



**VERIFICATION
OF USE OF PROCEEDS REPORT ON GREEN BONDS
OF JSC «DAMU» ENTREPRENEURSHIP
DEVELOPMENT FUND»**

**EXTERNAL REVIEW BY
AIFC GREEN FINANCE CENTRE LTD.**

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1. SCOPE AND OBJECTIVES

On August 11, 2020 «Damu» Entrepreneurship Development Fund» JSC (the “Issuer” or the “Damu Fund”) issued 200 mln. bond in KZT with ISIN KZX000000492 (hereinafter referred to as “Bond”) and obtained an external review on JSC «Damu» Entrepreneurship Development Fund» Policy in Green Bond Framework (Damu Green Bond Framework or GBF) in the form of Second Party Opinion from AIFC Green Finance Centre Ltd. External review was carried against the Green Bond Principles of International Capital Markets Association (ICMA).

In 2021 Damu Fund has used the proceeds from the Bond to finance the nominated project under the following category:

- Renewable energy (including production, transmission, appliances and products).

AIFC Green Finance Centre Ltd. (hereinafter referred to as «AIFC GFC») has been appointed by Damu Fund to provide the initial external review and verification of post-issuance reporting on the first year after issuance of the Bond.

In accordance with JSC «Damu» Entrepreneurship Development Fund» Policy in Green Bond Framework (Damu Green Bond Framework) Damu Fund intends to provide and keep in the public domain the annual updated Use of proceeds reports on Green bonds.

Our objective is to review the first annual report of raised funds usage and management to confirm the green status of the Bond. The process will include verification that the actual management and disbursement process is consistent with the processes outlined in the Damu Green Bonds Framework and is aligned with the ICMA Green Bonds Principles.

2. RESPONSIBILITIES OF THE MANAGEMENT OF DAMU FUND AND AIFC GFC

The management of Damu Fund has provided the information and data used by AIFC GFC during the delivery of this review. Our statement represents an independent opinion and is intended to inform Damu Fund management and other interested stakeholders in the Bond as to whether the established process has been followed, based on the information provided to us.

Consequently, this Opinion is for information purposes only and GFC will not accept any form of liability for the substance of the opinion and/or any liability for damage arising from the use of this Opinion and/or the information provided in it.

As the Opinion is based on information made available by the client, GFC does not warrant that the information presented in this Opinion is complete, accurate or up to date.

Nothing contained in this Opinion shall be construed as to make a representation or warranty, express or implied, regarding the advisability to invest in or include companies in investable universes and/or portfolios. Furthermore, this Opinion shall in no event be interpreted and construed as an assessment of the economic performance and credit worthiness of the bond, nor to have focused on the effective allocation of the funds’ use of proceeds.

The client is fully responsible for certifying and ensuring its commitments’ compliance, implementation and monitoring.

3. ASSESSMENT OF USE OF PROCEEDS REPORT

The process of preparation of External review on Post-issuance (Use of proceeds) report is broadly similar to preparation Pre-issuance External Review. However, the post-issuance review would evaluate alignment of actual use of proceeds with the intended use of proceeds declared prior to issuance of Green bonds in the Issuers Green Bond Framework.

This measure would ensure transparency of management and the allocation of net Green bonds proceeds. The post-issuance external review includes:

- **Use of Proceeds** - verification of utilisation of the proceeds of the bond for eligible Green projects, which should be appropriately described in the legal documentation of the Bond. All designated eligible Green projects should provide clear environmental benefits, which will be assessed and, where feasible, quantified by the issuer;
- **Process for Project Evaluation and Selection** - verification of the process by which the issuer determines how the projects fit within the eligible Green projects categories in Green Bond Framework;
- **Management of Proceeds** – Whether the project eligibility and selection criteria are met in the actual allocation of proceeds;
- **Reporting** - Verification of reported environmental impacts of projects funded by Green bonds.

3.1 USE OF PROCEEDS

At the first stage Damu Fund intended to issue green bonds which will be used to finance small-scale (small) renewable energy projects. At subsequent stages, subject to demand and conditions, the Damu Fund considers issuing bonds in other areas, such as:

- energy efficiency;
- large-scale renewable energy sources;
- other directions.

The issuance of Green bonds of Damu Fund became possible within the framework of an agreement with United Nations Development Program in Kazakhstan (UNDP) to reduce the risks of investing in renewable energy. Funds from the placement of bonds were planned to be directed to second-tier banks, microfinance organizations for further lending to SMEs implementing eligible Green projects.

