ASSESSMENT OF THE FINANCE AND SMALL AND MEDIUM-SIZED ENTERPRISES SECTOR

A. Sector Performance, Problems, and Challenges

1. Sector Performance and Problems

The financial sector of Kazakhstan includes a large banking subsector, a smaller but growing pension system, a nascent insurance subsector, and a securities market. Kazakhstan has a two-tier banking system. The central bank, the National Bank of the Republic of Kazakhstan (NBRK), comprises the first tier and 38 commercial banks comprise the second tier. Kazakhstan’s banking portfolio is proliferated by nonperforming loans (NPLs), with 20.7% of gross loans in 2011 and 19.5% in 2013, and then falling to 12.4% in 2014. By end 2015, NPLs were reduced to 8% after NBRK has taken and written off some of the loans with the government. Kazakhstan’s financial sector is highly concentrated, with five largest banks comprising 60% of banking assets in 2015. There is also limited bank outreach outside of the largest cities, as banking services are concentrated in Astana and Almaty where 70% of the loans are provided and 71% of deposits are sourced. In terms of financial inclusion, only 8% of the population aged 15 and above had savings at a financial institution and only 48% of rural adults had a bank account.

In 2014, the sharp decline in world oil prices, recession in the Russian Federation, and weakening demand from Kazakhstan’s main trading partners, triggered a substantial drop in foreign currency reserves prompting NBRK to shift to a floating exchange rate regime. The exchange rate devalued sharply by an accumulated 120% between 2013 and 2015. The volatility of the exchange rate undermined confidence in tenge causing firms and households to convert tenge deposits into foreign currency, thus increasing the dollarization of deposits at more than 65% of bank deposits in foreign currency in 2015. The sharp devaluation adversely affected the banking system’s profitability and capital adequacy. Banks’ return on assets dropped from 1.8% in 2013 to 1.2% in 2015. The capital adequacy ratio also declined from 18.7% in 2013 to 15.9% in 2015. Bank loans contracted by 47% from 2013 to 2015 and by 22% for small and medium-sized enterprises (SME) loans. In 2015, the share of bank loans to gross domestic products (GDP) was only 31%, indicating low depth level of the banking system. Table 1 provides selected indicators for the financial sector.

<table>
<thead>
<tr>
<th>Indicator</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank Loans ($ billion)</td>
<td>86.9</td>
<td>77.6</td>
<td>45.9</td>
</tr>
<tr>
<td>-of which SMEs</td>
<td>15.2</td>
<td>17.8</td>
<td>11.8</td>
</tr>
<tr>
<td>Loans to GDP (%)</td>
<td>30.4</td>
<td>29.7</td>
<td>31.0</td>
</tr>
<tr>
<td>Return on Assets (%)</td>
<td>1.8</td>
<td>1.6</td>
<td>1.2</td>
</tr>
<tr>
<td>Capital adequacy ratio (%)</td>
<td>18.7</td>
<td>17.3</td>
<td>15.9</td>
</tr>
<tr>
<td>Non-performing loans to gross loans (%)</td>
<td>31.3</td>
<td>23.5</td>
<td>8.0</td>
</tr>
<tr>
<td>Exchange rate to US dollar (tenge)</td>
<td>152.1</td>
<td>179.2</td>
<td>221.7</td>
</tr>
<tr>
<td>Inflation (%)</td>
<td>4.8</td>
<td>7.4</td>
<td>13.6</td>
</tr>
</tbody>
</table>

Sources: National Bank of the Republic of Kazakhstan; Statistics Committee

1 Several other public sector entities are engaged in or support the sector. These include the Development Bank of Kazakhstan; DAMU, the Entrepreneurship Development Fund; Kazpost; the Export Credit Insurance Corporation; mortgage organizations; the Central Securities Depository; Kazakhstan Stock Exchange; and the Interbank Settlement Center and the Deposit Insurance Fund.

2 Deposit-taking institutions are required to be licensed and regulated by the Committee for the Control and Supervision of the Financial Market and Financial Organizations of NBRK.


4 The 5 banks are the Kazkommertsbank, Halyk Bank, Tsesnabank, Sberbank, and Bank CenterCredit.


6 National Bank of the Republic of Kazakhstan.
3. **Micro, Small and Medium Enterprises.** In 2015, the number of active micro, small and medium enterprises (MSMEs) was 1.3 million, of which 930,077 were sole proprietorship, 175,679 small enterprises, and 2,897 medium enterprises. MSMEs employed 3.1 million people or 36% of the total number of working population. Sole proprietorship employs 45% of MSME labor, followed by small enterprises (35%), and medium enterprises (11%). During 2011–2013, the average contribution of MSMEs to GDP was 17.2%, rose to 26.2% in 2014 and declined slightly to 25.6% in 2015 due to the economic slowdown. Large enterprises are mainly in the oil and minerals sector and contribute about 84% of GDP.

4. SME sector comprised businesses operating in trade (42%) and services (27.9%), which were characterized by low risk and modest start-up capital. Active SMEs in agriculture comprised 17.1% of businesses, 3% in manufacturing, 2.8% in construction, and 6.3% in real estate. SMEs were concentrated in Almaty (26%) and Astana (10%) making up 45% of the all SME output.

5. Banks were hit hard by the cut-off from international capital markets during the global financial crisis (GFC), which resulted in long-standing financial vulnerability and created unstable conditions for accessing finance by SMEs. In 2015, lending to SMEs was only 10% of GDP, with banks prioritizing corporate and state-owned enterprises. Most SMEs could not meet requirements for bank loans, particularly for average collateral requirements that reached up to almost 250% of loan value. The highly deepened dollarization in the economy also adversely affected SME borrowers who held their liabilities to banks in foreign currency, while revenues were mainly in local currency.

6. **Finance sector.** Challenges such as limited availability of long-term finance for private sector participation in infrastructure investment and lack of SME access to trade and finance, contributed to the lack of economic diversification and private sector development. The key constraints to infrastructure financing are the (i) insufficient private sector equity to participate in public-private partnerships (PPPs) for infrastructure, (ii) shortage of long-term debt instruments to finance private infrastructure investment, (iii) lack of comprehensive legislative framework for PPP infrastructure projects, (iv) under developed insurance markets that could be a potential source of long-term debt, (v) lack of long-term deposits and hedging arrangements to mitigate asset-liability and foreign exchange mismatch risks, (vi) limited letter of credit and foreign funding from international interbank market, and (vii) NPL problem that constraints the availability of scarce capital and other resources of banks.

7. The banks’ loanable funds for medium-term lending to SMEs were constrained by the low deposit base and sudden withdrawal of external lending. Furthermore, high interest rates, strict collateral requirements, and lack of credit history were the major obstacles for MSMEs to access bank credit. In terms of competitiveness, the World Economic Forum Survey identified access to financing,
corruption, inflation, tax rates and inadequately educated workforce, as major obstacles. These factors affect the environment for growth and development of SMEs and in achieving diversification of the economy.

B. Government’s Sector Strategy

8. The government continued to undertake structural reforms and improvements to the financial sector regulatory framework. For the banking subsector, these included (i) new limitations on foreign borrowings, (ii) 20% provisioning for loans in foreign currency, (iii) new loans–deposits regulatory ratio, (iv) countercyclical approach to provisioning, (v) new capital adequacy ratio, and (vi) measures to discourage growth of contingent liabilities. In January 2015, NBRK started to introduce Basel III to banks to strengthen regulation and risk management, which included raising capital requirements. Recognizing that the economy was too concentrated and relied heavily on volatile commodity pricing, the government in 2010 adopted an industrialization program that called for investment of $50 billion during 2010–2014.

9. In the SME sector, the government’s strategy was based on the Roadmap for Business 2020 and the Accelerated Industrial-Innovative Development of Kazakhstan 2010–2015. With a narrowly based economy concentrated in the hydrocarbon and mining sectors, the aim was to diversify the production base and give prominence to the development of the SME sector. The target was to increase SME contribution to GDP to 50% by 2050. Furthermore, in 2012, the government adopted a development strategy Kazakhstan 2050, aiming to make Kazakhstan one of the 30 most developed countries of the world by 2050. In the said strategy, one of the government priorities is a comprehensive support of entrepreneurship as a leading force for the national economy through (i) development of SME, (ii) new model of PPP that will continue the process of business consolidation, and (iii) new stage of privatization (i.e. transferring non-strategic enterprises and services to the private sector).

