a monthly basis within the 20th of the month following the reporting month, a report on the disbursement of the loan for the previous month;

2) on a quarterly basis within 20 day of the month following the reporting quarter, provide to the Fund originals of the following statements:

(a) Report of residues in on-balance and off-balance accounts (Form 700-N) as of the 1st day of the month following the reporting quarter;

(b) a quarterly balance sheet (Form number 1);

(c) the quarterly report of income statement (form № 2);

(d) a quarterly statement of cash flows (form № 3);

(e) a quarterly statement of changes in equity (form № 4);

(f) reports on the implementation of prudential (economic) standards as of the 1st of the month following the reporting quarter, in accordance with Annexes 1,2,3 Resolution of the Board

of the The Agency for Regulation and Supervision of Financial Market and Financial

organizations of the Republic of Kazakhstan from 17.06.2006, № 136 "on approval of rules for reporting on the implementation of prudential norms for second tier banks."

3) annually original annual financial statements within ten (10) working days after the deadline for submission of the annual financial statements to the National Bank of Kazakhstan under the laws of the Republic of Kazakhstan.

**TERM OF REFERENCE FOR AUDIT OF STATEMENT OF UTILIZATION OF FUNDS AND
SPECIFIC AUDIT ASSURANCES REQUIRED UNDER LOAN____: KAZ TRANCHE 3**

[FOR PFIS]

A. Background

1. [Project background and description]

B. Audit Requirements

2. With regard to the **Statement of Utilization of Funds**, ADB requires the following on an annual basis:

- d) Audit of the Statement of Utilization of Funds: The purpose of the audit of Statement of Utilization of Funds is to enable the auditor to provide an independent and objective professional opinion on whether the Statement of Utilization of Funds gives a true fair view or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework.
- e) Specific additional audit assurances with respect to:
 - Use of Loan Proceeds: The funds have been used in accordance with the Project Agreement and only for the purposes of making SME Loans to Qualified SME Borrowers for Qualified SME Subprojects as defined in the Schedule to Project Agreement.
 - Compliance with financial covenants: Please refer compliance with loan covenants section below.
 - Compliance with SOE Procedures: to confirm or otherwise, whether adequate supporting documentation has been maintained to support liquidations submitted to Damu in accordance with the ADB Disbursement Handbook and that the expenditures are eligible for financing under the loan agreement
- f) Management Letter: identifying any material weaknesses in the accounting and internal control systems that were identified during the audit of the Statement of Utilization of Funds, and recommendations to rectify identified weaknesses and clients comments on the findings and status of significant matters raised in previous management letters. Management Letter should include only those issues which do not affect the fairness of the Statement of Utilization of Funds. Serious issues which affect the auditor's opinion as to whether the Statement of Utilization of Funds gives a true and fair view, should be referred to in the audit opinion.

3. The audited Statement of Utilization of Funds, audit report on specific assurances and Management Letter will all be provided in the English language no later than 6 months after the end of the fiscal year to which they relate.

4. ADB shall disclose the annual audited Statement of Utilization of Funds and the opinion of the auditors thereto within 30 days of the date of their receipt by posting them on ADB's website. The Audit Management Letter will not be disclosed.

5. With regard to **compliance with loan covenants** by the [PFI], ADB requires on an annual basis specific audit assurances with respect to compliance with the eligibility criteria set out in Article III, Section 3.03, 3.06 and subparagraphs 2(c) and (d) of the Schedule to the Project Agreement.

6. This audit assurance (i) should be based on audited unconsolidated financial statements on which have been prepared in accordance with International Financing Reporting Standards, (ii) is only required in respect of any such eligibility criteria that is not disclosed in such audited unconsolidated financial statements or the footnotes thereto of the PFI, and (iii) where present, should indicate the extent of any noncompliance by comparing required and actual performance measurements for each financial covenant with the financial year concerned.

7. All audit assurances should be provided under International Standard on Assurance Engagements (“ISAE”) 3000 “Assurance Engagements other than Audits or Reviews of Historical Financial Information”. Please note that the auditor is required to perform a reasonable assurance engagement.

C. Standards

8. Audits will be carried out in accordance with the International Standards on Auditing as published by the International Auditing and Assurance Standards Board of the International Federation of Accountants (IFAC). The auditors should accordingly consider materiality when planning and performing the audit(s) to reduce audit risk to an acceptable level that is consistent with the objective of the audit. Although the responsibility for preventing irregularity, fraud, or the use of loan proceeds for purposes other than as defined in the Project Agreement remain with the PFI, the audits should be planned so as to have a reasonable assurance of detecting material misstatements in the Statement of Utilization of Funds.

D. Client’s Input and Counterpart Personnel

9. The auditors will have full and complete access, at all reasonable times to all records and documents including books of account, legal agreements, bank records, invoices, and any other information associated with the project and deemed necessary by the auditor. [PFI] will have no objection to auditor’s access to consultants, contractors, and other persons or firms hired by the PFI.

