

# LEVERAGING SME FINANCE THROUGH VALUE CHAINS IN KAZAKHSTAN

Kassymkhan Kapparov

ADBI-CI Workshop  
November 29, 2018  
Astana, Kazakhstan

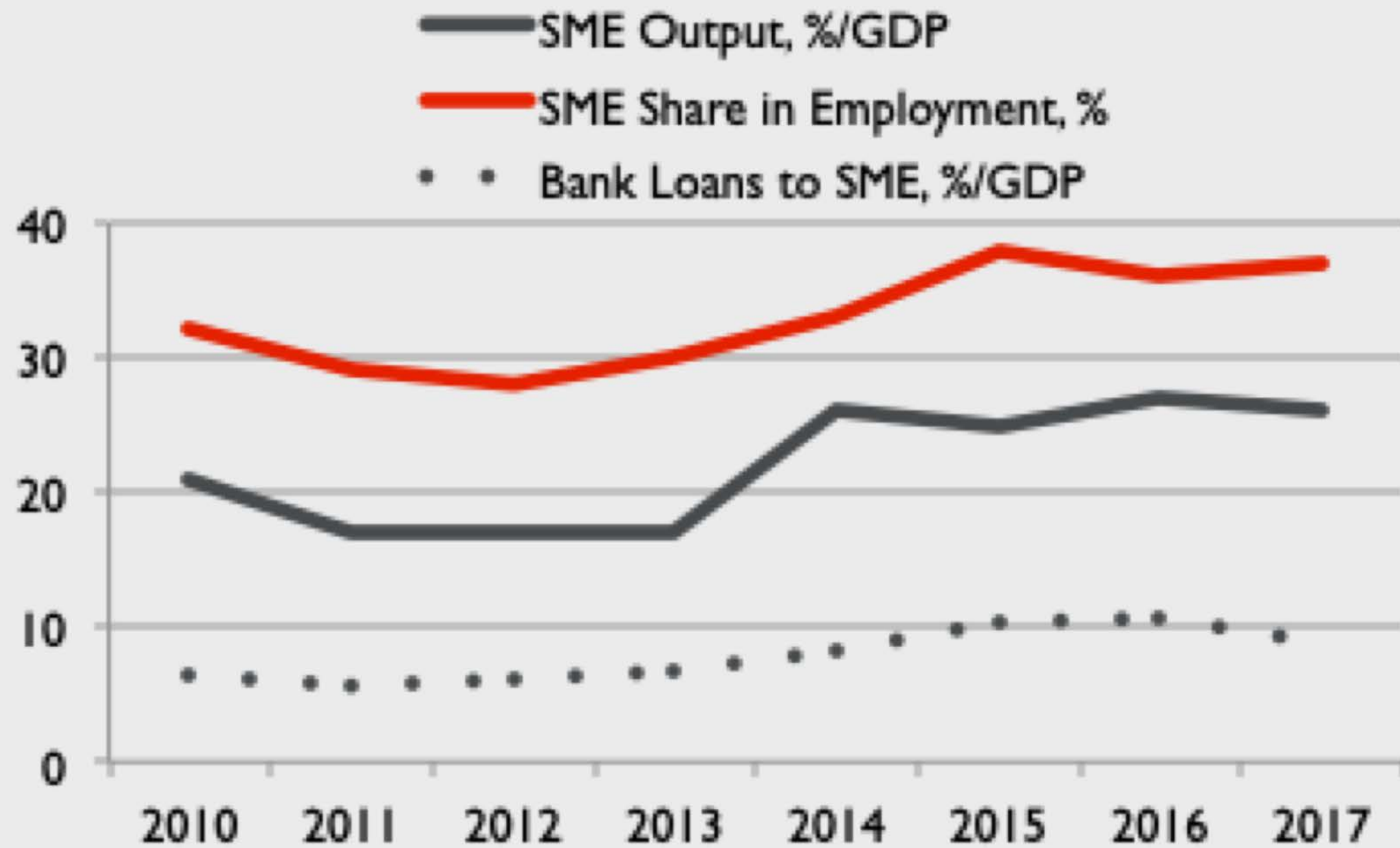
# SME DEFINITION

	Micro	Small	Medium	Large
EU: National statistical definition of SME				
Number of employees			<250	
Annual turnover (mn Euro)			<50	
Balance sheet (mn Euro)			<43	
Kazakhstan: National statistical definition of SME				
Number of employees	<15	<100	100-250	>250
Kazakhstan: for State support purposes				
Number of employees	<15	<100	100-250	>250
Annual income (in MCIs)	<30,000	<300,000	300,000- 3,000,000	<3,000,000
Annual turnover (in mn KZT)*	<72.15	<721.5	722-7,215	>7,215
Annual income (in mn USD)**	<0.21	<2.14	2.15-21.5	>21.5

