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Report Number : ICRR0021252

1. Project Data

Project ID P118053	**Project Name** AF: New Market Development	
Country Afghanistan	**Practice Area(Lead)** Finance, Competitiveness and Innovation	**Additional Financing** P159925,P159925
L/C/TF Number(s) IDA-H6800	**Closing Date (Original)** 29-Feb-2016	**Total Project Cost (USD)** 22,000,000.00
Bank Approval Date 03-May-2011	**Closing Date (Actual)** 30-Nov-2017	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	22,000,000.00	0.00
Revised Commitment	22,000,000.00	0.00
Actual	17,051,957.04	0.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO) as stated in the Financing Agreement (Schedule 1, page 4) and in the Emergency Project Paper (page 8) was:

"To help in the revitalization of private sector activities in the four major urban cities of Kabul, Mazar-e-Sharif, Jalalabad and Herat through provision of business development technical assistance to support private firms' initiatives to gain market knowledge, improve product quality and processing technologies, and increase their presence in both domestic and export markets."

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

No

c. Will a split evaluation be undertaken?

No

d. Components

There were two components (Emergency Project Paper, page 9).

One. Facility for New Market Development (hereafter referred to as FNMD). Appraisal estimate US$18.00 million. Actual cost US$14.45 million. This component financed FNMD activities aimed at fostering Small and Medium Enterprises (SMEs) to gain market knowledge, improve product quality to comply with international standards, build competitiveness and enhance market presence. Activities included: (i) technical assistance grants to participating SMEs and business associations: (ii) information, communications and knowledge sharing of best practices and business development plans, results monitoring and dissemination of activities associated with FNMD: and, (iii) FNMD consultancy services. Development assistance to be provided through FNMD was to be on a cost-sharing basis. The project would: (i) reimburse 50% of eligible expenditure of the participating firms: and (ii) 70% of eligible expenditure incurred by business associations.

Two. Project Implementation Support and Technical Assistance to Ministry of Commerce & Industry (MoCI). Appraisal estimate US$4.00 million. Actual cost US$2.61 million. This component provided support to the MoCI. Activities included: (i) establishing a Project Management Unit: (ii) technical assistance to the MoCI to access support from the proposed new "Afghanistan Capacity Building for Results Facility" which was under preparation by the Bank and the Government at appraisal.

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

Project cost. Appraisal estimate US$22.00 million. Actual cost US$17.06 million. Actual cost was lower than estimated at appraisal due to the non-completion of some components and activities.

Project financing. The project was financed by an IDA grant of US$22.00 million. There were exchange rate fluctuations during implementation and the amount disbursed was 90% of the grant at US$20.34 million (ICR, page 11). There was parallel financing for complementary activities from the United States Agency for International Development, United Kingdom Department of International Development (DFID) and the German Agency for International Cooperation (GIZ).

Borrower contribution. None was planned. There was no contribution from the borrower during implementation.

Dates. There were two Level 2 restructurings. The first on 29 February 2016, extended the closing date by six months from February 29,2016 to August 22, 2016, for these reasons: (a) To allow the MoCI to process the remaining reimbursement payments owed to SMEs under the FNMD matching grants component: (b) To finalize the results monitoring for firms: and (c) To complete an independent Impact Evaluation of the FNMD.

The following changes were made through the second restructuring on August 22,2016: (i) The results framework was changed and the target for the number of firms supported by the project was reduced from 750 to 375 and the target for the number of business associations was increased from 10 to 30 for these reasons: One, the number firms interested in the Facility was lower than anticipated at appraisal on account of the deteriorating security conditions: Two, recruitment of firms was slower than anticipated, due to MoCI's inadequate institutional capacity: and Three, a number of low-value applications received from firms were expensive to administer and hence the applicants were advised to establish business associations for availing of grant financing and the targets for the number of business associations was increased from 10 to 30. (ii) The closing date was extended by 15 months to November 30, 2017 to allow the completion of ongoing activities associated with the FNMD impact evaluation, finalizing the GIZ final report and processing their final payments, refunding to the Bank of an ineligible expenditure (discussed in Section 10b) and preparing an Expenditure Action and Budget plan for the remaining project funds. The project closed 21 months behind schedule on November 30, 2017.

