Report Number: ICRR0023263

1. Project Data

Project ID	Project Name
P147705	SME Competitiveness Project
Country	**Practice Area(Lead)**
Kazakhstan	Finance, Competitiveness and Innovation

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
IBRD-84770	30-Jun-2020	11,186,989.07
Bank Approval Date	**Closing Date (Actual)**	
02-Mar-2015	28-Feb-2022	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	40,000,000.00	0.00
Revised Commitment	18,000,000.00	0.00
Actual	11,186,989.07	0.00

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2. Project Objectives and Components

a. Objectives

According to both Schedule 1 of the Loan Agreement (p.5) and the Project Appraisal Document (p.8), the project objective was “to enhance the competitiveness and capacity of targeted small and medium sized enterprises in the Borrower’s territory.” The Borrower is defined as the Republic of Kazakhstan.

This review will assess the project outcome based on the objective parsed as follows:

Objective 1: To enhance the competitiveness of targeted small and medium sized enterprises in the Borrower's territory,

Objective 2: To enhance the capacity of targeted small and medium sized enterprises in the Borrower's territory.

b. Were the project objectives/key associated outcome targets revised during implementation?
Yes

Did the Board approve the revised objectives/key associated outcome targets?
Yes

Date of Board Approval
28-Dec-2018

c. Will a split evaluation be undertaken?
Yes

d. Components
The project consisted of four components:

1.SME Capacity Building Program (Estimated Cost at Appraisal: US$ 15 million; Estimated Cost After Restructuring: US$ US$ 3.8 million; Actual Cost at Closing: US$ 0.5 million)

This component was to strengthen and expand existing small and medium-sized enterprises (SMEs) advisory programs in Kazakhstan by enhancing their quality, introducing international best practice, and increasing awareness for these programs in the country. Main activities under this component included support to the Ministry of National Economy (MNE) and National Chamber of Entrepreneurs (NCE) on strategy development, reporting, monitoring and evaluation of non-financial support (NFS) programs, establishment of master trainers' network, as well as by using train-of-trainers approach to build capacity of SME advisors and consultants in the country. Additionally, a comprehensive awareness campaign on NFS programs was to be implemented.

2. SME Linkages in Competitive Sectors (Estimated Cost at Appraisal: US$ 20 million; Estimated Cost After Restructuring: US$ 13.2 million; Actual Cost at Closing: US$ 8.9 million)

This component was to contribute to linking and integrating Kazakhstani SMEs with the existing and emerging competitive sectors in the country. This was to be achieved through activities under three sub-components:

2.1 Supplier Development Program: This sub-component was to improve the overall competitiveness of individual SMEs in competitive sectors in Kazakhstan through a Supplier Development Program (SDP). The project was to provide training and capacity building tools and methodologies to implement SDP for all relevant public and private stakeholders. A Supplier Development Office (SDO) was to be established with a mandate to increase market linkages of SMEs with local and multinational corporations. Competitively selected SMEs were to be trained to increase their managerial and technical capabilities for accreditation as

suppliers of large corporations. SMEs' costs for obtaining international certification of their products, processes, and managerial practices were to be partially covered through this sub-component. The implementation of pilot SDPs in selected sectors followed by scaled up SDP based on learnings from pilots were foreseen.

2.2 Competitive Sectors (territorial clusters): This sub-component was to support SMEs in non-extractive sectors for increasing their market linkages in sectors that were not yet globally competitive but which had potential for growth in Kazakhstan. Within the scope of this sub-component training and implementation support to specialists of Kazakhstan Industrial Development Institute (KIDI) who would be implementing cluster development program was to be provided. In addition, support was to be provided to the implementation of the cluster program in prioritized six clusters across three regions (approximately 2 clusters per region), over a period of five years. The activities to be performed under this component were to be informed by previous work that the Bank had done with KIDI under Joint Economic Research Program (JERP).

2.3 Factoring Strategic Assessment: Through this sub-component, a detailed strategic assessment for development of factoring and reverse-factoring in Kazakhstan was to be developed with aim to address challenges such as lack of credit from suppliers, lack of certainty of trade and lack of collateral to receive loans encountered by the SMEs in various supply chains in Kazakhstan. Taking the international practices as well as relevant legislation in Kazakhstan into account, a detailed design of an online platform was to be prepared.

3. Impact Evaluations & Monitoring (Estimated Cost at Appraisal: US$ 8 million; Estimated Cost After Restructuring: US$ 2.7 million; Actual Cost at Closing: US$ 2.2 million)

This component was to create a sustainable M&E structure which would shape new SME policies with better priorities. Several government agencies (i.e., MNE, Economic Research Institute, NCE) were to be supported for institutional integration of the evaluation of public policies. Following activities were to be implemented: institutionalizing evidence-based policy formulation, designing a framework and a government institution for the M&E of policies supporting SMEs, establishing a sustainable third-party monitoring mechanism that would increase transparency and participation of the private sector in SME policy design. Lastly, development of an outputs and outcomes "Dashboard" that integrates results from all related activities to regularly inform policy makers to reshape the design of existing SME support instruments was to be established.

4. Project Management (Estimated Cost at Appraisal: US$ 3 million, Estimated Cost After Restructuring: US$ 1.5 million; Actual Cost at Closing: US$ 0.9 million).

This component was to finance project implementation unit (PIU) staff, consultant services as well as operational costs.