10. To address legal impediments, the Law on Private Entrepreneurship mandated the establishment of advisory councils at central and local state agencies, which will review statutes and regulations that negatively affect private entrepreneurs. It also specified an accelerated registration procedure for businesses and allowed small businesses to carry out their activities on the basis of a standard charter that significantly simplified the preparation of documents. To facilitate financing, several laws were passed. The Law on Microcrediting Organizations (2003) led to the creation of more than 300 microfinance organizations, while the Law on Financial Leasing (2000) provided tax incentives for leased transactions. The Ministry of Economic Development and Trade adopted a results-based action plan to facilitate SME Access to Finance, 2010–2014. To help meet the 2050 national goals, including increased financing to SMEs, in May 2014, the government signed the partnership framework agreements with Asian Development Bank (ADB) and other development partners. The government also established the Damu Entrepreneurship Development Fund (Damu) to support the development of SMEs and ensure better use of public funds allocated to these enterprises. It plays an important role in SME development by implementing the government’s access to credit programs for SMEs. In addition to lending, Damu also provides nonfinancial support to SMEs in the form of information services, training and consulting. In 2013, ownership of Damu was transferred to Baiterek National

14 Basel III was to be introduced in stages, including creation of countercyclical buffers and raising capital requirements, starting 1 January 2015-2016 and finishing on 1 January 2019.
15 The program consolidated over 50 previously-adopted state industrial programs with the Development Bank of Kazakhstan as the program’s primary lender for long-term financing of infrastructure.
18 Law No. 124 of 31 January 2006, amended as of 8 June 2015.
Management Holding (Baiterek), which was established to acquire Damu and other development and financial institutions.19

C. ADB Sector Strategy and Portfolio

11. Results framework. The Country Partnership Strategy (CPS) 2012–2016 objective for the finance sector was to contribute to a strengthened access to finance for SMEs, trade, and investment in infrastructure. To improve access to finance for SMEs, ADB’s public sector lending assistance was to be channeled through the Small and Medium Enterprise Investment Program (SMEIP), a multitranche financing facility (MFF), which was to provide liquidity support to financial institutions. An important focus of the facility was on expanding credit to women entrepreneurs running SMEs. To develop the securities market, increase liquidity, and give pension funds and other savers new investment opportunities, ADB was to consider funding new tranches under the MFF or other projects with strong demonstration impacts. ADB was also to provide technical assistance (TA) to develop the securities markets, particularly the municipal and project bond market, and strengthen the regulatory capacities of the pension and insurance subsectors. ADB’s private sector operations in the financial sector were to focus on trade finance and lending and securitization, including SMEs, energy efficiency, agribusiness, and mortgage lending. ADB was to consider equity investments in banks, and equity and debt financing of investment funds. Expected results are detailed in Table 2.

<table>
<thead>
<tr>
<th>Country Sector Outcomes</th>
<th>Sector Outcome Indicators</th>
<th>Areas of Intervention</th>
<th>Indicative Resource Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen access to finance for SMEs, trade, and investment in infrastructure.</td>
<td>(i) SME sector employment increased to 4 million in 2016 (2011 baseline: 2.26 million)</td>
<td>SME Finance (99%)</td>
<td>Pipeline projects with estimated amounts: SME Investment Program (Tranches 2, 3, and 4) ($100 million each);</td>
</tr>
<tr>
<td></td>
<td>(ii) Share of bank loans to SMEs increased to 20% of GDP in 2016 (2011 baseline: 15%)</td>
<td>Financial Sector Development (1%)</td>
<td>Support to Financial Sector Development TA ($500,000);</td>
</tr>
<tr>
<td></td>
<td>(iii) The proportion of loans going to women entrepreneurs under DAMU Entrepreneurship Development Fund programs increased to 23% of loans by 2014 (2009 baseline: 16%)</td>
<td></td>
<td>Trade Finance (amount to be determined).</td>
</tr>
<tr>
<td></td>
<td>(iv) Bank loans increased to 50% of GDP in 2016 (2011 baseline: 39.2%).</td>
<td></td>
<td>Ongoing projects with approved amounts: SME Investment Program (Tranche 1) ($150 million).</td>
</tr>
<tr>
<td></td>
<td>(v) Pension fund assets increased to 12% of GDP in 2016 (2011 baseline: 10%).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Damu = Damu Entrepreneurship Development Fund, GDP = gross domestic product, SME = small and medium enterprise, TA = technical assistance.


12. ADB portfolio. The finance sector accounted for 15% of total ADB assistance during 2012–2016. It included four loans and three TA projects to support SMEs (Table 3).20 These four loans were (i) SMEIP (Tranche 1) for $150 million, (ii) SMEIP (Tranche 2) $122 million, (iii) SMEIP (Tranche 3) for $130 million, and (iv) SMEIP (Tranche 3) additional financing for $98 million. The three TA projects

19 Damu is ultimately controlled by the Government of Kazakhstan, and reports to the Ministry of National Economy.

20 The four loans were provided under an MFF approved in 2010 along with additional financing approved in 2015. Another TA was approved under the finance sector to support the insurance sector.
approved were (i) Improving Capacity to Support SME Development\textsuperscript{(21)} attached to the SMEIP, (ii) Micro, Small and Medium-Sized Enterprise Development for $1 million, and (iii) Enhancing Insurance Market Efficiency and Outreach\textsuperscript{(22)} for $0.3 million and $0.5 million. Appendix 1 provides details of individual loans and TAs.

13. **Pipeline delivery.** Under the country operations business plans covering 2012–2016, a total of $674.8 million was programmed for the finance sector of which, $672.5 million was for lending and $2.3 million was for nonlending. Of the total amount programmed for the sector, $502.4 million or 74.5\% was approved. The total amount of loans approved was $500 million.\textsuperscript{(23)} Approved TA projects were $2.5 million or 106.5\% of the programmed nonlending products.\textsuperscript{(24)}

| Table 3. ADB Assistance to Small and Medium Enterprises (Sovereign Operations) |
|---------------------------------|---------------------------------|---------------------------------|
| **Sector**                     | **Approved During 2012–2016**   | **Approved Before and Implemented During 2012–2016** |
| **Number (Loans|TAs)** | **Amount ($ Million)** | **Number (Loans|TAs)** | **Amount ($ Million)** | **Number (Loans|TAs)** | **Amount ($ Million)** |
| Finance | 3 | 2 | 351.8 | 1 | 1 | 150.6 | 4 | 3 | 502.4 |
| Total | 3 | 2 | 351.8 | 1 | 1 | 150.6 | 4 | 3 | 502.4 |

TA = technical assistance.
Sources: Independent Evaluation Department calculation based on ADB databases and mainframe as of 31 December 2015.

**D. Evaluation of ADB Sector Operations**

1. **Relevance**

14. Of the four projects under review, one had a project completion report (PCR) and was rated relevant.\textsuperscript{(25)} Improving access to finance for SMEs continues to be a government priority and was closely aligned with ADB’s priorities in the country. During the project’s midterm review, issues on the design and monitoring framework (DMF) were raised resulting to an approval of a minor change to the DMF in subsequent tranches of the MFF, but not for the first tranche.\textsuperscript{(26)} Safeguard categorization was also revised for the second and subsequent tranches. A Financial Intermediary (FI)-C environmental categorization under the first tranche prevented funding of about 12\% of project proposals that could have had a significant employment impact.\textsuperscript{(27)} The PCR questioned the need for long government’s approval process for each tranche that limited the operational flexibility of the MFF framework. The CPS Final Review (CPSFR) reiterated this point and suggested that ADB may have to broaden its financial modality options to be more adaptive to government’s needs.

