

Project Administration Manual

Project Number: 49076-002
Loan Number(s): {LXXXX-KAZ}
October 2016

Republic of Kazakhstan: Supporting Resilience of Micro, Small, and Medium-Sized Enterprises Finance Project

Important Note: This Project Administration Manual is an active document. It will be updated and revised progressively as and when necessary during each review mission. The contents herein are intended to assist and facilitate project management and implementation. If there is any conflict with any other legal agreement(s) related to this project, the provisions in the legal agreements will prevail.

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Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential requirements for Damu, the executing agency (EA), and the participating financial institutions (PFIs) [Bank of Astana, Bank Center Credit, Bank Kassanova, Nurbank, Asia Credit Fund, Bereke and Kaz Micro Finance (KMF)] acting as implementing agencies to carry out the project in accordance with the loan, guarantee and project agreements between Damu, Ministry of Finance, the PFIs and the Asian Development Bank (ADB). The PAM provides relevant reporting requirements and instructions either through linkages to relevant URLs or direct reference.

Damu and the PFIs are wholly responsible for the implementation of the ADB-financed project, in accordance with the Loan and Project Agreements entered into by Damu, ADB and each PFI. ADB staff is responsible for supporting implementation including monitoring compliance by Damu and each PFI.

At loan negotiations, Damu, the PFIs, and ADB shall agree to the PAM and ensured consistency with the Loan and Project Agreements. Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan Agreement, the provisions of the Loan and Project Agreements shall prevail.

After ADB Board approval of the project, changes in implementation arrangements are subject to agreement and approval by Damu, the PFIs and ADB and upon such approval, such changes will be incorporated in the updated PAM.

Abbreviations

ADB	=	Asian Development Bank
CQS	=	consultant qualification selection method
Damu	=	Damu Entrepreneurship Development Fund
DMF	=	design and monitoring framework
EA	=	executing agency
EMR	=	environmental monitoring report
EMP	=	environmental management plan
ESMS	=	environmental and social management system
FIL	=	financial intermediation loan
FMA	=	financial management assessment
GAP	=	gender action plan
GDP	=	gross domestic product
IA	=	implementing agency
IARS	=	Imprest Account Reconciliation Statement
IDD	=	integrity due diligence
IFRS	=	International Financial Reporting Standards
MFO	=	microfinance organization
MNE	=	Ministry of National Economy
MOF	=	Ministry of Finance
MOJ	=	Ministry of Justice
MOU	=	memorandum of understanding
MSME	=	micro, small and medium-sized enterprise
NBK	=	National Bank of Kazakhstan
NPL	=	non-performing loan
PAM	=	project administration manual
PAR	=	portfolio at risk
PCB	=	participating commercial bank
PFI	=	participating financial institution
PIAL	=	Prohibited Investment Activities List
PMU	=	project management unit
PPMS	=	project performance monitoring system
PPR	=	project performance report
RRP	=	Report and Recommendation of the President
SME	=	small and medium-sized enterprise
SOE	=	statement of expenditure
SPS	=	Safeguards Policy Statement
TA	=	technical assistance
WA	=	withdrawal application

I. PROJECT DESCRIPTION

1. The proposed financial intermediation loan (FIL) of T72 billion (equivalent to \$200 million) will provide local currency credit to sustain operations of and employment by micro, small and medium-sized enterprises (MSMEs) during the current economic slowdown. Specifically, the loan will provide tenge funding to participating financial institutions (PFIs)¹ to provide investment and working capital loans to MSMEs. In addition, a \$0.5 million technical assistance (TA) will strengthen credit origination and management of selected PFIs to better serve MSMEs by expanding credit service outreach to the smaller borrowers and in the regions. The Asian Development Bank (ADB) loan will be provided to Damu Entrepreneurship Development Fund (Damu). Damu will relend the loan proceeds to qualified PFIs that meet selection criteria agreed with ADB, and pursuant to subsidiary loan agreements entered into between Damu and each PFI, on terms and conditions satisfactory to ADB. Each PFI will use the ADB loan proceeds to finance eligible subprojects as described in this project administration manual (PAM).

2. The project's impact will be a sustained contribution of MSMEs to Kazakhstan's gross domestic product (GDP), which is aligned with the government's objectives of supporting entrepreneurship and the contribution of MSMEs to the non-oil economy and employment under a challenging macro environment. The outcome will be that a sustainable provision of loans to MSMEs is maintained.

3. The project comprises the following outputs:

- (i) **Sustained financial inclusion.** The project will fund local currency loans through PFIs to provide working capital to MSMEs and enable productive investments by MSMEs, and incentivize lending to women entrepreneurs and regions outside Astana and Almaty.² The PFIs will aim to fund at least (a) \$50 million equivalent to women-owned businesses, with a third of the total number of subborrowers being women; and (b) \$120 million equivalent to eligible subborrowers outside the cities of Astana and Almaty.
- (ii) **Improved efficiency of PFIs lending to MSMEs.** The project will provide TA to improve credit risk management and efficiency of selected PFIs and to expand financing opportunities for MSMEs.

¹ PFIs include microfinance organizations (MFOs) and participating commercial banks (PCBs).

² The cumulative amount of financing provided to MSMEs is likely to exceed the ADB loan amount because the PFIs will utilize repaid subloan amounts to fund additional eligible subloans until the final maturity date of the Damu loans extended to PFIs.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities (assuming ADB Board approval on 31 October 2016)

Indicative Activities	2016			2017	Responsible Unit
	Oct	Nov	Dec	Jan	
ADB Board approval	▲				ADB
Government issues sovereign guarantee			▲		MNE, MOF
Loan, guarantee, and project agreements signing			▲		ADB, MOF, Damu, PFIs
Government legal opinion provided			▲		MNE, MOF, MOJ
Signing of subsidiary loan agreements between Damu and PFIs			▲		Damu, PFIs
Loan effectiveness				▲	ADB, Damu
First loan disbursement				▲	ADB, Damu, PFIs
Inception mission fielded				▲	ADB, MNE, Damu, PFIs

ADB = Asian Development Bank, MNE = Ministry of National Economy, MOF = Ministry of Finance, MOJ = Ministry of Justice, PFIs = participating financial institutions.

Source: Asian Development Bank.

B. Overall Project Implementation Plan

Indicative Activities	2017 (Quarter)				2018 (Quarter)				2019 (Quarter)			
	1	2	3	4	1	2	3	4	1	2	3	4
A. DMF												
Output 1: Financial inclusion sustained												
Activity 1.1: PFIs onlend to MSMEs	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲
Activity 1.2: Damu and PFIs implement outreach and other support activities to target groups (women entrepreneurs, lending outside the larger cities)	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲
Activity 1.3: PFIs provide monthly reports to Damu and quarterly and semiannual reports to ADB, including disbursements, financial performance of the PFI, safeguards, and development effectiveness results		▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲
Activity 1.4: Damu provides quarterly reports to ADB	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲
Output 2: Efficiency of PFIs lending to MSMEs improved												
Activity 2.1: Recruit consultants and finalize TA agreements with PFIs	▲											
Activity 2.2: PFIs participate in customized advisory programs to develop and improve lending to MSMEs		▲	▲	▲	▲	▲	▲	▲	▲			
Activity 2.3: Consultants provide business advice to PFIs on MSMEs lending technology											▲	
B. Project Management Activities												
Confirm project management unit at Damu and PFIs	▲											
Develop monitoring and reporting mechanisms	▲											
Prepare periodical reports, including gender action plan and environmental and social management system monitoring reports	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲	▲
Periodical audit review and review missions that monitor executing agency, and PFIs' performance	▲			▲			▲			▲		
Project completion report												▲

ADB = Asian Development Bank, DMF = design and monitoring framework, EA = executing agency, MSME = micro, small, and medium-sized enterprise, PFI = participating financial institution, TA = technical assistance.
Source: Asian Development Bank.

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations—Roles and Responsibilities

Project implementation organizations	Management Roles and Responsibilities
<ul style="list-style-type: none"> • Damu (Executing Agency) 	<ul style="list-style-type: none"> ➤ Executes subsidiary loan agreements with the PFIs ➤ Approves PFIs reimbursement requests and expenditures projections ➤ Monitors PFIs' compliance with loan conditions and achievements of disbursement targets and development effectiveness results ➤ Reports on a quarterly basis on disbursements and semi-annually on overall implementation progress until the repayment date of the loan ➤ Implements and monitors PFIs' compliance with Gender Action Plan (GAP)³ ➤ Submits semi-annual safeguards monitoring report ➤ Submits a project completion report to ADB within 6 months from project closing date
<ul style="list-style-type: none"> • PFIs (Implementing agencies) 	<ul style="list-style-type: none"> ➤ Carry out credit origination and monitoring of eligible subborrowers in line with sound banking practices ➤ Submit reimbursement request to Damu based on disbursements made for eligible subloans, to be used by Damu to request advance to imprest account ➤ Implement project, ensuring compliance with the eligibility criteria for subborrowers and subloans and with covenants in project agreement ➤ Establish environmental and social management systems (ESMS) and ensure that subborrowers comply with ADB's Safeguard Policy Statement ➤ Manage financial reporting and auditing of project-related activities and submit audit reports to ADB (through Damu) ➤ Implement GAP ➤ Provide all other required monitoring reports as described in monitoring section of this PAM
<ul style="list-style-type: none"> • Asian Development Bank (ADB) 	<ul style="list-style-type: none"> ➤ Monitors PFIs' compliance with project covenants ➤ Monitors achievements of the project's targets established in the design and monitoring framework and Damu and PFIs' compliance with covenants and safeguards as set out in loan and project agreements ➤ Conducts periodic field reviews of implementation ➤ Implements technical assistance (TA)⁴

³ See Section VIII of this Manual.

⁴ Refer to Section VI C (Technical Assistance) of this Manual.

B. Project Management Unit (PMU)

4. A PMU established within Damu for earlier ADB projects will manage the project and will closely coordinate with the PFIs. The PMU will implement the project on a daily basis and report on overall implementation progress and compliance with ADB's requirements and policies.

C. Key Persons Involved in Implementation

Executing Agency

Damu
Mr. Kanysh Tuleushin
Chair of the Damu
Telephone No.: +7 (727) 244 55 66 (77)
Email address: info@fund.kz

Implementing Agencies (Participating Financial Institutions)

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ADB

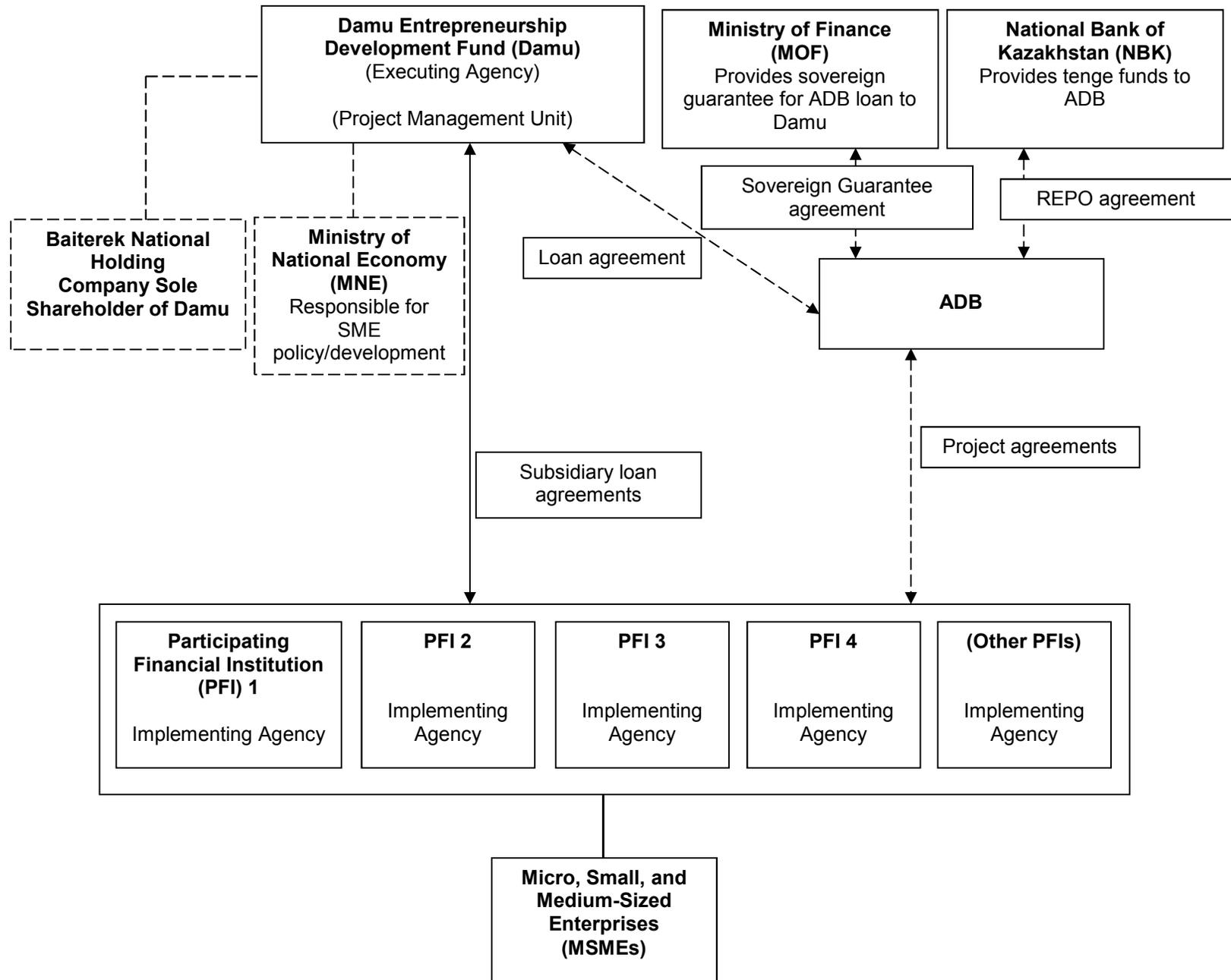
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D. Project Organization Structure



