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## SUCCESS STORY

# Growing Kazakhstan's Capital Market

**A bank in Kazakhstan uses a USAID bond guarantee to increase opportunities for home ownership.**



Photo: Nancy Leahy

*Lariba Bank used the proceeds of its corporate bond to increase its mortgage product, enabling customers in Kazakhstan to purchase their own homes.*

The Development Credit Authority is a tool that USAID uses to provide partial credit guarantees on loans or bonds, thereby mitigating the risk to a lender. The use of credit guarantees enables private lenders to make financing available to creditworthy but underserved borrowers such as Lariba.

USAID has been instrumental in developing Kazakhstan's transition to a free market economy since its departure from the Soviet Union in 1991. With USAID assistance Kazakhstan adopted international accounting standards, privatized state-owned assets, and opened stock and bond markets in 1999. Two years after these markets opened, a local bank named Lariba decided to use Kazakhstan's capital market to obtain the capital necessary to expand its mortgage product.

"Our bank has strategically targeted small borrowers since the beginning," said Alexander Makarov, Director of Lariba. Since it was Lariba's first bond issuance, the interest rate it would have to pay potential lenders was prohibitively high. To help, USAID/Kazakhstan used the Development Credit Authority (DCA) to provide Lariba with a bond guarantee. The DCA guaranteed fifty percent of any default by Lariba, making the bond more attractive to investors. The guarantee improved Lariba's Standard and Poor's bond rating from below investment grade to B, and it was priced to yield 7.99 percent. Lariba's \$500,000 mortgage-backed security was the first to be issued in the former Soviet Union. It was fully subscribed and Lariba repaid its obligations in 2004.

"We began issuing mortgages to our clients in 1998, but the 2001 bond issuance allowed us to reach even more," said Makarov. In 2000, Lariba was the only bank making mortgage loans in Kazakhstan. Once Lariba began expanding its mortgage lending, other banks also saw the profitability of this sector and entered the market. Makarov credits the guarantee with the expansion of Lariba's portfolio. "Since our guarantee with USAID in 2001, we have continued to work with the clients we reached then, and we are still reaching new ones as well." Lariba's mortgage portfolio in 2001 was 150 million tenge, and in 2008 that amount has increased to 1 billion tenge. Even during these difficult economic times, prudent banks like Lariba continue to make homeownership in Kazakhstan a reality.