\textsuperscript{(21)} Approved and implemented during 2012-2016.
\textsuperscript{(23)} Pipeline loan projects that were not approved during the period were: (i) MFF for the Inclusive Economic Growth through Financial Sector and Information Technology Enhancement Program (Tranche 1) for $50 million and Tranche 2 for 77.5 million that were programmed as firm in 2015 and 2016; and (ii) MFF for the Micro, Small and Medium Enterprise Investment Program (Tranche 1) for $100 million programmed as firm in 2016. Under the COPB 2016-2018, the following changes were made to the 2016-2017 lending pipeline: (i) MFF for the Micro, Small and Medium Enterprise Investment Program was converted into a standalone project as firm in 2016 for $220 million, and (ii) processing of the MFF for the Financial Sector and Information Technology Enhancement Program was moved to 2017.
\textsuperscript{(24)} Approved TA projects exceeded 100\% of the programmed amount due to the inclusion of a $650,000 TA for Improving Capacity to Support SME Development approved on 4 November 2010 but closed on 25 March 2014. The pipeline TA project that was not approved during 2012-2016 was the Support to Financial Sector Development for $500,000 programmed as standby in 2014 as indicated in the 2012-2014 country operations business plans.
\textsuperscript{(26)} The minor change involved clarifying the definitions of the indicators and updating the baseline and target years.
\textsuperscript{(27)} In December 2013, a change in implementation arrangements to the MFF was approved to allow financing of category B subprojects for Tranche 2 and subsequent tranches, provided that participating financial institutions had adequate environment and social management systems as condition for loan effectiveness. Involuntary resettlement and indigenous people were categorized as C.
15. To achieve the envisaged CPS finance sector outcome, ADB’s program relied heavily on the use of credit lines. The use of credit lines alone is inadequate in meeting the huge long-term demand for SME financing since access to financing is also linked to other factors, such as financial infrastructure deficiencies, supervisory weaknesses, and overall health of the financial sector. Other constraints to the development of SME finance, which were identified during project formulation, were not addressed. These include the (i) lack of domestically mobilized resources for medium-term lending to SMEs, (ii) limited availability of lease financing for SMEs, and (iii) high risks of lending to SMEs. Moreover, using commercial banks as the only onlending channel directed the focus of lending toward mid- and higher-end borrowers who could meet conventional collateral requirements, but easing out the lower-end segment of the market. This limited the outreach of the program to only 1,536 borrowers vis-à-vis the 1.3 million total number of active MSMEs. The $500 MFF should also have addressed the financing of microbusinesses and expansion of outreach.

16. The lending program was responsive to the needs of SME borrowers. The sample survey of SMEs revealed that borrowers were generally satisfied with the lending program with 58% of the respondents indicating that they were satisfied with the lending program and 41% reporting that they were very satisfied. Regarding the loan amount, 68% of the sample respondents found the loan amount granted adequate for their business financing needs, while 25% said it was more than adequate. Also, 76% of the respondents reported that the loan term was appropriate and 19% said it was somewhat appropriate.

17. The ongoing TA for Enhancing Insurance Market Efficiency and Outreach is rated relevant. The TA is expected to strengthen the policy and regulatory framework for insurance supervision and product design by strengthening risk-based supervision, improving reinsurance, strengthening regulatory and supervisory capacity of NBRK in the insurance subsector, and improving the actuarial database for insurance product design.

18. The validation rates ADB’s finance sector program less than relevant. The SMEIP provided the needed liquidity to participating finance institutions (PFIs) facing a credit crunch after the 2008 GFC and the economic crisis in 2014. The provision of loans in local currency by the program mitigated the currency risks for the PFIs during a time of crisis. However, the constraints to meeting the long-term demand for SME financing were not adequately addressed in the design. Also, the MFF modality did not provide the operational flexibility that it was expected. Further, the use of commercial banks as the only channel for on-lending directed the focus of lending mainly to relatively larger borrowers, thus, isolating the lower segment of the market.

2. Effectiveness

19. The CPSFR assessed ADB’s finance sector operations effective based on the achievement of majority of the targets under the CPS sector results framework, the needed SME financing was provided by SMEIP during the period of instability in the financial markets, and contributed to Damu’s loan portfolio.

20. Of the five SME sector outcome indicators (see Table 2), two were achieved, one will likely not be achieved, one was not achieved, and one cannot yet be assessed. First, bank loans to SMEs reached 25.7% in 2015, which exceeded the target of 20% set for 2016. Second, the proportion of loans going to women entrepreneurs under Damu programs in 2014 was 30.5%, exceeding the target of 23%. The third target was for overall bank loans to increase to 50% of GDP by 2016. In 2015, the share to bank loans to GDP was only 31%, which indicates that the target of 50% target will likely not be achieved. The target of pension fund assets increased to 12% of GDP in 2016 was not achieved, as there was no

28 These constraints were identified in the sector assessment of the RRP on the Small and Medium Enterprise Investment Program, linked document number 2.
29 The number of active MSMEs for 2015.
30 Actual data on the outcome indicators were sourced from the Statistics Committee and the National Bank of Kazakhstan.
project delivered to support development of the pension subsector. In terms of employment, the target was for SME sector employment increased to 4 million in 2016. As of end 2015, the number of people employed with SMEs was 3.1 million. There is no official data available yet for 2016 to confirm if the target has been achieved. Thus, the indicator cannot yet be assessed.

21. The PCR rated Tranche 1 of the MFF less than effective because the outcomes were only partly achieved. The expected outcome of increased access by SMEs to medium-term credit on a sustainable basis was measured by the number and outstanding volume of SME loans. The number of loan accounts was expected to increase from 116,556 in 2009 to 145,249 in 2011. This was not achieved as the number of accounts was estimated to have increased only by about 2,300 in 3 years. For the outstanding volume of SME loans, the target was an increase of T421 billion or 24% from 2009 to 2011. Based on the data from the NBRK, lending to small businesses fell from T1.384 billion in 2010 to T1.283 billion in 2013. Thus, the stated target was not achieved. Since NBRK data did not include medium enterprises, the PCR argued that an alternative indicator would be the SME lending trends within the PFIs and Damu. Using this indicator, the overall trend of these institutions from 2011 to 2014 showed increases in their SME portfolios and thus the PCR states that the outcome could be considered partly achieved.

22. Funding from the MFF contributed to Damu’s increased lending to SMEs. As of 31 May 2016, outstanding SME loans under Damu’s program amounted to T1.3 trillion, higher than the overall target of T1.1 trillion for the SMEIP. Under Tranche 1, PFIs disbursed 3.4 times more than the amount received from Damu; 1.4 times the allocated amount of T22.2 billion under Tranche 2; and 23% of the $62,807 amount allocated has so far been disbursed under Tranche 3. The average loan maturity of loans disbursed was 15 months, which was in line with the project design of providing medium-term loans to SMEs. The total outreach for the three tranches was 1,536 borrowers, which was significantly small relative to the 1.3 million active MSMEs in the country. Women entrepreneurs reached by the program were 32%, which met the target for the share of women borrowers under the program. The average loan size per borrower increased from $473,369 in Tranche 1 to $488,608 in Tranche 2 and further to $508,972 per $; Tranche 3 is going, thus disbursements are lower than Tranche 1. This indicates that PFIs catered mainly to the mid and upper segment of SMEs that require larger loan amounts and had the collateral needed for security. New jobs created by the program was 3,797, which was small relative to the T121.9 million that had been disbursed in loans to SMEs and the 3.1 million people employed in the SME sector. The summary performance of all MFF tranches under the SMEIP is shown in Table 4.