UNDP provided technical support in the selection of green projects. The eligible projects had to be selected upon the criteria in the described in JSC «Damu» Entrepreneurship Development Fund» Policy in Green Bond Framework (hereinafter – Damu Green Bond Framework).

The proceeds from green bonds issued in August 11, 2021 were allocated to a small scale solar project of 1MW power capacity. The funds were disbursed through the second-tier bank, which operates in Kazakhstan – SB Sberbank JSC (hereinafter - Sberbank) and provided to TK Solar LLP in the form of a loan for the purpose of acquisition of fixed assets and equipment and other costs for the Construction of Solar Power Plant.

Sberbank became a partner of Damu in accordance with Loan Agreement regarding participation in Program of conditional allocation of funds in second-tier banks for subsequent

funding projects of micro-, small and medium enterprises in the framework of project «Reduction of risks of investing in renewable energy» of UNDP- Global Environment Facility №1 dated 30.03.2021.

In this way, as planned Damu proceeds from green bonds were used for financing small-scale (small) renewable energy project and the selected project fit all the criteria in the Table 2 and Table 3 in Damu GBF.

3.2 PROCESS OF PROJECT EVALUATION AND SELECTION

In accordance with the Damu GBF, all proceeds from Green bonds shall comply with ICMA Green Bond Principles, the Unified program¹ and the Product Passport.

According to GBF and Unified Program, Damu Fund had to allocate proceeds from Green bonds for further financing of Renewable Energy Sources projects of micro small and medium-sized enterprises (MSME).

Product Passport was approved by decision of Damu Management Board №76/2020 dated September 1, 2020. The document includes description of General terms and conditions of further allocation of funds by Regulated bank (Partner).

Regulated Banks² (Sberbank) and United Nations Development Program in Kazakhstan searched for MSME which planned or was implementing eligible RES project and required financing for such projects. After preliminary decision, a list of RES projects' documents was forwarded to Damu Fund for further assessment.

Within the established cooperation between the Damu Fund and the UNDP and the relevant Agreement, for projects evaluation and selection procedure in accordance with the Damu Green Bond Framework, Unified Program and developed Product Passports, Damu Fund created a Working Group on Green Bonds (“Working Group”), which includes the Damu Fund’s structural units responsible for raising and allocating funds (Funding and International Relations Department, Apex Department and Program Instruments Department), also involving, if necessary, other structural units and external experts. A Working group was formed by the Order of the Chairman of the Damu Fund № 439-П dated September 4, 2020.

In accordance with the Minutes of meeting dated April 1, 2021 of the Working group on the approval of Green projects and control over the total volume of Green bonds under the program of United Nations Development Program in Kazakhstan «Renewable Energy Sources» (hereinafter – the Program), it was decided:

1. To approve Solar Power Plants Electricity Generation project (hereinafter – the Project) of TK Solar LLP as eligible under the Program to finance through Subsidiary Bank of «Sberbank (Kazakhstan)» JSC;

¹ Unified program – Unified program of supporting private entrepreneurship by way of conditional investment of funds in regulated banks and other legal entities has been approved by the decision of the Board of JSC «Damu» Entrepreneurship development fund» on January 30, 2018, minutes of meeting № 09/2018.

² Regulated Banks – a legal entity being a commercial organization which in accordance with law of the Republic of Kazakhstan «On banks and bank operations in the Republic of Kazakhstan» is entitled to carry out bank operations and which is also registered at registering authorities of the Republic of Kazakhstan for carrying out banking operations.

2. To send a confirmation to Subsidiary Bank of «Sberbank (Kazakhstan)» JSC (hereinafter - Sberbank) regarding Project eligibility under the Program.

The final borrower fit all the criteria set by Damu Fund in accordance with Damu GBF.

The relevant documents confirming the above were provided by Damu.

3.3 MANAGEMENT OF PROCEEDS

Damu Fund opened a separate bank account in «Subsidiary Bank «Alfa-bank» JSC (hereinafter - Alfa bank) and on August 13, 2020, and deposited Green bond proceeds on this account after the Bond placement.

Subsequently on March 31, 2021, Damu Fund transferred those proceeds in full amount of 200 million tenge to Sberbank in accordance with Loan Agreement №1 dated 30.03.2021.

These transactions are confirmed by the Alfa bank statement for the period from August 8, 2020, till April 2, 2021.

On the basis on Damu Fund' approval, SB Sberbank JSC financed the project of TK Solar LLP in full in the amount of 200 million tenge, for a period of 5 years on April 1, 2021.