Revised Components: Component 1 was scaled-down from US$15 million to US$ 3.8 million (First Restructuring). Number of trainers was reduced from 750 to 150 due to a detailed study conducted by the consultant team and was verified by NME and NCE. This change was also associated with the cancellation of line of credit (LoC) which was foreseen at the appraisal stage but was cancelled due to financial and economic developments in Kazakhstan and in the region. Scale of awareness raising campaign was reduced as this activity was already implemented through state budget. Component 2 was revised (First Restructuring). The second phase of SDP program under component 2.1 was cancelled as limited time was

left for implementation (ICR, p.16). Component 2.2 was scaled down due to savings achieved from consulting contracts. Activity for the establishment of SME Dashboard was cancelled under Component 3.1 as it was already implemented by NCE Atameken and some other state economic enterprises under "Digital Kazakhstan" state program. Project funds for the establishment of third-party monitoring mechanism were no longer needed under Component 3.3 as it was established by NCE Atameken with its own resources.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The project cost estimated at appraisal was US$ 46 million. The total estimated cost was revised down to US$ 21.2 million at the First Restructuring cancelling remaining funds. The relevant amounts were cancelled as a result of changing priorities of the Government of Kazakhstan (GOK), implementation difficulties, and conditions imposed by COVID-19. The actual cost at closing was US$12.5 million.

Financing: The project was financed through an IBRD loan. The Bank's financing estimated at appraisal was US$ 40 million and it was revised down to US$ 18 million at First Restructuring. At project closing actual disbursements from the IBRD loan was US$ 11.20 million.

Borrower's Contribution: At appraisal the Borrower's contribution was estimated at US$ 6 million. At project closing, it was US$ 1.33 million.

Restructurings:

The project had two Level 2 restructurings**:**

Restructuring 1-December 28, 2018

Project experienced significant implementation delays (actual disbursement rate of 7% in 3.5 years following the Board approval in March 2015 and 2.5 years after effectiveness in February 2016, (Restructuring Paper, p.5). The issues leading to implementation problems were delayed allocation of counterpart financing; lack of clarity of the counterpart agencies' roles, as well as the potential conflict of interest from overlaps in the roles of implementing agencies, complicated and time-consuming government consultation and authorization processes. The Bank undertook a Quality Enhancement Review (QER) of the project in March 2018, followed by the mid-term review (MTR) in May 2018. From the recommended options offered by the QER, the GOK preferred the partial loan cancelation and extension of the project closing date (ICR, p.15).

Overall, total Bank financing was reduced from US$ 40 million to US$ 18 million due to reasons explained in paragraph "Revised Components" and implementation period was extended by seven months to February 28, 2021 to enable completion of remaining activities. Component 1 was scaled-down by US$ 8.6 million. The funding for Component 2 was reduced by US$ 6.6 million and the financing for Component 3 was reduced by US$ 5.0 million. Accordingly, the results framework was revised. One of the PDO indicators (the number of cluster competitiveness action plans for which implementation has begun) was raised from four to six, reflecting the expanded commitment of the GOK. Two intermediate results indicators were dropped in accordance with the cancelled activities under Component 3. Seven intermediate indicators were modified. Two of seven modified targets were made more ambitious reflecting on the extended implementation

period, while in the other five cases new targets became either less demanding or more conservative due down scaling of Components 1 and 2.

Restructuring 2-February 22, 2021

Due to adverse impact of the COVID-19 pandemic, the implementation period of the project was extended by 12 months to February 28, 2022. Two of the intermediate results indicators were revised: The target for number of government and associated professionals/staff receiving capacity building through trainings, workshops, study visits, etc. was increased to reflect actual project implementation. The target for number of direct project beneficiaries was decreased to reflect on gathering and travel restrictions imposed by COVID-19.

Dates: The project was approved on August 2, 2015 and became effective on February 26, 2016. The original closing date was June 30, 2020, but it was extended by 18 months in two restructurings. The project closed on February 28, 2022.

Reason to undertake a split assessment of the project outcome: Although the PDO was not revised, the scope of the project was narrowed significantly. The target value of one of the three key outcome indicators (number of Cluster Competitiveness Action Plans for which implementation has begun) was revised and two intermediate results indicators were dropped. According to Bank Guidance (December 9, 2021) these changes particularly the change in the project scope require a split assessment of the project outcome.

3. Relevance of Objectives

Rationale

Country Context: The project objectives were highly aligned with the GoK's priorities at appraisal and project closing. In January 2014, the President of Kazakhstan set out strategic directions that included innovative industrialization, regional development, and small and medium sized enterprise development. The President's vision also included increasing the share of non-oil products in Kazakhstan's export basket to 70% and increasing SMEs contribution to GDP from then current 20% to 50%. Furthermore, Kazakhstan's Business Road Map 2020 and its Partnership Framework Arrangement launched with the IFIs both address policy improvements that would contribute productivity growth and job creation. Improving the business environment, enhancing domestic firms' capacities to export and innovate, and creating linkages between SMEs and larger companies in global value chains were also part of the Framework. The project's objectives are outcome oriented and address the outcomes highlighted by the president and the country's strategic documents. The project's Components 1 and 3 support strengthening professional and managerial skills of the SMEs, and access to finance. This would contribute to SMEs sector development and accordingly improving the economy's ability to create new and better jobs. Similarly, building linkages with SMEs and large buyers (Component 2) would help Kazakh SMEs to access markets and emerging areas of the economy. At program scale, the project through Component 2.1 was complementary to the ongoing Competitive Industries and Innovation Program Technical Assistance grant, which aimed to build capacity of the KIDI and other stakeholders for cluster development. Through Component 2.2, the project was to

provide support on the implementation of a cluster development program under "State Program for Accelerated Industrial-Innovation Development 2015-2019 (SPAIID 2).

