

Ensuring Economic Stability. Support of Small and Medium-Sized Enterprises in Kazakhstan

April 2020

In March 2020, based on Decrees No.285 of the President of the Republic of Kazakhstan “On Imposition of the State of Emergency in the Republic of Kazakhstan” dated 15 March 2020 and No.286 “On Measures to Ensure Social and Economic Stability” dated 16 March 2020, financial regulators has adopted decrees providing financial support to Small and Medium Sized Enterprises for the purpose of decrease of the negative consequences of COVID-19 outbreak in Kazakhstan.

These decrees include Decree No. 39 of the Management Board of the National Bank of the Republic of Kazakhstan “On Approval of the Soft Loan Program for Small and Medium-Sized Enterprises” dated 19 March 2020 and Order of the Chairman of the Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan No. 167 “On Approval of the Procedure for Suspension of Payments of Principal Debt and Loan Fees to Households and Small and Medium-Sized Businesses Affected by the State of Emergency” dated 26 March 2020.

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Suspension of payments of the principal debt and fees under credit institutions' loan agreements.

Each year small and medium sized enterprises (the “SMEs”) ratio grows up in Kazakhstan and at the end of 2019 achieved 28% in Kazakhstan’s GDP. To keep this increasing, most certainly, they are indeed required to be provided with special business environment.

Kazakhstan SMEs affected by the State of Emergency represent:

Enterprise	Average annual employee	Average annual income	Branches of economy
Small-sized business entities	not more than one hundred (100) people	not more than three hundred thousand (300,000) times a monthly calculated indicator in effect on January 1 of the corresponding financial year	<ul style="list-style-type: none"> Trade sector, including tenants of shopping and entertainment centers, consumer goods stores, goods delivery chain, except for grocery stores, pharmacies and related deliveries;
Medium-sized business entities	from one hundred one (101) to two hundred fifty (250) people	more than three hundred thousand (300,000) times a monthly calculated indicator, but not more than three million (3,000,000) times a monthly calculated indicator inclusive	<ul style="list-style-type: none"> Sports, tourism and hotel business, including tour operators and travel agents; Passenger and freight transportation sector, except for food and medicine; Catering sector, including restaurants and cafes; Welfare, leisure and recreation sector, including theatres, cinemas, photo and video shooting, exhibitions and conferences, organization of celebrations, beauty salons and fitness centers.

Credit institutions shall carry out suspension of payments of principal debt and fees under bank loan agreements and (or) microloan for the period from 16 March to 15 June 2020 to SMEs including individual entrepreneurs, if:

- SME’s activity is listed above;
- its financial standing has deteriorated, due to a confirmed decrease in sales of goods and (or) services, delays, suspensions, rescheduling (suspension) of payments from buyers, reduction in the number of employees or for other objective reasons during the state of emergency.

Suspension of payments shall be carried out by way of provision of the grace period for the principal debt and fees without signing additional agreements to bank loan and (or) microloan agreements, pledge agreements.

SMEs shall submit an application to the credit institution at any time during the period from 16 March to 15 June 2020, and the documents confirming the deterioration of financial standing. Suspension of payments

shall not constitute a ground for deterioration of the borrower's credit history and the provision of negative information on the borrower to credit bureaus.

To simplify application procedure for borrowers, credit institution must accept application by e-mail, online bank-client system, internet portal, mobile application, or other means of communication.

Also for the period of suspension of payments, the credit institution shall terminate the claim-related work and notification the borrower of the need to repay overdue debts. The bank shall have the right to refuse to fulfil the payment claim on the individuals' accounts, which loans the bank has suspended payments on.

Credit institutions are prohibited to charge commissions and other payments from borrowers while considering applications for suspension of payments and corresponding amendment of pledge agreements and other related agreements.

Soft Loan Program Scheme for Small and Medium-Sized Enterprises

According to the NBK Decree the National Bank of the Republic of Kazakhstan (the "NBK") will carry out financing of second-tier banks to support SMEs in the amount of up to KZT 600 billion in accordance with the limits for each second-tier bank.