Table 4. Small and Medium Enterprise Investment Program MFF Performance (as of 30 April 2016)

<table>
<thead>
<tr>
<th>Tranche</th>
<th>Amount Received by PFIs from Damu (T million)</th>
<th>Amount Disbursed by PFI (T million)</th>
<th>No. of Borrowers</th>
<th>No. of Loans</th>
<th>Ave. Size per Borrower (T million)</th>
<th>Ave. Loan Terms (months)</th>
<th>Women SMEs (%)</th>
<th>New Jobs Created</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tranche1</td>
<td>22,200</td>
<td>75,954</td>
<td>1,083</td>
<td>5,707</td>
<td>70.1</td>
<td>13</td>
<td>29</td>
<td>2,522</td>
</tr>
<tr>
<td>Tranche2</td>
<td>22,222</td>
<td>31,299</td>
<td>348</td>
<td>1,229</td>
<td>89.9</td>
<td>22</td>
<td>40</td>
<td>1,033</td>
</tr>
<tr>
<td>Tranche3</td>
<td>62,807</td>
<td>14,716</td>
<td>105</td>
<td>485</td>
<td>140.2</td>
<td>13</td>
<td>44</td>
<td>242</td>
</tr>
<tr>
<td>Total</td>
<td>107,229</td>
<td>121,969</td>
<td>1,536</td>
<td>7,421</td>
<td>79.4</td>
<td>15</td>
<td>32</td>
<td>3,797</td>
</tr>
</tbody>
</table>

Source: Damu Entrepreneurship Development Fund.

*At the time of evaluation, there was also no official data available on pension fund assets as percent of GDP.*

*The midterm review mission documented the lack of clarity in the calculation of these indicators. Also, the review pointed out that the baseline and target years needed updating given the delay of 1 year in the project’s effectiveness.*

*The target is an increase by 28,693 in two years. The PCR used the amount of lending by the banks to small businesses and the average loan size of Damu’s as proxy indicators to calculate the indicator.*

*NBK only started reporting data on lending to medium-sized business in a systematic way from 2011 onwards.*

*Tranches 2 and 3 are still on-going, thus disbursements are lower than Tranche 1.*

*Exchange rates: Tranche 1 - T148 per $; Tranche 2 - 182.15 per $; Tranche 3 - 275.47 per $.*
23. A survey of sample SMEs was carried out for this validation to assess the contribution of the program. Results showed an increase of 35% in average assets from T267 million to T363 million. This indicates that on average SMEs were able expand their asset base for business operations after the loan. However, average profits declined by 10% from T51 million to T46 million. The decline in average profits is most likely due to the slowdown in the economy.

24. In 2014, ADB also provided a policy and advisory TA for Enhancing Insurance Market Efficiency and Outreach\(^{37}\) aimed to develop the insurance subsector. The outcome was to strengthen the policy and regulatory framework for insurance supervision and product design. The performance indicator was for the NBRK to adopt at least three of proposed regulatory changes by November 2016. Outputs included (i) strengthening risk-based supervision; (ii) improving reinsurance and group and cross-border supervision; (iii) augmenting staff capacity of the NBRK to regulate and supervise the insurance subsector; and (iv) strengthening the actuarial database for insurance product design.

25. The TA is likely to be effective. The TA has already delivered substantial outputs that will help strengthen the policy and regulatory framework for insurance supervision and product design. The early warning system and profiling tool components have been completed and are entering the test phase as a supervisory tool for NBRK. The risk-based supervision internal guidelines were completed and actuarial database for insurance product design was strengthened with updated mortality and disability tables. Training was conducted to build the capacity of NBRK in regulating and supervising the insurance subsector.

26. The validation rates ADB’s finance sector operations less than effective. The expected outcome in the sector results framework of greater access for SMEs to financial services and increased infrastructure investments was partly achieved. In Tranche 1 of the MFF, the expected outcome of increased access by SMEs to medium-term credit on a sustainable basis was also partly achieved. The MFF increased lending of Damu and the PFIs to SMEs during the domestic banking crisis. However, outreach was small and lending was oriented towards larger borrowers. The program could have done more to expand outreach and reach the lower segment of the market.

3. Efficiency

27. The PCR rated Tranche 1 of the SMEIP efficient. The full amount of the credit line was disbursed and the funds were recycled 3.4 times through 5,707 loans. Initial disbursements to SME sub-borrowers were slow mainly due to difficulties of PFIs in understanding and complying with ADB’s safeguard requirements. These were addressed through the support from ADB in building the capacity and systems of PFIs. In succeeding tranches, additional consultant was provided to PFIs to help them meet the requirements. As of 30 April 2016, funds for Tranche 2 had been recycled 1.4 times, but for Tranche 3, only 23% of the T62,807 million allocation had so far been disbursed by the PFI. The processing of loan applications from SMEs was generally efficient. The majority (54%) of respondents to the survey reported that the processing of their loan application was on time and 26% said that it was fast. Those that experienced slight delays comprised 16% of respondents and those that experienced slow or much delayed processing comprised only 3% of the total.

28. TA support for Damu helped streamline its business processes, approving over 10 changes to its risk management practices and 8 reforms in corporate governance. Over 250 staff and bank credit officers in 16 oblasts (regions) were trained in credit risk assessment for SMEs. These changes and reforms improved Damu’s operations and contributed to Damu receiving an investment-grade credit rating, which was one of the expected outputs of the overall MFF facility.

29. The on-going TA for Enhancing Insurance Market Efficiency and Outreach is likely efficient. The TA is expected to help improve the quality and efficiency of supervision of the insurance system and deepen insurance penetration through better product design and pricing. Significant progress has been achieved in the implementation of the TA with significant outputs already delivered.

30. The validation rates ADB’s finance sector program efficient. The funds for Tranche 1 and Tranche 2 were efficiently utilized. Disbursements by PFIs of funds from Tranche 3 are expected to increase as conditions in the financial markets improve. The TA support to Damu helped improve the efficiency of its businesses processes, including risk management practices. The TA on enhancing the insurance market will improve the quality and efficiency of insurance system supervision.

4. Sustainability

31. The CPSFR rated finance sector operations likely sustainable. Financial intermediation loans provided under the SMEIP MFF were rated likely sustainable because they provided long term liquidity for participating banks to establish revolving loan facilities. Banks were encouraged to develop their capacity, processes and tools to assess creditworthiness and environmental risk of SMEs. Therefore, banks are likely to continue building up their SMEs portfolios after closure of the project. The lower cost of fund from the ADB loan enabled PFIs to provide SMEs with lower interest rates than market rates, suggesting an increase in the likelihood of repayment and therefore the sustainability of the project. As of 31 March 2016, NPLs of PFIs under the program ranged from 0% to 4%, indicating generally good portfolio quality compared to overall NPLs for SMEs.

32. The CPSFR’s assessment stressed that the project did not address shortcomings in the secured transaction framework, leasing market, and the local bond market, issues that could affect sustainability. The project improved the financial system to a limited extent by bridging a situation of credit crunch for banks and SMEs that needed financing after the 2008 GFC and the economic crisis in 2014. Moreover, while subloans of the project were market-based, government provided interest rate subsidy through Damu for priority sectors. This fragments the market and undermines the sustainability of project outcomes. From an institutional aspect, the TA support helped Damu receive its own credit rating, which allowed the agency gain potential access to other sources of financing.

33. The SMEIP will be followed through by the Supporting Resilience of Micro, Small and Medium-Sized Enterprise Finance Project, a standalone project approved in October 2016. The project will fund local currency loans through PFIs to support productive investments by MSMEs, lending to women entrepreneurs and regions outside Almaty and Astana. It is likely that PFIs will continue to build their SME portfolio and even more so with support from the Supporting Resilience of Micro, Small and Medium-Sized Enterprise Finance Project. However, the difficult operating environment of the finance sector remains an issue and credit line intervention can only do so much in addressing the lack of access to finance. In view of the sector constraints affecting sustainability that still needs to be addressed, this validation rates ADB’s finance sector program less than likely sustainable.

5. Development Impact

34. The CPSFR assessed the impact of the finance sector less than satisfactory based on the completed Tranche 1 of the SMEIP. Based on the SMEIP Tranche 1 DMF, the impact of the SMEIP was to be measured by the contribution of the SME sector to GDP and the increase in SME sector employment. The impact indicators of the SMEIP (Tranche 1) were only partly achieved. In 2015, SME’s

38 Target groups for subsidy were entrepreneurs in one-factory towns, small towns and villages, and entrepreneurs in priority sectors of the economy and in manufacturing.