Bank Strategy: The SMEs in Kazakhstan have the potential to contribute to advancing shared prosperity, economic diversification and private sector competitiveness. In order to play this role, the professional and managerial skills of the SMEs in the country as well as their conditions to access investment financing need to be improved. The project addresses this need and at appraisal its objectives were highly relevant to the Country Partnership Strategy (CPS) for FY12-FY17 on improving competitiveness and fostering job creation (Area of Engagement 1) which aimed to support progress towards four country development goals, namely: achieving competitiveness through macro-stability and international integration; bolstering human capital; boosting employment in agriculture; and developing infrastructure connectivity to reduce economic distance. The project's activities for increasing the capacities of SMEs through trainings, certification and accrediting SMEs to become suppliers to large local and international companies and initiating a factoring scheme to increase access to finance contribute to goals mentioned in the strategy. At project closing, the project remains aligned with the current priorities of Country Partnership Framework (CPF) for FY20-25. Under the CPF's first focus area "promoting inclusive growth" one of the objectives was identified as strengthening the environment for private sector development (CPF, p.33). The project's objectives emphasizing support to SME competitiveness, linking and integrating SMEs in existing and emerging competitive sectors and supply chains contribute to the focus area and its objectives.

Previous Sector Experience: The Bank's assessment of industrial policy implementation in Kazakhstan (2015) indicated clustering as an essential part of the strategy to improve overall economic competitiveness. The assessment also concluded that the practical policy instruments for cluster support should be modernized. The project's objectives are highly relevant to the results of the assessment and development status of Kazakhstan. Joint Economic Research Program (JERP), completed by the Bank jointly with government counterparts, contributed to the design and implementation of the project. More specifically, sectoral analysis undertaken jointly with KIDI helped to identify sectors for future cluster support initiatives. In addition, while designing the project the Bank took into account experiences from SDPs in the UK, Czech Republic, Ireland and other countries; experience in developing supply chain financing schemes in Peru, Mexico and other relevant countries. The project design also benefitted from IEG's Evaluation of Support to Small Businesses (2013) which included aspects such as the development of sustainable supply of services by increased capacities of service providers. The project's capacity building program (Component 1) was designed to make use of the content and methodology of IFC's Business Edge program which has been a successful tool globally. Some outputs of Fostering Productive Innovation Project (FPIP) were used in the course of preparing the draft SME Development Concept (Component 3), In addition, experience from FPIP to build the capacity of beneficiary SMEs was later incorporated in training and coaching programs of the project.

Rating

High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

Objective 1: To enhance the competitiveness of targeted small and medium sized enterprises in the Borrower's territory.

Rationale

Theory of Change:

The casual links between project activities, outputs and outcomes were sound in general, but one key element (i.e., credit line was missing). The project included activities such as training and capacity building support to public and private stakeholders for the implementation of SDP and the cluster development program, providing training to SDO staff, selection of sectors for pilot SDP, technical studies for identification of priority regions and clusters in potentially competitive sectors, and assessment of supply chain financing program. These activities were expected to result in the following outputs: Design and implementation of the first SDP in the country, established SDO, a fully functioning third party monitoring system established and lastly a "Dashboard" that integrates results from all related activities to regularly inform policy makers to reshape the design of existing SME support instruments. These outputs would lead to SMEs participating in the SDP programs, taking part in the supply chains, and increasing their sales to large national and international companies thus increasing their competitiveness. Also closely monitored and evaluated programs would contribute to improved policies for increasing competitiveness of the SMEs. In the long-term, this was to help the development of the SME sector in the country and increase SMEs' contribution to GDP.

The critical assumptions were: (1) The favorable business environment and policy support for SMEs are sustained; (2) institutional set-up for government of SME policies was strong and with sufficient coordination; and (3) financial means were available and accessible for SMEs to invest and innovate to achieve increased competitiveness. However, according to PAD, access to finance was one of the main barriers to the improvement of private sector competitiveness in the country. With the termination of the planned line of credit, the project design lost a key element which could enhance overall impact of the program on the competitiveness of the targeted SMEs.

Outputs:

- **Strategic assessment of supply chain financing program completed:** Assessment with recommendations on all aspects of the terms of refence for a factoring program was completed including feasibility study and technical specifications.
- **Enhanced institutional structure and technical approach for cluster competitiveness:** Target was to include an enhanced institutional structure and best practices in GoK's approach to cluster competitiveness. This target could not be achieved.
- **A fully functioning and credible third-party monitoring system** in operation and actively managing a flow of calls, escalating issues to the appropriate policy levels to ensure resolution and policy change based on systemic and specific feedback received. This target could not be achieved.

Outcomes:

- **Value of increased sales of SMEs facilitated through participation in the project:** The target was US$ 25 million. The project achieved US$ 66.4 million. This indicator represents direct impact of the project on the SMEs competitiveness through SDP participation. On the other hand, the figure represents increased sales of 15 participating SMEs (out of 53) only. The project's M&E framework had design weaknesses. The role of the participating SMEs in providing data that would evidence project results was not clearly defined. Therefore, the participating SMEs were not obliged to disclose data on increased sales or revenues. This weakness in M&E framework limited the access to relevant information and capturing full impact of the project's intervention. In addition, there was no counterfactual discussion, i.e., the sales for non-participating SMEs could have also increased during project implementation period due to favorable conditions. In order to define a clear attribution, a methodology which compares results with a control group needs to be implemented.