IV. COSTS AND FINANCING

A. Project Investment and Financing Plans

5. The project is estimated to cost \$240 million equivalent. The government requested a loan of T[72] billion (equivalent to \$200 million) from ADB's ordinary capital resources to help finance the project. ADB will provide tenge through an innovative funding facility with the National Bank of Kazakhstan (NBK) which will allow issuance of various repos to accommodate the PFIs demand for funding for MSMEs. Damu will be the borrower and the loan will be guaranteed by the Republic of Kazakhstan. The final maturity date of the loan will match the termination date of the NBK's liquidity facility. The loan will have (i) an interest rate equal to the sum of ADB's cost of funding⁵ and the contractual spread for sovereign guaranteed loans; (ii) a commitment charge of 0.15% per year on committed and undisbursed amounts commencing 60 calendar days after the date of the loan agreement; and (iii) such other terms and conditions set forth in the draft loan, guarantee and project agreements. The loan tenor will not exceed 42 months.

Table 1: Financing Plan⁶

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (loan)	200.0	83.3
Subborrowers (through equity contribution) ^a	40.0	16.7
Total	240.0	100.0

MSME = micro, small and medium-sized enterprise.

^a Subborrowers will contribute equity to the subprojects at a level consistent with market norms. Based on discussions with the PFIs, the average contribution is estimated at 16.7%.

Source: Asian Development Bank staff estimates, Damu, PFIs

6. Damu will relend ADB's loan proceeds in tenge to qualified PFIs that meet the selection criteria agreed with ADB, pursuant to a subsidiary loan agreement between Damu and each PFI, on terms and conditions satisfactory to ADB. The lending rate from Damu to the PFIs will reflect the cost of ADB funds plus the commitment charge plus a margin of 2%.

7. Each PFI will use the ADB loan proceeds to finance tenge sub-loans up to \$3 million equivalent to eligible MSMEs for investment and working capital purposes. For MFOs, the maximum sub-loan size will be determined by the regulations of the NBK.⁷ Subprojects will comply with Kazakh labor, environmental, health, safety, and social laws and regulations, as well as ADB's safeguard policies.⁸

8. The PFIs will bear the credit risk associated with their loans to MSMEs and shall independently determine their creditworthiness. However, the maximum onlending rate to small

⁵ 50% of the base interest rate published by the NBK as of the date of execution of the repo transaction, not less than 7% per annum, repriced quarterly.

⁶ Every \$1 of ADB subloan is expected to mobilize an average of an additional \$0.20 of business investment on the assumption that the banks will require eligible borrowers to provide on average 16.7% of a subproject's cost with equity. PFIs will have discretion to determine the subborrower equity contributions based on the nature of the credit risk. Although not part of the PFI's disbursements to subborrowers, the NBK requires the PFIs to hold \$0.075 of capital for each \$1 they lend under the project. The equity capital and loan loss reserves are the first defenses against any subborrower payment defaults and ensure that the PFIs are incentivized to lend to creditworthy clients.

⁷ At end 2015, this was 8,000 times the MCI, i.e. T17 million (equivalent to \$46,000).

⁸ ADB. 2009. *Safeguard Policy Statement*. Manila (para. 29). The safeguard policy statement is available at <https://www.adb.org/site/safeguards/policy-statement>.

and medium-sized sub-borrowers will not exceed the sum of (a) ADB's funding cost,⁹ and (b) 8%.¹⁰ This limit does not apply to loans of MFOs.

B. Allocation and Withdrawal of Loan Proceeds

1. Eligibility Criteria for Participating Financial Institutions

9. PFIs must satisfy prudential limits set by the NBK, and have business strategies that reflect strong track record and commitment to serving MSMEs, in particular in the regions and women business owners. The PFIs should have appropriate management and financial strength, and should be able to meet the objectives of the project and the reporting and accounting requirements described in this PAM. PFIs are also subject to integrity due diligence carried out by ADB and they have to meet ADB's environmental and social safeguard requirements.¹¹ The PFIs should also meet selected profitability and asset quality ratios as described in the paragraphs below. Prior to the first disbursement to each PFI they must establish an environmental and social management system (ESMS) that satisfies ADB's Safeguard Policy Statement 2009 (SPS, footnote 8) and have designated staff trained in implementing the ESMS to screen prospective subprojects.

10. Selected PFIs will enter into project agreements with ADB and subsidiary loan agreements with Damu. At the initial stage, four participating commercial banks or PCBs (Bank Center Credit, Bank of Astana, Kassa Nova, and Nurbank) and three microfinance organizations or MFOs (KMF, Asia Credit Fund and Bereke) have qualified as PFIs for the project. Additional PFIs may participate in the project, provided they meet these minimum requirements.

11. Damu shall monitor PFIs' compliance with the following eligibility criteria on a regular basis and will require the PFIs to submit to ADB and Damu a compliance certificate (in the form in Appendix 8) within 45 days following the end of each quarter. In the event of any non-compliance the PFI shall notify ADB through Damu. Eligibility requirements include:

- a) For participating commercial banks:
 - (i) comply with prudential regulations set and published by the NBK or have agreed plans with the NBK to meet such requirements, acceptable to ADB;
 - (ii) report profit after tax, or have an action plan to restore profitability, acceptable to ADB; and
 - (iii) have a ratio of net non-performing loans (NPLs) [defined as loans that are overdue over 90 days less loan loss reserves] to total regulatory capital (as reported to NBK) not exceeding 25%, or have an action plan to reduce this ratio to that level, acceptable to ADB.
- b) For microfinance organizations:
 - (i) comply with prudential regulations set and published by the NBK or have agreed plans with the NBK to meet such requirements, acceptable to ADB;
 - (ii) has a capital adequacy ratio (defined as the ratio of equity to total assets and calculated based on NBK's regulations) of no less than the higher of (A) 30% over the NBK prudential requirement or (B) 15%, or have an agreed action plan with ADB to increase such ratio to that level;

⁹ See footnote 5.

¹⁰ As of July 2016 this limit would be 15%.

¹¹ ADB. 2010. Anticorruption. *Operations Manual*. OM C5/OP. Manila. The operations manual is available at <https://www.adb.org/documents/operations-manual>.

- (iii) has a leverage ratio (defined as the ratio of total liabilities to equity and calculated based on NBK's regulations) not exceeding the NBK prudential requirement less 30%, or have an agreed action plan with ADB to reduce such ratio to that level;
- (iv) has a ratio of net portfolio at risk 30 days overdue (net of loan loss provisions) to equity not exceeding 10%, or have an action plan to reduce portfolio at risk (PAR) to that level, acceptable to ADB;
- (v) report profit after tax, or have an agreed action plan to restore profitability, acceptable to ADB; and
- (vi) have audited International Financial Reporting Standards (IFRS) financial statements for 2014 onwards.

2. Loan Proceeds Utilization

12. ADB loan proceeds will be used by qualified PFIs to extend new eligible subloans in tenge that meet the following conditions:

- (i) the subborrower is an MSME according to the definition in the Entrepreneurship Code of the Republic of Kazakhstan;¹²
- (ii) for investment or working capital purposes;
- (iii) retroactive financing will be permitted, up to a maximum of 20% of the loan amount, to finance eligible subloans made by the PFI on or after the approval date of the project by the ADB Board of Directors;
- (iv) the maximum exposure per subborrower is (i) up to \$3 million equivalent for SMEs; (ii) in the case of sub-loans to microenterprises through MFOs, the maximum size is determined by NBK regulations for microloans as in effect from time to time;¹³
- (v) activities comply with Kazakh labor, environmental, health, safety, and social laws and regulations, as well as ADB's safeguard policies; and
- (vi) activities included in the prohibited investment activities list (PIAL) set out in Appendix 4 of the ADB SPS (footnote 8) may not be financed.

13. The PFIs will aim to provide at least (i) \$50 million equivalent to women-owned businesses, with a third of the total number of subborrowers being women;¹⁴ and (ii) \$120 million equivalent to eligible subborrowers outside the cities of Astana and Almaty.

14. The PFIs have each been assigned a tentative allocation of ADB funds. However, withdrawals from the ADB loan will be contingent on each PFI's performance. Those PFIs that show better performance and are able to fully utilize their original allocations may be allocated additional funds from worse performing PFIs.

¹² The loan will use the definition established by the Entrepreneurship Code (2016) and the National Bank regulation for Microfinance Institutions. Businesses are classified by the number of employees and an annually adjusted turnover threshold. Microenterprises have annual sales of up to \$184,000 and less than 15 employees. A small business has less than 100 employees or up to \$1.8 million annual sales. Medium sized businesses have less than 250 employees or less than \$18.4 million annual sales. NBK defines microloans as those up to \$46,000 equivalent (end 2015).

¹³ In mid-2016, this was 8,000 times the Monthly Calculation Index set annually by the Budget law, i.e. T17 million (equivalent to \$46,000).

¹⁴ For MFOs, the expectation is that at least 50% of the borrowers are women.

Table 2: Tentative Allocation Table

Item	Total Amount Allocated	
	(\$ million)	ADB Financing (%)
Financing of Subloans- Bank of Astana	25.0	100.0
Financing of Subloans- Bank Center Credit	55.0	100.0
Financing of Subloans- Kassa Nova	13.0	100.0
Financing of Subloans- Nurbank	26.0	100.0
Financing of Subloans- KazMicroFinance	10.0	100.0
Financing of Subloans- AsiaCreditFund	0.5	100.0
Financing of Subloans- Bereke	0.5	100.0
Financing of Subloans- (to be allocated)	70.0	
Total	200.0	100.0

Source: Asian Development Bank staff estimates

C. Contract Awards and Disbursements

15. The projected contract awards and disbursements for the project are set forth in Table 3.

**Table 3: Contract Awards and Disbursements Projections
In USD Millions**

Year	Contract Awards (in USD million)					Disbursements (in USD million)						
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total		
2017	0	30	25	25	80	50	20	20	20	110		
2018	10	20	20	20	70	20	20	20	30	90		
2019	20	30			50					0		
Total	Contract Awards					200	Disbursements					200