10. The auditor will be provided with full cooperation by all employees of [PFI], whose activities involve, or may be reflected in, the Statement of Utilization of Funds.

E. Record Keeping

11. The auditors will pay particular attention to whether all necessary supporting documents, records, and accounts have been kept in respect of all project activities, with clear linkages between the accounting records and the Statement of Utilization of Funds. This will include: (i) computation and recalculation, including checking the mathematical accuracy of estimates, accounts, or records; (ii) reconciliation, including reconciling related accounts to each other, subsidiary records to primary records and internal records to external documents; and (iii) tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

F. Independence

12. The auditors will be impartial and independent from any aspects of management or financial interest in the entity under audit. In particular, the auditors should be independent of the control of the entity. The auditors should not, during the period covered by the audits, be employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditors should not have any close personal relationships with any senior participant in the management of the entity. The auditor must disclose any issues or relationships that might compromise their independence.

13. The auditors must be authorized to practice in the country and be capable of applying the agreed auditing standards. The auditors should have adequate staff, with appropriate professional qualifications and suitable experience, including experience in auditing the accounts of entities comparable in nature, size and complexity to the entity whose audit they are to undertake. To this end, the auditors are required to provide curriculum vitae (CV) of the auditors who will provide the opinions and reports, together with the CVs of managers, supervisors and key personnel likely to be involved in the audit work. These CVs should include details of audits carried out by these staff, including ongoing assignments.

ASIAN DEVELOPMENT BANK

LOAN ACCOUNTING REPORTS FORMS (<http://lareps.adb.org>)

Request for Access to Loan Accounting Reports Website

DATE: DD – Month – Year

TO: ASIAN DEVELOPMENT BANK
6 ADB Avenue, Mandaluyong City
1500 Metro Manila, Philippines

ATTENTION: Webmaster
Loan Administration Division
Controller's Department
Fax: +632 636 2606
Email Address: lfis@adb.org

B. Applicant Information			
Last Name	First Name	M.I.	
Organization Name			
Address			
City	Country	ZIP	
Office Phone	E-mail Address		
Fax Number			
C. Endorsement BY AN AUTHORIZED SIGNATORY			
Full Name		Position	
Organization			
Signature			



Loan and Grant Financial Information Services

Asian Development Bank

REQUEST FOR LFIS/GFIS WEB ACCESS

DATE: DD – Month – Year

TO: ASIAN DEVELOPMENT BANK
6 ADB Avenue, Mandaluyong City
1500 Metro Manila, Philippines

ATTENTION: Webmaster
Client Service, Systems and Control Section
(CTLA-CS/SC)
Controller's Department
Fax: +632 636 2606
Email Address: lfis@adb.org

Instructions:

1. A separate form must be filled for each applicant.
2. AUTHORIZED LOAN / GRANT SIGNATORY must sign the form.
3. Form must be typewritten.

Please provide LFIS [] / GFIS [] Web access to:

First Name Mr. Ms.

i. Last Name

E-Mail Address

Organization or EA Name

Address

Fax Number

For the following purpose(s):

View loan/grant data and download reports with the following access (please check applicable box):

[] Country Level (can view all active loan/grant under the county portfolio)

[] EA Level (can view loan/grant under specific Organization/EA name)

[] Specific Loan/Grant (can view specific active loan/grant):

Loan / Grant No.

Project Name

_____	_____
_____	_____
_____	_____
_____	_____

Others

(Specify): _____

—

Authorized by:

Signature over Printed Name of Authorized Signatory

Name of Borrower/Recipient or Executing Agency

**INSTALLER****REQUEST FOR eC-LAS***Instructions:*

1. A separate form must be filled for each applicant.
2. AUTHORIZED SIGNATORY must sign the form.
3. Form must be typewritten.
4. E-mail duly completed form to ec-las@adb.org or fax to +632 636 26 06

DATE DD – Month – Year

TO ASIAN DEVELOPMENT BANK
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

ATTENTION eC-LAS Help Desk
OCR Sovereign Loan Accounting Section
(CTLA-LA1)
Controller's Department
Fax: +632 636 2606
Email Address: ec-las@adb.org

Please provide eC-LAS Installer to:

First Name Mr. Ms. _____

Last Name _____

E-Mail Address _____

Department/Division/Unit _____

Organization _____ or EA Name _____

Address _____

Fax No. _____

For the following purpose(s): (please tick applicable box):

- ☐ Install eC-LAS using CD Installer and create own loan data
- ☐ Install eC-LAS using CD Installer and request data* of specific loans from CTLA-LA1

*Contains historical data at loan level only. ADB does not break down loan data among sub-borrowers.

Loan No. (LBL)

Project Name

_____	_____
_____	_____
_____	_____

Attach separate sheet for more loan records

Authorized by:

Signature over Printed Name of Authorized Signatory

Name of Borrower/Recipient or Executing
Agency