The Soft Loan Program for Small and Medium-Sized Enterprises (the "Program") will be operated by Joint-Stock Company "Kazakhstan Sustainability Fund" (the "KSF"). The NBK will carry out the capitalization increase of KSF in the amount of KZT 600 billion. Then KSF will place a conditional deposit in the second-tier banks on the following terms:

1.	Period	up to 12 (twelve) months
2.	Interest rate	5% (five percent) per annum
3.	Deposit interest accrual	from the moment of placement of the deposit funds Money before use shall be placed on the current account of the second-tier bank opened in the NBK, in accordance with the limits for each second-tier bank, specified in the Program. Funds from the current account should be used within 3 (three) months after the placement.
4.	Limit for each second-tier bank	3 (three) tranches: 30%, 35% and 35% Each subsequent tranche shall be disbursed after the funds disbursed under the previous tranche are fully utilized.
5.	Use of funds within the tranche	based on the request of a second-tier bank with an indication of the list of loans approved for lending) The volume and number of requests within each tranche is not limited.

6.	Period of funds disbursement	not more than 5 (five) business days since the funds are credited to the KSF's deposit until the loan is issued to the borrower
7.	Funds from repayment of loans issued to SMEs	shall be returned to the second-tier bank's current account in the National Bank and can be reused and disbursed under new request of the bank

KSF processes each bank's request within not more than 2 (two) business days and sends information on the approved request to the second-tier bank, to the NBK and the Agency for Regulation and Development of the Financial Market of the Republic of Kazakhstan (the "**Agency**").

Terms for participation of second-tier banks

Second-tier banks that have passed an independent Asset Quality Review in the banking sector shall be allowed to participate pursuant to the limits specified in the Program, having in their portfolio as of 1 March 2020 loans issued to SMEs, and having signed an agreement on the implementation of the Program.

The second-tier bank enters into the Program Implementation Agreement with KSF and the Agency (the Agreement) which shall contain:

- basic terms for loans issuing, which correspond to the Program terms;
- criteria evidencing deterioration of the borrower's financial standing due to imposition of the state of emergency;
- procedure for interaction between the KSF, the second-tier bank and the Agency;
- liabilities of the second-tier bank;
- liability of the bank for violations of the Program terms;
- procedure for monitoring by the bank, the Agency and KSF of the terms for implementation of the Program;
- other terms.

The second-tier bank shall ensure the designated use of funds:

- 1) the funds should be used to issue new loans to SMEs;
- 2) limit for one borrower:
 - for legal entities - small and medium-sized enterprises - not exceeding KZT 3 billion;
 - for individual entrepreneurs - not exceeding KZT 50 million;
- 3) a loan for working capital financing shall be transferred to the borrower's bank account and the borrower shall make payments for goods, works, services, taxes and other payments to the budget and wages by wire transfer;
- 4) the funds should not be directed by the second-tier banks to:
 - purchase of government securities, notes of the National Bank;

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- purchase of corporate securities, purchase of foreign currency;
 - placement of deposits in other second-tier banks;
 - other purposes not related to the financing of SMEs.

The following SMEs shall not be subject to financing:

- those having overdue outstanding loans exceeding 90 (ninety) calendar days as of 16 March 2020;
- persons bound by special relationships with second-tier banks;
- non-residents of the Republic of Kazakhstan;
- founders (including participants, shareholders) of which are state enterprises (institutions), national management holdings, national holdings, national companies and organizations, fifty and more percent of shares (participatory interest in the authorized capital) of which are directly owned by the state, their affiliates, as well as SMEs, whose form of ownership is registered as a private institution, and non-profit organizations.

After proceeding of all relevant procedures by the second-tier bank, it issues loans and (or) provides new financing to SMEs under credit lines with interest rate – up to 8% (eight percent) per annum and for the period of - up to 12 (twelve) months.

Conclusions

We encourage our clients to consider the opportunities presented by the available financing support measures carefully, consulting with us as appropriate.

In addition, White & Case has carried out an analysis of global governmental responses to the COVID-19 crisis. These vary considerably from country to country and are being updated and amended regularly.