**Figure 1: Contract Awards and Disbursements S-Curve
In USD**

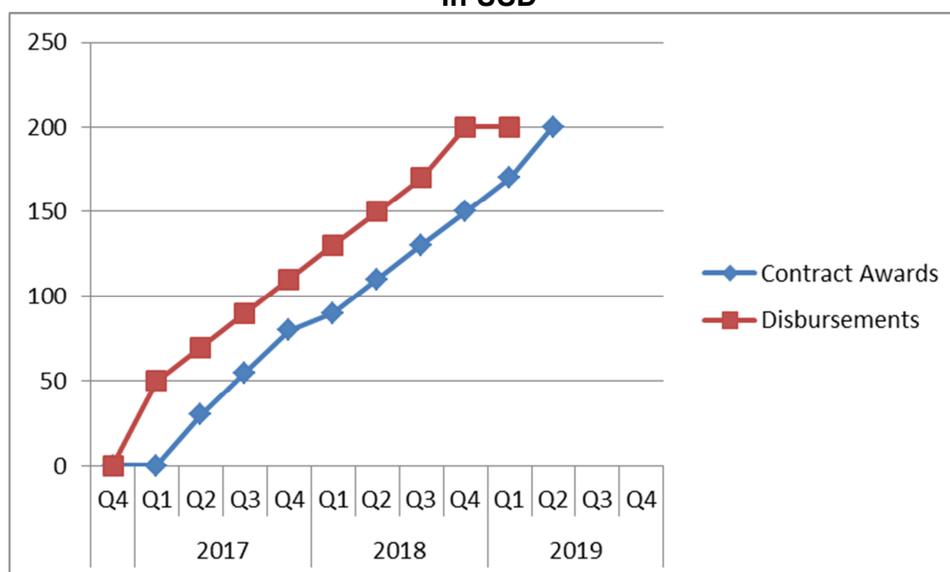
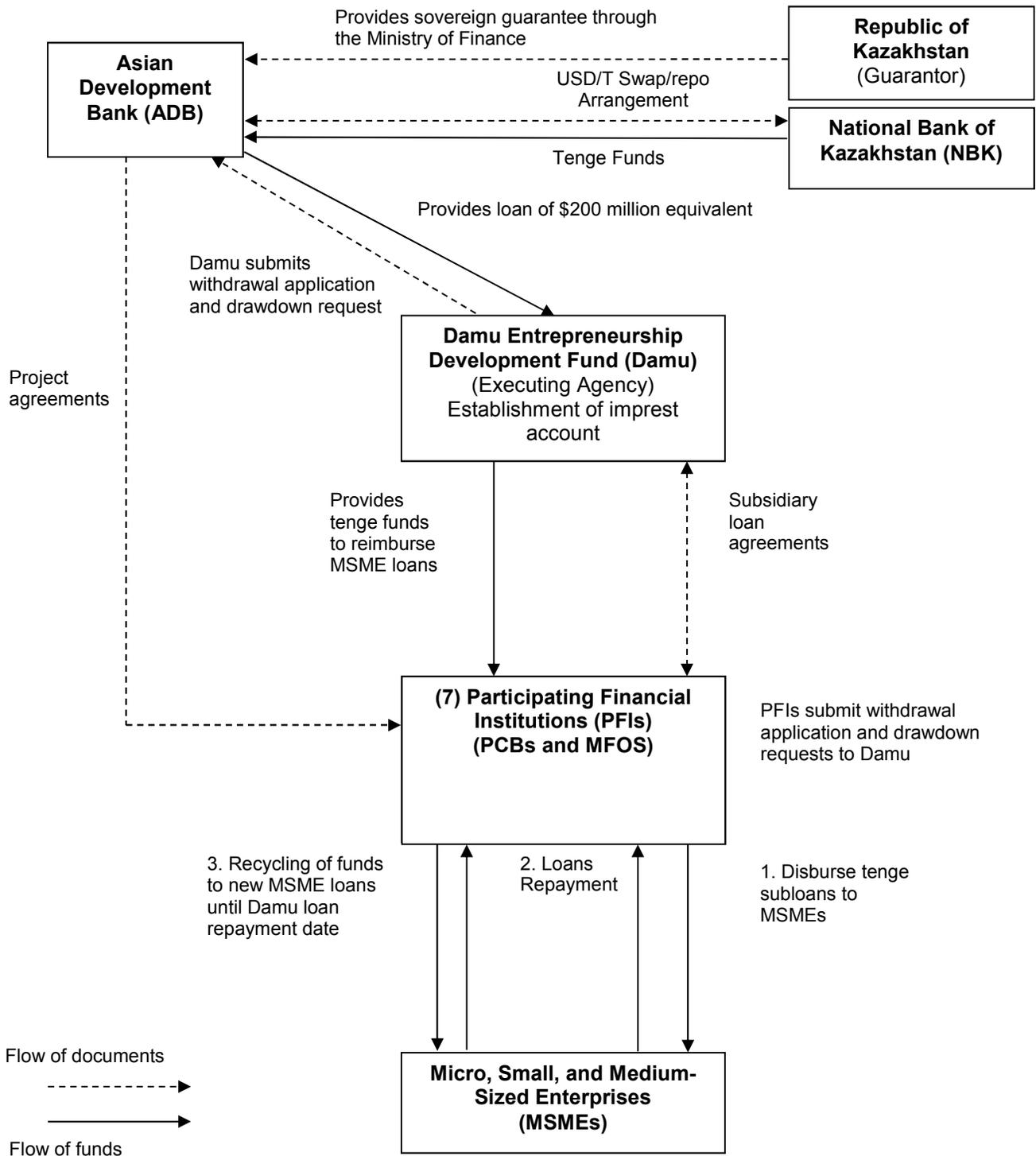


Figure 2: Funds and Documentation Flow Diagram



V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

16. A Financial Management Assessment (FMA) has been conducted on Damu and the PFIs in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects (2005)¹⁵ and Financial Management Assessment Technical Guidance Note (2015).¹⁶ The overall financial management risk for the project is assessed as moderate.

17. Damu has ample experience of managing similar projects both for ADB and other development partners. Damu has the necessary financial management arrangements—including procedures for making payments, accounting of transactions, financial reporting, auditing of financial statements, and internal control procedures—to avoid misuse or misappropriation of funds and assets. Overall, the risk level at Damu is assessed as moderate. The PFIs have mature financial management systems in place, and often have experience in handling credit line facilities from international financial institutions. An integrity due diligence (IDD) has been undertaken on the PCBs and MFOs and no major concern for disclosure has been identified.

18. The PFIs will maintain the following until the project completion date:
- (i) Prepare financial statements in accordance with IFRS;
 - (ii) An internal audit unit that reports to the audit committee of the supervisory board that includes at least one independent member;
 - (iii) Financial statements are audited by reputable internationally affiliated audit firms;
 - (iv) A dedicated credit risk management unit;
 - (v) Meet all prudential norms required by the NBK (or have agreed plans with the NBK to meet such requirements, acceptable to ADB);
 - (vi) For participating commercial banks:
 - a. report profit after tax, or have an action plan to restore profitability, acceptable to ADB; and
 - b. have a ratio of net NPLs [defined as loans that are overdue over 90 days less loan loss reserves] to total regulatory capital (as reported to NBK) not exceeding 25, or have an action plan to reduce this ratio to that level, acceptable to ADB.
 - (vii) For microfinance organizations:
 - a. has a capital adequacy ratio (defined as the ratio of equity to total assets and calculated based on NBK's regulations) of no less than the higher of (A) 30% over the NBK prudential requirement or (ii) 15%, or have an agreed action plan with ADB to increase such ratio to that level;
 - b. has a leverage ratio (defined as the ratio of total liabilities to equity and calculated based on NBK's regulations) not exceeding the NBK prudential requirement less 30%, or have an agreed action plan with ADB to reduce such ratio to that level; and
 - c. a net portfolio at risk 30 days overdue (net of loan loss provisions) to equity not exceeding 10%, or have an action plan to reduce PAR to that level, acceptable to ADB.

¹⁵ Available at <https://www.adb.org/documents/financial-management-and-analysis-projects>.

¹⁶ Available at <https://www.adb.org/sites/default/files/page/82468/financial-management-assessment.pdf>.

19. The overall financial management risk for the project is assessed as moderate, and should be understood in the context of country and sector risk for the Kazakhstan banking sector which is assessed as substantial. Compliance with eligibility criteria will be closely monitored during project implementation and prior to each disbursement.

20. The proposed time-bound financial management action plan is below.

Risk	Action	Responsibility	Timing
Internal control	Monitor financial health of PFIs, including compliance with eligibility requirements prior to any disbursements	ADB, Damu	Annually and during review missions
	Monitor prudential framework compliance of MFOs, which currently operate under a new regulatory environment	ADB	Annually and during review missions

B. Disbursement

21. Loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time),¹⁷ and detailed arrangements agreed upon between ADB and Damu and with each PFI. These arrangements will be included in the subsidiary loan agreements that Damu will sign with each PFI.

22. Damu will be responsible for preparing disbursement projections (based on the estimates to be provided by the PFIs), collecting and retaining supporting documents and sending withdrawal applications (WAs) to ADB, following ADB procedures.¹⁸ 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.

23. **Imprest fund procedure.** Disbursement procedures from ADB to Damu will be through the imprest fund procedure. Damu will establish a separate imprest account in tenge, and it will be managed and liquidated by Damu in accordance with the Loan Disbursement Handbook. The request for an initial advance to the imprest account should be accompanied by an Estimate of Expenditure Sheet¹⁹ setting out the estimated expenditures of up to the first six months of project implementation but not less than \$20 million equivalent. Additional advances to this account will be based on new Estimate of Expenditure Sheets reflecting estimated expenditures from the PFIs for up to the following 6 months (but not less than \$20 million). For every liquidation request of the imprest account, Damu will furnish to ADB (a) Statement of Account (bank statement) where the imprest account is maintained; and (b) the Imprest Account Reconciliation Statement (IARS) reconciling the above mentioned bank statement against

¹⁷ Available at http://www.adb.org/Documents/Handbooks/Loan_Disbursement/loan-disbursement-final.pdf

¹⁸ Available in Appendix 10A of the *Loan Disbursement Handbook*.

¹⁹ Available in Appendix 10B of the *Loan Disbursement Handbook*. The estimates of expenditure will be based on actual qualified subloans to MSME borrowers already made by the PFIs, for which reimbursement from Damu is being requested.

Damu's records.²⁰ The ADB project administering unit will be responsible for reviewing the reasonableness of the 6-month estimate.

24. Each PFI will issue subloans for eligible subprojects using its own funds and will submit a reimbursement request to Damu. Damu will verify compliance with subloans eligibility criteria (see para. 13) and PFIs eligibility criteria (see para. 12)²¹ and reimburse the PFIs from the imprest account. Damu will liquidate to ADB the initial advance using ADB's Statement of Expenditure procedure (see paras. 26-28). Damu can submit additional advance requests to ADB based on new estimate of subloans of the PFIs.

25. It is a condition for any reimbursement to each of the PFIs that such PFI has established an ESMS to the satisfaction of ADB and appointed designated staff trained in implementing the ESMS to screen prospective subprojects.

C. Liquidation

26. **Statement of expenditures (SOE) procedure.** The SOE procedure will be used to reimburse eligible expenditures or liquidate advances provided for individual payments for subloans under the imprest account. PFIs will ensure that supporting documents and records for the loan amounts claimed under the SOE procedure (including documentation supporting creditworthiness assessments of each subborrower) are maintained and made available for review by Damu and ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

27. For reimbursement, each PFI will submit to Damu at a minimum (i) a statement of expenditures indicating the list of approved loans (and other loan details) (Appendix 2); (ii) any other information and supporting documents, as necessary, to substantiate the reimbursements and (iii) the most recent compliance certificate with financial covenants (as in Appendix 8).

28. Damu will liquidate to ADB in accordance with ADB's Loan Disbursement Handbook (footnote 17). Damu will consolidate the liquidations made by the PFIs and submit to ADB (i) a withdrawal application for liquidation;²² (ii) a consolidated statement of expenditures;²³ (iii) an IARS; and (iv) a statement of account (bank statement) of the imprest account.

29. **Recycling of reflows from PFIs.** If MSME subloans are repaid to the PFIs prior to their repayment date to Damu, the PFIs will recycle those funds to issue new MSME loans that meet project requirements and eligibility criteria until loan maturity. Damu will monitor these disbursements through monthly reports received from the PFIs and report to ADB on a quarterly basis until loan repayment date. Recycled funds will include only loan principal repayment amounts. The PFIs will not need to maintain separate bank accounts to record first cycle and recycled funds. The PFIs shall record subloans funded by recycled funds separately from subloans financed through the first cycle funds in order to prepare project statement of utilization of funds (as described in para. 31 below and Appendix 4).

²⁰ Follow the format provided in Appendix 10C of the *Loan Disbursement Handbook*.

²¹ Damu can request the PFIs to issue regular compliance certificates signed by each PFI's representative. Compliance with financial covenants and eligibility criteria should be assessed prior to each reimbursement to each PFI.

²² Available in Appendix 10A of the *Loan Disbursement Handbook*.

²³ Available in Appendix 9C of the *Loan Disbursement Handbook*.

D. Accounting and Auditing

30. Damu and the PFIs will maintain separate project accounts²⁴ and records and will prepare an annual statement of utilization of funds (Appendix 4) related to the loans to the PFIs and subloans to MSMEs funded by the project. Project statement of utilization of funds will follow accounting laws and regulations consistent with international accounting principles and practices.

