The World Bank

Report No: ISR7404

Implementation Status & Results
Kenya
Micro, Small, and Medium Enterprise Competitiveness Project (P085007)

Operation Name:	Micro, Small, and Medium Enterprise Competitiveness Project (P085007)	Project Stage:	Implementation	Seq.No:	15	Status:	ARCHIVED	Archive Date:	11-Jul-2012

		Country:	Kenya	Approval FY:	2005
Product Line:	IBRD/IDA	Region:	AFRICA	Lending Instrument:	Specific Investment Loan
Implementing Agency(ies):	Ministry of Industrialization				

Key Dates

Board Approval Date	13-Jul-2004	Original Closing Date	30-Jun-2010	Planned Mid Term Review Date	28-Feb-2007	Last Archived ISR Date	03-Jan-2012
Effectiveness Date	17-Dec-2004	Revised Closing Date	30-Jun-2012	Actual Mid Term Review Date	23-Jun-2009		

Project Development Objectives

Project Development Objective (from Project Appraisal Document)

The Project aims to increase productivity and employment in participating micro, small and medium enterprises (MSMEs). This objective will be achieved by strengthening financial and non-financial markets to meet the demand of MSMEs, strengthening support for employable skills and business management, and reducing critical investment climate constraints in MSMEs. The project will focus on key value chains and on both formal small and medium enterprises and informal microenterprises that have high potential for dynamic growth, including "graduation" from informal to formal status.

Has the Project Development Objective been changed since Board Approval of the Project?

○ Yes ⦿ No

Component(s)

Component Name	Component Cost
Compnent 1 - ACCESS TO FINANCE	9.50
Component 2 - STRENGTHENING ENTERPRISE SKILLS AND MARKET LINKAGES	8.10
Component 3 - Institutional Capacity Building and Project Management	3.85

Overall Ratings

	Previous Rating	Current Rating
Progress towards achievement of PDO	Moderately Satisfactory	Moderately Satisfactory
Overall Implementation Progress (IP)	Moderately Satisfactory	Moderately Satisfactory
Overall Risk Rating		

Implementation Status Overview

Achievement of PDOs: The most important PDO of this Project is to “increase productivity and employment in participating MSMEs”. This PDO is considered as largely achieved, although data to support it is relatively limited. Therefore, the rating towards achievement of PDO was conservatively maintained as Marginally Satisfactory. While the outcome targets set at appraisal suffers from measurability weaknesses, productivity improvement and job creation are significant as measured by the "proxy values". Those values are based on good data provided by the main project implementing contractors (called Technical Implementing Partners or TIPs), which appear to have used the raw data to gauge project outcomes.

Productivity increases (PDO Indicator – Value added per worker increased by 20%): This PDO has been achieved but there were data limitations. Based on the available information, the value added (change in turnover as proxy) per worker under the Risk Capital and TA funds (RKF) increased by 70% from the baseline year, which is more than two times over the PDO target. The value added (average annual production as proxy) per coffee farmers' cooperative increased by 33.4%. In Kenya, coffee farmers' cooperatives typically operate wet mills at micro or micro-to-small scale. Another evidence of the increased productivity of coffee MSMES is the improvement in product quality. Share of top-grade products increased by 23.8% per annum per coffee growers cooperative. Other components/main activities have also contributed to the achievement of the productivity objective through e.g. increased micro and SME loans, development of new financial products and services, expanded cotton plantation acreage, improved leather product quality, accepted business plans for loans, and improved business education. However, the nature of the interventions makes it difficult and costly to document and measure every direct and indirect MSME beneficiary's value added, and consolidate the data into a single value by activity. For a further qualitative discussion on the contribution to the PDO outcomes, please refer to the section on component of this ISR.