We have prepared an in-depth and nuanced analysis for various major jurisdictions and pulled together a global response team.

For useful information on COVID-19, please consult the Coronavirus section of www.whitecase.com.

Annex I

The applicable measures for Small and Medium-Sized Enterprises are described and compared below.

Applicable Measures	Small Sized Enterprises	Medium-Sized Enterprises
Suspension of payments of the principal debt and fees under credit institutions' loan agreements	Branches of economy falling under suspension: <ul style="list-style-type: none"> • Trade sector, including tenants of shopping and entertainment centers, consumer goods stores, goods delivery chain, except for grocery stores, pharmacies and related deliveries; • Sports, tourism and hotel business, including tour operators and travel agents; • Passenger and freight transportation sector, except for food and medicine; • Catering sector, including restaurants and cafes; • Welfare, leisure and recreation sector, including theatres, cinemas, photo and video shooting, exhibitions and conferences, organization of celebrations, beauty salons and fitness centers. 	Same
	Condition to apply for suspension: Deterioration of the financial standing of SME/Individual Entrepreneur, due to a confirmed decrease in sales of goods and (or) services, delays, suspensions, rescheduling (suspension) of payments from buyers, reduction in the number of employees or for other objective reasons during the State of Emergency	Same
	Suspension of payments is carried out by way of provision of the grace period for the principal debt and fees without signing additional agreements to bank loan and (or) microloan agreements, pledge agreements. Requirement for credit institution within the period of suspension of payments, to terminate the claim-related work and notification the borrower of the need to repay overdue debts. The bank shall have the right to refuse to fulfil the payment claim on the individuals' accounts, which loans the bank has suspended payments on. Credit institutions are prohibited to charge commissions and other payments from borrowers while considering applications for suspension of payments and corresponding amendment of pledge agreements and other related agreements.	Same
Soft Loan Program	Terms for placement of the KSF's deposit in second-tier banks: <ul style="list-style-type: none"> • period - up to 12 (twelve) months; 	Same

	<ul style="list-style-type: none"> • interest rate - 5% (five percent) per annum. Deposit interest shall be accrued from the moment of placement of the deposit funds; • money before use shall be placed on the current account of the second-tier bank opened in the National Bank, in accordance with the limits in terms of second-tier banks, specified in schedule to the Program. Money from the current account should be used within 3 (three) months after the placement; • a limit for each second-tier bank is divided into 3 (three) tranches: 30%, 35% and 35%. Each subsequent tranche shall be disbursed after the funds disbursed under the previous tranche are fully utilized; • use of money within the tranche is based on the request of a second-tier bank with an indication of the list of loans approved for lending (hereinafter - the request). The volume and number of requests within each tranche is not limited. • the period of disbursement of money, received upon a request, from the moment the money is credited to the KSF's deposit until the loan is issued to the borrower, shall be not more than 5 (five) business days; • funds from repayment of loans issued to SMEs shall be returned to the second-tier bank's current account in the National Bank and can be reused and disbursed under new requests; • period of keeping money on the current account – not more than 12 months from opening of the current account. 	
	<p>Requirements on designated use for second-tier banks</p> <ol style="list-style-type: none"> 1) the funds should be used to issue new loans to enterprises; 2) limit for one borrower: not exceeding KZT 3 billion; 3) a loan for working capital financing shall be transferred to the borrower's bank account and the borrower shall make payments for goods, works, services, taxes and other payments to the budget and wages by wire transfer; 4) the funds should not be directed by the second-tier banks to: <ul style="list-style-type: none"> • purchase of government securities, notes of the National Bank; • purchase of corporate securities, purchase of foreign currency; • placement of deposits in other second-tier banks; • other purposes not related to the financing of enterprises. • 	Same

	<p>Terms for loans issuing and (or) providing new financing under credit lines by second-tier banks to enterprises:</p> <ul style="list-style-type: none"> • interest rate – up to 8% (eight percent) per annum; • period - up to 12 (twelve) months. 	Same
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