**«APPROVED»**

**By the decision of the Board of "Damu" Entrepreneurship Development Fund**" **JSC**

**Annex No. 3**

**to the Minutes of the meeting of the Management Board of "Damu" Entrepreneurship Development Fund**" **JSC dated September 03, 2021, No. 69/2021**

POLICY OF "DAMU" ENTREPRENEURSHIP DEVELOPMENT FUND" JSC IN THE FIELD OF SOCIAL BONDS (Social Bond Framework)

2021

Table of contents

[1. Ceneral provisions 3](#_Toc82790094)

[2. Definitions and abbreviations 3](#_Toc82790095)

[3. Prerequisites for issuing social bonds 4](#_Toc82790096)

[4. Use of raised funds, project selection and evaluation process 4](#_Toc82790097)

[5. Fund management 5](#_Toc82790098)

[6. Reporting 5](#_Toc82790099)

[7. External Review 6](#_Toc82790100)

# Ceneral provisions

This Policy of "Damu" Entrepreneurship Development Fund" JSC in the field of social bonds (hereinafter - the Policy) is developed in accordance with the requirements of the International Capital Market Association (ICMA) (Principles of Social Bonds ("PSO") 2021)[[1]](#footnote-1).

"Entrepreneurship Development Fund "Damu" JSC (hereinafter – the "Damu" Fund or the Fund), as a special fund for the development of entrepreneurship, within the framework of its policy on sustainable development is ready to support micro, small and medium-sized private entrepreneurship (hereinafter - SMME) through the implementation of the issue social bonds.

The "Damu" Fund intends to finance projects from borrowed funds through conditional placement of funds in second-tier banks and / or microfinance organizations and / or leasing companies. The implementation of such projects will assist in updating the fixed assets of SMMEs, which will increase the volume of financing for SMMEs, in particular, it will contribute to an increase in the level of financial activity of SMMEs, will have a socio-economic effect in the form of an increase in the gross value added of SMMEs, the creation of new jobs, an increase in the wage fund. labor of SMME workers and taxes paid by them.

The "Damu" Fund will strengthen cooperation with international financial organizations in terms of raising funds to solve socially significant problems.

Within the framework of attracting additional sources of financing, the “Damu” Fund is also considering the possibility of attracting additional financing through the issue of bonds, both classical and social. Depending on the financing needs of the SMME, the "Damu" Fund will explore opportunities to raise funds by issuing bonds / social bonds in the domestic capital market.

When attracting borrowings by issuing bonds / social bonds, work will be carried out to increase the investment attractiveness of the "Damu" Fund, including maintaining a credit rating by the "Damu" Fund not lower than the sovereign one. Borrowings will be carried out while maintaining the financial stability of the "Damu" Fund, subject to the established limits and marginal financial ratios.

The policy is designed to ensure transparency in the issuance and reporting processes for the "Damu" Fund's social bonds. The structure is based on the four major components of the SIG: "Use of Raised Funds, Assessment and Selection Process," "Management of Raised Funds," and "Reporting".

Under this Policy, the "Damu" Fund may issue social bonds in a variety of formats in accordance with the prevailing conditions described in this Policy.

The Fund seeks to make full use of social bonds as an innovative debt instrument, to support and develop SMMEs.

# **Definitions and abbreviations**

The following key terms and abbreviations are used in this Policy:

**Bank (Bank/STB)** - a legal entity which is a commercial organization, which is entitled to carry out banking activities in accordance with the Law of the Republic of Kazakhstan "On Banks and Banking Activities in the Republic of Kazakhstan", and which is registered with the registration authorities of the Republic of Kazakhstan as a Bank and has a valid license of the National Bank of the Republic of Kazakhstan to carry out banking operations

**Leasing Company (LC)** – a legal entity providing financial leasing services in accordance with the legislation of the Republic of Kazakhstan.

**SMME -** subjects of micro, small and medium private entrepreneurship in accordance with the laws of the Republic of Kazakhstan;

**Social bonds -** any type of debt instrument, the proceeds of which are used to finance, among other things, new and/or existing projects that meet the eligibility criteria described in this Policy and the Social Bond Principles.

**Microfinance organization (MFО)** – legal entity which is a commercial organization, the official status of which is determined by the state registration in the State Corporation "Government for Citizens" and passing through record registration, carrying out activities on granting microloans on the basis of the license of the authorized body, as well as additional activities permitted by the Law of the Republic of Kazakhstan dated November 26, 2012 № 56-V "On microfinance activities

# **Prerequisites for issuing social bonds**

"Damu" Fund as an institution for the development of entrepreneurship in the state policy of industrial-innovative and socio-economic development attaches paramount importance to social factors in the sustainable development of society and considers social responsibility as one of the key principles of its activities.