Employment additions (PDO Indicator – At least 2,500 new jobs created): This PDO has been largely achieved (72% based on available data, but with some evidence suggesting it could be much larger). New jobs created in the RKF beneficiaries were over 1,300. Given the fact that most (60%) of the beneficiaries are in non-manufacturing sector (e.g. a dry cleaning shop, a scarcely staffed travel agency), arguably different than it was estimated at appraisal, this is a commendable result in employment. In terms of the value chain component (2-3 estimated at appraisal, but 4 supported, with coffee and cotton receiving support for the longest period -see components description for further details), at least sectors contributed to this indicator. At the coffee farmers' cooperative level, the oldest value chain supported, data available is the number of total casual workers hired before and after the technical services. Those casual workers are said to typically work full time, six days a week in two seasons (May-Jul and Oct-Jan). Using the estimated number of days the casual workers were employed, the full-time jobs (equivalent) increased by 483 at the beneficiary coffee farmers' cooperatives. For the cotton value chain MSME level (i.e. cotton ginneries), the permanent jobs created after receiving technical services was 10. The job creation figure could be higher as increased coffee and cotton production at farmers' level indicates increased uses of casual workers. Unfortunately those smallholder farmers usually do not keep good record of casual workers they hired during peak seasons. A further discussion on the relationship between the achievement of this PDO outcome and the other components/main activities can be found in the component section of this ISR.

Impact Assessment findings: The Project has a built-in Impact Assessment (IA) by an international consultant engaged by the Ministry of Industrialization (MOI). The baselines surveys of the coffee and cotton farmers, which were the two value chains being implemented at the time with 1-2 more in progress, were undertaken in 2008 (partly delayed after election violence of late 2007) and the baseline interviews of the MSME clients of two FIs under the Financial Deepening Trust (FSD) subcomponent and the interviews of the RKF beneficiaries were undertaken in 2008 – 2009. Since the IA took place in 08 and early 09, about half of the sub-components of the project had either not started or facing major delays, limiting comparability at end assessment for the remaining sub-components that started thereafter (see below). The end-of-project assessment was recently concluded, making reference to the partial set of sub-components. While the IA is subject to a number of c onstraints (e.g. short observation periods, limited number of samples and non-responsiveness of one FI beneficiary), it has confirmed that the turnover, profit and employment in the beneficiaries (MSMEs and farmers) have increased. For instance, a) the RKF beneficiaries interviewed were able to increase profits by 79% in 2009 – 2011 and revenue by 33% in 2008 – 2011; b) coffee farmers in the treatment group saw their sales increased by more than 5 times; and c) cotton farmers in the treatment group saw yield increased by 65%. The beneficiaries interviewed or in the treatment groups also reported significant job increases: such as 25% growth of full-time jobs (equivalent) in 2009 – 2010 (RKF); and substantial increase in the number of male seasonal workers hired by coffee farmers and substantial increase in the number of days of employment per seasonal worker hired by the cotton farmers. Those findings are additional evidence of the achievement of the PDO.

Public Disclosure Copy

Other qualitative impact: Significant impact has been achieved, including on the number of sub-components or additional sectors that picked up or started since 2009. These include: (a) Expansion of the RKF beyond the initial (South African) firm BPI to include 3-4 new Kenyan fund managers, in an industry that was virtually non-existent at appraisal. As explained in the restructuring paper, the funds allocated to these sub-components proved to be more than required due to lower actual investments needed per MSME than estimated an appraisal (about 300k instead of 500k on average), lower percentage of the investment needed for TA (10 percent instead of 20), and initial repayment of early loans that started to come into the revolving TA fund and made available for other firms. As a result, some US$4million were deemed to be not needed at restructuring time, which were not expected to affect achievement of objective due to change in estimated parameters at appraisal once the market emerged. These funds together with favorable exchange rate led to excess funds that were partly reallocated and made available at closure for cancellation (see below); (b) FSD Kenya, created by the project together with DFID, is a crucial element of the financial sector support landscape in Kenya, together with a parallel IDA loan (Financial and LEgal Sector Technical Assistance Program, FLSTAP), which is now also funded by other partners and has supported transformational changes in the financial sector that together with the RKF market that has emerged facilitated by the project, have helped reduced what has been reported in the latest investment climate survey (ICA) and poverty assessments among top three investment climate constraints for MSMEs. Investment climate constraints were also improved at the sectoral level and via business services and market linkages in general with the following sub-components. (c) the value chain subcomponent is a salient feature of the project and its impact goes beyond individual achievement, not only for the first 2 value chains that received longer support, but also for the last addition of the leather value chain, with achievements at the policy/investment climate side that had been elusive for 20 years, while the pyrethrum value chain concentrated on market competition issues that led to the submission to Parliament of the Pyrethrum bill for the liberation of the sector. The subcomponent is spilling over with long lasting effects, with its design and implementation model being replicated by other WB projects (Infodev, WBI) and other donors reviewing it for their future programs (German cooperation, UNDP), while Deloitte and Touche (implementing partner) has created a permanent division with the project team to carry on with similar ac tivities for other projects. (d) the Global Business School NEtwork has also had strong impact, with the second round (introduced at restructuring) building on the successes of the first round, incorporating universities that benefited from the training to train trainers from other universities, hence ensuring sustainablity and broader impact. (e) the first BPC round did not take place until 2010, even though it was expected early in the project, but then they managed to do a second round in 2011/12 and it is also being picked up by other WB projects (WBI) on its design and planing to provide additional support to participants taking them to the next level. (f) the work under the industrial training levy that was coordinated across relevant ministries helped revive an agenda that was dormant, with a new ITL bill approved by Parliament during the project implementation, although the consultancy experienced delays later addressed. The overall qualitative impact is thus deemed high, particularly since the project implementation accelerated after 2009 with all sub-components in full implementation.