40 In view of the on-going implementation of Tranche 2 and 3, the CSPFR acknowledged that it is premature to conclusively rate the development impact of ADB’s finance sector operations.
contribution to GDP was T15.8 trillion, already exceeding the overall target of T10 trillion by 2018 for the MFF (covering the three tranches). While it is difficult to determine the project's contribution to this growth, the financing of 7,421 subprojects indicate an incremental contribution to these results.

35. SME employment grew by 6% from the baseline of 2.29 million persons in 2009 to 2.43 million in 2011, slightly less than the 2.5 million target. However, if 2010 is taken as the baseline (2.63 million) to take into account the 1 year implementation delay, employment decreased by 2.3% between 2010 and 2013 even though Tranche 1 generated 2,522 new jobs. A survey of sample SMEs showed increased employment of full-time staff from an average of 29 employees to 39 employees. This indicates that on average, SMEs were able to generate new jobs after borrowing. However, employment of part-time workers remained the same at an average of 3 workers before and after borrowing. As of end 2015, the number of people employed with SMEs was 3.1 million. The overall target of the MFF for the three tranches was 3.5 million people employed by SMEs by 2018. It is still premature to make an assessment on the achievability of this target as the two tranches are still ongoing.

36. In terms of the other impacts, the SMEIP mainstreamed access of women to SME financing with 32% women entrepreneurs borrowers for the three tranches. The capacity of PFIs to comply with social and environmental safeguards was strengthened as indicated by their compliance with the requirements. The project also helped increase the capacity of the Damu to lend to SMEs, which contributed to Damu receiving an investment-grade rating. The SMEIP improved the cash position of participating banks because of upfront disbursement of the funds from the Damu. The exchange rate risk transferred to the balance sheet of the NBRK instead of the government was an unintended impact of the project.

37. The expected impact of the ongoing TA, Enhancing Insurance Market Efficiency and Outreach, was achievement of a greater outreach of insurance, as measured by insurance penetration and insurance density. Two performance indicators will measure the expected impact: (i) increase insurance penetration to 1% of GDP by 2019 (baseline 2013: 0.67%), and (ii) increase insurance density to $80 per capita by 2019 (baseline 2013: $60). In 2015, insurance premiums to GDP were 0.7% and insurance density was $67.4 per capita. Currency devaluation had a negative impact on the insurance premium density that is measured in dollars and the deterioration of the macroeconomic environment.

38. It is still premature to have a conclusive rating on the development impact of the ADB’s finance sector operations because Tranche 2 and 3 are still on-going as well as the TA on the insurance sector. In validation’s view, the development impact in the finance sector is likely less satisfactory because of partly achieved impact indicators under the SMEIP.

E. Other Assessments

39. ADB performance. The PCR did not rate ADB’s performance, however, it noted that during the 22 months of Tranche 1 implementation, ADB conducted an inception review, a midterm review, and a review mission. Video conferences were held to address outstanding issues, namely slow initial disbursement and audit requirements.

40. PFIs under the SMEIP MFF expressed their appreciation of ADB’s assistance and indicated that the ADB loan provided added value to their SME operations. First, unlike state programs that limit the scope of sectors depending on the government’s priorities, the loans under the MFF have no restrictions on the sector provided with financing. Second, the ADB loan provides a lower cost of fund compared to other sources. Third, the loan addresses the lack of medium term financing for SMEs.

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41 Data for 2015 from the National Statistics Committee.
Fourth, the assistance provided by ADB on the adoption of social and environmental safeguards was considered very helpful. The PFIs and Damu reported that ADB has been responsive to the issues encountered by the program. Likewise, the NBRK expressed appreciation for ADB’s assistance in improving its supervisory capacity. The performance of ADB is rated *satisfactory*.

41. **Borrower performance.** The PCR did not rate the borrower’s performance. Damu followed the agreed design in implementing the program. It established a system for regular monitoring of program performance and closely coordinated with PFIs. Loan covenants were satisfactorily complied with. As executing agency, Damu demonstrated adequate institutional capacity to effectively implement the program. The performance of Damu is rated *satisfactory*.

**F. Overall Rating**

42. Based on the above assessments, the validation rates the finance and SME sector program *less than relevant, less than effective, efficient, less likely sustainable, and less than satisfactory development impact.* Therefore, the program is rated *less than successful* with an overall score of 1.2 (Table 5). The CPSFR rated the finance and SME program *relevant, effective, efficient, likely sustainable and likely less than satisfactory impact* with an overall score of 1.8, or *successful*.

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<th>Table 5. Finance and Small and Medium Enterprise Rating</th>
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<td><strong>Criterion</strong></td>
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<td>Relevance</td>
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<td>Development Impacts</td>
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<tr>
<td>Overall Score</td>
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<td>Overall Rating</td>
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43. **Issues.** Outreach of the MFF is small and limited in depth with only 1,536 SMEs using a $500 million facility for onlending. Further, the increasing trend in average loan size from T70.1 million in Tranche 1 to T140.2 million in Tranche 3 suggest that PFIs lending tended to be oriented towards larger loans, thus less outreach to smaller SMEs. The use of funds for credit lines stimulates lending to the sector but, without adequate institutional capacity building and an appropriate enabling environment,
it will not meet long-term development needs. The policy and legal environment as well as the capacity of institutions also need to be addressed to develop further the SME and finance sector.

44. **Lessons.** The PCR for SMEIP (Tranche 1) identified five lessons. First, there is need for PFiS to adopt a minimal environmental and social management system to meet categorization requirements and capacity building for safeguards, which is crucial in the credit decision-making process and to the sustainability of results. Second, for Damu to be financially self-sufficient, it should have priced its loans to PFiS according to risk. Third, while up-front disbursement of the whole loan amount to PFiS helped avoid problems in the financing of subprojects, it limited the ability to reward better-performing PFiS. Fourth, a key success factor in lending to SMEs was the selection of PFiS that had strategic commitment to SMEs, and adequate capacity and technical expertise. Fifth, the performance indicators of the DMF should have been more accurate, better defined, and aligned with the stated impact and outcome. This validation concurs with these lessons.

45. Validation adds that, as in Tranche 1, TAs for capacity development should have supported Tranche 2 and Tranche 3 to assist PFiS in improving their products, strengthening credit risk assessment, expanding outreach and reaching the lower segment of the market. Also, the design could have benefited from a covenant requiring PFiS to mobilize domestic resources to match ADB’s financing of SME portfolios. This could have enhanced the PFiS internal resources and improved the project’s impact. Other constraints to SME financing identified at appraisal should been addressed and incorporated in the design.

46. **Recommendations.** In view of Kazakhstan’s fragile and narrow financial system, the CPSFR recommended that Kazakhstan’s financial system be developed further to fulfill its financial intermediary function of supporting the development of the private sector. Comprehensive reforms and support are necessary to avoid stalling private sector growth because of lack of access to finance. This validation supports this recommendation.

47. Validation recommends that ADB continue supporting the SME sector. The government has prioritized support for the sector and there is strong demand for SME financing. ADB’s support could be broadened to include building the capacity of SMEs and participating financial institutions and assistance in developing the enabling environment for sustainable growth and expansion of SMEs. ADB has established good professional relationships with Damu and the PFiS and could leverage these relationships going forward.

