



W. 8477-KZ

Supplemental Letter No. 2

REPUBLIC OF KAZAKHSTAN

July 20, 2015

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Re: Loan No. 8477-KZ
(Small and Medium Enterprises Competitiveness Project)
Performance Monitoring Indicators

Dear Sirs and Mesdames:

This refers to the provisions of paragraph 1 of Section II.A of Schedule 2 to the Loan Agreement of this date between the Republic of Kazakhstan (the Borrower) and the International Bank for Reconstruction and Development (the Bank) for the above-captioned Project.

The Borrower hereby confirms to the Bank that the indicators set forth in the attachment to this letter shall serve as a basis for the Borrower to monitor and evaluate the progress of the Project and the achievement of the objectives thereof.

Very truly yours,

REPUBLIC OF KAZAKHSTAN

By  _____
Authorized Representative

Attachment

Attachment to Supplemental Letter No. 2

**(SME Competitiveness Project)
Performance Monitoring Indicators**

Project Development Objectives

PDO Statement

The project development objective is to enhance the competitiveness and management capacity of targeted small and medium sized enterprises in Kazakhstan.

These results are at | Project Level

Project Development Objective Indicators

| Indicator Name | Baseline | Cumulative Target Values | | | | | |
|--|----------|--------------------------|-------|-------|-------|-------|------------|
| | | YR1 | YR2 | YR3 | YR4 | YR5 | End Target |
| Number of SMEs who become "accredited suppliers" to large companies (Number) | 0.00 | 0 | 5 | 25 | 60 | 100 | 100.00 |
| Percentage of participating SMEs reporting improved management & business practices (Percentage) | 0.00 | 5.00 | 10.00 | 30.00 | 50.00 | 75.00 | 75.00 |
| Number of Cluster Competitiveness Action Plans for which implementation has begun (Number) | 0.00 | 0 | 0 | 2 | 3 | 4 | 4.00 |

Intermediate Results Indicators

| Indicator Name | Baseline | Cumulative Target Values | | | | | |
|--|----------|--------------------------|---------|---------|---------|---------|------------|
| | | YR1 | YR2 | YR3 | YR4 | YR5 | End Target |
| Direct project beneficiaries (Number) - (Core) | 0.00 | 500.00 | 1500.00 | 3000.00 | 4000.00 | 5000.00 | 5000.00 |

| | | | | | | | |
|--|------|-------|-----------|-----------|------------|-------------------|-------------------|
| Female beneficiaries (Percentage - Sub-Type: Supplemental) - (Core) | 0.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 |
| Number of local SME Advisors trained to undertake SME capacity building based on an established competency framework (Number) | 0.00 | 0 | 150 | 350 | 550 | 750 | 750.00 |
| Percent of Women Advisors trained (Percentage - Sub-Type: Supplemental) | 0.00 | 0 | 50.00 | 50.00 | 50.00 | 50.00 | 50.00 |
| Percent of training participants who found the training offered as effective and useful to them (Percentage) | 0.00 | 25.00 | 35.00 | 45.00 | 55.00 | 66.00 | 66.00 |
| Number of master trainers, assessors, instructional designers developed and trained in global best practice (Number) | 0.00 | 15.00 | 40.00 | 0.00 | 0.00 | 0.00 | 40.00 |
| Number of SMEs who are in the process of becoming "accredited suppliers" to large companies (Number) | 0.00 | 0 | 30 | 60 | 125 | 200 | 200 |
| Value of increased sales of SMEs facilitated through participation in the Project (Amount(US\$)) | 0.00 | 0.00 | 1,000,000 | 5,000,000 | 12,000,000 | 25,000,000. 00 | 25,000,000.0 0 |