Project restructuring and impact on PDO: The Project was restructured in December 2009 when Component 3 – Improving the Business Environment was dropped as the specific measures supported were assigned by law to other institutions. The component was to assist the Government to simplify the MSME taxation regime and establish a one-stop window for startups, with an aim to create incentives for MSMEs operating in the informal sector to graduate into more formal sector. This component had not performed well by 2009 (including due to implementation of consultants), but also it had been overtaken by events with the new MSM tax Bill passed and the mandate for one-stop shop transferred to a new institution not related to the project. At the same time, FIAS (WB/IFC trust fund to support investment climate) had increased regulatory support to the Government of Kenya. The Project Paper reports that there was anecdotal evidence in the economy pointing towards the achievement of the investment climate related project targets, as noted above, beyond the two specific areas Component 3 was supporting. Thus, the Project Paper also points out that the closure of this component would not affect the Project Development Objectives “as both components 1 and 2 are contributing to improving the business environment”. While improving investment climate is not the primary target of this Project (by design it was an intermediate result), the Project has enabled the beneficiary MSMEs to e.g, a) access finance (e.g. RKF quasi-capital investments); and b) reduce market risk through value chain linkages (e.g. services for product certification and demonstration at international exhibitions). The interventions under Component 1 and 2 have also contributed to progress towards the original component objective on moving MSME beneficiaries' to more formal sector (refer to the component section of this ISR for details).

Overall implementation progress: Overall, implementation has improved substantially completing all the activities following the much faster and effective pace of implementation in the last 3 years of the project with disbursement ratios increasing from 32% in June 2009 to 72% in June 2012. Out of the original eight Intermediate Results, five targets have been met, two largely met and one partially met. Those good results have enabled the Project to achieve the PDO targets but data limitations have constrained fully documenting this achievement. As a result the rating has been conservatively left as Marginally Satisfactory. For a detailed discussion on the implementation status and the contributions from component results to PDO outcomes, please refer to the section on components in this ISR. The disbursement rate as of this ISR time is 72 percent, which is in line with assessment at restructuring that deemed a large portion of funds in excess of what was needed to achieve sub-component objectives (i.e RKF) and benefits from exchange rate appreciation, even after funds were reallocated and effectively used in 2009 beyond original expected outputs at appraisal (for value chain, BPC, GBSN, in particular). The GoK has recently submitted a request for cancellation of US$6.6 million of the IDA credit proceeds that will not be utilized, but this is not affecting achievement of PDOs and implementation, as noted above, with activities supported well above those identified at appraisal, in spite of the lower funds used. Based on these achievements, the supervision team was ready to upgrade rating of the project in December 2012 (as described in the relevant ISR), but decided to wait to allow full implementation of the last round of activities, document impact assessment expected at the end and request for cancellation of funds, now in place, however M&E systems continue to be deficient hindering full documentation of project achievements, thus. the rating was left as Marginally Satisfactory.

