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Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 25-May-2017 | Report No: PIDISDSC19762



BASIC INFORMATION

A. Basic Project Data

| | | | |
|--|--|---|---|
| Country Kenya | Project ID P161317 | Parent Project ID (if any) | Project Name Kenya Industry and Entrepreneurship (P161317) |
| Region AFRICA | Estimated Appraisal Date Nov 28, 2017 | Estimated Board Date Feb 14, 2018 | Practice Area (Lead) Trade & Competitiveness |
| Financing Instrument Investment Project Financing | Borrower(s) The National Treasury | Implementing Agency Ministry of Industry, Trade and Cooperatives | |

Proposed Development Objective(s)

Increase the productivity and innovation of Kenya's private sector

Financing (in USD Million)

| Financing Source | Amount |
|---|--------------|
| International Development Association (IDA) | 50.00 |
| Total Project Cost | 50.00 |

| | |
|---|--|
| Environmental Assessment Category B-Partial Assessment | Concept Review Decision Track II-The review did authorize the preparation to continue |
|---|--|

Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Kenya is a lower middle-income country with solid economic growth.** According to the March 2016 Kenya Economic Update, Kenya is poised to be among the fastest growing economies in Eastern Africa. The average growth between 2010 and 2015 was 5.3 percent, higher than the 4.9 percent average for Sub-Saharan Africa, and the economy is expected to grow by 5.9 percent in 2016 and 6 percent in 2017. This follows a significant improvement in



the country's external and internal balances and improvements in public investment, mainly in infrastructure. These positive prospects provide an opportunity to achieve structural transformation in the long-run. According to the 2016 Country Economic Memorandum, Kenya's long-term growth will depend on three key elements: oil and natural resources, the urbanization process, and the extent of innovation of the economy.

2. Despite promising prospects, economic growth has been constrained by low investment and low firm-level productivity, particularly in labor-intensive sectors. This undermines the attainment of rapid and sustained growth needed to transform the lives of ordinary citizens. Though services -- such as financial intermediation and mobile communications -- have grown remarkably, the major employment generating sectors -- agriculture and manufacturing -- have been stagnating. Between 2006 and 2013, 72 percent of the increase in GDP came from services. Agriculture and manufacturing, on the other hand, grew slower and their share in GDP declined between 2009 and 2013. This divergent growth path underlies the two-track nature of the Kenyan economy, which is particularly concerning given that the sectors with the highest growth create relatively few and mostly high-skilled jobs. Moreover, according to the 2016 Kenya Economic Update, a majority of Kenyans, particularly youth, are locked into low-productivity jobs. Though the economy is creating more jobs now than in the past (800,000 in 2014 vs. 650,000 in 2011), these new jobs are primarily in the informal services sector.

Sectoral and Institutional Context

3. Vision 2030 and its Second Medium Term Plan 2010-2017 (MTP2) have set ambitious development targets that will require significant growth in private sector employment generation and productivity. Vision 2030 aims to transform Kenya into a newly industrialized, middle-income country, whilst making the country globally competitive. The MTP2 addresses the challenges of an inclusive growth model and calls for infrastructure investments and leveraging of private sector resources. As a vehicle for that, the Kenya Industrial Transformation Program (KITP) highlights the importance of firm-level support to Kenya's industrialization efforts and recognizes the centrality of technology and innovation to the development of industry. Supporting firms to better survive, grow, and compete in a evermore connected world is key to delivering on Vision 2030's industrialization goals and creating much needed jobs for the economy.

4. Recent analyses using firm-level data in Kenya reveal that productivity dispersion is large and most firms operate at low productivity levels. This is likely to be explained by the difficulties firms face in leveraging technology due to poor managerial practices and the very incremental nature of Kenya's innovation. Indeed, while Kenya fares better than other African countries, management quality is far from the "managerial" frontier, and more importantly, below the managerial capabilities in most middle-income and emerging markets. Analyses on various manufacturing subsectors have further shown that firms operate using outdated technology, with little data to inform business decisions, in silos within their respective value chains, and with a skills deficit both at the managerial and technical levels. The Global Innovation Index 2016 further highlights the weak linkages between players in Kenya's innovation ecosystem, leading to capacity underutilization, a disconnect between industry and research organizations, and obstacles to innovation for small and mid-sized firms. There is thus considerable scope for investments in firm upgrading for increased productivity growth and innovation, especially around adopting new technologies and processes, increasing the use of ICT, strengthening linkages between academia and businesses, and strengthening management and organization.

