

SUMMARY POVERTY REDUCTION AND SOCIAL STRATEGY

Country:

Republic of Kazakhstan

 Project Title:

Supporting Financial Inclusion for Micro, Small, and Medium-Sized Enterprises Project

Lending/ Financing Modality:

Project loan

 Department/ Division:

Central and West Asia Department/ Public Management, Financial Sector, and Trade Division

I. POVERTY AND SOCIAL ANALYSIS AND STRATEGY

Targeting classification: general intervention

A. Links to the National Poverty Reduction and Inclusive Growth Strategy, and Country Partnership Strategy

The country partnership strategy, 2012–2016 of the Asian Development Bank (ADB) for Kazakhstan introduced a sharpened operational focus on two key areas to support diversification and industrial development: (i) modernizing infrastructure and utilities while seeking innovative and flexible solutions to narrow investments and viability gaps; and (ii) improving access to finance for micro, small, and medium-sized enterprises (MSMEs), and trade and investments in infrastructure through public–private partnerships. The main drivers of the strategy were: (i) institutional reforms and governance, (ii) private sector development, (iii) regional cooperation, (iv) environmental sustainability and climate change, and (v) gender equality. Two indicators in the sector results framework (as updated in the country operations business plan, 2016–2018) are of particular relevance to the project: (i) share of bank loans to small- and medium-sized enterprises (SMEs) increases to 20% of gross domestic product in 2017 (2011 baseline: 15%) and (ii) the proportion of loans going to women entrepreneurs under Damu Entrepreneurship Development Fund (Damu) programs increases to 24% of loans by 2017 (2013 baseline: 10%).

The Government of Kazakhstan recognizes the important role of MSMEs in job creation, economic diversification, and innovation. The State Roadmap for Business 2020 and the Strategy for Industrial and Innovative Development of Kazakhstan 2015–2019 provide the general policy framework to support SME development.^a MSME support has become an important priority in the government’s current countercyclical support measures, including the Nurly Zhol program. Limited access to finance for MSMEs was identified as a key constraint in the government’s 2050 development strategy.^b The strategy supports a stronger role for MSMEs in economic diversification.

B. Results from the Poverty and Social Analysis during Project Preparation or Due Diligence

1. Key poverty and social issues. The country’s strong economic growth between 2010 and 2013 reduced poverty to 2.8% in 2014 and the unemployment rate to 4.9%, before deteriorating slightly in 2015 as a result of the economic slowdown (with unemployment rising to 5% in December).^c However, spatial disparities persist (rural poverty was 4.7% against 1.4% in urban areas) and the current macroeconomic instability could add to poverty. MSMEs, including farmers, especially in the regions, will act as a buffer to such impacts by providing subsistence income and employment. A strong correlation exists between the poverty level and the employment status of the members and heads of households. The risk of household poverty increases where the head is unemployed, or where household members are mostly engaged in temporary or seasonal employment, or in unregistered small business activities (vulnerable employment). MSME development is important for poverty reduction because it allows economic diversification and provides relatively greater opportunities for employment of lower-income households.

2. Beneficiaries. The project will support sustainable MSMEs operating in areas outside the cities of Almaty and Astana. A gender action plan will help remove the constraints that women entrepreneurs face in obtaining formal finance; this will be done through eligible participating financial institutions (PFIs).

3. Impact channels. The loan will help provide MSMEs with access to funds for working capital and investment, and strengthen their entrepreneurial capacity, especially MSMEs located in the regions and those owned by women. Expanded access to finance for MSMEs contributes to economic development and diversification, and increases job opportunities. Under the proposed loan, microfinance institutions were added as PFIs, and special emphasis will be placed on helping banks downscale their lending to the smaller segments of the market. The maximum loan ceiling for microbusiness will be below \$50,000.

4. Other social and poverty issues. PFIs will be required to comply, and to require their borrowers to comply, with applicable safeguard and labor laws and regulations in line with ADB’s Safeguard Policy Statement (2009) and core labor standards.

5. Design features. The PFIs will aim to provide at least (i) \$50 million equivalent to women-owned businesses, (ii) at least 50% of the microloans and 33% of the SME loans to women-owned businesses; and (iii) \$120 million equivalent to MSMEs outside the cities of Astana and Almaty. In addition, the PFIs will track their overall loan disbursements to MSMEs disaggregated by region and sex, and will put in place measures (described in the

gender action plan) to support outreach to the regions and women. Technical assistance will support PFIs' downscaling efforts and lending to the target groups.