Conscious of its responsibility to contribute to the sustainable development of society, "Damu" Fund considers the interests of a wide range of parties impacted by the Fund's activities - Shareholder, borrowers, clients, staff, suppliers, business associations, public administration and the general public. The "Damu" Fund supports SMMEs in the COVID-19 pandemic and its aftermath, in addition to numerous emergency response initiatives, the Fund will implement programs to create and sustain jobs in the face of the pandemic and its aftermath

* Since 2015 "Damu" Fund is a financial agent that implements and monitors financial support (subsidizing interest rates on loans of entrepreneurs, guaranteeing loans of entrepreneurs to banks) under the Unified Business Support and Development Program "Business Road Map 2020". As part of the state program of support and development of business "Business Road Map 2020 "Damu" Fund implements a program of subsidizing part of the interest rate on loans/leasing transactions of SMMEs in the most affected sectors of the economy during the pandemic COVID-19 and works with 174 sectors of the economy.
* Since 2017 "Damu" Fund is a participant in the implementation of the State program for the development of productive employment and mass entrepreneurship in 2017-2021 "Enbek", which provides support for the unemployed and self-employed with entrepreneurial potential.
* In 2011 within the framework of cooperation with the Asian Development Bank and the European Bank for Reconstruction and Development, "Damu" Fund attracted funds to finance women's business, micro, small and medium enterprises of Kazakhstan.

Branches of "Damu" Fund operate in all regions of Kazakhstan and have considerable experience of working with local entrepreneurs, public organizations and local executive authorities.

"Damu" Fund will allocate the raised funds to finance SMMEs through STB/MFO/LC under the COVID-19 pandemic and its consequences with the possibility to save and/or create jobs, carrying out activities according to the list of activities under Annex 1 to Decree No. 224 of the Government of the Republic of Kazakhstan "On Further Measures for Implementation of Decree No. 287 of the President of the Republic of Kazakhstan "On Further Measures for Economic Stabilization" dated March 16, 2020 on taxation" (Annex 1 to this Policy).

Within the framework of social support, the target audience of the "Damu" Fund will be SMMEs.

# **Use of raised funds, project selection and evaluation process**

All projects to be financed with funds raised through the issue of social bonds must comply with the terms of the loan agreement between the Fund and the STB/MFO/LC (hereinafter referred to as the loan agreement).

After raising funds from the issue of social bonds and mixing with the funds of the Fund, the general pool of funds will be placed in STB/MFO/LC on the terms of urgency, payment, repayment and intended use by concluding loan agreements between the Fund and STB/MFO/LC, with further transfer funds to the bank accounts of STB/MFO/LC for the subsequent financing of SMME projects, since in the context of the COVID-19 pandemic this is the most vulnerable group of businesses, whose support will improve the well-being of the population through the possibility of preserving and / or creating jobs.

The Fund sends to STB/MFO/LC the preliminary terms of placement of funds and the terms of financing of SMMEs to receive applications for participation, indicating the need for funds. On the basis of applications from interested STB/MFO/LC for fundraising, the applications are selected, the authorized body of the Fund in accordance with the internal documents makes decisions on financing/conclusion of a loan agreement with STB/MFO/LC, approves the main terms of funds placement, conditions of SMMEs financing and the form of the loan agreement.

Allocation of funds by the Fund by transferring them to the bank account of the STB/MFO/LC occurs after the conclusion of a loan agreement between the Fund and the STB/MFO/LC.

Selection and financing of SMMEs is carried out by STB/MFO/LC in accordance with their lending policies and the terms of loan agreements between the Fund and STB/MFO/LC.

Under the loan agreement, the STB/MFO/LC is responsible for the timely disbursement and proper use of funds, as well as all risks of repayment to the Fund.

STB/MFO/LC shall report to the Fund on the use of allocated funds. The procedure, form and frequency of reporting by STB/MFO/LC are established by the loan agreement.

The Fund monitors SMME projects financed by STB/MFO/LC for proper use of funds and compliance of the SMME project with the terms of the loan agreement in accordance with the Fund's internal documents and the requirements of the loan agreement concluded between the Fund and STB/MFO/LC.

# **Fund management**

Funds raised from the issue of social bonds of the "Damu" Fund are held in the special account of the "Damu" Fund until the Fund distributes them to STB/MFO/LC. Following the Fund's allocation of funds to STB/MFO/LC, the latter shall allocate the funds to finance SMMEs complying with the terms of the loan agreement.