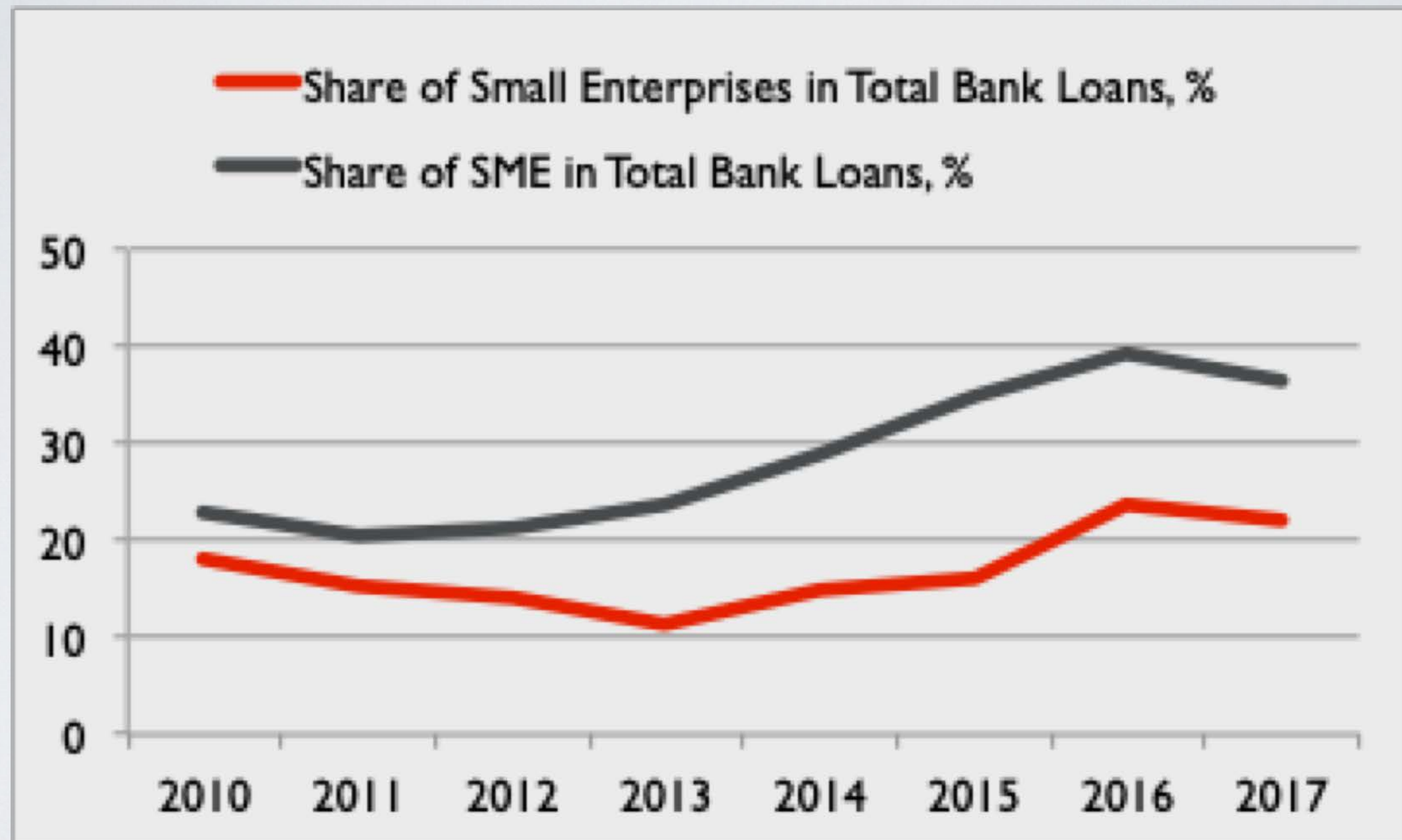
# SME STATISTICS

	Total registered	Active enterprises	% of active enterprises
Large enterprises	2,436	2,302	95%
Medium enterprises	6,502	5,763	89%
Small enterprises	374,912	125,523	34%
Total	383,850	133,588	35%

# SME STATISTICS



# FINANCIAL INCLUSION - BANKS





# FINANCIAL INCLUSION - OTHER

- MFO (eg. \$200mn ADB loan to KMF)
- KASE / AIFC
- P2P / CSEF - New Zealand, Mexico
- Financial education strategy

# BARRIERS TO SME FINANCE

- High interest rates = inflation + cost + risk
- Small number of medium enterprises
- Lack of collateral / credit history / audit
- Gender issues - EBRD, ADB, rural women
- WB Doing Business - from 58 to 28 since 2011

# GLOBAL VALUE CHAIN

- “full range of cross-border, value-added business activities that are required to bring a product or service from the conception, design, sourcing raw materials, and intermediate inputs stages to production, marketing, distribution, and supplying the final consumer “ by UN ESCAP



# SME & VALUE CHAINS

- Clusters and supply chains are not developed

## Major challenges:

- high quality standards,
- lack of skilled labour,
- weak institutional support

# AGRICULTURAL VALUE CHAIN

## Current developments:

- an emergence of vertical integration financed by private sector;
- a massive extension of state financing loans to agriculture related projects;
- the emergence of a modern food retail sector in metropolitan areas.

# AGRICULTURAL VALUE CHAIN

- grain / wheat
- meat
- dairy
- poultry
- vegetables and fruits
- food processing / food retailing



# VALUE CHAIN FINANCING

- banks
- non-banking SOEs (Damu, Kazagro)
- microfinance
- local finance institutions, eg. credit cooperatives
- equity finance