II. PARTICIPATION AND EMPOWERING THE POOR

1. **Participation.** During project design, a MSME survey and consultations with the stakeholders were undertaken to identify issues, collect impact data, and raise awareness about the project. During project implementation, project activities will be mainly financial transactions with limited scope for community participation. Damu Entrepreneurship Development Fund, the executing agency, will update potential clients on project progress through its regular channels and public awareness campaigns. The PFIs will be requested to implement at least one public awareness campaign on women entrepreneurship and bank products. A sample of customers will be interviewed during ADB project review missions.

2. **Civil society organizations.** ADB will seek adequate participation of civil society (business associations, women's organizations) in consultations during review missions.

3. The following forms of civil society organization participation are envisaged during project implementation, rated as high (H), medium (M), low (L), or not applicable (NA):

[M] Information gathering and sharing [L] Consultation [L] Collaboration [NA] Partnership

4. Participation plan.

Yes. No. – A project-specific participation plan is not required. PFI market research, marketing,

and feedback mechanisms will be reviewed and issues, if any, will be dealt with during review missions.

III. GENDER AND DEVELOPMENT

Gender mainstreaming category: effective gender mainstreaming

A. Key issues. MSME development is crucial for women's economic empowerment. Gender inequality is generally low in Kazakhstan, but differences persist mainly in the labor market.^d There is a 10 percentage point difference between men and women in labor force participation (78% vs 68%) and women represent 57% of the unemployed (2015). Many women look toward entrepreneurship as an employment- and income-generating opportunity. Women entrepreneurs tend to be informal or sole proprietorships and they tend to employ a higher proportion of women in their business.^e An ADB survey conducted in preparation for the project showed that the majority of women's MSMEs were microbusinesses (58%) with less than \$10,000 in annual turnover, and they tend to concentrate in services (34%), trade (33%), and manufacturing (20%), mainly food processing and manufacturing of garments. The same survey identified some socioeconomic factors that distinguish female entrepreneurs from their male colleagues: (i) a higher share of women were divorced, separated, or widowed; and (ii) women entrepreneurs were older (the majority of respondents were above age 50). Women entrepreneurs in rural areas face additional challenges because of lower coverage of childcare, and limited infrastructure for business support. High interest rates, the undervaluation of collateral by banks, and cumbersome paperwork procedures were common issues when accessing external finance. PFIs complain of the low quality of financial reporting by borrowers. Demand for finance is high and almost half of the surveyed people planned to request a loan from commercial banks or nonbank financial institutions to grow their businesses or start up new ventures.

The experience of previous ADB SME credit lines in Kazakhstan shows that PFIs conduct limited, if any, gender-based portfolio analysis, and in many cases their information systems do not have the functionalities to track these loans. Women were also observed to get fewer repeat loans than men. Damu (the executing agency) has a significant focus on women-owned businesses both through lending and nonlending programs, and in earlier projects met most of gender targets in terms of reaching out to female entrepreneurs or supporting lending to this group. Assessments done during project review missions detected the presence of women entrepreneurs in non-traditional sectors (such as managing medical centers, providing legal notary services, or running a printing shop with state-of-the-art digital equipment).

B. Key actions. The project will support women-owned businesses and promote equal opportunity. Women clients will receive access to affordable bank credits. The PFIs will implement measures to downscale operations to serve smaller borrowers, improve their risk management capacities, develop new product lines for women clients, and sensitize credit officers and managers to the special needs of women. All PFIs will be required to implement a gender action plan and gender strategies.

Gender action plan Other actions or measures No action or measure

The design and monitoring framework of the project requires at least (i) \$50 million equivalent allocated to funding for women-owned businesses; and (ii) at least 50% of the microloans and 33% of the SME loans to be to women-owned businesses. Damu's and PFIs' outreach campaigns are expected to ensure that women and men in rural and urban areas are informed equally about credit opportunities. The PFIs and Damu will be required to produce monitoring data to enable analysis of women's loan sizes, terms, and performance. The PFIs will be required to collect and provide Damu and ADB with the sex-disaggregated baseline of their current portfolio before the first disbursement of the project. The incremental growth target for each PFI will be set to meet project gender targets. Semiannual reports on implementation of the gender action plan will be required to be provided by all PFIs and DAMU.