31. Damu will cause the consolidated statement of utilization of funds to be audited in accordance with international standards on auditing by an independent auditor acceptable to ADB. The requirements for this audit are included in Appendix 5. As part of this audit the audit report will include (a) the auditor's opinion on the consolidated Statement of Utilization of Funds, including SOE records and imprest fund procedure; and (b) a management letter setting out any deficiencies identified in the internal control of the project including Damu's monitoring of PFIs' performance. This audited statement of utilization of funds, audit report and management letter will be submitted in English to ADB within six months after the end of the fiscal year to which they relate.

32. Each PFI shall have their respective statement of utilization of funds to be audited in accordance with international standards on auditing by an independent auditor acceptable to ADB. The requirements for this audit are included in Appendix 6. As part of this audit, the audit report will include (a) the auditor's opinion on (i) the statement of utilization of funds; (ii) use of loan proceeds and (iii) compliance with financial covenants contained in the legal agreements for the project; and (b) a management letter setting out any deficiencies identified in the internal control of the project during the course of the audit. This audited statement of utilization of funds, audit report and management letter will be submitted in English to ADB (with copy to Damu) within six months after the end of the fiscal year to which they relate.

33. Damu and the PFIs shall enable ADB, upon ADB's request, to discuss the financial statements for the project and the PFIs financial performance with the auditors and shall authorize and require such auditors to participate in any such discussions.

34. Damu and the PFIs will also have their annual financial statements, prepared in accordance with IFRS, to be audited in accordance with international standards on auditing and with the Government's audit regulations by an independent auditor acceptable to ADB. The audited annual financial statements, together with the auditors' report, will be submitted in English to ADB within one month after their approval by the competent authority.

35. Compliance with financial reporting and auditing requirements will be subject to ADB's monitoring on and off-site, and includes meeting and communication with Damu, the PFIs and the external auditors.

36. Damu and the PFIs have been made aware of ADB's policy on delayed submission, and the requirements for satisfactory and acceptable quality of the audited accounts. ADB reserves the right to require a change in the auditor 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

²⁴ Project accounts here means the accounting code and subsidiary ledger used to record the loans. It does not refer to bank accounts. Imprest accounts and any bank accounts as pertaining to Damu are described separately under Section V B (Disbursements) of this manual.

substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

37. Public disclosure of the audit opinions and related statements of funds utilization will be guided by ADB's Public Communications Policy (2011).²⁵ After review, ADB will disclose the opinions on its website within 14 days of the date of ADB's acceptance. The auditors may not restrict the publication of their opinion. The audit management letter and Damu and the PFIs' annual audited financial statements will not be disclosed by ADB.

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting and Retroactive Financing

38. The amount of up to 20% of the loan can be used to finance eligible subloans made by the PFI on or after the approval date of the project by the ADB Board of Directors and prior to the loan effectiveness date.

B. Procurement of Goods, Works and Consulting Services

39. In accordance with the ADB Procurement Guidelines (2015, as amended from time to time)²⁶ section 3.12, the MSME subborrowers will carry out the procurement of goods and services funded under the loan in accordance with established private sector or commercial practices, which are acceptable to ADB.

40. Consultants will only be funded under the ADB technical assistance and be recruited according to ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).²⁷ Terms of reference are outlined in section C. Disbursements under the TA will be made in accordance with ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time).²⁸

41. An estimated 11 person-months of international consultants and 20 person-months of national consultants will be required. The consultants will be engaged through a firm using the consultant qualification selection method (CQS).

C. Technical Assistance: Outline of Terms of Reference for Consultants

42. A capacity development TA for Strengthening MSME Finance will help improve the credit risk management of selected PFIs and expand financing opportunities for MSMEs. ADB will engage with Damu and selected PFIs in providing customized solutions to upgrade PFIs' credit origination and management, and efficiency of service outreach to MSMEs. The TA output will be improved capacities of the PFIs to better serve micro, small, and medium-sized enterprises (MSMEs). To improve the sustainability of ADB's credit line, this TA will assist the PFIs in the following areas: (i) institutional development—including market analysis, organizational set up, introduction of new lending techniques, and product development and testing—to support banks in downscaling their lending operations to the smaller segments and development of new products for microfinance organizations; (ii) greater efficiency of the lending process and management of corporate governance and risk issues; and (iii) improvement of

²⁵ Available at <https://www.adb.org/documents/pcp-2011>.

²⁶ Available at <http://www.adb.org/documents/procurement-guidelines>.

²⁷ Available at <http://www.adb.org/documents/guidelines-use-consultants-asian-development-bank-and-its-borrowers>.

²⁸ Available at <http://www.adb.org/documents/technical-assistance-disbursement-handbook>.

internal audit functions. Given the limited TA resources, and to increase the impact of the intervention, the support will be provided individually to a limited number of PFIs. Two PFIs were selected based on the institutional needs assessment carried out during project processing.²⁹ Each PFI has confirmed that its top management (i) is committed to conducting business innovations that are scalable and have the potential to demonstrate improvements that will better serve the project's target groups (smaller businesses, rural areas, women entrepreneurs), and (ii) has put in place a project team and agrees to share at least 35% of the individual TA cost. Additional proposals from PFIs may be considered depending on availability of additional resources and provided they meet the above-mentioned requirements.

43. All experts under the TA will have the ability to effectively communicate with clients and their staff when analyzing, identifying solutions, and delivering related training. Fluency in English is required and Russian is desirable. Expertise required includes:

44. **Small business banking experts** (two international experts, for a total of 10.5 person-months; and one national, for 14 person-months). The consultants will have at least 15 years of MSME banking experience, including experience as a microfinance organization, bank, head of department, or branch manager. Experience in MSME lending in Kazakhstan is desired, and is definitely required in similar transition economies. The consultants will hold at least a bachelor's degree in finance, economics, or a related field. The consultants will (i) conduct market analysis for client segmentation and help design downscaling strategies for Nurbank and new product opportunities for small legal entities for ACF (including "green" products); (ii) conduct a diagnostic of Nurbank's organizational setup, policies, procedures, and products required to serve micro enterprises; (iii) provide recommendations and agree on an implementation plan; (iv) support and supervise Nurbank's execution of the plans—(a) setup of specialized micro-enterprise lending unit(s); (b) development of credit underwriting policies; (c) design of incentive-based pay schemes for the loan officers; and (d) adaptation of management information and monitoring systems. The consultants will also support ACF to (i) develop credit risk assessment policies and procedures; (ii) develop risk-based pricing methodology; and (iii) train ACF's staff.

45. **Internal Audit Specialist** (one international for 1.5 person-months; and one national, for 6 person-months). The consultants will have at least 15 years of experience in internal controls, risk management and internal audit in a bank or a large microfinance organization. For international expert, experience in Kazakhstan is desired. For the national expert, experience in working with international organizations will be valued. The consultants will support ACF (i) in reviewing internal control and audit practices and identify gaps against best practices; and (ii) in improving practices, staff capabilities and risk-analysis automation, including identification of suitable technical solutions.

²⁹ ADB. 2015. *Technical Assistance to Kazakhstan for Micro, Small, and Medium-Sized Development*. Manila.

VII. SAFEGUARDS

46. Pursuant to ADB's SPS (footnote 8), this project has been categorized as financial intermediary (FI) with respect to environment safeguards, and FI (treated as C) in relation to involuntary resettlement and indigenous people.³⁰ The activities financed under the MSME loans made by the PFIs 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 any of the activities listed in the ADB PIAL set out in Appendix 5 of the SPS;
- (iv) not have environmental impacts, which can be categorized:
 - for PCBs, as Category A (significant environmental impacts), and within the meaning of the SPS; and
 - for MFOs, as Category B (site-specific environmental impact) or Category A (significant environmental impacts) not involve any involuntary resettlement or adverse impact on indigenous peoples; and
 - not be carried out in disputed areas.³¹
- (v) not involve any involuntary resettlement impacts and impacts on indigenous people.

47. 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. MFOs will establish a very basic ESMS enabling screening against the PIAL. It is a condition for disbursement to each PFI that they have an ESMS satisfactory to ADB and have appointed designated staff trained in implementing the ESMS to screen prospective subprojects.

48. Damu will prepare and submit to ADB semi-annual environmental monitoring reports on ESMS implementation based on PFI reports. Sample PFI's subprojects will be checked during review missions. Damu will appoint a focal person to oversee operation of the PFI's ESMS. ADB's environment specialist will supervise and support the project implementation.

49. The responsibilities of the parties under the project are as follows:

1. MSMEs:

50. During project implementation:

- (i) Ensure compliance with all requirements of Kazakhstan's environmental, health, safety, and social safeguard laws and regulations;
- (ii) Ensure that none of the subprojects have any involuntary resettlement impacts;
- (iii) Provide information to PCBs and MFOs to prepare environmental screening checklists and categorize subprojects;
- (iv) In case of Category B subprojects appoint or hire an environmental specialist to prepare an Environmental Management Plan (EMP) in accordance with ADB SPS;

³⁰ 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>

³¹ Disputed areas are geographic areas that are claimed by more than one country.

- (v) Ensure that the EMP, 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;
- (vi) Provide awareness training in environmental management for all employees working on the subproject;
- (vii) Ensure that meaningful public consultation, including information about Grievance Redress Mechanism, be undertaken with affected groups and local NGOs as per requirement of the national legislation; and
- (viii) For category B projects submit the EMP to the PFI as part of the approval of subproject.

2. PCBs:

- 51. Prior to the effectiveness and first disbursement on the project:
 - (i) Establish the ESMS satisfactory to ADB and have appointed designated staff trained in implementing the ESMS to screen prospective subprojects.
- 52. During project implementation:
 - (i) Prepare environmental and social screening checklists and categorize subprojects in close coordination with MSMEs;
 - (ii) Ensure that none of the subprojects have any involuntary resettlement impacts;
 - (iii) Ensure that the MSME obtained all regulatory clearances required by national environmental and health legislation before starting the subproject;
 - (iv) Prepare and submit to Damu and ADB a semi-annual environmental monitoring report reflecting implementation of EMPs on SMEs subprojects;
 - (v) 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
 - (vi) Submit semi-annual Environmental Monitoring Reports (EMRs) to Damu.

3. MFOs:

- 53. During project implementation:
 - (i) Prepare environmental and social screening checklists and categorize subprojects in close coordination with MSMEs;
 - (ii) Ensure that none of the subprojects have any involuntary resettlement impacts;
 - (iii) 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 MSME.

4. Damu:

- 54. During project implementation:
 - (i) Oversee implementation of the ESMS;
 - (ii) Ensure that none of the subprojects have any involuntary resettlement impacts;
 - (iii) In case of unpredicted environmental impacts occurring during subproject implementation, immediately notify ADB; and
 - (iv) Reviews PFI's EMRs and send feedback to the PFIs.
 - (v) Ensure that all subprojects have no involuntary resettlement impacts.
 - (vi) Submit finalized EMRs to ADB for review and disclosure.

5. ADB:

55. Prior to declaring the disbursement to each PFI:
- (i) Ensure that PFI's ESMSs are satisfactory to ADB and PFIs have appointed staff trained in implementing the ESMS to screen prospective subprojects.
56. During project implementation:
- (i) Ensure that operation of PFI's ESMSs is satisfactory during routine (annual) audits;
 - (ii) Review and disclose environmental monitoring reports on the ADB website; and
 - (iii) Provide assistance to PFIs, if required, in carrying out its responsibilities and safeguard capacity building.
57. **Grievance redress mechanism.** Each PFI will work closely with Damu to establish, before any loan disbursements, a MSME 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 PMU 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

58. The project outputs directly target improved access of women's MSMEs and indirectly improve employment opportunities for women in the MSME sector. The project is thus expected to contribute to women's empowerment and gender equity. The project is categorized as Effective Gender Mainstreaming.

59. The design and monitoring framework (DMF)³² of the project requires at least 30% of sub-borrowers to be women's MSMEs and at least 25% of the total volume of MSME loans going to women's MSMEs. Damu's outreach campaigns via the PFIs 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. PFIs will be required to collect and provide Damu and ADB the gender 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. Semi-annual reports on implementation of the gender action plan will be required to be provided by PFIs and Damu, monitoring the progress of gender and social dimensions as described in the gender action plan below:

³² See Section IX A of this Manual.