# POLICIES TO PROMOTE SME FINANCE

Used in Kazakhstan	Not used in Kazakhstan
Government loan guarantees	Government export guarantees*, trade credit
Special guarantees and loans for start ups	Direct lending to SMEs
<u>Subsidised</u> interest rates	Venture capital, equity funding, business angel support*
SME banks	Business advice, consultancy*
	Tax exemptions, deferments
	Bank targets for SME lending

# RECOMMENDATIONS - GOV

1. From interest rates subsidies to capacity development and indirect stimulus (tax, procurement)
2. Micro-business development - simplify, streamline, tax deferment
3. Medium-size enterprise development - value chains development
4. Peer-to-peer lending and crowd-sourced equity funding (CSEF)
5. National financial education strategy, with the focus on SME

# RECOMMENDATIONS - IFIs

1. Diversify the channels for SME funding (banks, MFOs, equity, crowdfunding, etc)
2. Start a Private Equity Fund Operations (sector-focused) targeted at medium-size enterprises with export sales and managed by private company



# RECOMMENDATIONS - IFIs

1. Diversify the channels for SME funding (banks, MFOs, equity, crowdfunding, etc)
  2. Start a Private Equity Fund (PEF) Operations (sector-focused) targeted at medium-size enterprises with export sales and managed by private company
- ADB's Country Partnership Strategy (CPS) for Kazakhstan for 2017–2021: “***ADB will consider investing in equity funds...***”



# PEF PROJECTS BY ADB

1. \$25mn in Exacta II (\$250 mn total) for Indonesia, Malaysia, Philippines, Singapore, Thailand, and Viet Nam invested in the manufacturing, technology, and service sectors.
2. \$60mn in OrbiMed Asia Partners II, L.P. (\$300 mn total) invested in health care companies in China and India.

**THANK YOU!**