

**Project “Small and Medium Enterprises  
Competitiveness Project” financed under  
Agreement No. 8477-KZ between the Government  
of the Republic of Kazakhstan and the International  
Bank of Reconstruction and Development**

**Financial Statement for the year ended  
December 31, 2016**

**And Independent Auditors’ Report**

Table of content

Independent audit report

Financial statement

Statement of receipts and disbursements of fund..... 1-2

Notes to financial statements ..... 3-7



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## INDEPENDENT AUDITORS' REPORT

To the Management of the Project: "Small and Medium Enterprises Competitiveness Project" financed under Agreement No. 8477-KZ between the Government of the Republic of Kazakhstan and the International Bank of Reconstruction and Development

### Opinion

We have audited the accompanying financial statements of Project "Small and Medium Enterprises Competitiveness Project" financed under Agreement No. 8477-KZ between the Government of the Republic of Kazakhstan and the International Bank of Reconstruction and Development which consist of the statement of cash receipts and disbursements for the year then ended 31 December 2016, as well as a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements fairly present, in all material respects, the cash receipts and disbursements for the year then ended 31 December 2016 and cash position as at 31 December 2016 in accordance with the International Public Sector Accounting Standard (IPSAS) "Financial Reporting under the Cash Basis of Accounting" published by the International Federation of Accountants (IFAC) and in accordance with the requirements of the International Bank of Reconstruction and Development.

### Basis for Opinion

We have performed our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section Auditor's Responsibility for the Audit of the Financial Statements herein. We are independent in relation to the Company, as required by the Code of Ethics for Professional Accountants of the International Ethics Standards Boards for Accountants (Code of IESBA) and the ethical requirements applicable to our audit of the financial statements in Kazakhstan, and we performed other ethical responsibilities of ours in compliance with those requirements and the Code of Ethics for Professional Accountants. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Responsibility of the Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IPSAS "Financial Reporting under the Cash Basis of Accounting" published by the International Federation of Accountants (IFAC) and in accordance with the requirements of the International Bank of Reconstruction and Development, and for such internal control as management determines is necessary to enable preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters relating to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternatives but to do so.

Товарищество с ограниченной ответственностью "BDO Kazakhstan", зарегистрированное в соответствии с законодательством Республики Казахстан, является участником международного объединения BDO International Limited, британского общества с ответственностью, ограниченной гарантией его участников, и является частью международной сети независимых компаний BDO.

BDO Kazakhstan, a limited liability partnership, registered under the laws of the Republic of Kazakhstan, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

## INDEPENDENT AUDITORS' REPORT (continued)

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### Auditor's Responsibility for the Audit of the Financial Statements

Our objective is to obtain reasonable assurance whether the financial statements are free of material misstatement due to fraud or error, and to express the audit opinion. Reasonable assurance means a high degree of certainty, but does not guarantee that the audit performed in accordance with the International Standards on Auditing always identifies significant misstatements, if any. Misstatement can be caused by fraud or errors, and are considered material if you can reasonably assume that they, individually or cumulatively, can impact on economic decisions of users made on the basis of the financial statements.

As part of the audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or errors; design and perform audit procedures responsive to those risks; and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting risk of material misstatement resulting from fraud is higher than the detection risk of material misstatement due to errors, since fraud can involve collusion, forgery, intentional omissions, misrepresentations of information or override of internal controls;

- Obtain understanding of the internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used, and the reasonableness of accounting estimates, and appropriateness of disclosures prepared by management;
- Evaluate the overall presentation of the financial statements, its structure and content, including disclosures, we also evaluate whether the financial statements present the underlying transactions and events so as to ensure their fair presentation. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit finding, including any significant deficiencies in internal control that we identify during our audit.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit finding, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the current period and, therefore, the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## INDEPENDENT AUDITORS' REPORT (continued)

The engagement partner on the audit, resulting in the independent auditor's report, is Igoshina Natalia.

LLP «BDO Kazakhstan»

State audit license for audit activities on the territory of the republic of Kazakhstan: №150003448 issued by the Ministry of Finance of the Republic of Kazakhstan on 19 of February 2015



Director T.A. Omarov

«29» May 2017

Auditor N. Igoshina



Auditor Qualification certificate number МФ-0000040, issued by the Qualification Commission for certification of auditors of the Republic of Kazakhstan 08.08.2011.