3. Relevance of Objectives

Rationale

The PDO was highly relevant to the Islamic Republic of Afghanistan's (hereafter referred to as Afghanistan) government strategy. Afghanistan's private sector is dominated by SMEs engaged mainly in agro-processing and handicraft production. Three decades of conflict had exacted a heavy toll on the operation of the private sector firms and at appraisal, according to the Afghanistan Enterprise Survey (2008), 95% of SMEs had no internationally recognized quality certification, 94% did not use foreign licensed technology and 86% did not provide on-the-job training. These factors had led to the reduced competitiveness and market share of SMEs both in domestic and foreign markets. The third pillar of Afghanistan's National Development Strategy, approved as the first poverty reduction strategy paper for the 2008-2013 period highlighted the goal of "reducing poverty, ensuring sustainable development through a private sector-led market economy, improving human indicators and making a significant progress towards the Millennium Development Goals".
The PDO was well-aligned with the Bank's Interim Strategy Note (ISN) for the 2009 -2011 period and the Country Partnership Strategy (CPS) for the 2010-2013 period. The major goals of the ISN and CPS were to support the growth of a formal, modern and competitive private sector. The PDO was also aligned with the Country Partnership Framework (CPF) for the 2017-2020 period, at the time the project closed. The third pillar of the CPF underscored the need for expanding and deepening social inclusion through strengthening private sector development and improving the investment climate.

Rating

High

4. Achievement of Objectives (Efficacy)

Objective 1

Objective

To help in the revitalization of private sector activities in the four major urban cities of Kabul, Mazar-e-Sharif, Jalalabad and Herat.

Rationale

Outputs (ICR pages 12-14, 29-30 and 31).

- FNMD was implemented and active in Kabul, Mazar-e-Sharif, Herat and Jalalabad in August 2015.
- The following results are based on an Independent Evaluation of the project conducted in 2016. The beneficiary survey was conducted with 73 beneficiaries and 18 non-beneficiaries. The evaluation was based on both qualitative and quantitative data (from primary and secondary sources) (ICR, page 38). 372 SME firms were supported by matching grants in the four cities (147 in Kabul, 81 in Herat, 71 in Mazar-e-Sharif and 72 in Jalalabad) at project closure. This was slightly short of the revised target of 375. Of these SMEs, 24 were new exporters. Matching grants were provided for activities such as acquisition of labeling, packaging and storage systems.
- 53 business associations were supported by FNMD (25 in Kabul, five in Herat, 14 in Mazar-e-Sharif and nine in Jalalabad). This exceeded the target of 30.
- 56 companies received international standards certification. 56 short training courses were completed and 32 firms were trained on developing business plans. No targets were set for these indicators..
- A total of 14 new products were introduced by the SMEs in the four urban centers (including eight in Kabul, two in Herat, three in Mazar-e-Sharif and one in Jalalabad). Seven old products were improved (including three in Kabul and four in Jalalabad). 53 new production lines were installed (including 13 in Kabul, 14 in Herat and 13 each in Mazar-e-Sharif and Jalalabad). No targets were set for this indicator.
- 113 SMEs expanded their sales coverage in the domestic market and 32 firms started exporting to 12 countries (The countries included, India, Russia, Germany, United Arab Emirates, China, Uzbekistan, Kyrgyzstan, France Italy and Saudi Arabia). No targets were set for this indicator.
- Activity associated with implementation of the MOCI's strategic plan was not completed.

Outcomes

According to the Independent Evaluation of the project, the following outcomes were achieved**.**

- 425 SME firms added value to their business operations. This exceeded the revised target of 375.
- 1516 new jobs were created by the SMEs at project closure. This exceeded the target of 1,500. 30% of the new jobs were for women as compared to the target of 5%.
- Sales revenue of the SMEs increased by 24.5% at project closure. This exceeded the target of 20%.
- 44 new international markets were created at project closure. This exceeded the target of 20.

While it is difficult to ascertain the extent to which the project activities contributed more to the outcome as compared to what would have been achieved without the project, it is reasonable to assume that the provision of business development support and matching grants provided by FNDP substantially helped in removing the supply side constraints for SMEs and contributed to the PDO of reinvigorating the private sector.

Rating
Substantial

Rationale
There was only one objective, thus the overall Efficacy rating is Substantial.

Overall Efficacy Rating
Substantial

5. Efficiency

The expected benefits from project activities were assumed to come through: (a) increased productivity of SMEs due to increased access to technical knowledge and business support services: (b) increase in employment opportunities and incomes: (c) increase in investments by enterprises: and, (iv) fiscal revenues. The PAD (page 10) noted that Economic Internal Rate of Return (EIRR) was not conducted at appraisal due to security considerations. However, rough estimates of the EIRR were made at appraisal, based on the experience of similar interventions in countries in the Middle East, Africa and Latin America for components which accounted for 54% of the project cost. The gains to firms were expected to generate an EIRR of 32%. The security obstacles to collecting information on the project's benefits and costs still prevailed when the project closed. Therefore, the methodology at appraisal was replicated at project closure, and the EIRR was estimated to be 15.3%.
Administrative and Operational Issues. There were significant delays in the first two years due to factors such as, delays in contracting the management firm, MOCI's lack of familiarity with Bank procedures, issues with the payment arrangements to the implementing partner (the management firm) and the German Agency for International Cooperation as well as the difficulties faced by MoCI in attracting and maintaining qualified staff for fiduciary management. This in conjunction with the deteriorating security conditions contributed to the two extensions of the closing date. There were delays in implementing the activity associated with MoCI's strategic plan (Component two activity). This activity which accounted for about 18% of the project cost was eventually not completed. The administrative costs of FNMD component at US$5.5 million, accounted for about a third (31%) of the FNMD component. The ICR (page 15) notes that an overhead cost of 31% was relatively high when compared to other matching grant projects (typically about 20%). The dangerous security situation also imposed costs on the operation's management.