- In order to assess the impact of Cluster programs on the competitiveness of the SMEs, "Performance Review of Cluster Operations" was conducted with the Bank's initiative. The review concluded that although all six sectoral SMEs groups made considerable achievement in forming territorial clusters, it was not possible to assess the project's impact on the participated SMEs, as clusters were at early stages of their development and their benefits to participating SMEs were still limited (except for indirect limited evidence regarding furniture cluster established in Almaty city). The project's M&E framework was weak in monitoring of actual performance of beneficiary SMEs and was not designed to provide enough evidence to assess impact of the project. Therefore, no systematic effort was made to record actual changes in the performance of SMEs that are the members of the emerging clusters..

Core Indicator:

- **Direct Project beneficiaries:** The original target was 5,000 beneficiaries (50% female) and the project achieved 1,476 beneficiaries (44.55% female).

Overall, the project's efficacy in achieving the first objective is rated Modest." The impact of the cluster programs on competitiveness of the SMEs could not be evidenced. In a more general sense, the lack of a counterfactual as well as the weak M&E framework limited the collection of relevant data and the provision of evidence to assess the impact of the project's intervention on enhanced competitiveness for targeted SMEs.

Rating
Modest

OBJECTIVE 1 REVISION 1
Revised Objective
To enhance the competitiveness of targeted small and medium sized enterprises in the Borrower's territory.

Revised Rationale
Theory of Change:

This remained essentially the same. The second stage of SDP and establishment of SME dashboard were cancelled and installation of a factoring program was added. Also, some minor adjustments in the output targets were made. However these did not change the structure or the objective.

Outputs:

- **Strategic assessment of supply chain financing program completed and factoring program installed**: The indicator was revised to include installation of a factoring platform. The factoring program could not be installed as the relevant authorities did not procure the necessary IT infrastructure at the time of project closure. However, the assessment itself initiated a policy dialogue, helped reaching a consensus on a national factoring platform model as well as creating awareness and emergence of an active stakeholder community following "factoring agenda" (ICR, p.22).

- **Enhanced institutional structure and technical approach for cluster competitiveness:** Target was to include an enhanced institutional structure and best practices in GoK's approach to cluster competitiveness. This indicator was dropped at the First Restructuring.

- **A fully functioning and credible third-party monitoring system in operation** and actively managing a flow of calls, escalating issues to the appropriate policy levels to ensure resolution and policy change based on systemic and specific feedback received . This indicator and relevant activities were dropped at the First Restructuring.

Outcomes:

Outcomes under this objective did not change after the restructuring.

Core Indicator

- Direct Project beneficiaries: The revised target was 1,500 beneficiaries (3,500 at the First Restructuring and further down to 1,500 at the Second Restructuring) and the revised target for female beneficiaries was 30%. The project achieved 1,476 beneficiaries 44.55 % of which were female).

Overall, there was no major change in the level of achievement after the first restructuring. As there was no change in the objective, it remained ambitious, and the lack of counterfactual data as well as the weak M&E framework persisted, which limited the collection of relevant data and provision of evidence to assess the impact of the project's intervention on the competitiveness of the SMEs.

Revised Rating
Modest

OBJECTIVE 2
Objective

Objective 2: To enhance capacity of targeted small and medium sized enterprises in the Borrower's territory.

Rationale

Theory of Change:

The project included activities such as, training of business advisors, entrepreneurs, SMEs owners and managers; conducting a comprehensive awareness campaign on government's advisory programs, increasing capacities of government institutions (MNE, NCE) on development of SME strategies, managing, monitoring of NFS programs and certification of SMEs through their participation at the SDP. These activities were expected to result in outputs such as establishment of master trainers' network, increased awareness about the NFS available in the country, increased quality and efficiency of services provided to SMEs in substance and methodology, SMEs achieving approved "supplier status" with accreditation, increased capacities of the government institutions to implement competitive cluster programs and contributing to market linkages for the SMEs, As outcomes, the capacity of these entrepreneurs, owners and managers to access markets and finance would increase and were expected to have world class standards to become viable suppliers to multinational companies and state economic enterprises. The government's capacity for developing SME support policy would also improve through enhanced advice. In the long term, these would be expected to result in increased firm productivity and revenues and augmenting the overall contribution of SMEs to the economy. The critical assumption here is that enhanced training, technical advice and certification would increase capacities of the SMEs.

Outputs:

- **Number of local SME Advisors trained to undertake SME capacity building based on an established competency framework:** The original target was 750 advisors (43.50% women). The training could not be performed due to travel and gathering restrictions imposed by COVID-19 (ICR, p.47).

- **Percent of training participants who found the training offered as effective and useful to them:** Target was 75% of the participants. The project achieved 90%. Over the course of 2016-2021, about 289 participants of various training programs held under different project components (from both private sector and government agencies) found their training sessions to be effective and useful. This constitutes about 90.3% of training participants that filled the questionnaire. The training modules were conducted on cluster development, supplier development, and M&E of SME support programs (ICR, p.47).

- **Number of candidates to master trainers, assessors, instructional designers developed and trained in global best practice:** The target was 40 candidates. The trainings did not take place due to COVID-19 restrictions.

- **Number of impact evaluations of SME interventions conducted or underway:** The target was three evaluations. Three programs were evaluated: "Business Roadmap 2020" and "Enbek" as well as preliminary assessment of the SME Competitiveness Project of the World Bank.