PDO indicator measurability: As discussed above, the design of the two PDO indicators suffers measurability weaknesses. This has affected the evaluation and full documentation of the PDO outcomes and component results. While the project targets all three sizes of enterprises (micro, small and medium), the majority of the actual beneficiaries so far have been smallholder farmers, and micro or micro-to-small enterprises, reflecting the missing-middle syndrome of many African economies. The majority of those beneficiaries turned out to be in the non-manufacturing sectors (partly due to other investment climate constraints, notably energy and port of mombasa inefficiencies), while the PDO indicator on productivity is more suitable for manufacturing industries or enterprises capable of good cost accounting where steady and reliable information on value added (revenue-inputs) per worker would be easier to collect. Those beneficiaries in particular the smallholder farmers usually do not have the capability to keep a good record of casual jobs. The PDO indicators developed at appraisal were based on a 2002 RKF in South Africa. At present, details of this South Africa risk capital fund is not available (e.g. average investment/TA loan size, average size of beneficiaries and their sector distribution, etc.).

Project relevance: MSME development continues to be a top priority of the Government of Kenya. The Project's interventions have been targeted to the main constraints of MSME development (e.g. limited access to finance, poor business planning and lack of business development support) and activities have important sustainability effects. Evaluated against the current government priority and the achievement of the PDO, the Project remains Highly Relevant.

Project effectiveness: Given the nature of the main interventions of the Project (consultant services in business development assistance and quasi-equity loans to micro/small startups), quantitative analysis of project effectiveness is difficult, although at appraisal an estimated Net Present Value (NPV) was arrived (US$19.8 million). This NPV was expected to be achieved in a 12-year period, and the breakeven point was to be reached during the 1st year after project completion (the 6th year per the original design of a 5-year implementation period). The upcoming ICR exercise will try to locate the net cashflow analysis of the NPV at appraisal to determine if a similar NPV analysis at closure is a good measure for project effectiveness; and if not, will conduct qualitative analysis.

Locations

No Location data has been entered

Results

Project Development Objective Indicators

Indicator Name	Core	Unit of Measure		Baseline	Current	End Target
Value added per worker increases by 20 percent in participating MSMEs	☐	Percentage	Value	0.00	70.00	20.00
			Date	30-Jun-2005	30-Mar-2012	30-Jun-2012
			Comments	Baseline before interventions: RKF - Turnover per worker before intervention = KSh995,867 Coffee value chain - Average annual production per beneficiary MSME = 1,164,637 kg	Target met (more than 2 times higher than original). Value-added (change in turnover as proxy) per worker increased to KSh1,691,502 or by 70% in the MSME beneficiaries of the RK/TA funds (C1B). Value added (average annual production as proxy) per participating coffee MSME (farmers cooperative) reached to 1,553,163 kg or increased by 33.42A) Share of top-grade products increased by 23.8% per annum per coffee growers cooperative (C2A) (Sources: TIPs for C1B and C2A)	Value added per worker increases by 20 percent in participating MSMEs
At least 2,500 new jobs created in participating MSMEs	☐	Number	Value	0.00	1803.00	2500.00
			Date	30-Jun-2005	30-Mar-2012	30-Jun-2012
			Comments	Baseline before interventions = 0	Target largely met (72%): 1,310 new jobs (C1B) 483 full-time equivalent new jobs at coffee farmers' cooperatives 10 permanent new jobs at cotton ginnneries (Sources: TIPs for C1B and C2A)	At least 2500 new jobs created in participating MSMEs