5. One subsector that seems to defy this characterization is Kenya's nascent technology sector, which is being supported by a developing ecosystem, particularly in Nairobi. The iHub, Kenya's first technology and innovation



lab, was established in 2010 and has become the centerpiece of a growing tech community with over 16,500 members. iHub has several initiatives that catalyze the growth of the community; one of these is the m:lab East Africa, launched through a World Bank grant, with a mission “to facilitate demand-driven innovation by entrepreneurs, ensuring that mobile solutions can be developed and scaled-up into sustainable businesses that address social and economic needs.” Although the innovation and entrepreneurship ecosystem in Kenya has grown significantly since 2010, with the number of hubs, co-working spaces, and incubation and acceleration centers numbering 38 in the latest count, 7 of which are outside Nairobi, much work remains to be done if the country is to ultimately live up to its moniker of Africa’s ‘Silicon Savannah’.

6. Despite the dynamism of Kenya’s technology sector, it remains largely disconnected from the rest of the economy. Firms in the major employment generating sectors, such as agriculture or industry, have not yet absorbed the benefits from Kenya’s growing tech scene, and in turn, the tech firms are not creating solutions that respond to their specific needs. This is a missed opportunity for both sides. New technology firms find it challenging to survive and grow, and closer linkages with existing, larger firms would help young firms better target their products and services and become viable more quickly. For firms in agriculture and industry, closer linkages with the technology sector would potentially enable tailored solutions for specific problems to be developed, speeding up internal innovation processes and increasing productivity.

7. Efforts to bridge the gap between traditional industry and young technology firms need to be complemented by efforts to strengthen the innovation and entrepreneurship ecosystem. To help ideas be commercially viable and businesses sustainable, Kenyan entrepreneurs need more and higher quality mentors, better business and technical training, increased access to investment, and reliable data to make business decisions and tailor products. Support is thus needed to enhance the relevance and impact of incubation and acceleration programmes, increase and improve training, grow the networks of angel investors, and foster the nascent ecosystems of secondary cities, primarily Kisumu and Mombasa. The Government of Kenya considers innovation hubs and incubation centers as key stakeholders in the creation of tech businesses and jobs, and the World Bank is keen to continue its support to them.

8. In a connected world, data has become a key enabler of firm-level productivity and innovation, yet significant gaps exist in firm-level use of data. Datasets are becoming a core asset in the economy, fostering new industries, processes, and products, and creating significant competitive advantages. As such, data availability, skills, and tools have become crucial among firms, governments, and entrepreneurs. Kenya is the highest ranked Sub-Saharan country in the 2015 Open Data Barometer, with an overall ranking of 42 out of 92 countries globally, and significant attention was accorded to the Kenya Open Data Initiative (KODI), which was launched in 2011. However, further uptake has stalled as open data usage remains low, particularly in the private sector. Acknowledging the importance of economic benefits, KODI’s focus has now shifted towards business innovation and economic growth. As data availability increases, training for individuals and businesses on data analytics and open data usage will support the private sector to leverage data in their business decision making and better tailor their products and services to market fit. This ought to impact the productivity of established firms and the likelihood of commercial viability of young firms.