- **Number of government and associated professionals/staff receiving capacity building through trainings, workshops, study visits:** The original target was 125 participants. The project financed the training of 188 participants.

- **Number of SMEs who are in the process of becoming "accredited suppliers" to large companies:** The original target was 200 and the project achieved 31 SMEs.

- **Number of Cluster Competitiveness Action Plans that have been developed:** The original target was four action plans. Six cluster competitiveness action plans were developed.

Outcomes:

- **Number of SMEs which become accredited suppliers to large companies:** Target was to accredit 100 pre-qualified SMEs for participation in procurement processes of large companies. The project achieved accreditation of 53 SMEs (70 local and international certificates were achieved and 102 accreditation processes were completed and accreditation of SMEs in more than one database of large companies was possible).

- **Number of Cluster Competitiveness Action Plans for which implementation has begun:** The original target was four action plans. The project achieved six programs.

- **Percentage of participating SMEs reporting improved management and business practices:** Target was 75% of participating SMEs. The project reached 82.5%. This indicator was set for SMEs participating in both Component 1 and Subcomponent 2.1. The assessment of actual progress was undertaken through three rounds of the survey of participating SMEs conducted through 2020. About 200 SMEs participated in each round (ICR, p.45).

The ICR also reports an outcome of improved SME support policies which could be attributable to increased policy making capacity of the government through project's interventions. The said policy changes included strengthening of policy emphasis on the provision of non-financial support for SMEs underlying the policy shift towards support for capacity building and skills accumulation by SMEs from the instruments of financial support. This policy shift reflected in the GOK's decision No. 1060, adopted in December 2019, which introduced the new rules for allocating non-financial support to entrepreneurs for the period of 2021-25. This decision was followed in April 2022 by the GOK's resolution No. 250, which approved a new concept for facilitating the development of SMEs in the RK until 2030. The concept spelled out a more balanced approach to the utilizing financial and non-financial instruments of SME support. Both new government documents incorporated several suggestions proposed in the earlier outputs developed and submitted by the project-funded consultants (ICR, p.25).

Overall, the project's efficacy in achieving the second objective is rated Substantial but marginally so, as only two of the three outcome indicators were achieved and some key activities that would serve to achievement of the objective such as training of SME advisors and master trainers could not be performed.

Rating
Substantial

OBJECTIVE 2 REVISION 1

Revised Objective
Objective 2: To enhance capacity of targeted small and medium sized enterprises in the Borrower's territory.

Revised Rationale
Theory of Change:

This did not change because neither the structure and the design of the project nor its objective changed. Some of the relevant activities and outputs were scaled-down only and some were increased to match the achievements. One new intermediate results indicator was added.

Outputs:

- **Number of local SME Advisors trained to undertake SME capacity building based on an established competency framework:** The revised target was 150 advisors (44.50% women). The number was revised in accordance with the assessment conducted by the consultant team. The training could not be performed due to travel and gathering restrictions imposed by COVID-19 (ICR, p.47).

- **Number of government and associated professionals/staff receiving capacity building through trainings, workshops, study visits:** The revised target was 190 participants (Second Restructuring). The project financed the training of 188 participants.

- **New indicator added at the First Restructuring: Beneficiaries who reported that the approaches discussed in the framework of the discussions held during the Project reflect their opinion:** The target was 75% and the project achieved 90.60%.

- **Number of SMEs who are in the process of becoming "accredited suppliers" to large companies:** The revised target was 100 and the project achieved 31 companies. According to the ICR (p.47), cancelling of second stage of SDP at the project restructuring, reduced opportunities for achieving this target.

- **Number of Cluster Competitiveness Action Plans that have been developed:** The revised target of six cluster competitiveness action plans was achieved.

Outcome:

- **Number of Cluster Competitiveness Action Plans for which implementation has begun:** The project achieved the revised target of six programs.

Overall, there was no major change in the level of achievement after the first restructuring.. The conditions and restrictions imposed by COVID-19 also adversely affected implementation of trainings and the achievement of this objective.

Revised Rating
Substantial

OVERALL EFFICACY

Rationale
The first objective, “to enhance the competitiveness of targeted small and medium sized enterprises in the Borrower’s territory” is rated modest before the restructuring due to insufficient evidence. The second objective, “to enhance capacity of targeted small and medium sized enterprises in the Borrower’s territory” is rated substantial before the restructuring but marginally so due to partially achieving the outcome indicators and not completing SME advisor and master trainings. The project’s overall efficacy is rated modest.

Overall Efficacy Rating	Primary Reason
Modest	Insufficient evidence

OVERALL EFFICACY REVISION 1

Overall Efficacy Revision 1 Rationale
The first objective, “to enhance the competitiveness of targeted small and medium sized enterprises in the Borrower’s territory” is rated modest after the restructuring due to insufficient evidence. The second objective, “to enhance capacity of targeted small and medium sized enterprises in the Borrower’s territory” is rated substantial but marginally so after the restructuring due to partial achievement. Therefore, the project’s revised overall efficacy is rated modest.