Public Disclosure Copy

Intermediate Results Indicators

Indicator Name	Core	Unit of Measure		Baseline	Current	End Target
Increased subcontracting in local supply chains providing at least 50% increase in the level of local sourcing	☐	Percentage	Value	0.00	1000.00	50.00
			Date	09-Jan-2008	30-Mar-2012	30-Jun-2012
			Comments	Information available is only on cotton to garment value chain. Baseline year for Mwea ginnery (2010) = 200 subcontractors; and baseline year for Ginu ginnery (2008), no subcontractors were formally engaged. The 3rd ginnery beneficiary did not engage any subcontract (it was a one-man shop).	Target met (over 10 times increase): Under C2A, only the cotton t garment value chain engaged beneficiaries that subcontract. Those are three ginneries and two of them experienced exponential increase in subcontracting (Mwea from 500 to over 5,600; and Meru fromnegligible to 1,500). The 3rd ginnery is very small with only 3 permanent employees by the reporting period. A possible explanationof the lack of subcontracting data and activities under the other value chains could be the level of interventions; i.e. they weretargeted mainly to individual farmers and farmers' cooperatives, rather than factories. The nature of production activities may beanother reason. This needs to be further investigated during the ICR exercise. (Sources: TIP for C2A)	50% increase in subcontracting in local supply chains
At least 200 eligible entrepreneurs apply to the business plan competition in the first year, with at least a 5% increase in the number of eligible applicants annually.	☐	Percentage	Value	0.00	3493.00	200.00
			Date	30-Jun-2005	30-Mar-2012	30-Jun-2012
			Comments	No similar BPC existed	Target met (more than 16 times higher than the original target): 3493 eligible applicants under the 2nd phase, which is equal	At least 200 eligible entrepreneurs apply to the business plan competition in the first year.

					to atotal increase of 67% in approximately 3 years. (Source: TIP for C2C-Business Plan Competition)	
Case-based instruction is routinely used in at least one required course in each of the three business schools.	☐	Number	Value	0.00	3.00	3.00
			Date	01-Jan-2005	30-Mar-2012	30-Jun-2012
			Comments	Case study methodology rarely used routinely in the three schools.	Target met: All the 3 participating universities used the case-study methodology and the cases developed under the Project at their executive training centers/programs (Source: TIP for C2C-GBSN business skills)	Case-based instruction is routinely used in at least one required course in each of the three business schools.
100 new business case studies introduced into the Borrower#s universities# business school curriculum.	☐	Number	Value	0.00	170.00	100.00
			Date	01-Jan-2005	30-Mar-2012	30-Jun-2012
			Comments	No new cases	Target met (70% higher than the original target): 137 cases developed under 1st phase and 33e8 cases under 2nd phase (Source: TIPfor C2C-GBSN business skills)	100 new business cases produced, and case-based instruction is routinely used in at least one required course in each of the three business schools.
Agreement on training levy scheme, legislation and implementation plan	☐	Number	Value	0.00	1.00	1.00
			Date	01-Jan-2005	30-Mar-2012	30-Jun-2012
			Comments	No agreement	Target largely met: The consultant report on the strategy and its implementation plan was finalized and accepted by MOI (Source:PMC)	Agreement on training levy scheme legislation and implementation plan

A comprehensive supply chain strategy, which responds to market, technical, human resource and financial needs of key players alongthe entire supply chain, is created for at least three sectors. (Tex	☐	Number	Value	0.00	3.00	3.00
			Date	01-Jan-2005	30-Mar-2012	30-Jun-2012
			Comments	No value/supply chain strategies existed	Target met: Three value chain strategies adopted and under implementation (coffee, cotton and leather value chains) (Source: TIP for C2A and PMC)	A comprehensive supply chain strategy, which responds to market, technical, human resource and financial needs of key players alongthe entire supply chain, is created for at least three sectors.
At least 70 percent of financial institutions receiving grants from the Financial Sector Deepening Trust meet or exceed their business plan targets	☐	Percentage	Value	0.00	50.00	70.00
			Date	30-Jun-2005	30-Mar-2012	30-Jun-2012
			Comments	No FI received assistance from the newly minted FSD.	Target partially met: Total # of FSD projects co-financed by the Project is 18. Qualitative information on the project performance is available for 15 projects, and out of which 7 appear to be satisfactory. Quantitative information is available on 6 FI beneficiaries, and 3 are reported to have reached or exceeded their business plan targets, which is equal to 50%. (Source: TIP for C1A)	
At least US$11.5m in loans and quasi-equity investment to SMEs disbursed through SME risk capital fund and facilitated through targeted technical assistance, with loan loss rate below 10%	☐	Amount(USD)	Value	0.00	11050000.00	11500000.00
			Date	30-Jun-2005	30-Mar-2012	30-Jun-2012
			Comments	No RFK of similar nature/size existed	Target largely met (96% of the original target): US$11.05 million investment funds disbursed, and loan loss rate was 6.4% (Source: TIP for C1B)	