Republic of Kazakhstan, Almaty,  
Gabdullina, 6

**STATEMENT OF RECEIPTS AND DISBURSMENTS OF FUNDS**

For the year ended 31 December 2016

	Notes	2016			2015		
		IBRD loan	Proceeds from the Government of the RK	Total	IBRD loan	Proceeds from the Government of the RK	Total
<i>US dollars</i>							
The cash balances as of 1 <sup>st</sup> of January	-	-	-	-	-	-	-
<b>Receipts</b>							
Cash receipts to special account		160,000	-	160,000	-	-	-
Direct payments		407,451	3,916	411,367	-	-	-
<b>Total receipts under the project</b>	<b>5</b>	<b>567,451</b>	<b>3,916</b>	<b>571,367</b>	-	-	-
<b>Expenses</b>							
<b>Part 1: SME Capacity Building Program</b>							
Goods		-	-	-	-	-	-
Non-consultants' services		-	-	-	-	-	-
Operational expenses		-	-	-	-	-	-
Training		-	-	-	-	-	-
<b>Part 2: SME Linkages in Competitive Sectors</b>							
Goods		-	-	-	-	-	-
Non-consultants' services		-	-	-	-	-	-
Operational expenses		355,184	-	355,184	-	-	-
Training		52,267	-	52,267	-	-	-
		<b>407,451</b>	-	<b>407,451</b>	-	-	-
<b>Part 3: Impact Evaluation and Monitoring of SME Programs</b>							
Goods		-	-	-	-	-	-
Non-consultants' services		-	-	-	-	-	-
Operational expenses		-	-	-	-	-	-
Training		-	-	-	-	-	-

Notes on pages from 3 to 7 form an integral part of the financial statements

STATEMENT OF RECEIPTS AND DISBURSMENTS OF FUNDS (continued)

For the year ended 31 December 2016

US dollars	Notes	2016		2015		Total
		IBRD loan	Proceeds from the Government of the RK	IBRD loan	Proceeds from the Government of the RK	
<b>Part 4: Project Management</b>						
	Goods	-	-	-	-	-
	Non-consultants' services	68,336	-	-	68,336	-
	Operational expenses	91,485	3,916	-	95,401	-
	Training	-	-	-	-	-
	<b>Total Expenses Under the Project</b>	<b>159,821</b>	<b>3,916</b>	<b>-</b>	<b>163,737</b>	<b>-</b>
	<b>Other expenses/(income)</b>	<b>567,272</b>	<b>3,916</b>	<b>-</b>	<b>571,188</b>	<b>-</b>
	Commission withheld at replenishment of special account	-	-	-	-	-
	Fee for conversion and servicing on a special account	-	-	-	-	-
	Net expenses from change in foreign exchange rates	-	-	-	-	-
	<b>Total other expenses</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
	<b>Total Expenses Under the Project</b>	<b>567,272</b>	<b>3,916</b>	<b>-</b>	<b>571,188</b>	<b>-</b>
	<b>Balance as of 31 of December</b>	<b>4</b>	<b>179</b>	<b>-</b>	<b>179</b>	<b>-</b>

Sign on Behalf of the Management of the Project



Zhumangarin S.M.

Vice Minister of the Ministry of National Economy of the Republic of Kazakhstan

Notes on pages from 3 to 7 form an integral part of the financial statements

## NOTES TO FINANCIAL STATEMENTS

For the year ended 31 December 2016

### 1. GENERAL PROVISIONS

#### Kazakhstan business environment

Operating environment in the Republic of Kazakhstan, Project activities are carried out in Kazakhstan. Accordingly, the project is exposed to risks incidental to economic and financial markets of Kazakhstan, which demonstrate characteristics of a country with a developing market economy. The legal system, tax system and legislative base continue to develop but are subject to various interpretations and frequent changes, which together with other legal and financial impediments intensify the problems encountered by the entities operating in Kazakhstan.

#### Nature of operations

Loan agreement No. 8477-KZ (the “Agreement”) between the Government of the Republic of Kazakhstan (the “Government”) and International Bank for Reconstruction and Development (“IBRD”) was signed on 20 July 2015 and was ratified on 02 December 2015 (“inception date of the Project”). Under the Agreement IBRD provides a loan of 40,000,000 US dollars (the “Loan”) and the Government provides co-financing from the Republican budget in the sum of 6,000,000 US dollars (“Co-finance”) for the Project implementation of “Small and Medium Enterprises Competitiveness Project” (“Project”) and shall be repaid by Government on 15 May and 15 November of each year, starting from 15 May 2020 to 15 November 2031.

In accordance with the approved budget for 2016, cash receipts and payment of the Project financed by Loan from IBRD and co-financed by the Government of Republic of Kazakhstan were planned in the amount of 677,777 US dollars and 3,916 US dollars, respectively.