48. In view of the limited scale and depth of outreach, ADB should also support enterprises at the lower segment of sector, particularly microbusinesses. This suggests selecting the appropriate institutions for delivering the financial services and also building their capacities to do so. Further, clear mechanisms need to be set in place to ensure participation of the lower segment of enterprises.
### ASSESSMENT OF THE FINANCE AND SME SECTOR OPERATIONS

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<tr>
<td>Loan 2689: Small and Medium Enterprise Investment Program – Tranche 1</td>
<td><strong>Impact:</strong> Sustained job creation and economic growth. <strong>By 2011</strong> [2009 baseline]: <strong>Indicator 1:</strong> increase in SME sector’s contribution to GDP from T2,683 billion to T3,500 billion. <strong>Indicator 2:</strong> Increase in SME sector employment from 2.088 million to 2.5 million. The PCR states that the 2014 figures show sustained growth in both indicators.</td>
<td>PCR rated the project’s overall impact <strong>partly achieved.</strong> <strong>Indicator 1: Achieved.</strong> SME output (value added to GDP) grew by almost 100% from T3,010 billion in 2009 (T4,490 billion in 2010) to T5,961 billion in 2013. From 2010 to 2013, it grew by 33%, from T4,494 billion in 2010 to T5,961 billion in 2013. <strong>Indicator 2: Partly achieved.</strong> Employment grew 12% from 2.29 million persons in 2009 to 2.57 million in 2013. However, with 2010 as the baseline (to account for the one year delay in implementation) SME employment decreased slightly from 2.63 to 2.57 million from 2010 to 2013.</td>
<td>Same as above (Loan 3093). Validation confirms that the expected outcome of Tranche 1 to increase access by SMEs to medium-term credit on a sustainable basis was partly achieved. The MFF increased lending of Damu and the participating financial institutions to SMEs during the period of domestic banking crisis and made credit available. However, outreach is small and limited in depth and the increasing trend in average loan size from Tranche 1 to Tranche 3 suggests that participating financial institutions lending tends to be oriented towards larger loans, thus less outreach to smaller SMEs. A greater focus on smaller SMEs is needed to promote economic diversity and poverty reduction. The funds for Tranche 1 and Tranche 2 were efficiently utilized. Disbursements by participating financial institutions of funds from Tranche 3 are expected to</td>
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<tr>
<td>• Approval Date: 4 Nov 10</td>
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<td>• Closing Date: 27 Jun 14 (PCR – Sep 2015)</td>
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<td>• Amount ($ Million)</td>
<td><strong>Outcome:</strong> Increased access of SMEs to medium-term credit on a sustainable basis. <strong>Status at Completion:</strong> Overall, <strong>partly achieved.</strong> <strong>Indicator 1:</strong> By 2011, increase in total number of SME loan accounts from 116,556 in 2009 to <strong>145,249.</strong> <strong>Indicator 2:</strong> Outstanding SME loans to increase from T1.708 billion in 2009 to T2.129 billion in 2011.</td>
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<td><strong>NOTE:</strong> The CPSFR used indicator 1 with an updated target. <strong>Indicator 1:</strong> SME loan accounts increase to 160,290 in 2012 from 116,556 in 2009. <strong>Assessment: Partly achieved.</strong> Using as proxy to calculate this indicator, only the amount of lending by the banking sector to small businesses (NBK data) and the average loan size of Damu’s programs, the number of loan accounts increased from 30,331 in 2010 to 32,649 in 2013. That is, slightly over 2,300 accounts in 3 years. Though the target was not achieved, it should be noted that it refers to the overall banking sector and cannot be exclusively attributed to the results of the project.</td>
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<td><strong>Assessment of Indicator 2:</strong> Lending to small businesses decreased from T1.384 billion in 2010 to T1.283 billion in 2013. These figures reflect only lending to small businesses.</td>
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<td><strong>Output 1:</strong> Increased SME lending by the three PFIs* <strong>Indicator:</strong> Number of SME loans disbursed by the PFIs*</td>
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<td><strong>Note:</strong> Output 1 was stated differently by the CPSFR compared to what was in the DMF attached to the PCR, although the indicator</td>
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<td><strong>Output 2</strong>: Improved capacity of Damu to provide sustainable access to finance for SMEs.</td>
<td><strong>Indicator 1</strong>: Damu adopts streamlined business processes and procedures.</td>
<td><strong>Output 1</strong>: Medium-term financing to SMEs. <strong>Assessment</strong>: <em>Achieved</em>. On a cumulative basis, the PFIs provided T33.4 billion in SME subloans (which includes recycling of the original loan allocation). The funds were disbursed through 2,474 loans that generated 1,604 jobs. PFIs report moderate NPLs in ADB’s funded portfolio, which shows that most of the borrowing by these SMEs is viable, sustainable, and likely to continue expanding and creating further employment.</td>
<td>increase as conditions in the financial markets improve.</td>
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<td><strong>Indicator 2</strong>: Number of Damu staff trained. <strong>(Note): No numeric target and timeline.</strong></td>
<td><strong>Output 3</strong>: Financial sector outreach with a focus on women entrepreneurs. <strong>Indicator</strong>: Increase in the number of women entrepreneur borrowers under Damu programs from 16% of loans in 2009 to 20% in 2011.</td>
<td><strong>Output 2, Indicator 1</strong>: <em>Achieved</em>. Between 2012 and 2013 Damu streamlined its business processes, approving over 10 changes in its risk-management practices and 8 reforms in its corporate governance.</td>
<td>Banks established revolving funds financed by loans from the MFF investment program, however, the Tranche 1 project did not address shortcomings in the secured transaction framework, leasing market, and the local bond market, issues that could affect sustainability. Swaps arrangements did not work as expected and were abandoned under subsequent tranches of the MFF as market conditions worsened after the 2014 devaluation of the tenge.</td>
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<tr>
<td><strong>Output 2, Indicator 2</strong>: Achieved. Over 250 Damu staff and bank credit officers in 16 oblasts (regions) were trained in SME credit-risk assessment.</td>
<td><strong>Output 3 Assessment</strong>: <em>Achieved</em>. The number of women entrepreneur borrowers under Damu’s programs reached 30.5% in September 2013.</td>
<td><strong>PCR rated the project less than effective.</strong></td>
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<tr>
<td><strong>Output 3 Assessment</strong>: <em>Achieved</em>. The number of women entrepreneur borrowers under Damu’s programs reached 30.5% in September 2013.</td>
<td><strong>Sustainability</strong>: Damu relies on government equity and funding, hence, has to be ensured. Improvements in its internal capacities and credit rating could potentially allow it to raise funds directly from local and international capital markets in the future, once the macroeconomic situation stabilizes. However, in February 2015, KAZ credit rating was downgraded to BBB with a negative outlook, reflecting Kazakhstan’s foreign and local currency sovereign credit ratings downgrade. <strong>PCR rated the project likely sustainable.</strong></td>
<td>Funding from the MFF contributed to Damu’s</td>
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**Loan 3093**: Small and Medium  
**Impact**: Sustained job creation and economic growth. **By 2018** [2009 baseline]:  
**Not assessed.**
<table>
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<tr>
<th>Basic Project Information</th>
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| Enterprise Investment Program - Tranche 2 | **Indicator 1**: SME sector's contribution to GDP doubled (baseline: T5.4 trillion).  
**Indicator 2**: SME sector employment increased to 3.5 million (baseline: 2.1 million).  
**Outcome**: Increased access of SMEs to medium-term credit on a sustainable basis.  
By **2015** [2013 baseline]:  
**Indicator**: SME lending under Damu programs increased to T800 billion (baseline: T750 billion)  
**Output 1**: Medium-term financing to SMEs.  
**Output 2**: Improved financial outreach with a focus on women entrepreneurs.  
**Output 2**: Medium-term financing to SMEs. | Increased lending to SMEs. The total outreach for the three tranches was 1,536 borrowers, which was significantly small relative to the 1.3 million active SMEs in the country. The program could have done more in increasing the outreach considering the $500 million available under the MFF. Women's SMEs reached by the program was 32%, which met the target for the share of women borrowers under the program. |
| **Approval Date**: 13 Dec 13  
**Closing Date**: 28 Jun 16  
**Amount ($ Million)**:  
- Approved: 122.0  
- Actual: 122.0  
**EA/IA**:  
- EA: Damu Entrepreneurship Development Fund  
- IAs: Participating Financial Institutions | As of 01 Oct 2015 (as per DAMU's biannual progress report), this indicator had reached T1,148.6 billion, above the required target.  
**Output 1, Indicator 1**: As of 01 Oct 2015, there were 309 SME borrowers enlisted under Tranche 2.  
**Output 1, Indicator 2**: As of 01 Oct 2015, T18.41 billion has been disbursed to SMEs under the program. This is close to the target of T20 billion difference.  
**Output 1, Indicator 3**: As of 01 Oct 2015, percentage share of women SMEs is 33%.  
**Output 1, Indicator 4**: was not assessed. | |
| **Outcome**: Increased access of SMEs to medium-term credit on a sustainable basis.  
By **2015** [2013 baseline]:  
**Indicator**: SME lending under Damu programs increased to T800 billion (baseline: T750 billion)  
**Output 1**: Medium-term financing to SMEs.  
**Output 2**: Improved financial outreach with a focus on women entrepreneurs.  
**Output 2**: Medium-term financing to SMEs.  
**Output 2**: Based on the biannual progress report as of 01 Oct 2015, share of applications from women entrepreneurs within Damu's programs:  
- conditional placement of funds: 39%,  
- subsidies: 28.9%,  
- partial guarantee: 33%.  
Damu and the PFIs had problems understanding and collecting data for the indicator. As such, measurement of progress is affected.  
**Efficiency**: As of 4Q 2015, Project is on track in terms of contract awards and disbursements Likely efficient (borderline) (with implementation delays) | |