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|--|--|---|--|--|---|---|---|
| <p>Enhanced institutional structure and technical approach for cluster competitiveness (Text)</p> | <p>Current approach focuses on providing financial resources and is measured primarily by output</p> | <p>Institutional structure for enhanced approach is established</p> | <p>Initial training on relevant best practices has been provided</p> | <p>On-the-job capacity building continues and techniques imparted are applied</p> | <p>On-the-job capacity building continues and techniques imparted are applied</p> | <p>On-the-job capacity building continues and techniques imparted are applied</p> | <p>Government's approach to cluster competitiveness includes an enhanced institutional structure and incorporates relevant best practices.</p> |
| <p>Number of Cluster Competitiveness Action Plans that have been developed (Number)</p> | <p>0.00</p> | <p>0.00</p> | <p>2.00</p> | <p>3.00</p> | <p>4.00</p> | <p>6.00</p> | <p>6.00</p> |
| <p>Strategic assessment for supply chain financing program has been completed, including recommendations on design, partners, structure, location, and regulatory requirements. (Text)</p> | <p>Activity is new and no prior experience available in the country</p> | <p>Selection of consulting firm or individual consultants to conduct the assessment completed and assessment has been initiated</p> | <p>Interim findings of assessment completed workshop / training held with relevant stakeholders to gather inputs and define remaining areas of inquiry</p> | <p>Assessment with recommendations on all aspects of the terms of reference completed.</p> | <p>-</p> | <p>-</p> | <p>Strategic assessment completed with clear and actionable recommendations on the next steps for development of supply chain financing in the country by project mid-term.</p> |

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|--|--|--|---|--|--|--|--|
| <p>A fully functioning and credible third-party monitoring system (Text)</p> | <p>Existence of a Call Center at NCE that is largely unknown and not fully independent</p> | <p>Review of Call Center progress and development of action plan for enhancement including training on best practice methods for appropriate civic engagement and feedback loops</p> | <p>Enhancement of the Call Center and introduction of new technologies such as SMS based feedback tools, as well as launching of public awareness campaigns about the call center</p> | <p>Fielding of calls and feedback from SMEs and others on their experiences with government services and developing appropriate escalation plans for feedback received</p> | <p>Actively operating feedback loop in which calls are received, triaged, and escalated to the appropriate level with continuous engagement to the original source</p> | <p>TMS operational 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. SMEs also view the TMS as credible and responsive.</p> | <p>TMS operational 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. SMEs also view the TMS as credible and responsive.</p> |
| <p>Number of impact evaluations on SME interventions conducted or underway (Number)</p> | <p>0.00</p> | <p>0.00</p> | <p>0.00</p> | <p>2.00</p> | <p>2.00</p> | <p>6.00</p> | <p>6.00</p> |
| <p>Number of government and associated professionals/staff receiving capacity building through trainings, workshops, study visits, etc. (Number)</p> | <p>0.00</p> | <p>50.00</p> | <p>80.00</p> | <p>110.00</p> | <p>125.00</p> | <p>125.00</p> | <p>125.00</p> |

Indicator Description

| Project Development Objective Indicators | | | | |
|---|--|---------------|---------------------------|------------------------------------|
| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsibility for Data Collection |
| Number of SMEs who become "accredited suppliers" to large companies | The Supplier Development Program will work with SMEs to create linkages between them and large buyers. This will be done through various methods from training to SME-specific technical assistance. This indicator will count the number of SMEs who participate in the program AND as a result of this participation become "accredited suppliers" to large companies. | Semi-annually | NCE & SDO | SDO |
| Percentage of participating SMEs reporting improved management & business practices | This indicator will count the number of SMEs who report improved business performance and management practices through annual surveys and business reviews carried out through the project. | Semi-annually | NCE & ERI | ERI |
| Number of Cluster Competitiveness Action Plans for which implementation has begun | This indicator will measure the outcome of the efforts to enhance capacity of relevant government agencies (notably KIDI and MID) in the implementation of advanced methods for cluster competitiveness, including strong public-private dialogue, inter-institutional coordination, understanding of value chains and end markets, and evidence-based policy making. | Semi-annually | KIDI, MID | KIDI |

| Intermediate Results Indicators | | | | |
|--|---|---------------|---|------------------------------------|
| Indicator Name | Description (indicator definition etc.) | Frequency | Data Source / Methodology | Responsibility for Data Collection |
| Direct project beneficiaries | Direct beneficiaries are people or groups who directly derive benefits from an intervention (i.e., children who benefit from an immunization program; families that have a new piped water connection). Please note that this indicator requires supplemental information. Supplemental Value: Female beneficiaries (percentage). Based on the assessment and definition of direct project beneficiaries, specify what proportion of the direct project beneficiaries are female. This indicator is calculated as a percentage. | Semi-annually | Methodology for measurement of direct beneficiaries will be developed. It is anticipated that such measurement will involve a direct scaling/multiplication of SMEs benefiting, the number of average employees per SME and the average family size. Specific notation will be made for the bottom 40% beneficiaries. | MNE |
| Female beneficiaries | Based on the assessment and definition of direct project beneficiaries, specify what percentage of the beneficiaries are female. | Semi-annually | MNE | MNE |
| Number of local SME Advisors trained to undertake SME capacity building based on an established competency framework | This indicator tracks the number of SME Advisors trained by the Project. These Advisors are placed within the Entrepreneurship Service Centers operated by the government throughout the country. Their responsibility is to provide advice to local SMEs and entrepreneurs in good practices related as well as to conduct trainings locally. There are 161 centers throughout the country, each with a varying number of advisors ranging from 2 to 10. | Quarterly | MNE, NCE | NCE |