The objective of the Project is to enhance the competitiveness and capacity of targeted small and medium sized enterprises in the Borrower’s territory.

The Project comprises the following main components:

#### **Part 1: SME Capacity Building Program**

Strengthening and expanding existing SME advisory programs as set forth in the Operations Manual, including the Business Advisors Network, through the provision of goods, Training and consultants’ services.

#### **Part 2: SME Linkages in Competitive Sectors**

- **Supplier Development Activities:** Implementing supplier development activities designed to increase the ability of SMEs to supply inputs into the local operations of multinational corporations, large local firms and state- owned enterprises by, *inter alia*, upgrading skills of suppliers, improving business and management practices, facilitating communication and relationships between potential SME suppliers and major buyers, and establishment of a supplier development office, all through the provision of goods, Training and consultants’ services.
- **Competitive Sectors:** Developing higher value-added production and increased competitiveness of SMEs in non-extractive sectors in and around priority geographic

## **NOTES TO FINANCIAL STATEMENTS (continued)**

- areas by institutional capacity strengthening, through the provision of Training and consultants' services.
- Factoring Strategic Assessment: Conducting a detailed assessment for development of factoring and reverse-factoring in the territory of the Borrower, including an online platform for SMEs to register and verify their accounts receivables.

### **Part 3: Impact Evaluation and Monitoring of SME Programs**

Strengthening monitoring and evaluation frameworks, public-private sector dialogue, and transparency of SME policy making through the provision of Training and consultants' services.

### **Part 4: Project Management**

Provision of consultants' services and Training and payment of Operating Costs to implement, manage, and coordinate the Project.

Expected date of completion of the project is 30 June 2020.

## **2. BASIS OF PREPARATION**

These financial statements have been prepared in accordance with the International Public Sector Accounting Standard (IPSAS) "Financial Reporting under the Cash Basis of Accounting" published by the International Federation of Accountants (IFAC), and in accordance with requirements of the International Bank of Reconstruction and Development.

The approved Project budget broken down by categories of expenses under the loan agreement does not represent public information and accordingly comparison of the budget with the actual amounts is not presented.

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies described below have been consistently applied in the reporting periods presented in these financial statements.

### **Cash method of accounting**

Cash method of accounting recognizes transactions and events when cash under the Project is received or paid.

### **Presentation currency of the financial statements**

These financial statements are presented in US dollars (hereinafter, the "US dollars").

### **Foreign currency transactions**

Transactions in foreign currency are translated into the reporting currency at the rate of exchange ruling at the date of reconversion. Direct payments from IBRD are translated into USD at the rate of exchange established by National Bank of the Republic of Kazakhstan at the date of payments. Receipts from the Government of the Republic of Kazakhstan are translated to US dollars at the foreign exchange rates established by the National Bank of the Republic of Kazakhstan at the date of receipt of funds. The foreign exchange differences arising upon translation of transactions denominated in other currencies into US dollars are presented as a net value from a change in foreign exchange rates.

Project "Small and Medium Enterprises Competitiveness Project" financed under Agreement No. 8477-KZ between the Government of the Republic of Kazakhstan and the International Bank of Reconstruction and Development

## NOTES TO FINANCIAL STATEMENTS (continued)

### Categories of expenses

The agreement determines the main categories of expenditures financed by the Loan, quantity for each category, as well as the share of financing for each category.

In accordance with the Agreement, there are the following categories of expenses:

- 1) Goods, non-consultants' services, services of consultants and training for part 1 of the project (Portion of expenses to be financed (excluding taxes) 85%);
- 2) Goods, non-consultants' services, services of consultants and training for part 2, 3 and 4 of the project (Portion of expenses to be financed (excluding taxes) 100%).

### Cash receipt

Based on the terms and conditions of the Agreement, the Government of the Republic of Kazakhstan is obliged to repay interest and principal of the Loan. These payments are recorded in the Government accounts and are not reflected in these financial statements. 15 November 2031 is the date of the last payment of the Government under the Loan.

### Allocation of expenses

The allocation of expenses by component in the report on receipt and expenditure of funds is made on the basis of a comparison of the description of work in the Agreement and the description of work in the primary documents.

## 4. CASH

To conduct operations on Loan No.8477-KZ, special accounts have been opened in the Department of the Treasury for making cash payments to suppliers:

- № 01.6201.000000000.Z08477.001.2430001.2, US dollars;
- № KZ120702012430001001, KZT.