GENDER ACTION PLAN

Activities	Performance Indicators/Targets	Responsible Unit	Timeframe
Output 1: Financial Inclusion Sustained			
Raise profile of women-owned businesses as a relevant and important business segment for PFIs	1. PFIs appoint a Gender focal point 2. PFIs adapt MIS systems to enable collecting gender disaggregated data 3. PFIs report and analyze gender disaggregated data, including types of loans, repayment performance and product cross-selling opportunities	PFIs	Q1 2017 Q2 2017 From Q2 2017 onwards
Damu adds an indicator in its sex disaggregated MIS on loan performance (payment timeliness/delinquency, satisfactory repayment/bad loans)	4. Periodic reports on MSME loan portfolio performance by sex [(i) semiannually and (ii) on adhoc basis if requested by ADB]	Damu	Q2 2017 onwards
Increase volume of lending to women-owned businesses	5. At least \$50 million equivalent of the project funds finance women-owned businesses (2015 baseline: zero).	PFIs	Q1 2017 onwards (till end of project)
Ensure minimum participation of women's borrowers in the project	6. Number of microborrowers reached 5,500, of which at least 50% were to women-owned businesses (baseline 2015: zero). 7. Number of SME borrowers reached under the project reached 1,000, of which at least 33% to women subborrowers (baseline 2015: zero)	PFIs	Q1 2017 onwards (till end of project)
Output 2: Efficiency of PFIs Lending to MSMEs Improved			
Damu and PFIs each conduct at least one gender awareness seminar for internal staff on use of gender indicators for decision making and product development	8. Seminars materials developed 9. Seminars delivered	Damu, PFIs	2017
PFIs and Damu adopt a Gender Policy	10. Gender Policy is developed or updated and adopted.	PFIs, Damu	2018
PFIs conduct public awareness campaigns	11. At least one public awareness campaign on women entrepreneurship and bank products held by each PFI.	PFIs	2017 onwards

MSME = micro, small and medium-sized enterprise, PFI = participating financial institution, Q = quarter.
Note: Women-owned businesses are defined as businesses with more than 50% female ownership.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

A. Project Design and Monitoring Framework

Impact the Project is Aligned With			
The impact will be a sustained contribution of MSMEs to Kazakhstan's GDP, which is aligned with the government's objectives of supporting entrepreneurship and the contribution of MSMEs to the non-oil economy and employment under a challenging macro environment. ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Sustainable provision of loans to MSMEs maintained	By December 2020: a. PFIs' outstanding loans to MSMEs increased by 20% (2015 baseline: ^b T410 billion) b. PFIs' outstanding loans to MSMEs outside of Almaty and Astana cities increased by 20% (2015 baseline: ^b T224 billion) c. PFIs' number of MSME borrowers increased by 20% (2015 baseline: ^b 178,312) d. PFIs' net nonperforming loan ratios ^c remained less than or equal to 25% of total regulatory capital (2015 baseline: below 25%) e. Commercial banks' CAR ^d met or exceeded minimum requirement of 10% (2015 baseline: minimum of 7.5%) f. Microfinance organizations' capital ratio ^e met or exceeded 15%	a–d. Damu's monitoring reports a–f. PFIs' monitoring reports and audited financial statements	Economic slowdown further reduces demand from MSMEs for credit and their debt service capacity. Subdued growth and external demand may further depreciate the tenge and hurt banks' solvency, liquidity, asset quality, and profitability. PFIs' asset quality deteriorates.
Outputs 1. Financial inclusion sustained	By June 2019: ^f 1a. At least 5,500 micro borrowers, of whom at least 50% are women, reached by microfinance organizations (2015 baseline: 0) 1b. At least 1,000 small and medium-sized borrowers, of whom at least 33% are women, have been reached by commercial banks (2015 baseline: 0) 1c. Volume of ADB-funded loans to MSMEs issued by PFIs is at least \$200 million equivalent (2015 baseline: 0), of which at least	1a–c. Damu's and PFIs' monitoring reports	

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
2. Efficiency of PFIs' lending to MSMEs improved	<p>\$50 million are to women subborrowers, and \$120 million to subborrowers located outside of Almaty or Astana cities (2015 baseline: 0)</p> <p>2a. Selected PFIs have improved credit underwriting policies and procedures in place (2015 baseline: not applicable)</p> <p>2b. Staff of Damu's and PFIs' small and medium-sized enterprise departments trained on gender analysis (2015 baseline: not applicable)</p>	2a–b. Consultants' monitoring reports, Damu monitoring reports, ADB's mission back-to-office reports, and other reports	
<p>Key Activities with Milestones</p> <p>1. Financial inclusion sustained</p> <p>1.1 PFIs onlend to MSMEs (beginning Q1 2017, continuous until Q2 2019).</p> <p>1.2 Damu and PFIs implement outreach and other support activities to target groups (women entrepreneurs, lending outside the larger cities) (beginning Q1 2017, continuous until Q2 2019).</p> <p>1.3 PFIs provide monthly reports to Damu and quarterly and semiannual reports to ADB, including disbursements, financial performance of the PFI, safeguards, and development effectiveness results (continuous beginning Q2 2017 until end of project).</p> <p>1.4 Damu provides quarterly reports to ADB (continuous beginning Q1 2017 until end of project).</p> <p>2. Efficiency of PFIs lending to MSME improved</p> <p>2.1 Recruit consultants and finalize TA agreements with PFIs (by Q1 2017).</p> <p>2.2 PFIs participate in customized advisory programs to develop and improve lending to MSMEs (beginning Q2 2017).</p> <p>2.3 Consultants provide business advice to PFIs on MSMEs lending technology (by Q2 2019).</p> <p>Project management activities</p> <p>Prepare periodical reports, including gender action plan and environmental and social management system monitoring reports.</p> <p>Periodical audit review and review missions that monitor executing agency and PFIs' performance.</p>			
<p>Inputs</p> <p>Asian Development Bank: \$200 million (ordinary capital resources loan)</p> <p>Financial Sector Development Partnership Special Fund: \$500,000 (capacity development TA)</p>			
<p>Assumptions for Partner Financing</p> <p>Not applicable</p>			

Asian Development Bank = ADB, Damu = Damu Entrepreneurship Development Fund, GDP = gross domestic product, MSMEs = micro, small, and medium-sized enterprises, PFI = participating financial institution, Q = quarter, TA = technical assistance.

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

^b Baselines considering identified PFIs at the time of loan approval. Baselines to be updated if new institutions participate in the project at a later stage.

^c Ratio of net nonperforming loans to total regulatory capital, defined as loans overdue more than 90 days, less loan loss reserves as a percentage of regulatory capital, based on data reported in PFIs' compliance certificates to ADB.

^d These indicators refer to MSME loans funded with ADB loan proceeds.

Source: Asian Development Bank.

B. Individual PFI Outcome Targets

Results Chain	Performance Indicators with Targets and Baselines
Sustainable provision of loans to MSMEs increased	<p>By December 2020</p> <p>PFI's outstanding MSME loans increased by 20% (baseline 2015: T410.8 billion)</p> <p>Bank of Astana: T104.3 billion (2015 Baseline: T69.5 billion) Bank Center Credit: T220.0 billion (2015 Baseline: T215.7 billion) Kassa Nova: T53.4 billion (2015 Baseline: T42.7 billion) Nurbank: T73 billion (2015 Baseline: T45.3 billion) Bereke: T1.5 billion (2015 Baseline: T1 billion) AsiaCredit Fund: T4.8 billion (2015 Baseline: T1.9 billion) KazMicroFinance: T56 billion (2015 Baseline: T34.7 billion)</p>
	<p>PFI's outstanding MSME loans outside of Almaty and Astana cities increased by 20% (baseline 2015: T224 billion)</p> <p>Bank of Astana: T12.9 billion (2015 Baseline: T10.8 billion) Bank Center Credit: T140.0 billion (2015 Baseline: T127.9 billion) Kassa Nova: T27.6 billion (2015 Baseline: T23.0 billion) Nurbank: T38.1 billion (2015 Baseline: T31.7 billion) Bereke: T1.5 billion (2015 Baseline: T1 billion) AsiaCredit Fund: T4.8 billion (2015 Baseline: T1.9 billion) KazMicroFinance: T41.6 billion (2015 Baseline: T27.4 billion)</p>
	<p>PFI's number of borrowers increased by at least 20% (baseline 2015: 178,312)</p> <p>Bank of Astana: 515 (2015 Baseline: 368) Bank Center Credit: 3,220 (2015 Baseline: 3,013) Kassa Nova: 3,410 (2015 Baseline: 3,100) Nurbank: 2,516 (2015 Baseline: 786) Bereke: 6,386 (2015 Baseline: 4,215) AsiaCredit Fund: 30,000 (2015 Baseline: 14,926) KazMicroFinance: 227,856 (2015 Baseline: 151,904)</p>

C. Monitoring

60. **Project performance monitoring.** Damu will ensure that its monitoring system collects all information required to monitor the PFIs' portfolios and other data until ADB's loan is fully repaid. The reports required from Damu and the PFIs are included in para. 65. Damu and the PFIs will also have such information made available to ADB review missions and to the government, for future impact assessments studies.

61. **Compliance monitoring.** PFIs' compliance with the project's covenants will be monitored by Damu on the basis of the PFIs' periodic reports (including certificates of compliance using the template in Appendix 8), audited financial statements, and audited project accounts, and will be reported to ADB on a quarterly basis. ADB will conduct periodic review missions, will review progress reports by the PFIs, conduct random spot checks on subloan documents, conduct SOE review and review of PFIs audited financial statements and audited statement of utilization of funds.

62. **Safeguards monitoring.** ADB will oversee and review safeguards performance. Monitoring of the implementation of ESMS will be described in semi-annual EMRs submitted by PFIs to Damu and by Damu to ADB. A sample template is included in Appendix 7. The EMRs will be disclosed on the ADB website after incorporating comments from Damu and ADB. No confidential information will be included in the EMRs.

63. **Gender and social dimensions monitoring.** Gender action plan (GAP) implementation and social aspects of the project 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.

D. Evaluation

64. ADB will field periodic review missions to assess progress against the DMF, GAP, address any implementation issues, and review compliance with the loan and project agreement covenants. The mid-term review mission will undertake a comprehensive review of the project design and the performance of the project. It may require a change in the design and implementation arrangements. Within six months after the loan closing date, Damu will submit a project completion report to ADB in a form acceptable to ADB.

E. Reporting

65. The following reports will be required to monitor and evaluate the project's performance:

Name of Document	Submitter	Receiver	Timing/Frequency	Purpose/Template
Monthly disbursement report	PFIs	Damu	Monthly, within 10 working days of the end of the previous month	To monitor disbursements Appendix 2
Quarterly consolidated disbursement report	Damu	ADB	Quarterly, within 15 days of the end of each quarter	Consolidate reporting from PFIs monthly reports and some analytical figures Appendix 3
Certificate of compliance with financial covenants	PFIs	Damu, ADB	Quarterly, within 45 days from the end of each quarter	Appendix 8

Name of Document	Submitter	Receiver	Timing/Frequency	Purpose/Template
Gender Action Plan implementation report	PFIs	Damu, ADB	Semi-annual (15 July and 15 January), reflecting data up to end of previous half year	Appendix 9
Development effectiveness Reports	PFIs	Damu, ADB	Semi-annual (15 July and 15 January), reflecting data up to end of previous half year	Appendix 10
Consolidated progress report, including gender action plan report	Damu	ADB	Semi-annual (1 August and 1 February)	Appendix 1
Safeguard compliance report	PFIs (Only commercial banks)	Damu	Semi-annual (15 July and 15 January), reflecting data up to end of previous half year	Appendix 7
Consolidated Safeguards compliance report	Damu	ADB	Semi-annual (1 August and 1 February)	Consolidation of PFIs' safeguards reports
Audited annual financial statements of the entity	Damu, PFIs	ADB	Annual, within one month of their approval by relevant authority	Audited Financial Statements prepared in accordance with IFRS
Audited project accounts	Damu, PFIs	ADB	Annual, within six months of the end of fiscal year	Appendix 4
Project completion report	Damu	ADB	Within 6 months of physical completion of the project	Template to be provided

X. ANTICORRUPTION POLICY

66. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.³³ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants and other service providers. Individuals/entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.³⁴ To support these efforts, relevant provisions will be included in the legal agreements.

XI. ACCOUNTABILITY MECHANISM

67. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects 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.³⁵

³³ Available at: <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>

³⁴ ADB's Integrity Office web site is available at: <http://www.adb.org/integrity/unit.asp>

³⁵ For further information see: <http://www.adb.org/Accountability-Mechanism/default.asp>.

XII. RECORD OF PAM CHANGES

68. All revisions/updates during course of implementation should be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.