In the framework of financed investment project funds will be used by TK Solar LLP for acquisition of fixed assets and equipment for building a solar power plant with a capacity of 1 MW in the Turkestan region. This venture aims to increase the production of renewable energy in Kazakhstan, and, hence, reduce greenhouse gas emissions. Considering the current situation with Coronavirus pandemic, the construction of the solar power plant has been delayed due to the closure of borders and the late receipt of equipment, which arrived in September 22, 2021. The completion of the construction of the solar power plant is planned for the first quarter of 2022.

Quarterly reviews of the green bond portfolio were not performed due to allocation of all funds for the TK Solar Project.

3.4 REPORTING

On September 22, 2021 Damu Fund prepared Use of Proceeds Report and disclosed to Astana International (AIX).

In accordance with Damu Green Bonds Framework (GBF) Damu Fund intends to provide and keep in the public domain the annual updated reports on green bonds issued from the date of issue till full repayment and in case of any significant changes. Such reports include, but not limited to:

- Allocation reporting, which includes reporting on funds received from Green bonds, on aggregate amount of funds allocated for each Eligible asset/project, on balance of unallocated proceeds at the end of reporting period.

- Impact reporting, which includes information and examples of eligible projects financed or refinanced by Damu Fund Green bonds, including quantitative performance measures as described in Table 4 of the Damu Fund’s GBF.

Considering that wind, solar, and hydroelectric systems generate electricity with no associated air pollution emissions, however it is possible to calculate how much greenhouse gas (GHG) emission were avoided compared to electricity generation from coal fired power. At the same time, upon completion of construction and launch of the solar power plant by TK Solar LLP, the plant is estimated to generate 1 508,59 mWh per year. Please the Table 1 below

Table 1.

ELECTRICITY GENERATION FORECAST BY TK SOLAR POWER PLANT

Parameters	Unit of measurement	Data
ANNUAL INSOLATION DATA		
Annual insolation in this location in accordance with the Atlas	kWh per year / m2	1555
ELECTRICITY GENERATION FORECAST (PV STATION)		
	Unit of measurement	Indicator
Declared plant capacity	kWh	1 051,00
Annual output of the station	kWh per year	1 508 589,23
Annual output of the station	mWh per year	1 508,59
Annual reduction of CO2 emissions	tons	1 485,96

In 2020, Kazakhstan generated 108 billion kWh of electricity with consumption at the level of 107.3 billion. All generated electricity will be sold to the general electricity grid in Kazakhstan, managed by KEGOC.

The consumption volume is divided into separate values for two categories of users who use gas stoves and electric stoves. Indicative figures of energy consumption by users in Almaty region is 120 kWh, reaching **1440 kWh** of electricity used by a person per year. Thereby, implementation of this project may potentially fulfill the needs in electricity of **1047 persons**.

In accordance with the list of specific characteristics of greenhouse gases provided in the Order of the Minister of Energy of the Republic of Kazakhstan dated June 28, 2017 No. 222. «On approval of the List of specific emission factors for greenhouse gases», specific GHG emission factor per unit of production electricity with use of coal is 0,985 tCO2/MWh. This allows us to calculate amount of GHG emission with use of coal to produce the same amount of electricity of 1 508,59 MWh. Thus, the emission of 1 485,96 tCO2 will be avoided. Instead, 1 508,59 MWh of clean energy will be produced.

More information on impact of project will be disclosed to the public in the following Use of Proceeds Reports which are aimed to be published on annual basis before the full repayment of the Bonds.

5. APPENDIX

List of reviewed documents:

1. Damu Fund's Use of Proceeds Report Damu on green bonds
2. JSC «Damu» Entrepreneurship Development Fund» Policy in Green Bond Framework (Green bond framework)
3. Second party opinion on green bond framework of «Damu» Entrepreneurship development fund
4. Loan Agreement regarding participation in Program of conditional allocation of funds in second-tier banks for subsequent funding projects of micro-, small and medium enterprises in the framework of project «Reduction of risks of investing in renewable energy» of UNDP- Global Environment Facility №1 dated 30.03.2021.
5. Unified program
6. Order of the Chairman of the Damu Fund № 439-п dated September 4, 2020
7. Minutes of meeting dated April 1, 2021 of the Working group on the approval of Green projects and control over the total volume of Green bonds under the program of United Nations Development Program in Kazakhstan «Renewable Energy Sources»
8. Alfa bank statement for the period from August 8, 2020, till April 2, 2021.