Overall Efficacy Revision 1 Rating	Primary Reason
Modest	Insufficient evidence

5. Efficiency

Economic and Financial Analysis

Ex-ante analysis:

A detailed economic and financial analysis was conducted for each of the components at appraisal with a comprehensive list of assumptions and external factors for each of the components. The analyses used ex-ante cost-benefit analysis framework to assess and monetize costs and benefits of the Project and associated

externalities. Two types of costs were associated with the project: i) Direct financial outflows under the project components and (ii) indirect cost of public funds needed to finance the project. On the benefits side, the principal benefits from the project were development SME sector through increased capacity of government agencies, several hundred local business advisors and SMEs; additional business with local and foreign large companies; increased access to finance; better monitoring and design of SME support policies. The analysis covered financial and economic revenues to be generated by increased SME competitiveness and development of both supply and demand sides. The analysis arrived at Net Present Value of US$ 22.13 million in the baseline case. The cost-benefit analysis was based on a series of assumptions, available statistical data, and relevant literature. The project's net present value (NPV) was US$ 22.13 million using 5.5% discount rate (with projected multiplier effect of 7) for baseline case with total SME support of US$ 46 million. Further calculations were made for pessimistic case and worst case. It was estimated that future sales of SDP participants would grow 2.5 times over five years including gains of 70 percent in the first year after graduation from the program.

Ex-post analysis:

The analysis was conducted on the second component of the project (SDP) only. It is the component with the largest share of financing after the restructurings—around 40 percent of the full project costs (around USD$ 5 million), including the portion of certification costs covered by SMEs (US$ 0.4 million) and the value of government co-financing (less than US$ 0.4 million). According to the ICR (p.29), the review of changes in the performance of SDP beneficiaries suggests that project investments in designing and implementing the SDP were highly efficient. For every dollar spent by the project in reimbursement (de facto, subsidization) of SMEs' costs on certification, the beneficiaries managed to expand their sales by US$ 105. If full costs of certification are considered (given the actual reimbursement ratio of 74 percent), the respective ratio is estimated as 78 dollars in extra sales per one dollar spent on certification. However, these efficiency estimates are based on the limited number of SDP beneficiaries that provided their actual data on incremental sales and costs of certification. No counterfactual data available to enable comparison. The selection of the SDP beneficiaries for the analysis was not random. The available data is only from the SMEs which agreed to provide information, as it was not obligatory for the beneficiaries to provide such information in the project. Out of these 53 successful beneficiaries, 15 reported increased sales. In addition, 12 out of 15 had obtained reimbursement of the project cost. These 12 SMEs received more than a combined amount US$ 510,000 in reimbursement, which amounts to about 57 percent of the total reimbursement financed under the project (ICR, p. 29). The ICR (p.29) also reports that the SDP contributed gains to government budget: based on the data submitted by the same sample of 12 SMEs, on average for every US$ 1 spent by the project on the reimbursement of certification costs, the state budget received US$ 6.4 in additional taxes paid by SDP beneficiaries. For two of the other major project components (clusters and factoring), cost-benefit analysis was not conducted.

Administrative and Operational Efficiency:

The cost of major activities was kept within the original budget estimates and savings were realized during the procurement of consulting services to support cluster development under subcomponent 2.2, furthermore as a result of devaluation of tenge resulted in savings as well. However, there were some shortcomings in the project's administrative and operational efficiency. The project had significant implementation delays resulting from delayed counterpart contribution, lack of understanding among the involved institutions on the implementation of the project and changing priorities of the government. These delays accordingly impacted procurement of some of the goods and services and lead to cancellation of significant part of the activities particularly under Component 1. Due to delays in counterpart funding the salaries of PIU's staff could not be

paid on time and hired staff had to leave their positions which adversely affected PIU's performance of its fiduciary and coordination functions.

Although the SDP component was efficient, it is not possible to assess efficiency of the project as a whole due to lack of evidence and underachievement. Furthermore, shortcomings of operational and administrative efficiency affect the rating.

Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The outcome ratings both before and after restructuring are moderately unsatisfactory due to modest efficacy and efficiency ratings. When a split rating is implemented as per Bank Guidance, the project's overall outcome does not change. It is moderately unsatisfactory.

a. Outcome Rating

Moderately Unsatisfactory

7. Risk to Development Outcome

The following are the risks to the sustainability of the achieved results:

Macroeconomic Risk: The country's continued dependence on exports and trade relations with Russia, as well as the war in Ukraine put pressure on implementation of macroeconomic policies in the country and may negatively affect implementation of support provided to SMEs.

Governance and Policy Risk: Also, if disputes that were encountered during implementation among several government institutions including, MNE, NBK, MoF and others on the implementation of support programs and mechanisms, continue, SME development and sector's increased contribution to the economy could be

impeded. Frequent changes in the government structure and high turnover in relevant government agencies which negatively impacted project activities during implementation, may result in loss of capacities built with the support of the project. Nevertheless, government's issuance of new regulations on SME support policies is encouraging for continued commitment of the government on the development of SMEs sector.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project had a strategic relevance to assist Kazakhstan in developing its SMEs sector and increasing its contribution to GDP. The project aimed to increase professional and managerial skills of the SMEs, promoting them to become accredited suppliers to value chains as well as increase the capacities of the relevant government agencies in Kazakhstan in development and implementation of SME support programs. Although the design took the Bank's and the Government of Kazakhstan's experience in SME sector into account, it did not engage regional administrations in project implementation. The MNE did not have any representation at the subnational level and did not try much to mobilize regional stakeholders. This limited the pace of project implementation, especially in the case of cluster subcomponent (ICR, p.39).