Relationship to CPF

9. The proposed loan is fully aligned with the World Bank Group FY14-FY20 Country Partnership Strategy (CPS) and its Performance Learning Review (PLR). The proposed project responds to the first domain of engagement:



“Competitiveness and sustainability” to foster growth and eradicate poverty. The CPS stipulates that competitiveness can be enhanced in a number of ways, including through increasing firm-level productivity, and this is especially important given that “growth in Kenya has been hampered by low investment and low productivity.” Accordingly, “increasing firm-level productivity and innovation is essential to raising private sector investment and job creation” and will enable Kenya to “unlock rapid and uninterrupted growth that is sustainable and inclusive.” According to the CPS, “moving vibrant sectors to the next level and critically ensuring that they are able to compete internationally, needs a mixture of capital and expertise from domestic and international partners. Innovation and competitiveness programs in key sectors could be helped by public support for science, technology, and higher education.” This project, with its emphasis on boosting the productivity of established firms in employment generating sectors, including ICT and manufacturing, and strengthening the overall innovation and entrepreneurship ecosystem, is therefore well aligned to realizing this vision of rapid and inclusive growth for the country. The PLR, approved by the Board of Directors in July 2017, analyzes with increased rigor the impacts of engagement in the private sector development space and has informed Project preparation and activities.

10. The proposed loan complements ongoing Trade & Competitiveness activities in Kenya, including the Growth & Competitiveness DPF and the Kenya Investment Climate Program II, which seek to support policy and institutional decisions focused on business environment and competition policy. The latter help lay the foundations for the firms this project seeks to support. Moreover, the World Bank has provided targeted TA and funding to innovation hubs and incubators such as the iHub and m:lab, NaiLab, and the Kenya Climate Innovation Center, which have proved invaluable for the development of this project. A full explanation of the proposed operation’s complementarity with the existing Kenya T&C portfolio is provided in Annex 2.

C. Proposed Development Objective(s)

Increase the productivity and innovation of Kenya's private sector.

Key Results (From PCN)

11. The higher-level objectives of the project are to accelerate the growth and competitiveness of Kenya’s private sector by improving productivity and innovation. Key instruments include strengthening the innovation and entrepreneurship ecosystem, providing firm-level support and technology upgrading and increasing connectivity between traditional industry and the high-growth ICT sector. This will lead to greater job creation for the economy and help deliver on Kenya's Vision 2030. Within the timeline of the project, key expected results include:

12. Under Component 1, a program would be designed aimed at fostering the innovation and entrepreneurship ecosystem by: (i) strengthening select intermediaries (incubators, accelerators); (ii) building the skills of potential or very early-stage entrepreneurs (e.g. fundamental business skills, improving their ability to make data-driven decisions); and (iii) increasing ecosystem coordination. The success of this Component will be rigorously measured, with a focus on the survival rate of startups within the innovation and entrepreneurship ecosystem as well as the resilience of incubators and accelerators themselves.

13. Under Component 2, the project would design and deliver interventions to increase the productivity of select targeted firms by: (i) creating linkages between established firms and startups to co-create novel solutions for specific problems and challenges; and (ii) increasing their managerial and technical skills, upgrading their equipment



and technology and facilitating technology absorption. The project will measure the strengthening of the innovation and entrepreneurship ecosystem in Kenya through the number of solutions co-created between established firms and startups or groups of students as a proxy for innovation uptake in firms as well as increases in labor productivity as a proxy for total factor productivity.

D. Concept Description

14. Regarding geographical coverage, project interventions will likely favor the areas of the country where the private sector is most developed. For Component 1, given how young the innovation and entrepreneurship ecosystem is in Kenya, interventions would focus on Nairobi, Mombasa, and Kisumu. For Component 2, this means firms located near the urban centers, stretching between Kisumu and Mombasa, including Eldoret, Kericho, Naivasha, Nakuru, Thika, Nyeri, Nanyuki, Machakos, Athi River, and Nairobi.

15. Regarding gender, the project will seek to gender-inform all interventions, and where reasonable given the context, bias the interventions towards women.