"Damu" Fund has the right to place the unallocated amount of funds raised from the sale of social bonds in liquid and highly reliable financial instruments permitted for investment in accordance with the Rules of management of temporarily free funds of "Damu" Entrepreneurship Development Fund" JSC, which can be sold as soon as possible without forming cash gaps when there is a need for targeted funding, that is, until such time as these funds will be transferred to the portfolio of assets / projects of social

An external audit to verify the use of funds raised by the "Damu" Fund will be conducted as part of an annual audit of the "Damu" Fund by an independent auditing firm.

# **Reporting**

The "Damu" Fund will provide and keep publicly available annual updated reports on the social bonds issued from the time of issuance until full redemption and in the event of any material changes. These reports will be published on the official website of the "Damu" Fund www.damu.kz and may include, but are not limited to:

**Report on the distribution** of funds received from each social bond of the "Damu" Fund.

**Exposure report**

Where possible, the "Damu" Fund will provide aggregate information on the use of funds, including performance measures such as (but not limited to):

- amount of funding;

- Number of financed SMMEs;

- preservation/increase of the average annual number of jobs;

- income growth (income from sales: the cost of sold goods, works, services from the main activity);

- tax proceeds.

Disclosures related to the use of funds raised, impact reporting, and projects financed or refinanced are subject to the "Damu" Fund's obligations of confidentiality and availability of such information.

# **External Review**

"Damu" Fund reserves the right to provide any type of external review: an external advisor's opinion, Verification, Certification or Rating.

Annual reports on the use and management of the funds raised will be reviewed and signed by independent reviewers to confirm the social status of the bond(s). This may take the form of a letter signed by the independent reviewer and may also include a statement from the financial auditor regarding the use of the funds raised.

External reviews and annual reports of the issued social bonds will be published on the "Damu" Fund website at the time of issuance and before the maturity of the social bonds.

Annex No. 1 to the Social Bond Policy of Damu Entrepreneurship Development Fund JSC (Social Bond Framework)

|  |  |  |
| --- | --- | --- |
| No. | NCEA | Types of activities |
| 1 | 2 | 3 |
| 1. | 45.11.2 | Retail trade in automobiles and light motor vehicles in retail facilities with a sales area of less than 2000 sq. m. |
| 2. | 45.11.3 | Retail trade in automobiles and light motor vehicles in retail establishments with a sales area of more than 2000 sq. m. (2000 sq. m and above) |
| 3. | 45.20 | Repair and maintenance of motor vehicles |
| 4. | 45.32.1 | Retail sale of automotive parts, units and accessories in retail establishments with a sales area less than 2,000 sq.m. |
| 5. | 45.32.2 | Retail sale of automotive parts, units and accessories in retail establishments with a sales area over 2000 sq. m. (2000 sq. m. and above) |
| 6. | 47 | Retail trade with the exception of trade in automobiles and motorcycles (excluding pharmacies and retail trade in food, drinks and tobacco) |
| 7. | 49.4 | Activities of road freight transport and provision of moving services |
| 8. | 51.10 | Activity of air passenger transport |
| 9. | 52.23.2 | Activity of airports |
| 10. | 55.10 | Provision of services by hotels and similar accommodation facilities |
| 11. | 56.10 | Activity of restaurants and provision of food delivery services |
| 12. | 58.2 | Publishing of software |
| 13. | 59.14 | Film projection activities |
| 14. | 62.01 | Activities in computer programming |
| 15. | 68.20 | Leasing and management of own or leased real estate (retail chains and stationary trading facilities, leasing and management of own real estate, leasing commercial premises (shopping malls, retail facilities), except for pharmacies and retail trade in food, beverages and tobacco products) |
| 16. | 69.10 | Legal activities (legal consultants, persons engaged in private practice: notaries, attorneys, private bailiffs, mediators, including in case of absence of employees for obligations incurred on their own behalf) |
| 17. | 70.22 | Business and other management consulting |
| 18. | 71.20.1 | Activities of sanitary and epidemiological organizations |
| 19. | 79.1 | Activities of travel agencies and operators |
| 20. | 85.10 | Pre-school education (private pre-school (pre-primary) education) |
| 21. | 85.20 | Primary education (private schools, excluding international schools) |
| 22. | 85.30 | Secondary education (private schools, excluding international) |
| 23. | 86.10 | Activities of hospital organizations (private organizations) |
| 24. | 86.10.3 | Activities of health resort organisations |
| 25. | 86.2 | Doctors' and dentists' activities (private organizations) |
| 26. | 90.04 | Activity of concert and theater halls |
| 27. | 93.13 | Activity of fitness clubs |
| 28. | 96.01 | Washing and dry cleaning of textiles and furs |
| 29. | 96.02 | Provision of services by hairdressing and beauty salons |

**Signed by the Secretary**

03.09.2021 15:38 Akhat Magauyaevich Khozhamuratov

1. <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/Translations/2020/Russian-SBP2020-06-021120.pdf> [↑](#footnote-ref-1)