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	✓	32.00	54.00 ☐Not Applicable
ICR Estimate	✓	15.30	54.00 ☐Not Applicable

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

6. Outcome

Relevance of the PDO to the Government and Bank strategy is rated as High. Efficacy of the single objective - to help in the revitalization of private sector activities in the four major urban cities of Kabul, Mazar-e-Sharif, Jalalabad and Herat - is rated as Substantial. The outcomes were either realized or exceeded. While it is difficult to ascertain the extent to which the activities contributed to the outcome, it is reasonable to conclude that the business development support and matching grant provided by the FNMD substantially contributed to realizing the PDO. Efficiency is rated as Modest in view of the relatively low EIRR at closure and the high administrative and operational costs. Taking these ratings into account, the overall outcome is rated as Moderately Satisfactory, reflecting moderate shortcomings in the project's efficiency.

a. Outcome Rating
Moderately Satisfactory

7. Risk to Development Outcome

Institutional Risk. Although the SMEs have gained new skills in production methods and management, it is not clear if there is adequate indigenous institutional capacity to manage these activities. This is particularly so, given that most of the staff who implemented the project in the Project Management Unit and in the German Agency for International Cooperation (GIZ) left after project closure (ICR, paragraph 41).
Political risk. There is significant risk to development outcome, given that insecurity and political instability remain significant obstacles to the development of local and export markets by the private sector.

8. Assessment of Bank Performance

a. Quality-at-Entry

This project was prepared based on lessons from matching grants from similar projects in fragile and conflict-affected situations in West Bank and Gaza, Yemen and Tunisia and the design of the FNMD was adapted from some successful programs in the Organization for Economic Cooperation and Development and in East Asian Countries like Indonesia (ICR, para 49). Lessons incorporated including: (i) grant financing as opposed to credit to firms as international experience had shown that firms and business associations commitment increases by virtue of their contribution to cost: (ii) securing government commitment by focusing on activities identified by the government as initiatives they wanted to undertake as part of its development strategy: and, (iii) a simple design through eliminating the infrastructure component and including a grant and capacity building components which were deemed to be appropriate in a fragile environment. Several risks were identified at appraisal including security considerations and the weak implementation capacity of the indigenous agencies. Mitigation measures incorporated in the project included arranging assistance from an international firm with proven experience in implementing such a project in similar environments, setting aside funds for establishing a Project Management Unit in MoCI as a condition for grant effectiveness.The arrangements made at appraisal for safeguards and fiduciary compliance were appropriate (discussed in section 10 of this review).
The project was not completely ready for implementation at preparation. For instance, the procedures required for implementing the project grant (such as, the duration and number of steps for the applications and agreements and modalities of processing reimbursements) were not ready. The long reimbursement process contributed to delays (ICR, para 25).
There were shortcomings in M&E design (discussed in section 9a in this review).

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

Supervision missions were conducted twice a year from 2012 to 2016 (excepting in 2014 when there was the Mid Term Review mission). According to the ICR (para 77), the missions included fiduciary and safeguards experts and this aided in fiduciary and safeguards compliance. In addition to formal supervision missions, constant interaction by the country office staff in Kabul aided in maintaining continuous communication with the MoCI and the Project Management Unit. This interaction aided in addressing the challenges that arose during project implementation (such as issues pertaining to the low grant uptake in the initial years and the long reimbursement process). Although security considerations precluded visits to Jalalabad, the supervision teams made visits to the project sites in Kabul. The team extended the project closing date through project restructuring to complete the ongoing activities, given the delays in the initial years. The continuity of leadership on the part of the Bank team was however undermined by four task team leaders and the Bank's internal reorganization which led to the changing of the sector/practice manager at least four times during the life of the project (para 78).

Quality of Supervision Rating

Moderately Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The links between project activities, their outputs and outcomes were logical. The key M&E indicators - number of firms benefiting from the cost-sharing program, sales increase by the participating firms, the extent of product or market diversification and the number of jobs (direct and indirect) generated by FNMD facility and the participating firms, disaggregated by gender - were appropriate for monitoring performance with respect to the PDO of helping in the revitalization of private sector activities. The M&E design envisaged monitoring FNMD performance under a dual system namely (a) internal monitoring through randomized sampling techniques (comparing beneficiary FNMD participating firms with non-beneficiary firms and a representative sampling of pre-assistance and post-assistance participating firms and, (b) external independent monitoring (PAD, page 11).