| | | | | |
|---|---|---------------|-----------|-----|
| Percent of Women Advisors trained | This indicator tracks the number of female SME Advisors trained by the Project. | Quarterly | MNE, NCE | NCE |
| Percent of training participants who found the training offered as effective and useful to them | Each training offered will include an evaluation survey for participants administered either on paper, electronically, or via SMS. This measure will count the percentage of participants who indicated that they were satisfied or very satisfied with both the quality and relevance of the trainings offered, thereby indicating the level of usefulness of the trainings. | Quarterly | MNE, ERI | ERI |
| Number of master trainers, assessors, instructional designers developed and trained in global best practice | This indicator tracks the number of professional SME service providers/trainers certified by the Project to offer training of trainers, to develop new training programs, and to assess quality of trainings offered by the trainees. It is anticipated that there will be at minimum 12 Master Trainers, 20 Assessors, and 8 instructional designers. | Semi-annually | MNE, NCE | NCE |
| Number of SMEs who are in the process of becoming "accredited suppliers" to large companies | The Supplier Development Program will work with SMEs to create linkages between them and large buyers. This will be done through various methods from training to SME-specific technical assistance. This component will count the number of SMEs who participate in the program AND become "accredited suppliers" to large companies. | Semi-annually | NCE & SDO | SDO |
| Value of increased sales of SMEs facilitated through participation in the project | This indicator will track increased competitiveness through the dollar value of new sales between participating SMEs | Semi-annually | NCE & SDO | SDO |

| | | | | |
|--|--|---------------|-----------|------|
| | and other large firms operating in Kazakhstan | | | |
| Enhanced institutional structure and technical approach for cluster competitiveness | This indicator will evaluate the enhanced capacity of relevant government agencies (notably KIDI and MID) in the implementation of advanced methods for cluster competitiveness | Semi-annually | MID, KIDI | KIDI |
| Number of Cluster Competitiveness Action Plans that have been developed | The indicator measures the number of clusters to for which cluster competitiveness action plans have been developed, demonstrating that the government's approach is being enhanced and incorporating relevant best practices | Annually | MID, KIDI | KIDI |
| Strategic assessment for supply chain financing program has been completed, including recommendations on design, partners, structure, location, and regulatory requirements. | This indicator will track progress made towards the completion of the strategic assessment of reverse-factoring (supply chain financing) for development in Kazakhstan | Annually | MNE | MNE |
| A fully functioning and credible third-party monitoring system | A functioning and transparent institutional framework that facilitates a dialogue between the private sector, the government and civil society that ensures transparency and accountability of SME policies, and that allows better monitoring and design of SME support policies. The development of this system will follow an evolution to "fully functioning" and "credible" as outlined in the milestones | Semi-annually | MNE, NCE | NCE |

| | | | | |
|---|--|------------------------|-----------------|------------|
| <p>Number of impact evaluations conducted or underway</p> | <p>Sustained improvement in impact evaluation of government programs following international good practice (At least two impact evaluations a year and implementation of a transparent system that determines what programs are evaluated)</p> | <p>Every two years</p> | <p>MNE, ERI</p> | <p>ERI</p> |
| <p>Number of government and associated professionals/staff receiving capacity building through trainings, workshops, study visits, etc.</p> | <p>This indicator includes staff of the Ministry of National Economy (10), PMU(5) National Chamber of Entrepreneurs (30), Ministry of Investment and Development (5), Supplier Development Office (10), ERI (20), KIDI (20), DAMU (15), other relevant public entities (30) in charge of formulation and implementation of programs to SMEs trained by the Project</p> | <p>Semi-Annually</p> | <p>MNE</p> | <p>MNE</p> |