PAM prepared and agreed with Damu and the PFIs	
First revision	
Second revision	

SEMI-ANNUAL PROGRESS REPORT FOR DAMU

(as of dd/mm/yyyy)

Loan Number	Name of Project
	KAZ: Supporting Resilience of Micro, Small and Medium-Sized Enterprise Finance Project
Approved Loan Amount:	Responsible Project Officer:
	Inmaculada Martinez, Senior Private Sector Development Specialist
Project Commencement Date:	Original Closing Date/Revised Closing Date:
Executing Agency:	
Damu Entrepreneurship Development Fund (DAMU)	
Implementing Agency (ies):	
1. 2. (...)	

A. Project Performance Monitoring System (PPMS)

(Shall include monitoring indicators related to the disbursement of subloans including those in the Design and Monitoring Framework [DMF].)

Performance Targets and Indicators	Baselines (December 2015)	Targets (By December 2020)	Status of the Indicators (as of [date of the report])
Outcome indicators ¹			
PFIs outstanding MSME loans	T410.8 billion	+20%	
PFIS outstanding stock of MSME loans outside of Almaty and Astana cities	T224 billion	+20%	
PFIs' number of MSME borrowers increased	178,312	+20%	
PFIs' net NPL ratios ² remained less than or equal to 25% of	below 25%	Below 25%	

¹ Please note the Outcome indicators refer to overall PFIs portfolios, not just those funded with ADB loan proceeds.

² Net non-performing loan to total regulatory capital ratio, defined as loans over 90 days past due (30 days past due for MFOs) less loan loss reserves as a percentage of regulatory capital, based on data reported to the National Bank of Kazakhstan.

Performance Targets and Indicators	Baselines (December 2015)	Targets (By December 2020)	Status of the Indicators (as of [date of the report])
total regulatory capital			
Commercial banks' CAR met or exceeded minimum requirement of 10%	minimum of 7.5%	At least 10%	
MFOs' capital ratio met or exceeded the higher of (i) 30% over the NBK prudential requirement or (ii) 15%		15%	
Output indicators (This refer only to loans funded through this ADB loan)			
		(By June 2019)	
Microborrowers reached by MFOs	Zero	5,500 (of which at least 50% women borrowers)	
SME borrowers reached by commercial banks	Zero	1,000 of which at least 33% to women subborrowers	
Volume of ADB funded MSME loans issued by PFIs	Zero	at least \$200 million equivalent, of which: at least 25% to women subborrowers, and 60% to subborrowers located outside of Almaty or Astana cities	
Selected PFIs have improved credit underwriting policies and procedures in place	NA	(list improved underwriting policies and procedures and other changes introduced)	
Damu and SME department staff of PFIs trained on gender analysis	NA		

B. PFI's Compliance with Eligibility Criteria and Action Plans, if any. *(Attach copies of Certificates of Compliance and highlight in this section any non-compliance, requirements for Action Plans or compliance with the measures reflected in earlier action plans)*

C. Information on Government’s DAMU or PFI’s internal operations that may impact project operations

(Include here information related to changes in shareholders structure, business strategy, risk management frameworks, SME lending products, guarantees, and lending practices)

(To include external environment factors and updates on GAP–Government Action Plan under Govt’s Strategy 2020 and any other Government initiatives to support SMEs)

D. Gender Action Plan Monitoring

(Description of progress in relation to activities and indicator of the Gender Action Plan (GAP))

[Include here the table of the GAP – and a status column on the right]

E. Consolidated Loan Utilization

Year	Q1	Q2	Q3	Q4	Total
2017 Projection	\$50 million equivalent	\$20 million equivalent	\$20 million equivalent	\$20 million equivalent	\$110 million equivalent
2017 Actual disbursements					
2018 Projection	\$20 Mill	\$20 Mill	\$20 Mill	\$30 Mill	\$80 Mill
2018 Revised Projection					
2018 Actual disbursements					
2019 Projection					
2019 Actual disbursements		-	-	-	-
Total Disbursed					

F. Any identified issues and proposed solutions

Prepared by:

“Damu” Entrepreneurship Development Fund”

Authorized signatory:

Name: _____

Title: _____

Signature: _____

Date: _____

dd/mm/yyyy

MONTHLY STATEMENT OF EXPENDITURES BY PFIs

STATEMENT OF EXPENDITURES FOR Loan ____-KAZ

For the Period _____ to _____

Name of PFI: _____

PART 1- UTILIZATION OF ADB LOAN PROCEEDS - Loans issued

No.	Region ¹	Name of MSME Borrower	New PFI client Y/N	MSME Loan / Credit Line Amount	MSME size Classification ²	MSME Loan Agreement Date (dd/mm/yy)	MSME Loan Disbursement Date (dd/mm/yy)	MSME Loan/ Credit Line Amount Disbursed	MSME Loan Maturity (in years)	Interest Rate	Effective Interest Rate	Outstanding MSME Loan / Credit Line Balance ³	Loan Purpose ⁴	MSME Sector of Activity ⁵	MSME Gender Classification (Female) ⁶ Y/N
1.															
2.															
3.															
4.															
5.															
6.															
7.															
8.															
9.															
10.															
				0					0					0	

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

² Indicate if Micro, Small or Medium-sized Enterprise. Indicate the criteria used for classification.

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

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

⁵ Indicate from this classification: (a) Industry; (b) Other Services; (c) Agriculture; (d) Trade; (e) Transport & Communications; (d) Construction.

⁶ An SME is classified as 'female' if at least 50% of its equity is owned by women.

PART 2 - RECYCLING OF FUNDS FROM PREPAID MSME LOANS

MSME Loans Principal repaid to PFI in month....

No.	Region ¹	Name/Identification of MSME Borrower	MSME size Classification ²	Original SME Loan Principal / Credit Line Amount	MSME Loan/ Credit Line Amount Disbursed	MSME Loan/Credit Line Principal Repaid	Outstanding MSME Loan / Credit Line Balance ³	Loan Purpose ⁴	MSME Sector of Activity ⁵	MSME Gender Classification (Female) ⁶ Y/N
1.										
2.										
3.										
4.										
				0	0	0	0			

New loans made with recycled funds in month.....

No.	Region ¹	Name of MSME Borrower	New PFI client Y/N	MSME Loan / Credit Line Amount	MSME size Classification ²	MSME Loan Agreement Date (dd/mm/yy)	MSME Loan Disbursement Date (dd/mm/yy)	MSME Loan/ Credit Line Amount Disbursed	MSME Loan Maturity (in years)	Interest Rate	Effective Interest Rate	Outstanding MSME Loan / Credit Line Balance ³	Loan Purpose ⁴	MSME Sector of Activity ⁵	MSME Gender Classification (Female) ⁶ Y/N
1.															
2.															
3.															
4.															
				0				0				0			

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

² Indicate if Micro, Small or Medium-sized Enterprise. Indicate the criteria used for classification.

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

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

⁵ Indicate from this classification: (a) Industry; (b) Other Services; (c) Agriculture; (d) Trade; (e) Transport & Communications; (d) Construction.

⁶ An SME is classified as 'female' if at least 50% of its equity is owned by women.

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 Project Agreement. All documentation authenticating these expenditures have been retained in (name of bank, branch location) will be made available upon request by ADB or Damu. It is further certified that MSME loans have not been split to enable them to be less than the threshold prescribed under para.9 of Schedule 2 of the Loan Agreement.

Submitted by: (Name of PFI) _____

Address: _____

Tel.No.: _____

Fax No.: _____

Email: _____

Authorized Signatory

Name: _____

Position/Title: _____

Signature: _____

Date Signed: _____

ANNUAL STATEMENT OF UTILIZATION OF FUNDS FOR DAMU AND PFIS

Loan _____-KAZ: (Title)

A. For Damu

Annual Statement of Utilization of Funds for Damu

For the Year Ended [dd/mm/yy]
(in KZT)

	Notes*	Year 1	Year 2	Cumulative
A. Opening cash balance		xx	xx	xx
I. Sources of funds				
1. ADB loan proceeds		xx	xx	xx
2. Others (e.g. interest earned)		xx	xx	xx
Total (sum 1 to 2)		xx	xx	xx
II. Uses of funds				
1. Subloans to PFI xx (with supporting schedule for qualified sub-borrowers [SLA 1])		xx	xx	xx
2. Subloans to PFI xx (with supporting schedule for qualified sub-borrowers [SLA 2])		xx	xx	xx
Total (sum 1 to 2)		xx	xx	xx
B. Net cash activity (I - II)		xx	xx	xx
C. Ending cash balance (A - B)		xx	xx	xx
D. Cash in bank		xx	xx	xx
Reconciliation				
Amount advanced by ADB		xx	xx	xx
Add: Amount supplemented by ADB		xx	xx	xx
Present outstanding amount advanced		xx	xx	xx
Closing balance at year-end		xx	xx	xx
Add: Amounts withdrawn and not yet claimed		xx	xx	xx
Deduct: Interest included in closing balance		xx	xx	xx
Total advances accounted for		xx	xx	xx

* Please provide accompanying note disclosures and supplementary schedules necessary to explain the main statement.

B. FOR PFIs

Annual Statement of Utilization of Funds for PFIs

Name of PFI: _____
For the Year Ended [dd/mm/yy]
(in KZT)

	Notes*	Year 1	Year 2	Cumulative
A. Opening cash balance		xx	xx	xx
I. Sources of funds				
1. ADB loan proceeds (SLA1, SLA2 ...)		xx	xx	xx
2. Reflows (repayments from SLA 1)		xx	xx	xx
3. Reflows (repayments from SLA 2)		xx	xx	xx
(...)				
Total (sum 1 to 3)		xx	xx	xx
II. Uses of funds**				
1. Subloan to qualified sub-borrower		xx	xx	xx
2. Subloan to qualified sub-borrower		xx	xx	xx
(...)				
Total (sum 1 to 2)		xx	xx	xx
B. Net cash activity (I - II)		xx	xx	xx
C. Ending cash balance (A - B)		xx	xx	xx

* Please provide accompanying note disclosures (including below) and supplementary schedules necessary to explain the main statement.

** Should include subloans using reflows and identify which cycle.

TERMS OF REFERENCE FOR AUDIT OF STATEMENT OF UTILIZATION OF FUNDS AND SPECIFIC AUDIT ASSURANCES REQUIRED (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 Annual 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. The audit review will include Statement of Expenditures records and imprest fund procedure.
 - b) 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. The 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 and Management Letter will all be provided in English no later than six 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 14 days of the date of ADB's confirming their acceptability by posting them on ADB's website. The Audit Management Letter will not be disclosed.
5. Auditors engaged to audit project expenditures should understand the project and the entity being audited, including the contents of the RRP and legal agreements. Auditors should also familiarize with ADB's guidelines on auditing.³⁸

C. Standards

6. Audits will be carried out in accordance with the International Standards on Auditing (ISA) and International Standards on Assurance Engagements (ISAE) 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

³⁸ 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.

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

7. 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.

8. 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

9. 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

10. 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.

11. 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.

SAMPLE TERMS OF REFERENCE FOR AUDIT OF STATEMENT OF UTILIZATION OF FUNDS AND SPECIFIC AUDIT ASSURANCES REQUIRED (PFIS)

A. Background

1. [Project background and description]

B. Audit Requirements

2. ADB requires the following on an annual basis:
 - (i) 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]*³⁹ acceptable to ADB
 - (ii) Specific additional audit assurances with respect to:
 - Use of Loan Proceeds in accordance with the Project Agreement and only for the purposes of making MSME Loans to Qualified MSMEs Borrowers for Qualified MSME Subprojects as defined in the Schedule to Project Agreement.
 - Compliance with financial covenants as described in the loan and project agreements.⁴⁰
 - (iii) 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, including any irregularity in the use of statement of expenditure (SOE) procedures where applicable, and recommendations to rectify identified weaknesses and clients' comments on the findings and status of significant matters raised in previous management letters. The Management Letter should include only those issues which do not affect the true and fair view presentation of auditor's opinion as to whether the Annual Statement of Utilization of Funds in accordance with the *[accounting framework]*⁴¹ gives a true and fair view, should be referred reflected to in the audit opinion.

C. Specific Considerations

3. The auditor will, during the course of the audit, pay particular attention to the following:
 - (i) The use of external funds in accordance with the relevant legal and financing agreements;
 - (ii) The maintenance of proper books and records;
 - (iii) Where the audit report has been issued under ISA 800, it shall include the mandatory Emphasis of Matter paragraph alerting users of the audit report that the Annual Statement of Utilization of Funds is prepared in accordance with a special purpose framework and that, as a result, the Annual Statement of

³⁹ *[Indicate here the specific accounting standards to be applied by the PFI]*

⁴⁰ This audit assurance (i) should be based on audited financial statements (AFS) prepared in accordance with International Financing Reporting Standards; and (ii) 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.