The average loan size per borrower increased from T70.1 million ($473,369) in Tranche 1 to T89.9 million ($508,948) in Tranche 3. This indicates that participating financial institutions catered mainly to the mid and upper segment of SMEs that require larger loan amounts and had the collateral needed for security.

New jobs created by the program was 3,797, which was small relative to the T121.9 million that had been disbursed in loans to SMEs and the 3.1 million...
### Loan 3231: Small and Medium Enterprise Investment Program - Tranche 3

#### Basic Project Information
- **Approval Date:** 15 Dec 14
- **Closing Date:** 10 Nov 16
- **Amount ($ Million):**
  - Approved: 130.0
  - Actual: 130.0
- **EA/IA**
  - EA: Damu Entrepreneurs Development Fund
  - IAs: Participating Financial Institutions

#### Expected Impact, Outcome and Output

| Impact: Sustained job creation and economic growth. By 2018 [2009 baseline]: |
| Indicator 1: SME sector’s contribution to GDP doubled to T10.0 trillion (baseline: T5.4 trillion). |
| Indicator 2: SME sector employment increased to 3.5 million (baseline: 2.1 million). |

#### CPSFR Assessment
- Not assessed.

#### CPSFR Validation Assessment
- Same as above (Loan 3093).
- Disbursements by participating financial institutions of funds from Tranche 3 are expected to increase as conditions in the financial markets improve.

#### Outcome
- Increased access of SMEs to medium-term credit on a sustainable basis.

#### Indicator
- **Indicator:** By the end of 2016, SME lending under Damu programs increased to T1,042 billion (baseline: T750 billion in 2013, T917 billion in the first half of 2014).

#### Output 1
- Medium-term financing to SMEs. By 2016:
  - Indicator 1: number of new SME loan accounts opened by PFI s increased by 1,800 (baseline: zero).
  - Indicator 2: volume of SME loans by PFI s increased by T30 billion.
  - Indicator 3: at least 33% of PFI borrowers are women entrepreneurs (baseline: 33% in June 2014).

#### Output 2
- Improved financial sector outreach, with focus on women entrepreneurs and lending outside of the bigger cities. By 2016:
  - Indicator 1: at least 46% of businesses supported under Damu’s Business Development Services are women entrepreneurs (baseline: 46% in June 2014).
  - Indicator 2: at least 50% of the new lending goes outside the cities of Almaty and Astana (baseline: zero).

#### Indicators 1-3: Ongoing

#### Efficiency:
- As of 4Q 2015, Project is on track in terms of contract awards and disbursements. Likely efficient

### Loan 3261: Small and Medium Enterprise Investment Program

#### Impact: Sustained job creation and economic growth. By 2018 [2009 baseline]:
- Indicator 1: SME sector’s contribution to GDP reaches T10.0 trillion from T5.4 trillion.

#### CPSFR Assessment
- Not assessed.

#### CPSFR Validation Assessment
- Same as above (Loan 3231).
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<tbody>
<tr>
<td><strong>Program - Tranche 3</strong> (Additional Financing)</td>
<td><strong>Indicator 2</strong>: SME sector employment increased to 3.5 million from 2.1 million. <strong>Outcome</strong>: Increased access of SMEs to medium-term credit on a sustainable basis. <strong>By 2016</strong>: <strong>Indicator 1</strong>: the number of new SME loan accounts opened by PFIs reaches 3,100 (baseline: zero). <strong>Indicator 2</strong>: The volume of SME loans by PFIs increased by T50 billion. <strong>Indicator 3</strong>: the percentage share of borrowers that are women entrepreneurs maintained at 33% (baseline: 33% in June 2014). <strong>Output 1</strong>: Medium-term financing to SMEs. <strong>By 2016</strong>: <strong>Output 2</strong>: Improved financial sector outreach, with focus on women entrepreneurs.</td>
<td>Full disbursement was on 09 October 2015. Disbursements to SMEs ongoing.</td>
<td>No status reported <strong>Output 1, Indicator 3</strong> was not used in the CPSFR. <strong>Output 2, Indicators 1 and 2</strong>: No status reported <strong>Efficiency</strong>: Project has potential problem in terms of contract awards and disbursement.</td>
</tr>
</tbody>
</table>