IV. ADDRESSING SOCIAL SAFEGUARD ISSUES	
A. Involuntary Resettlement 1. Key impacts. Subloans will be provided only for business activities that do not involve any involuntary resettlement. 2. Strategy to manage the impacts. Loan assurances and covenants will ensure that no subloans will be provided for business activities that involve any involuntary resettlement. 3. Plan or other Actions.	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI-treated as C
<input checked="" type="checkbox"/> Environmental and social management system arrangement	
B. Indigenous Peoples 1. Key impacts. The proposed activities of beneficiary MSMEs are not expected to have any direct or indirect impacts on indigenous peoples, and do not trigger ADB's indigenous peoples policy requirements. Is broad community support triggered? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No 2. Strategy to address the impacts. – Not applicable. 3. Plan or other actions. <input checked="" type="checkbox"/> No action	Safeguard Category: <input type="checkbox"/> A <input type="checkbox"/> B <input type="checkbox"/> C <input checked="" type="checkbox"/> FI-treated as C
V. ADDRESSING OTHER SOCIAL RISKS	
A. Risks in the Labor Market	
1. Relevance of the project for the country's labor market is high over time, but the immediate impact of direct activities is low. The project is expected to have positive impacts only on the labor market. As part of the PFIs' environmental and social management systems, core labor standards will be disseminated and discussed with PFI borrowers for compliance. [M] unemployment [M] underemployment <input type="checkbox"/> retrenchment [L] core labor standards 2. Labor market impact. The loans to MSMEs will enable MSMEs to expand their operations and create jobs. Provisions in the loan and project agreements ensure that all the participating entities comply with national labor standards.	
B. Affordability	
Loan pricing should include a market-based interest rate that takes into account the cost of funds, administrative costs, and credit risk. A maximum interest rate for lending to small and medium-sized businesses equal to the sum of (i) half the central bank's policy rate and (ii) 8% has been established by the central bank as a condition to provide tenge funding for this project.	
C. Communicable Diseases and Other Social Risks	
1. The impact of the following risks are rated as high (H), medium (M), low (L), or not applicable (NA): (NA) Communicable diseases (NA) Human trafficking (NA) Others (please specify) _____ 2. Risks to people in project area. (NA)	
VI. MONITORING AND EVALUATION	
1. Targets and indicators. Performance targets include (i) \$25 million equivalent to women-owned businesses, (ii) at least 50% of the microloans and 33% of the SME loans to women-owned businesses; and (iii) \$120 million equivalent to MSMEs outside the cities of Astana and Almaty. The indicators also support the collecting, reporting, and analyzing of sex-disaggregated data. 2. Required human resources. Damu and the PFIs have established project management units with focal points for the project. 3. Information in the project administration manual. The manual includes monitoring, evaluation, and reporting requirements on indicators in the design and monitoring framework, and on gender and safeguard issues. 4. Monitoring tools. Monitoring will be done by Damu and each of the PFIs. Damu has a coordination role. Sex-disaggregated data will be collected on (i) number of borrowers, (ii) loan accounts opened, (iii) new jobs created, (iv) amount of loan, (v) purpose of loan, (vi) business sector, (vii) loan terms, and (viii) loan performance. Annual reviews and consultations on the social, gender, and participatory aspects of the project will be conducted.	

^a Government of Kazakhstan. 2015. *Roadmap for Business–2020*. Astana; Government of Kazakhstan. 2014. *State Program of Industrial and Innovative Development of the Republic of Kazakhstan 2015–2019*. Astana.

^b N. Nazarbayev. 2012. Strategy Kazakhstan 2050. (Speech delivered in Astana, 12 December 2012).

^c National Statistics Office of Kazakhstan.

^d Kazakhstan ranks 47th out of 145 countries in the Gender Gap Index 2015 (World Economic Forum, 2015).

^e Data from Damu's monitoring and information systems, covering all government SME programs and ADB's survey in preparation for the project. More than 80% of women's MSMEs have about 62% female employees.