Implementation arrangements were inadequate. The Department of Entrepreneurship Policy and Development of MNE was to oversee implementation of the project; a PIU within the MNE would manage overall implementation and a Project Implementation Commission, chaired by the Minister of MNE would perform strategic management and coordination across ministries and agencies. However, the ownership by the MNE and other government agencies were over estimated. A lack of clarity about distribution of responsibilities among different government entities resulted in implementation delays. The ICR reports that these could have been avoided if several analytical project activities were piloted under JERP before being included in the project. This could have been clarified in advance and would have enabled the project team to make better decisions on the design of the project. The PIU was not given enough powers to execute its functions. Also, the involvement of too many numbers of agencies created conflicts.

At entry, major risks associated with the project were identified as fiduciary, implementation capacity and macroeconomic risks and overall risk rating was substantial. On the other hand, the counterpart risk and the risk for sector strategies and policies were underestimated and no mitigations measures were identified. The late payment of borrower's contribution was not among the identified risks but came out to be one of the major factors that delayed project's implementation. To mitigate risks associated with implementation capacity and fiduciary, measures were identified in the PAD such as close supervision, training and capacity building to the MNE and PIU staff. However, these measures were insufficient during implementation.

Fiduciary aspects of the project were adequate. A procurement and a financial management specialist were to be employed in the PIU to support MNE. The project was the first Bank project that MNE implemented. Close supervision and capacity building from the Bank and trainings to the MNE staff were foreseen.

M&E framework had weaknesses. As mentioned in the M&E section below, the identified PDO level indicators were at the output level. Majority of the intermediate results indicators were to measure

progress in capacity building. The results framework was insufficiently designed to provide evidence on achievements of the project particularly on enhanced competitiveness of SMEs. Lastly, the PDO was overambitious and remained over-ambitious when it was clear that credit line was not accepted by the government. While revisions in in some of the intermediate indicators were made and budget was revised, PDO remained unchanged.

The project did not trigger any safeguard policies.

Quality-at-Entry Rating

Moderately Unsatisfactory

b. Quality of supervision

The Bank team's focus on development impact was demonstrated by their effort to address slow implementation of the project and to restructure the project in accordance with the findings of Quality Enhancement Review and Mid-Term Review. The Bank also provided technical and procurement support to the PIU throughout implementation. During the restructuring, the team showed its commitment by proposing alternative financial support schemes to the GoK including the reallocation of funds and expanding the availability of funding for project beneficiaries. However, these proposals were rejected by the government.

The Bank took timely action to restructure the project and extend the implementation period to ensure the completion of activities. At the first restructuring, the project components were re-adjusted according to changing needs of the government and a significant amount of funds was cancelled. However, the project team did not take the opportunity and address the weaknesses in the M&E design at the restructuring. The revisions made in the M&E design reflected changes in the components and the targets were revised accordingly, but these changes did not improve the quality of the indicators to sufficiently capture the project outcomes. The PDO and outcome targets could have been revised to better reflect project activities and the revised scope.

The PIU was staffed with a fulltime procurement specialist, but procurement capacity was limited at the beginning of the project and took some time to develop within the implementation unit. PIU also did not have enough powers to execute its functions particularly at the early years of implementation. The project team was successful in negotiating with the MNE the extension of decision-making powers assigned to the PIU. This helped to accelerate procurement and disbursement under the project. (ICR, p.40)

Throughout project implementation, the World Bank's performance reporting was candid. In total, 14 Implementation Status and Results Report (ISRs) were filed. The Bank's project team conducted a total of 12 missions during the implementation of the project.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Unsatisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The results framework was weak. One of the three outcome indicators (percentage of participating SMEs reporting improved management and business practices) was more of an intermediate results indicator than an outcome indicator. One of the intermediate indicators (value of increased sales of SMEs facilitated through participation in the project) was an outcome indicator for enhanced competitiveness. However, the collection of necessary quantitative evidence/data for this indicator was not secured at the design stage and accordingly the participating SMEs were not obliged to disclose any data on this indicator. Although the intermediate indicators were specific, measurable, achievable and relevant, most of them were related to capacity building. The indicators were insufficient to capture the project's impact on "enhancing competitiveness". The targets were available. However, there were no baseline and no counterfactual data as all activities were new and no prior experience was available in the country.

It was foreseen that the PIU would be the main body for collecting M&E data. In addition, project implementation committee (PIC) would regularly review project's M&E data. Also, the NCE and Economic Research Institute (ERI) would evaluate and monitor progress in the development of the SME sector (Component 3).

b. M&E Implementation

To monitor project's performance, the PIU developed regular reports. The PIU also coordinated the implementation of several enterprise surveys which were utilized by the M&E system (ICR, p.36). The shortcomings in the M&E design were not addressed during project implementation. The revisions made in the results framework at the restructurings were limited to changing some of the targets or cancelling of the indicators that were not relevant. The weaknesses in results framework, such as lack of adequate indicators on enhancing competitiveness or weakness in PDO indicators were not addressed. In addition, as mentioned in the M&E design section, M&E arrangements regarding monitoring of actual performance of beneficiary SMEs were not ensured. No additional measure was taken to ensure better data collection during implementation. At project closure, as part of ICR preparation, the special performance review of the emerging clusters was undertaken. The review included field visits to all six territorial clusters and in-depth interviews with the representatives of participating SMEs.