Direct project beneficiaries	☒	Number	Value	0.00	219136.00	0.00
			Date	30-Jun-2005	30-Mar-2012	30-Jun-2012
			Comments	Baseline before Project = 0	Direct investment beneficiaries = 98 (C1B) Direct TA beneficiaries = 23,631 Direct training beneficiaries = 195,407 (Source: TIPs for C1a, C1B, C2A, and C2C; PMC)	No target was established when the Bank core indicator was added.
Female beneficiaries	☒	Percentage Sub Type Supplemental	Value	0.00	648.00	0.00
Volume of Bank Support: Enabling Environment - SME	☒	Amount(USD)	Value			0.00
			Date		31-Mar-2010	30-Jun-2012
			Comments		component dropped after project restructuring	
Volume of Bank Support: Institutional Development - SME	☒	Amount(USD)	Value	0.00	2709529.00	2000000.00
			Date	31-Dec-2004	31-May-2012	30-Jun-2010
			Comments	Baseline before IDA credit = 0	Target met : C1B – Risk Capital and TA funds disbursed $452,599 in TA funds C2A – Pilot value chain matching grant program (business development services) disbursed $2.57 million. (Source: disbursement table in operational portal- Category 6 – C2A, and TIP forC1B)	
Volume of Bank Support: Institutional Development - Microfinance	☒	Amount(USD)	Value	0.00	756021.00	5750000.00
			Date	31-Dec-2004	31-May-2012	30-Jun-2012

			Comments	Baseline before IDA credit = 0	This is the amount of IDA credit proceeds disbursed to Kenya-FSD in support of the 18 projects to micro-finance and other institutions.	

Data on Financial Performance (as of 26-Apr-2012)

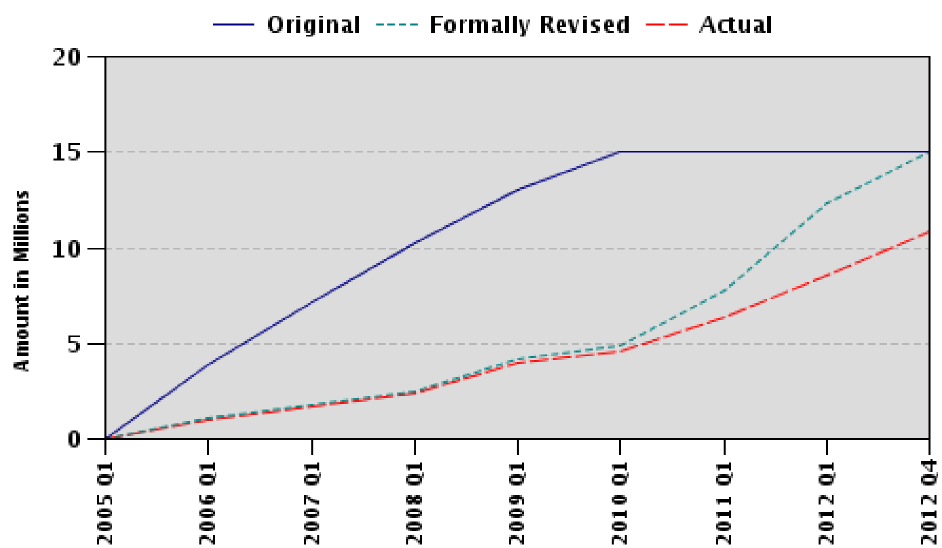
Financial Agreement(s) Key Dates

Project	Ln/Cr/Tf	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date
P085007	IDA-39590	Effective	13-Jul-2004	04-Aug-2004	17-Dec-2004	30-Jun-2010	30-Jun-2012

Disbursements (in Millions)

Project	Ln/Cr/Tf	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed
P085007	IDA-39590	Effective	XDR	15.00	15.00	0.00	10.82	4.18	72.00

Disbursement Graph



Key Decisions Regarding Implementation

Project activities successfully completed except for M&E, with recent cancellation of funds identified since MTR/restructuring (09/10) as excess funds not expected to affect achievement of objectives.

Restructuring History

Level two Approved on 28-Dec-2009, Level two Approved on 29-Jun-2012

Related Projects

There are no related projects.