<p>| TA 7634: Improving Capacity to Support SME Development | <strong>Note</strong>: Attached to Loan 2689. No DMF for the TA, thus no indicators. DMF prepared for the investment program and tranche 1 only. Impact, outcome and outputs were taken from the TCR. <strong>Impact</strong>: SME access to medium-term credit on a sustainable basis. <strong>Outcome</strong>: Improved efficiency and effectiveness of Damu. <strong>Output 1</strong>: Strengthen Damu’s corporate governance and internal processes. <strong>Output 2</strong>: Perform survey work to clarify ongoing constraints to SME development. | The TCR rated the TA <em>highly successful</em> since the TA exceeded its key objectives and activities. The TA outcome and outputs were achieved. Damu has streamlined its business processes, approving over 10 changes in its risk management practices and 8 reforms in its corporate governance. These include, a long-term corporate risk management strategy, changes to the functioning of the Assets and Liabilities Committee and an action plan to improve corporate governance and transparency. The number of women entrepreneur borrowers under Damu’s programs has also exceeded beyond the 24% target, from 16% of loans in 2009 to 30.5% in September 2013. | The TA support to Damu helped improve the efficiency of its businesses processes, including risk management practices. From an institutional aspect, TA support helped Damu receive its own credit rating, which allowed the agency potential access to other sources of financing. The changes and reforms improved its operating efficiency and contributed to Damu receiving an investment-grade credit |</p>
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<tr>
<td>Entrepreneurship Development Fund</td>
<td><strong>Output 3</strong>: Analyze and provide recommendations to improve and expand Damu’s SME programs, including programs with a focus on women’s entrepreneurship.</td>
<td>Damu received an investment-grade credit rating which will allow it to raise funds directly from local and international capital markets, one of the expected outputs of the entire multitranche financing facility SME program. Strengthening Damu’s efficiency and effectiveness would contribute to the intended impact of sustainable access to finance by SME, thereby creating employment.</td>
<td>rating, which was one of the expected outputs of the overall MFF facility.</td>
</tr>
</tbody>
</table>
| **TA 8738**: Enhancing Insurance Market Efficiency and Outreach | **Impact**: Greater outreach of insurance achieved.  
**Indicator 1**: By 2019, insurance penetration increased to 1.2% of GDP (baseline 2013: 0.8%).  
**Indicator 2**: insurance density increased to $120 per capita by 2019 (baseline 2013: $101). | The CPSFR used different targets for the two impact indicators:  
**Indicator 1**: insurance penetration increased to 1.0% of GDP by 2019 (baseline 2013: 0.67%)  
**Indicator 2**: insurance density increased to $80 per capita by 2019 (baseline 2013: $60)  
**Impact Assessment**: Development impact of the PATA would likely be **satisfactory** based on the progress of achieved outputs and outcomes. | The TA would give policy advice for developing the insurance subsector. It was expected to help improve the quality and efficiency of supervision of the insurance system and deepen insurance penetration through better product design and pricing. Assistance to enhance the capacity of the NBRK to implement and observe international insurance principles and standards is expected to help increase the efficiency of the insurance market and contribute to greater confidence and trust of market participants. The TA is likely to be effective. It is also likely efficient. Significant progress has been achieved. It has already delivered substantial outputs that will help strengthen the policy |
| **Outcome**: Strengthened policy and regulatory framework for insurance supervision and product design.  
**Indicator**: By November 2016, NBRK adopted at least three of the proposed regulatory changes. | Not assessed. | |
| **Output 1**: Risk-based supervision strengthened  
**Indicator 1**: Assessment of regulatory and market practices for risk-based supervision finalized by July 2015.  
**Indicator 2**: Draft regulations on risk-based supervision prepared by December 2015.  
**Indicator 3**: Manual for risk-based supervision disseminated by May 2016.  
**Output 2**: Reinsurance, and group and crossborder supervision improved.  
**Indicator 1**: Two thematic assessments on regulatory and market practices of reinsurance activities and group and cross-border supervision finalized by September 2015. | **Output 1**:  
**Status**: Completed.  
**Output 1, Indicator 1**: Assessed the existing policy and regulatory framework and compliance with international standards.  
**Output 1, Indicator 2**: Assisted in drafting revised regulations and legal acts, and presented recommendations on revisions to regulatory framework to NBRK and other stakeholders.  
**Output 1, Indicator 3**: Prepared a risk-based supervision internal guideline to complement the existing supervision manual. A market-wide stress test is targeted to be developed in June |
<table>
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<tr>
<th>Basic Project Information</th>
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<tr>
<td><strong>Indicator 2</strong>: Draft regulations on reinsurance and cross-border supervision prepared by March 2016. <strong>Indicator 3</strong>: Guidelines on reinsurance and cross-border supervision disseminated by September 2016. <strong>Output 3</strong>: NBRK staff capacity to regulate and supervise the insurance subsector improved. <strong>Indicator 1</strong>: At least 80% of NBRK staff assigned to insurance supervision trained by October 2016 (baseline: 0). <strong>Indicator 2</strong>: 80% of participants deemed training and knowledge products to be useful by October 2016 (baseline: 0).</td>
<td>2016, and a sensitivity test, standardized in July 2016. These two activities are tracked to be on time.</td>
<td>and regulatory framework for insurance supervision and product design. The TA succeeded in piloting an early warning system (EWS), a risk profiling tool, and developed risk-based supervision guidelines and mortality and disability tables. The EWS and profiling tool components have been completed and are entering the test phase as a supervisory tool for the NBRK. The risk-based supervision internal guidelines were completed. Training was conducted to build the capacity of NBRK in regulating and supervising the insurance subsector. The actuarial database for insurance produce design was strengthened with updated mortality and disability tables.</td>
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<td><strong>Output 4</strong>: Actuarial database for insurance product design strengthened. <strong>Indicator 1</strong>: Actuarial assessment of mandatory lines of insurance finalized by August 2015. <strong>Indicator 2</strong>: Updated mortality table finalized by December 2015. <strong>Indicator 3</strong>: Updated disability table finalized by December 2015. <strong>Indicator 4</strong>: At least 80% of actuaries registered with the Society of Actuaries of Kazakhstan trained by March 2016.</td>
<td>2013, and a sensitivity test, standardized in July 2016. These two activities are tracked to be on time.</td>
<td>and regulatory framework for insurance supervision and product design. The TA succeeded in piloting an early warning system (EWS), a risk profiling tool, and developed risk-based supervision guidelines and mortality and disability tables. The EWS and profiling tool components have been completed and are entering the test phase as a supervisory tool for the NBRK. The risk-based supervision internal guidelines were completed. Training was conducted to build the capacity of NBRK in regulating and supervising the insurance subsector. The actuarial database for insurance produce design was strengthened with updated mortality and disability tables.</td>
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<td><strong>Output 2</strong>: (Note: Output statement was modified when compared to the DMF attached to the TA paper): Reinsurance supervision improved. <strong>Status</strong>: Completed. <strong>Output 2, Indicator 1</strong>: Assessed compliance with relevant insurance core principles and standards, and identified gaps. <strong>Output 2, Indicator 2</strong>: Assisted in drafting and reviewing regulations. <strong>Output 2, Indicator 3</strong>: Prepared guidelines for reinsurance, and its cross-border supervision.</td>
<td></td>
<td>and regulatory framework for insurance supervision and product design. The TA succeeded in piloting an early warning system (EWS), a risk profiling tool, and developed risk-based supervision guidelines and mortality and disability tables. The EWS and profiling tool components have been completed and are entering the test phase as a supervisory tool for the NBRK. The risk-based supervision internal guidelines were completed. Training was conducted to build the capacity of NBRK in regulating and supervising the insurance subsector. The actuarial database for insurance produce design was strengthened with updated mortality and disability tables.</td>
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<td><strong>Output 3</strong>: Conducted needs assessment training for NBRK staff and insurance market participants in areas related to risk-based supervision, risk transfer, and group and cross-border supervision. Designed a capacity-building plan (including external training with regulators in other jurisdictions) for NBRK staff. The external training was converted into an actuarial school in Kazakhstan with the participation of external trainers with the NBRK agreement. Prepared training materials and manuals, delivered training, and conducted a post-training survey.</td>
<td></td>
<td>and regulatory framework for insurance supervision and product design. The TA succeeded in piloting an early warning system (EWS), a risk profiling tool, and developed risk-based supervision guidelines and mortality and disability tables. The EWS and profiling tool components have been completed and are entering the test phase as a supervisory tool for the NBRK. The risk-based supervision internal guidelines were completed. Training was conducted to build the capacity of NBRK in regulating and supervising the insurance subsector. The actuarial database for insurance produce design was strengthened with updated mortality and disability tables.</td>
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<td>Output 4: Completed.</td>
<td>that is measured in dollars.</td>
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<td>Output 4, Indicator 1: Reviewed premiums for compulsory insurance lines, assess appropriateness of databases, and provided recommendations. The mandatory workmen compensation and retirement annuity have been analyzed and new tables are in preparation.</td>
<td>The macroeconomic environment deteriorated which could delay reforms and public interest in insurance.</td>
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<td>Output 4, Indicators 2 &amp; 3: Revised mortality disability table. Reviewed existing risk assessment practices and recommended improvements to develop voluntary products.</td>
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<td>Output 4, Indicator 4: Trained actuaries.</td>
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<td>Remaining activities were replaced by the Solvency II QIS exercise, in agreement with NBRK. The exercise stands completed and the report will be submitted on schedule.</td>
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<td>The reserve calculations for workers’ compensation and annuity business have new regulation, which addresses general reserve calculation issues. This would be completed in July 2016 and is being tracked to be on time.</td>
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<td>Effectiveness:</td>
<td></td>
<td>Progress of achievement of outputs and outcome are considerable. PATA would likely be rated effective.</td>
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ADB = Asian Development Bank, CPSFR = country partnership strategy final review, DMF = design and monitoring framework, EA = executing agency, EIRR = economic internal rate of return, GDP = gross domestic product, IA = implementing agency, IED = Independent Evaluation Department, KAZ = Kazakhstan, M = million, MSME = micro, small and medium-sized enterprise, na = not applicable, NBRK = National Bank of the Republic of Kazakhstan, NPL = non-performing loan, PATA = policy and advisory technical assistance, PCR = project completion report, PFI = participating financial institution, QIS = Quantitative Impact Study, SME = small and medium-sized enterprise, T = tenge, TA = technical assistance, TCR = technical assistance completion report.

a The DMF for Tranche 1 had several editorial errors. One of them was the omission of a section on “outputs,” another was the omission of the first output (as covered by the DMF of the MFF) and its indicator, which is a key indicator to monitor performance of the project.

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

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