The ICR (p.36) reports a lack of evidence regarding material engagement of either ERI or NCE in the implementation of project M&E.

c. M&E Utilization

The project team utilized the M&E framework to assess progress towards PDO achievement and address implementation challenges. The project was restructured in December 2018 as a result of QER followed by a mid-term review. The data collected were used for restructurings of the project as well as

in the preparation of the mission reports and Implementation Status Reports. ICR does not include information about the dissemination of project results to the relevant stakeholders.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was considered to be an Environment Category C project (with minimal or no adverse environmental or social impacts). The project did not trigger the Environmental Assessment Policy (OP/BP 4.01).

b. Fiduciary Compliance

Financial Management: The project was the first IBRD project implemented by the newly established MNE which did not have experience with World Bank-financed projects. Therefore, MNE was supported by the PIU (Component 4) with a financial management (FM) consultant. However, significant delays were experienced in counterpart-funding. Nevertheless, the PIU submitted annual audited financial statements and interim unaudited financial reports on time with some exceptions. No significant issues were observed during the review of those reports and during regular risk-based FM implementation support and supervision missions. Internal audits were carried out regularly, and external audits were conducted annually (ICR, p.37).

Procurement: The procurement of goods and services was carried out by the PIU established within the MNE. However, during implementation the PIU could not exercise its procurement function fully. The main reasons were inadequate budget allocations, lack of consensus among government authorities on procurement of services (i.e., Component 2.3), and insufficient procurement powers granted to the PIU. In addition, changes in the staffing had a negative impact on the development of procurement capacity. As a result, significant delays occurred in procurement of some of the services particularly under Component 1 and eventually, some of the activities were cancelled as they became unfeasible to implement particularly in the early years of implementation. To overcome this difficulty the project team negotiated with the MNE for the extension of decision-making powers assigned to the PIU. This helped to accelerate procurement and disbursement under the project (ICR, p.40).

Lack of agreement on SME policies and not so clear distinction of responsibilities among the involved agencies also resulted in delays in procurement processes.

c. Unintended impacts (Positive or Negative)

None.

d. Other

None

11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Unsatisfactory	Project's efficacy in achieving the objectives was modest because of insufficient evidence and underachievement.
Bank Performance	Moderately Satisfactory	Moderately Unsatisfactory	Significant shortcomings in QAE mainly due to weak project design.
Quality of M&E	Substantial	Modest	M&E framework was insufficient to capture the project's outcomes.
Quality of ICR	---	Substantial	

12. Lessons

The following are lessons learned from the ICR (paragraphs 115 and 118 to 120) with some paraphrasing:

- **Maintaining a balance between volume of technical assistance and value of direct financial support to SMEs can increase attractiveness of project participation for many SMEs and individual government agencies and accordingly can increase impact of the program.** Elimination of the Line of Credit resulted in a bias towards technical assistance in the project design. The lack of developmental subsidies, such as matching grants or credit guarantees, was the most apparent in the cluster subcomponent's design. The lack of government co-financing reduced the investment potential of participating SMEs and limited the pace of cluster formation.
- **Engaging regional administrations in project implementation can increase the success of an SME support project particularly in large countries like Kazakhstan.** Involvement of subnational administrations is valuable in SME support projects. This aspect was not considered in the case of this project, leaving regional administrations disengaged. The MNE does not have any representation at the subnational level and did not try much to mobilize regional stakeholders. This limited the pace of project implementation, especially in the case of cluster subcomponent.
- **Necessary arrangements and explicit agreements reached with potential project beneficiaries on the disclosure of key operational results and performance data within**

the M&E design can strengthen M&E system of the project and ensure collection of necessary evidence to capture the results of the project. As a system for collection of performance data from the SMEs was not part of the M&E framework and was not obligatory for the SMEs to provide data, project's impact on the competitiveness of the SMEs could not be tracked and necessary evidence could not be collected.

- **The targets in the results framework which are reviewed at each stage of project restructuring and, if necessary, adjusted in line with changes in project scope, can lead to better assessment of the project results.** In the case of this project, at the first restructuring, although the project's PDO remained unchanged, the activities were revised significantly. Some of the indicators were also revised accordingly to reflect these changes, However, the team did not downshift the main project targets. In particular, the target for the number SMEs obtaining accreditations remained unchanged despite the removal of the second stage of the SDP program from the project. This, while creating a disconnect between the project scope and project target, also impeded the quality of M&E framework.
- **Streamlined implementation and involving limited number of ministry-level government agencies can improve operational and administrative efficiency in project settings with weak inter-agency coordination and institutional fragmentation**. Implementation arrangements for smaller projects built around the single counterpart agency or splitting responsibility for project implementation (two implementing agencies with two PIUs, each with its own TORs) can help management efficiency. In the case of this project, splitting the implementation responsibilities between the MNE and MIID would transfer responsibilities for implementing the better performing subcomponents, which demonstrated better ownership would improve project achievements.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a detailed overview of the project. It is candid in explaining the issues encountered at different phases of implementation. The report is concise and follows most of the guidelines. In general, it is internally consistent. There is a logical linking of the various parts of the report. The discussion in the Lessons and Recommendations section are clear, useful, and mostly based on the evidence outlined in the ICR but they are more in the form of findings and recommendations rather than lessons.

ICR has a few shortcomings. The split rating was not conducted in line with the Bank Guidance. The project achievements before the restructuring should be assessed "for the entire duration of the project", not partially before and after the restructuring. The report adequately follows the Bank guidance with regards to most of the ratings, but for the Efficacy and the quality of M&E, although the narrative candidly criticizes these aspects and talks about the shortcomings, these are not reflected on the ratings.

Overall, the quality of the ICR is rated Substantial.

a. Quality of ICR Rating
Substantial