16. Component 1. Strengthening the Innovation & Entrepreneurship Ecosystem. This Component will focus on enabling the growth of innovation-driven firms. This will include (i) strengthening the innovation and entrepreneurship ecosystem that can support young, innovation-driven firms by leveraging existing local initiatives such as the the iHub or Nailab; (ii) addressing the existing gaps in the connection between traditional industry and this ecosystem; and (iii) addressing gaps in the skills pipeline. This Component will focus on strengthening the ecosystem in the greater Nairobi area and further expanding the ecosystem, particularly to Kisumu and Mombasa counties. This Component will also include a coordination support function to implement the overall Component and engage and coordinate stakeholders. This coordinating body ought to be independent and perceived to be neutral by all ecosystem stakeholders (both public and private). The development of innovation and entrepreneurship ecosystems in Kisumu and Mombasa will be coordinated through a specific coordinating and implementation support function (e.g., coordinator of ecosystem) in each of these two counties, and these coordinators will work together with the overall Component coordinator in implementing this Component.

17. Component 1 will also provide training on data analysis and data-driven decision making and will generally finance activities that target groups of firms (as opposed to individual firms). These may include awareness events on new technology, supply chain development projects, succession planning, joint skills development (e.g. training on use of open data), and joint technology dissemination. Support will also be provided to participating firms to enroll in existing niche training initiatives such as the Stanford Seed initiative and the Strathmore Owner/Manager course to further embed sound management practices.

Component 2. Increasing Productivity & Innovation at the Firm Level. This Component will focus on increasing the productivity of established firms. This would be achieved by creating linkages between traditional industry and startups to troubleshoot productivity hindrances, improving managerial practices and accelerating technology adoption among select targeted firms, by training local talent to provide consulting services, and increasing awareness and know-how among firms regarding the impact of these services. This “Kenya Upgrading (KU)” program would target firms primarily focused on manufacturing, agribusiness, and associated services. This intervention will aim to build a reputation for effective and high-quality services to create strong engagement with firms and achieve sustainability. Implementation could be overseen by a private sector organization (e.g. Kenya Private Sector Alliance,



[KEPSA]) or another third party.

18. Component 3 – Implementation Support and M&E. This Component would seek to (i) conduct analyses and impact evaluations related to Components 1 and 2, and (ii) provide project management support, including support for communications activities. The Component will support the following activities:

- i. Core project implementation staff, such as Project Manager, Component Managers, Procurement Specialists, Financial Management Specialists, and Safeguards Specialists to support project preparation and subsequent project implementation;
- ii. Logistical support for implementation and supervision as needed;
- iii. Impact evaluations, analyses, feedback loops and monitoring and evaluation (M&E) studies and surveys to support data collection for the various Components;
- iv. Project audits;
- v. Communication activities, including dissemination of project progress to relevant stakeholders;
- vi. Capacity building activities for the Project Implementation Unit (PIU);
- vii. Executive MBA Program for 3-4 key PIU members. As a tool to increase local capacity, increase the quality of the personnel who apply to be part of the PIU, and ensure retention in the PIU, the project would seek to enroll the candidates selected to be part of the PIU in a 3-month, brand name, Executive MBA program, ideally prior to effectiveness. Those who complete the Executive MBA Program would be compelled to work in the PIU for three years, or pay back the price of the Executive MBA.

SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

The project will be implemented in a number of urban centers in Kenya, known as centres of innovation, industrialization, science and technology and contributing significantly to the economic development of the respective counties and the country as a whole. Interventions under Component 1 (C1) are proposed to be implemented in the urban centers of Nairobi, Mombasa and Kisumu Counties. These are metropolitan cities and the headquarters of the respective counties. The proposed activities under C1 would include strengthening the innovation and entrepreneurship ecosystem. These project activities will not impact Vulnerable and Marginalized Groups/Indigenous People (VMGs/IPs) and will not require land acquisition or result in either physical or economic displacement since they will be implemented within existing premises.

Under C2, the proposed activities will focus on increasing productivity and innovation at the firm level. The firms will likely be located near the urban centers, stretching between Kisumu and Mombasa, including Eldoret, Kericho, Naivasha, Nakuru, Thika, Nyeri, Nanyuki, Machakos, Athi River and Nairobi, all of which are County Government headquarters, except Athi River which is in Machakos County and is the location of Kenya's Export Processing Zone (EPZ); however, firms from rural areas are not exempt. As in C1, the proposed activities under C2 will not have interactions with IPs or have any impact on them. Rural firms will be selected to participate in the project and will not require land acquisition or result in either physical or economic displacement since projects will be implemented within the premises of existing/established firms. The activities will also not entail the expansion of the existing infrastructure/buildings of the selected firms.