The cash balances as at 31 December and the special account transactions for the year ended 31 December 2016 are as follows:

<i>US dollars</i>	2016	2015
Balance at 31 December	179	-
Including balances denominated in:		
US dollars	179	-
Tenge	-	-

## 5. DIRECT PAYMENTS AND REPLENISHMENT OF ACCOUNT

Direct payments under the Project are made by IBRD and the Government of the Republic of Kazakhstan directly to suppliers, which are determined in accordance with the terms and conditions of the Agreement.

Direct payments for Suppliers and cash replenishment of Project for the year ended 31 December 2016, were made according to the following withdrawal applications:

Project "Small and Medium Enterprises Competitiveness Project" financed under Agreement No. 8477-KZ between the Government of the Republic of Kazakhstan and the International Bank of Reconstruction and Development

## NOTES TO FINANCIAL STATEMENTS (continued)

No. of withdrawal application	Date of withdrawal	Direct Payments	Replenishment of account	<i>US dollars</i>
				Total
MNE-01	21 June 2016	-	67,900	67,900
MNE-02	2 September 2016	-	32,700	32,700
MNE-03	10 October 2016	-	10,800	10,800
MNE-04	4 November 2016	-	16,100	16,100
MNE-05	7 December 2016	-	32,500	32,500
MNE-06	20 December 2016	52,267	-	52,267
MNE-07	20 December 2016	355,184	-	355,184
<b>Total</b>		<b>407,451</b>	<b>160,000</b>	<b>567,451</b>

### 6. UNUSED PORTION OF LOAN

As of 31 December 2016 the balance of undrawn borrowing facilities of Loan from IBRD was 39,432,549 US dollars (2015: None).

### 7. PROJECT EXPENSES FOR CUMULATIVE TOTALS

Statement of cash distribution of Project expenses for cumulative totals is as follows:

<i>US dollars</i>	Cumulative from the inception date of the project through 31 December 2015			Cumulative from the inception date of the project through 31 December 2016		
	IBRD loan	Proceeds from the Government of the RK	Total	Proceeds from the Government of the RK	IBRD loan	Total
<b>RECEIPTS</b>						
Receipts to special Account IBRD		-	-	160,000	-	160,000
Direct payments IBRD		-	-	407,451	-	407,451
Direct payments from the Government of RK	-	-	-	-	3,916	3,916
<b>Total Receipts Under the Project</b>		-	-	<b>567,451</b>	<b>3,916</b>	<b>571,367</b>
<b>Expenses</b>						
<b>Part1: SME Capacity Building Program</b>						
Goods	-	-	-	-	-	-
Non-consultants' services	-	-	-	-	-	-
Operational expenses	-	-	-	-	-	-
Training	-	-	-	-	-	-
	-	-	-	-	-	-

## NOTES TO FINANCIAL STATEMENTS (continued)

<i>US dollars</i>	Cumulative from the inception date of the project through 31 December 2015			Cumulative from the inception date of the project through 31 December 2016		
	IBRD loan	Proceeds from the Government of the RK	Total	Proceeds from the Government of the RK	IBRD loan	Total
<b>Part 2: SME Linkages in Competitive Sectors</b>						
Goods	-	-	-	-	-	-
Non-consultants' services	-	-	-	-	-	-
Operational expenses	-	-	-	355,184	-	355,184
Training	-	-	-	52,267	-	52,267
	-	-	-	<b>407,451</b>	-	<b>407,451</b>
<b>Part 3: Impact Evaluation and Monitoring of SME Programs</b>						
Goods	-	-	-	-	-	-
Non-consultants' services	-	-	-	-	-	-
Operational expenses	-	-	-	-	-	-
Training	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Part 4: Project Management</b>						
Goods	-	-	-	-	-	-
Non-consultants' services	-	-	-	68,336	-	68,336
Operational expenses	-	-	-	91,485	3,916	95,401
Training	-	-	-	-	-	-
	-	-	-	<b>159,821</b>	<b>3,916</b>	<b>163,737</b>
	-	-	-	<b>567,272</b>	<b>3,916</b>	<b>571,188</b>
<b>Other expenses /(income)</b>						
Fee withheld at replenishment of special account	-	-	-	-	-	-
Fee for conversion and servicing on a special account	-	-	-	-	-	-
Net expenses from change in foreign exchange rates	-	-	-	-	-	-
	-	-	-	-	-	-
<b>Total payment under the program</b>	-	-	-	<b>567,272</b>	<b>3,916</b>	<b>571,188</b>

### 8. DATE OF ISSUE

These financial statements have been approved for issue by the Vice Minister of the Ministry of National Economy of the Republic of Kazakhstan on 29 May 2017.



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