⁴¹ *[Indicate here the specific accounting standards to be applied by the PFI]*

Utilization of Funds may not be suitable for another purpose. The auditor shall include this paragraph under an appropriate heading.

- (iv) The assurance report must contain, among others:
 - a. A statement that the engagement was performed in accordance with ISAE 3000. ("Assurance Engagements other than Audits or Reviews of Historical Financial Information".) The auditor is required to perform a reasonable assurance engagement.
 - b. Subject matter;
 - c. Criteria for measurement;
 - d. A summary of the work performed; and
 - e. The auditor's conclusion.
- (v) The auditors will verify that the Statement of Utilization of Funds properly reflects the use of proceeds of the loan, including any recycling of funds (reflecting recurrent uses of loan principal amounts of first-round MSME subloans repaid to the PFI prior to their repayment date to Damu), which shall be recorded and managed in separate ledgers;
- (vi) Adequate supporting documentation has been maintained to authenticate claims stated in the SOE for reimbursement of eligible expenditures incurred;
- (vii) On the SOE procedure, audit procedures are planned and performed to ensure that (a) the SOEs have been prepared in accordance with ADB's Loan Disbursement Handbook, (b) the individual payments for expenditures stated in the SOE are supported by evidence, (c) the expenditures stated in the SOEs comply with the approved project purpose stipulated in the loan agreement, and (d) the amount of expenditures stated in the SOEs comply with disbursement percentages stipulated in the loan agreement; and
- (viii) Any weaknesses in internal controls.

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

5. Public disclosure of the audited Annual Statement of Utilization of Funds, including the auditor's opinion thereon, will be guided by ADB's Public Communications Policy (2011). After review, ADB will disclose the audited Annual Statement of Utilization of Funds and the opinion of the auditor thereon no later than 14 calendar days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter will not be disclosed.

D. Standards

6. 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). These standards require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the statement of utilization of funds is free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of utilization of funds. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the statement of utilization of funds whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the statement of utilization of funds in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An

audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the statement of utilization of funds..

E. Client's Input and Counterpart Personnel

7. 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.

8. 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.

F. Record Keeping

9. 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.

G. Independence

10. 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.

11. 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.

OUTLINE OF ENVIRONMENTAL AND SOCIAL PERFORMANCE REPORT FOR PARTICIPATING COMMERCIAL BANKS

Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes. The Bank is required to submit the annual performance report to Damu and ADB.

Name of Organization			
Completed by (name):			
Position in organization:		Date:	
Reporting period	From:	To:	

A. Environmental and Social Management System (ESMS)

Policies & Processes	Yes/No	
Have there been any updates to the ESMS or policy and procedures adopted by your organization during the reporting period?		If yes, please provide a copy of the updates including dates and reasons for the same.
Has senior management signed off on the updated policy/procedure?		If yes, please provide the date and internal communication indicating the same.
Has your organization appointed staff tasked to implement the ESMS?		If yes, please provide information on number of staff and qualification (experience and education background) to implement the ESMS.
Please give details of any transactions rejected due to environmental and/or social concerns.		
Please state any difficulties and/or constraints related to the implementation of the ESMS.		
Please describe how you ensure that your subproject companies and their subprojects are operated in compliance with the national laws and regulations and applicable ADB's requirements.		
Please give details of any material social and environmental issues associated with clients during the reporting period in particular.		
In case the existing ESMS is not fully functional, what is the action plan being implemented by your organization?		Please provide information or cite recommendation made by ADB's review mission to improve the ESMS and its implementation.
Capacity	Yes/No	
Please provide the name and contact information of the Environmental/Social Officer or Coordinator who has the overall responsibility for the implementation of ESMS.		Please describe the training or learning activities the Environmental/Social Officer or Coordinator attended during the year.
Please provide current staffing of other core ESMS persons in the organization involved with ESMS implementation.		Please describe the training provided to the ESMS persons and other team members during the year.
What was the budget allocated to the ESMS and its implementation during the year?		Please provide budget details including staff costs and training as well as any actual costs.

Monitoring		Yes/No	
Do you receive environmental and social monitoring reports from subproject companies that you finance?			If yes, please describe and provide supporting documents including any social and environmental considerations if applicable.
Do you check for ongoing compliance of your subproject companies with national regulation and any other requirements?			If yes, please describe the process including any social and environmental considerations if applicable.
Please describe how you monitor the subproject company and their subproject's social and environmental performance.			Please describe and provide supporting documents such as environmental and social monitoring reports and please provide information on the number of subprojects where a field visit was conducted by staff to review aspects including social and environmental issues.
Please provide details of any accidents/litigation/complaints/regulatory notices and fines: Any incidents of non-compliance with the applicable Environmental and Social Requirements Covenants/conditionalities imposed by the Bank to the subproject company as a result of any non-compliance			
Reporting		Yes/No	
Is there an internal process to report on social and environmental issues to senior management?			If yes, please explain the process, reporting format and frequency and actions taken if any.
Do you prepare any social and environmental reports: For other multilateral agencies Other stakeholders E&S reporting in the Annual Report Sustainability reports			If yes, please provide copies of these reports.
Activities on ADB's Prohibited Investment Activities List			
If any, please indicate the dollar percentage of loans or investments out of your total outstanding exposure provided to clients who are substantially involved in ADB's Prohibited Investment Activities List.			_____ %
If the percentage is not zero, please explain these exposures and any steps having been taken to reduce such exposure.			

B. Subprojects Using ADB Funds

Sector	Amount of projects	Total Loan Amount	Categories (C/B)
Total for Category C			
Total for Category B			
Total			

C. Sustainable Finance (subprojects with environmental and social benefits)

Sustainable finance		
Have you made any investments in subprojects that have social and environmental benefits such as investing in management systems, energy efficiency, renewable energy, cleaner production, carbon finance, pollution abatement and control, sustainable supply chain, corporate social responsibility, community development, etc.? Please list these in the format provided below:		
Subproject Name	Value financed by the Financial Institution (US\$ million)	Type of social and environmental benefit

FORM OF COMPLIANCE CERTIFICATE

To: Asian Development Bank

From: (PFI name)

Date:

Dear Sirs,

1. We refer to the Project Agreement between ADB and [PFI] dated [...]. This is a Compliance Certificate. Terms defined in that agreement have the same meaning when used in this Compliance Certificate unless given a different meaning in this Compliance Certificate.
2. We report on and confirm the following:

[Insert details of financial covenants and calculations showing the PFI is in compliance with those covenants. See Schedule to the Project Agreement.]

3. We confirm that no default has occurred and is continuing.

Yours faithfully,

[PFI name]
Authorized Representative

Name:
Title: Chief Financial Officer

GENDER ACTION PLAN IMPLEMENTATION REPORT

PFI Name or DAMU: _____

Date: [dd/mm/yyyy]

Loan Number	Name of Project
	KAZ: Supporting Resilience of Micro, Small and Medium-Sized Enterprise Finance Project
Approved Loan Amount:	Responsible Project Officer:
	Inmaculada Martinez, Senior Private Sector Development Specialist
Project Commencement Date:	Original Closing Date/Revised Closing Date:
Executing Agency:	
Damu Entrepreneurship Development Fund (DAMU)	

Indicator	Status- Activities to date	Responsible	Timeframe
Output 1: Financial Inclusion Sustained			
1.PFIs appoint a Gender focal point		PFIs	Q1 2017
PFIs adapt MIS systems to enable collecting gender disaggregated data		PFIs	Q2 2017
PFIs report and analyze gender disaggregated data, including types of loans, repayment performance and product cross-selling opportunities		PFIs	From Q2 2017 onwards
Damu adds an indicator in its sex disaggregated MIS on loan performance (payment timeliness/delinquency, satisfactory repayment/bad loans)		Damu	Q2 2017 onwards
Periodic reports on MSME loan portfolio performance by sex [(i) semiannually and (ii) on adhoc basis if requested by ADB]		Damu	Q2 2017 onwards

Indicator	Status- Activities to date	Responsible	Timeframe
At least \$50 million equivalent of the project funds finance women-owned businesses (2015 baseline: zero).		PFI	Q1 2017 onwards (till end of project)
Number of microborrowers reached 5,500, of which at least 50% are women (baseline 2015: zero).		PFI	Q1 2017 onwards (till end of project)
Number of SME borrowers reached under the project reached 1,000, of which at least 33% are women (baseline 2015: zero)		PFI	Q1 2017 onwards (till end of project)
Output 2: Efficiency of PFIs Lending to MSMEs Improved			
Damu and PFIs conduct at least one gender awareness seminar for internal staff on use of gender indicators for decision making and product development - Seminars materials developed - Seminars delivered		Damu, PFI	2017
Gender Policy is developed or updated and adopted.		PFI, Damu	2018
At least one public awareness campaign on women entrepreneurship and bank products held by each PFI.		PFI	2017 onwards

MSME = Micro, small and medium-sized business, PFI = participating financial institution, Q = quarter.
Note: Women-owned businesses are defined as businesses with more than 50% female ownership.

Prepared by:

["Damu" Entrepreneurship Development Fund"]// Or [PFI name]

Authorized signatory:

Name: _____

Title: _____

Signature: _____

Date: _____ dd/mm/yyyy

SEMI-ANNUAL DEVELOPMENT EFFECTIVENESS MONITORING REPORT FOR PFI

(as of dd/mm/yyyy)

Loan Number	Name of Project
	KAZ: Supporting Resilience of Micro, Small and Medium-Sized Enterprise Finance Project
Approved Loan Amount:	Responsible Project Officer:
	Inmaculada Martinez, Senior Private Sector Development Specialist
Project Commencement Date:	Original Closing Date/Revised Closing Date:
Executing Agency:	
Damu Entrepreneurship Development Fund (DAMU)	

Development Outcome indicators⁴²	Baselines (December 2015)	Targets⁴³ (By December 2020)	Status of the Indicators (as of [date of the report])
1. Volume of MSME loans			
Outstanding stock of MSME loans <i>Of which:</i> Micro loans small loans Medium sized			
Outstanding stock of MSME loans outside of Almaty and Astana cities			
2. Number of business borrowers			
Number of MSME borrowers <i>Of which</i> Micro Small Medium			
Number of MSME borrowers outside of Almaty and Astana			

⁴² Please note the Outcome indicators refer to overall PFIs portfolios, not just those funded with ADB loan proceeds.

⁴³ Refer to each PFI individual target as reflected in respective Project Agreements

Development Outcome indicators⁴²	Baselines (December 2015)	Targets⁴³ (By December 2020)	Status of the Indicators (as of [date of the report])
cities			
Number of female borrowers			
3. PFI's institutional sustainability			
Amount of restructured loans	NA	NA	
Total NPLs as per IFRS definition ⁴⁴	NA	NA	
Total NPLs (IFRS definition) over gross loan portfolio	NA	NA	

Prepared by:
[PFI name]

Authorized signatory:

Name: _____
Title: _____

Signature: _____
Date: _____ dd/mm/yyyy

⁴⁴ Defined as loans that are (i) impaired; (ii) more than 90 days past due but not classified as impaired; or (iii) has been restructured within the preceding 12 months and not classified under (i) or (ii) above.

TECHNICAL ASSISTANCE

A. Background

1. The capacity development technical assistance (TA) will support the implementation of the Supporting Resilience of Micro, Small, and Medium-Sized Enterprises Finance Project.⁴⁵ The Asian Development Bank (ADB) will engage with selected participating financial institutions (PFIs) in customized solutions to increase their outreach to the smaller segment of businesses and to the regions. The PFIs to benefit from this TA have been selected based on their business strategies and top management commitment, including contribution of their own resources to implement the TA. The TA will be implemented over 30 months from the signing of TA agreement letters with the PFIs.

