

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA15782

Project Name	SME Competitiveness Project (P147705)
Region	EUROPE AND CENTRAL ASIA
Country	Kazakhstan
Sector(s)	Vocational training (15%), General industry and trade sector (85%)
Theme(s)	Micro, Small and Medium Enterprise support (60%), Other Private Sector Development (40%)
Lending Instrument	Investment Project Financing
Project ID	P147705
Borrower(s)	REPUBLIC OF KAZAKHSTAN, Ministry of National Economy
Implementing Agency	
Environmental Category	F-Financial Intermediary Assessment
Date PID Prepared/Updated	26-Nov-2014
Date PID Approved/Disclosed	26-Nov-2014
Estimated Date of Appraisal Completion	19-Nov-2014
Estimated Date of Board Approval	29-Jan-2015
Decision	

I. Project Context

Country Context

Kazakhstan has made strides in economic development, which have contributed to increased income. The country has enjoyed robust GDP growth since 2000, averaging 8 percent, which has contributed to a sharp rise in per capita income. Output growth has been somewhat lower in the past three years as compared to the pre-crisis levels but remains strong. Growth amounted to 6 percent in 2013, driven primarily by domestic demand, but has slowed since then. Real GDP growth in 2014 is projected to further slow down below five percent (Q1 2014 growth decelerated to 3.8 percent y/y), as a result of weakened household consumption and external demand, especially from China. Weaker confidence poses downside domestic risks to growth in 2014. Furthermore, Kazakhstan is vulnerable to a prolonged slowdown in emerging markets and additional unfavorable developments in Russia and Ukraine, given the strong linkages with Russia (especially in the context the Custom's Union) and potential spillovers to Europe through gas exports from Russia.

Kazakhstan remains engaged in both regional and global economic integration but deeper linkages with global value chains would benefit private sector growth. The newly launched Eurasian Economic Union (EEU) will formally come into effect in January 2015, with Belarus, Kazakhstan, and Russia as members. Compared to the existing Eurasian Customs Union, established in 2010

with a common external import tariff, the EEU envisages the free transit of goods, services, capital, and labor. At the same time, while the EEU suggests closer economic integration with a number of CIS economies, the government is also extending collaboration with China and the OECD and aims to finalize WTO accession this year. Further efforts are planned at the sector level to promote linkages to global value chains and upgrading of local suppliers especially in the oil & gas and railways sectors.

Looking ahead, improving competitiveness and boosting private sector remain critical. Kazakhstan's economy remains highly dependent on the hydrocarbons and extractive sectors, with manufacturing and agriculture accounting for only 11 and 5 percent of GDP, respectively. Successful diversification, which is the authorities' main long-term goal, requires addressing key structural weaknesses, namely promoting private-sector led non-oil growth and job creation. The government's long-term development programs need to focus on broad-based reforms. The key factors, which will primarily determine the lending activity of the banks, are availability and cost of financing, growing competition among banks, which as a consequence, will improve their lending policies. The Government's development program puts a major emphasis on increasing the contributions of non-oil sectors to growth, especially through SME sector development.

Sectoral and institutional Context

The role of Small and Medium Enterprises (SMEs) in the Kazakhstan economy can be substantially increased. At present, SMEs tend to be concentrated in a few, traditional sectors. Kazakhstan has over 750,000 registered SMEs that employ over 2.5 million people and produce about 18 percent of GDP. These indicators lag behind global averages and regional benchmarks. To date, SMEs represent over 90 percent of all enterprises in the country. Almost two thirds of SMEs are concentrated in the trade and services sectors, which are characterized by low risk and modest start-up capital. The remaining SMEs are active in agriculture (23 percent), transport and communications (8 percent), and manufacturing (3 percent). Such high a concentration of SMEs in few sectors is symptomatic of limited support to SMEs in the exploitation of adjacent sectors and business models. In addition, the SME sector has been disproportionately skewed towards Astana and Almaty, where 40 percent of registered SMEs are located.

The SME sector can play a key role in addressing Kazakhstan's development challenges, and in advancing shared prosperity and economic diversification. SMEs are widely identified as important sources of economic growth and employment and thereby an important foundation for shared prosperity. In Kazakhstan, SMEs have the potential to contribute to reducing the reliance of the economy on extractive industries, thus decreasing the exposure of the country to negative external shocks, such as commodity prices. SMEs also have the potential to be sources and conduits of innovation, helping the introduction of higher added-value activities and thus creating opportunities for generation of more and better jobs. However, SMEs are faced with sizable uncertainty and cannot pursue available opportunities with needed flexibility.

The capacity of entrepreneurs to conduct business efficiently, innovate and exploit new opportunities in domestic and export markets is not likely to improve in the medium term without public support. The current generation of entrepreneurs was educated in the old Soviet system and gained their business experience only after the collapse of the central planning system. In fact, until the independent state of Kazakhstan was created, there were no SMEs registered. However, even the new market economy inherited many features and networks from the central planning, including

inefficient business networks, clientelism, and a lack of professional skills to complete in external markets. The low quality of public services and infrastructure will continue to be a challenge in the short- to medium-term.

II. Proposed Development Objectives

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

III. Project Description

Component Name

1. SME Capacity building program

Comments (optional)

Strengthen government SME support programs by enhancing quality and introducing international standards to increase SME competitiveness and enable them greater access to other programs.

Component Name

2. SME Linkages in Competitive Sectors

Comments (optional)

Component 2.1 Supplier Development Program: Program to increase supply-chain linkages between SMEs and Large firms in Kazakhstan through facilitation of linkages; focused technical assistance to SMEs; establishment of Supplier Development Office.

Component 2.2 Competitive Sectors: Support the development of non-extractive sectors in and around priority geographic areas through institutional capacity strengthening.

Component 2.3 Factoring Strategic Assessment: Strategic assessment for supply chain financing (SCF) program to improve access to and terms of credit for SMEs

Component Name

3. Impact evaluations & monitoring

Comments (optional)

Deploy rigorous impact evaluations and M&E tools to gain evidence for policy, program design and transparency; citizen engagement through PPDs and a strengthened SME Call Center

Component Name

4. Project management

Comments (optional)

Operation of the project by a team of resident local and international technical and fiduciary specialists

IV. Financing (in USD Million)

Total Project Cost:	46.00	Total Bank Financing:	40.00
Financing Gap:	0.00		
For Loans/Credits/Others			Amount
Borrower			6.00
International Bank for Reconstruction and Development			40.00

Total	46.00
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V. Implementation

The proposed Project includes 4 components, overseen and implemented by the Ministry of National Economy. The Department of Entrepreneurship Policy and Development of the MNE will oversee implementation of the project and will be responsible for strategic oversight and technical aspects of project implementation.

A dedicated Project Management Unit (PMU) will be established within the MNE. The PMU will manage overall project implementation and will be responsible for such functions as fiduciary, safeguards, monitoring and evaluation, and reporting.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		x
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)

VII. Contact point

World Bank

Contact: Qahir Dhanani
 Title: Private Sector Development Specialist
 Tel: 473-4582
 Email: qdhanani@worldbank.org

Borrower/Client/Recipient

Name: REPUBLIC OF KAZAKHSTAN
 Contact:
 Title:
 Tel:
 Email:
 Name: Ministry of National Economy
 Contact: Mr. Erbolat Dossayev
 Title: Minister
 Tel: 77172-74-2809
 Email: info@minplan.kz

Implementing Agencies

Name:

Contact:

Title:

Tel:

Email:

VIII. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>