Under C3, the proposed activities are related to implementation support and M&E. Like the first two components, C3 also will have no interactions with IPs or require land acquisition.

The project will put in place transparent and accessible criteria to ensure inclusivity of firms and ecosystem



intermediaries selected for support. In addition, any project components involving work that require skilled and unskilled labor and give priority to local people to avoid cases of labor influx. Contracts for such work will have inbuilt safeguards clauses and arrangements to protect local community members from adverse project impacts. Finally, the project will put in place measures for grievance redress.

B. Borrower’s Institutional Capacity for Safeguard Policies

The Ministry of Industry, Trade and Cooperatives (MITC) will be the lead agency in implementing the proposed Project at the national level. MITC is currently involved in the implementation of Kenya Petroleum Technical Assistance Project (KEPTAP), a World Bank-financed initiative and has prior experience in preparation and implementation of safeguard issues. At the national level the National Environmental Management Authority (NEMA) has the overall mandate for ensuring environmental sustainability, compliance, monitoring and enforcement of safeguard performance and standards, and will augment the oversight role played by MITC. At the county level where capacity for safeguard compliance monitoring and enforcement may be limited, the county level NEMA offices will provide technical support. Kenya is developing national regulations on the disposal of E-waste. In the interim, KEI will support the development of a project-specific environmental code of practice (ECOP) as guidance on approach for the management of E-waste, with the aim of ensuring that risks to the environment and human health are prevented or mitigated.

C. Environmental and Social Safeguards Specialists on the Team

Margaret Auma Ombai, Social Safeguards Specialist
Ben Okindo Ayako Miranga, Social Safeguards Specialist

D. Policies that might apply

| Safeguard Policies | Triggered? | Explanation (Optional) |
|-------------------------------------|------------|--|
| Environmental Assessment OP/BP 4.01 | Yes | The Environmental Assessment OP/BP 4.01 has been triggered; the Environmental Category assigned this Project is Category B Partial Assessment. The matching grants provided under the Project will be used to support selected firms in upgrading their equipment, machinery and systems. Given that the firms and locations have not been identified, a framework approach is recommended. Therefore, an Environmental and Social Management Framework (ESMF) will be prepared, consulted upon and disclosed. This will help mitigate and manage potential impacts of sub projects which cannot be identified at this stage in terms of location, and provide guidance on methodologies, measures and procedures to facilitate environmental management (risk management and impacts) related to works financed under the project. The project envisions procurement of IT-related equipment which may lead to generation of electronic waste (E-Waste) which is harmful to the environment if disposed |



| | | |
|--|----|--|
| | | inappropriately. Therefore, an Environmental and Social Management Plan (ESMP) will be developed for management of E-waste emanating from electronic and electrical equipment procured. |
| Natural Habitats OP/BP 4.04 | No | |
| Forests OP/BP 4.36 | No | |
| Pest Management OP 4.09 | No | |
| Physical Cultural Resources OP/BP 4.11 | No | |
| Indigenous Peoples OP/BP 4.10 | No | The project location in urban areas and within existing premises means there will be no direct interaction between the project and people who meet the indigenous peoples' criteria. |
| Involuntary Resettlement OP/BP 4.12 | No | The project will be located in existing premises in urban centers. No project activity will involve land acquisition, resettlement or restrictions of access to resources and livelihoods. |
| Safety of Dams OP/BP 4.37 | No | |
| Projects on International Waterways OP/BP 7.50 | No | |
| Projects in Disputed Areas OP/BP 7.60 | No | |

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

May 15, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

estimated May - October 2017

CONTACT POINT

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APPROVAL

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Approved By

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|---------------------------|------------------------------|-------------|
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| Country Director: | Diarietou Gaye | 29-Aug-2017 |

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