B. Outputs and Key Activities

2. The TA output will be improved capacities of the PFIs to better serve micro, small, and medium-sized enterprises (MSMEs). To improve the sustainability of ADB's credit line, this TA will assist the PFIs in the following areas: (i) institutional development—including market analysis, organizational set up, introduction of new lending techniques, and product development and testing—to support banks in downscaling their lending operations to the smaller segments and development of new products for microfinance organizations; (ii) greater efficiency of the lending process and management of corporate governance and risk issues; and (iii) improvement of internal audit functions. Given the limited TA resources, and to increase the impact of the intervention, the support will be provided individually to a limited number of PFIs. Two PFIs were selected based on the institutional needs assessment carried out during project processing.⁴⁶ Each PFI has confirmed that its top management (i) is committed to conducting business innovations that are scalable and have the potential to demonstrate improvements that will better serve the project's target groups (smaller businesses, rural areas, women entrepreneurs), and (ii) has put in place a project team and agrees to share at least 35% of the individual TA cost. Additional proposals from PFIs may be considered depending on availability of additional resources and provided they meet the above-mentioned requirements. The TA will have the following components:

C. Nurbank Component

3. Nurbank (NRB) was established in 1992 and is ranked 14th by assets. NRB strategy is currently established around three client groups: retail, SMEs and corporate clients. NRB operates through 16 branches and has 15 heads of SME finance. The bank has prioritized the development of the SME segment—which currently represents around 18% of its portfolio (T45.7 million outstanding at end 2015, 2,635 loans)—and, in particular, is interested in downscaling into lending to microbusinesses. The bank currently defines its SME business as (i) loans up to T640 mill (\$1.9 million approximately) for small businesses and (ii) up to T3 billion (\$8.8 million) for medium-sized enterprises. Around 80% of its 2015 outstanding SME portfolio is made of small business loans (2,560 loans) and the rest goes to medium-sized businesses.

4. Microbusinesses are seen as a new niche business opportunity for the bank. Approaching this segment would require market research and a business plan, selection of target locations, drafting of credit technology and products, staffing and on the job training, and

⁴⁵ The TA first appeared in the business opportunities section of ADB's website on 13 July 2015.

⁴⁶ ADB. 2015. *Technical Assistance to Kazakhstan for Micro, Small, and Medium-Sized Development*. Manila.

integration of IT systems into the core banking system. It will involve the design and implementation of new lending technologies based on cash-flow analysis of the borrowers.

5. The TA will help NRB in downscaling to microbusiness by helping finalize the strategy, initial piloting and roll out implementation over 24 months.

6. Activities and deliverables include the following: (i) market analysis for client segmentation, including identification of regions and branches more suitable for pilot testing this product; (ii) diagnostic of NRB's organizational set-up, policies, procedures and products required to serve micro-enterprises; (iii) discussion of recommendations and proposed implementation plans with NRB's management and ADB; (iv) support and supervision of NRB's initial execution of the plans, including: (a) set up of specialized microenterprise lending unit/s including development of middle line managers and other staffing requirements; (b) development of credit underwriting policies, (c) development of training materials for loan officers, and delivery of training of trainers; (d) selection and training of at least 50 loan officers in appropriate techniques of risk analysis, monitoring and recovery or workout of loans, (e) design of appropriate incentive-based pay schemes for the Loan officers; (f) review of internal control and audit practices; identification of changes required related to the new product and on-the-job training to strengthen this capabilities; and (g) adaptation of MIS and monitoring systems, including possible investment of a revised scoring model with appropriate functionalities for this product. The project is expected to be piloted in [two] branches and then rolled out to 10 branches during the implementation period. These deliverables will be accompanied with on-the job training and capacity-building.

7. NRB will prepare detailed terms of reference for the consulting services in coordination with ADB. By 31 December 2019, NRB should have achieved the following results:

- a. New specialized microenterprise lending department/unit launched, and new product/s defined, responding to existing demand.
- b. Pilot tested in [2 branches] and subsequently rolled out in at least 10 branches.
- c. Served at least 3,000 microenterprises.
- d. Non-performing loans to total loans in micro-lending business below 5%.
- e. At least 50 loan officers have been trained in credit analysis and can process microenterprises loan applications at branch level independently.

Item	Total Cost
A. Asian Development Bank¹	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	140,000
ii. National consultants	55,000
b. International and local travel	44,000
2. Contingencies	11,000
Sub-Total	250,000
B. Nurbank²	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	
ii. National consultants/new staff	450,000
b. Local travel	10,000
2. Equipment*	500,000
3. Training, seminars, and conferences	
a. Facilitators	20,000
b. Training program	80,000
4. Contingencies	10,000
Subtotal (B)	1,070,000
Total	1,320,000

¹ Administered by ADB

² Administered by Nurbank

* Tentative- (i) scoring model with functionalities for microlending product, (ii) tablets and other equipment required for loan officers

1. Implementation arrangements

8. ADB will be the executing agency for the TA, with CWPF acting as the focal point. ADB will monitor the TA implementation through regular project visits to Kazakhstan and telephone and email contact. Periodical reporting by Nurbank to ADB will include the following: (i) brief quarterly progress reports on the TA areas; and (ii) a final report including the status of the project, lessons, description of the tasks undertaken and results achieved. Other ad hoc communication on specific topics will take place as required.

9. The consulting services administered by ADB will be engaged by ADB in accordance with the Guidelines on the Use of Consultants (2013, as amended from time to time). An estimated 6 person-months of international consultants and 10 person-months of national consultants will be required. The consultants will be engaged through a firm using the consultant qualification selection method (CQS). Disbursements under the TA will be made in accordance with ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time). A simplified outline of terms of reference for consultants is included below.

2. Tentative Outline Terms of Reference for Consultants funded by ADB

10. All experts will have the ability to effectively communicate with clients and their staff when analyzing, identifying solutions, and delivering related training. Fluency in English is required and Russian is desirable. Expertise required includes:

11. **Small business banking experts.** The consultants will have at least 15 years of SME banking experience, including experience as a bank, head of department or branch manager. Experience MSME lending in similar transition economies is required and in Kazakhstan desired. A proficiency in Russian is desired. The consultants will hold a minimum of a bachelor's degree in finance, economics or a related field applicable to this position. The consultants will be responsible to (i) conduct market analysis for client segmentation and helping design downscaling strategies; (ii) conduct diagnostic of NRB's organizational set-up, policies, procedures and products required to serve micro-enterprises; (iii) provide recommendations and agree on an implementation plan with NRB management; (iv) support and supervise NRB's execution of the plans, including: (a) piloting of specialized microenterprise lending unit/s in [2] locations, including development of middle line manager and other staffing requirements (the recruitment of new bank staff will be the responsibility and funded by Nurbank); (b) development of credit underwriting policies; (c) development of training materials for loan officers and delivery of training of trainers; (d) design of appropriate incentive-based pay schemes for the Loan officers; (e) review of internal control and audit practices; identification of changes required related to the new product and on-the-job training to strengthen this capabilities; and (f) provide advice to the adaptation of MIS and monitoring systems, including a possible investment in a revised scoring model with appropriate functionalities for microloans.

3. Inputs to be funded by Nurbank

- a. Selection and recruitment of staff required to implement downscaling strategy (including middle managers, loan officers...)
- b. Expenses required to roll-out pilot experience to at least 10 branches, including capacity development of staff.
- c. Training of least 50 loan officers in appropriate techniques of risk analysis, monitoring and recovery or workout of loans, based on training material and leveraging on training of trainers delivered by ADB consultants
- d. Investments in infrastructure and equipment required – including possibly a revised scoring model with appropriate functionalities for microloans, tablets for data collection for loan officers, etc.
- e. In kind contribution of office space for consultants and communication and stationary.
- f. In kind contribution of training space.
- g. In kind contribution of management's and other staff time.

D. Asian Credit Fund (ACF)-Microfinance Organization Component

12. Founded in 1997, ACF has four branches and 25 offices across five regions. With a small loan book of T1,919 billion (\$5.6 million) and an average loan size of \$375 (2015), ACF is targeting subsistence-oriented activities in agriculture. It has close to 15,000 borrowers, and 96% of its loans are outside of the two major cities. Individual entrepreneurs represent almost all of ACF's loan book. Close to 90% of the loan book are group loans, i.e. unsecured loans granted to groups of borrowers who sign loan agreements with joint responsibility to repay their loans.

13. One of ACF's priorities to support its future lending growth is to develop a new business line targeting micro and small enterprises (different from individual entrepreneurs) in urban and peri-urban areas, with higher average loan sizes. They estimate that there is service gap in the market for enterprises that want to borrow between \$7,000–\$15,000 on average. In particular, ACF would like to test a “green” product, focusing on investments to improve energy efficiency

and use of renewable energy. In addition, ACF will implement a new IT system with more functionalities to use mobile applications in the lending process. This new strategy requires that ACF's designs and tests new products, improves its lending processes, credit monitoring and internal controls.

14. ACF's has limited capabilities to carry out its internal audit functions. Internal audit is carried out by one person and supervised by the head of audit of Mercy Corps' subsidiary in Kyrgyzstan. AC F plans to strengthen this function by enlarging the unit, improving operational procedures for internal control and enhancing the capacities of staff.

15. The TA will help ACF in developing, testing, and rolling out new lending products for micro and small entrepreneurs and to strengthen its internal audit function. The TA will be implemented over a period of 24 months.

16. Activities and deliverables include the following: (i) market analysis for client segmentation, to identify growth potential, profitable product lines, and products' features; (ii) develop credit risk assessment policies and procedures; (iii) develop risk-based pricing methodology; (iv) train ACF's trainers on new credit assessment and policies and support later training of all relevant staff; (v) review of internal control and audit practices, identify gaps and provide assistance to improve practices, staff capabilities and risk-analysis automation. The project is expected to be piloted in one branch and then rolled out to other branches during the implementation period. These deliverables will be accompanied with on-the job training and capacity-building.

17. ACF will prepare detailed terms of reference for the consulting services in coordination with ADB. By 31 December 2019, ACF should have achieved the following results:

- a. Lending policy and procedures for new products for micro and small enterprises are in place and have been successfully tested.
- b. New products are rolled out in at least 10 branches.
- c. Lending to micro and small enterprises (legal entities) increased to 3% of total portfolio.
- d. At least 15 loan officers have been trained.
- e. Internal audit department staffed and audit processes revised and implemented.

Item	Total Cost
A. Asian Development Bank¹	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	100,000
ii. National consultants	35,000
b. International and local travel	20,000
2. Contingencies	14,000
Sub-Total	169,000
B. ACF²	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	
ii. National consultants/new staff	10,000
b. Local travel	5,000
2. Equipment*	12,000
3. Training, seminars, and conferences	
a. Facilitators	15,000
b. Training program	15,000
4. Miscellaneous administration and support costs**	20,000
5. Contingencies	15,000
Subtotal (B)	92,000
Total	261,000

¹ Administered by ADB

² Administered by ACF

* Tentative, software for internal audit automation

** Marketing costs of branding and launching products, and others

1. Implementation arrangements

18. ADB will be the executing agency for the TA. ADB will monitor the TA implementation through regular project visits to Kazakhstan and telephone and email contact. Periodical reporting by ACF to ADB will include the following: (i) brief quarterly progress reports on the TA areas; and (ii) a final report including the status of the project, lessons, description of the tasks undertaken and results achieved. Other ad hoc communication on specific topics will take place as required.

2. Tentative Outline Terms of Reference for Consultants funded by ADB

19. **Small business banking experts** (for a total of 3 person-months; and one national, for 3 person-months). The consultants will have at least 15 years of MSME banking experience, including experience as a microfinance organization, bank, head of department, or branch manager. Experience in MSME lending in Kazakhstan is desired, and is definitely required in similar transition economies. The consultants will hold at least a bachelor's degree in finance, economics, or a related field. The consultants will (i) conduct market analysis for client segmentation and identify new product opportunities for micro and small businesses (legal entities) for ACF (including "green" products); (ii) develop credit risk assessment policies and procedures; (iii) develop risk-based pricing methodology; and (iv) train ACF's staff.

20. **Internal Audit Specialist** (one international for 1 month; and one national, for 6 person-months). The consultants will have at least 15 years of experience in internal controls, risk management and internal audit in a bank or a large microfinance organization. For international expert, experience in Kazakhstan is desired, and for the national specialist experience in working with international organizations will be valued. The consultants will support ACF in (i) reviewing internal control and audit practices and identify gaps against best practices; and (ii) improving practices, staff capabilities and risk-analysis automation, including identification of suitable technical solutions.

3. Inputs to be funded by ACF

- a) Staff time (and any need for new staff recruitment) required to implement the new products
- b) Staff time and recruitment of one additional person for internal audit department
- c) If required, software or IT tools needed to automate internal audit processes
- d) Expenses required to roll-out products to at least 10 branches, including capacity development of staff.
- e) Training of least 15 loan officers in appropriate techniques of risk analysis, monitoring and recovery or workout of loans, based on training material and leveraging on training of trainers delivered by ADB consultants
- f) Marketing expenses of promoting new products
- g) In kind contribution of office space for consultants and communication and stationary.
- h) In kind contribution of training space.
- i) In kind contribution of management's and other staff time.