There were no key outcome indicators aimed at monitoring performance with respect to the technical assistance activities to the MoCI.

b. M&E Implementation

Given the security consideration, data for monitoring in the respective cities was through locally based offices of the German Agency for International Cooperation (GIZ), which used a questionnaire to collect information and used the project indicators data collection reports to provide accounts to the MoCI (ICR, para 65). The impact evaluation envisioned to collect information from beneficiary and non-beneficiary firms was not undertaken due to the delays in starting the matching grant allocation. There were delays in establishing the Management and Information and electronic financial management systems and eventually the data on project indicators were collected manually.

c. M&E Utilization

The M&E data were used for monitoring project performance at closure and during implementation used for making corrective actions during implementation. For instance, when the average grant per SME was realized to be higher than expected at preparation, the indicator on the number of direct beneficiaries was adjusted to reflect market conditions.

M&E Quality Rating

Modest

10. Other Issues

a. Safeguards

The project was classified as a Category B project. One safeguard policy - Environmental Assessment (OP 4.01) was triggered. An Environmental and Social Management Framework (ESMF) was prepared for the project in accordance with the definitions provided in the Bank's operational policies at appraisal (PAD, page 13). The Bank supervision team provided relevant guidance during implementation and performed random assessments on the implementation of the ESMF. The ICR (para 70) notes that there was compliance with environmental safeguards.

b. Fiduciary Compliance

Financial Management The Project Management Unit established within MoCI was responsible for financial management. An assessment conducted at appraisal concluded that the financial management arrangements were satisfactory and a financial management action plan was to be prepared during implementation (PAD, page 50). During implementation, the task team worked closely with the Project Management Unit, the MoCI and the Ministry of Finance to correct the identified financial management issues. For instance, an ineligible expenditure (purchase of printer cartridges) identified during a Bank Review in 2016 was refunded on time. The ICR (para 70) noted that financial reports were submitted in a timely fashion. According to the information provided to IEG by the Bank project team, audits were unqualified.

Procurement Management. As assessment conducted at appraisal to judge the MoCI's procurement capacity, revealed that the MoCI did not have adequate capacity to handle large value procurement contracts and recommended the hiring of a competent procurement specialist. The overall procurement risk was Medium (page 55). A procurement plan was prepared during appraisal and this plan was to be updated in line with requirements during implementation. There were procurement delays in the initial years due to the delays associated with recruiting the staff of the FNMD and high turnover of procurement specialists in the Project Management Unit. These were eventually rectified and there were no major procurement issues during implementation (ICR, para 73).

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of M&E	Modest	Modest	---
Quality of ICR		Substantial	---

12. Lessons

The ICR (pages 25-27) draws seven lessons. The following main lessons were judged by this review to be the most important with respect to application to other Bank operations, with some modification of language.
(1) Simplified project design can improve the likelihood of success in a fragile environment. Recognizing the limited counterpart capacity and the fragile environment, the project design was significantly simplified during preparation (eschewing complex infrastructure investment and focusing on matching grants and capacity building components). The simplified design enabled the Project Management Unit to focus on the FNMD activity.
(2) Making provisions for advance project preparation funds can be helpful in fragile situations. In addition to low expressed interest from international firms, the implementation of this project was further delayed due to the weak procurement capacity. Project preparation funds to support advance procurement/recruitment and capacity building of the MoCI during project preparation could have helped in reducing some implementation delays.
(3) Even with strong Government commitment, capacity limitations can thwart project implementation. Activities in this project were aligned with the Government's objectives and initiatives for developing a private-sector led market economy. Despite this, implementation suffered significant delays in the initial years due to factors such as the MoCI's lack of familiarity with Bank policies, slow uptake of the matching grants by the private sector, slow reimbursement to SMEs and high turn over of the Project Management Unit staff. The lesson from implementing this project is that a major effort for capacity building and institution strengthening should precede project implementation to the extent possible in fragile conflict affected states.
(4) Management and supervision of the M&E data collection mechanism by the local institution can help in ensuring sustainability. In this project, data collection was the responsibility of the German Agency for International Cooperation (GIZ) which was bound by the time constraints in its contract. Institutionalizing data collection management in the Ministry of Commerce and Industry could have facilitated the follow up with the beneficiaries and better M&E of the project impact could have contributed to measuring the progress made in Government reforms.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR is concise and clear. The ICR candidly discusses the shortcomings at preparation which contributed to the delays in the initial years. The quantity of evidence provided is adequate and internally consistent. The rationale for the ratings in the ICR were consistent with OPCS guidelines and the lessons drawn were based on the analysis provided in the ICR.
One shortcoming in the ICR is that the discussion of financial management issues provided no information on audits

a. **Quality of ICR Rating**
Substantial