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Report No: PAD1654

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF SDR106.5 MILLION

(US$150 MILLION EQUIVALENT)

TO THE

REPUBLIC OF KENYA

FOR A

YOUTH EMPLOYMENT AND OPPORTUNITIES PROJECT

April 28, 2016

Social Protection and Labor Global Practice
Africa Region

CURRENCY EQUIVALENTS

Exchange Rate Effective March 31, 2016

Currency Unit	=	Kenya Shillings (KES)
KES 101.45	=	US$1
US$1.40882	=	SDR 1

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AGPO	Access to Government Procurement Opportunities
AWP	Annual Work Plan
BDS	Business Development Services
CBK	Central Bank of Kenya
CPS	Country Partnership Strategy
DA	Designated Account
DNHRP&D	Department of National Human Resource Planning and Development
DOYA	Directorate of Youth Affairs
FM	Financial Management
GRS	Grievance Redress Service
HAU	Head of Accounting Unit
IA	Implementing Agency
IAD	Internal Audit Department
ICB	International Competitive Bidding
ICT	Information and Communications Technology
IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IFR	Interim Financial Report
ILO	International Labour Organization
IRR	Internal Rate of Return
ISIC	International Standard Industrial Classification
ISP	Implementation Support Plan
IT	Information Technology
KENAO	Office of the Auditor General (Kenya National Audit Office)
KSG	Kenya School of Government
KNOCS	Kenya National Occupational Classification Standards
KYEOP	Kenya Youth Employment and Opportunities Project
KYEP	Kenya Youth Empowerment Project
LMI	Labor Market Information
LMIS	Labor Market Information System
MIS	Management Information System
M&E	Monitoring and Evaluation
MLEAA	Ministry of Labour and East Africa Affairs
MLSSS	Ministry of Labor, Social Security, and Services
MoEST	Ministry of Education, Science, and Technology
MoDP	Ministry of Devolution and Planning

MoIED	Ministry of Industrialization and Enterprise Development
MSEA	Micro and Small Enterprises Authority
MPYG	Ministry of Public Service, Youth and Gender Affairs
MTP	Medium-Term Plan
NCB	National Competitive Bidding
NGO	Nongovernmental Organization
NITA	National Industrial Training Authority
NPC	National Project Coordinator
NSC	National Steering Committee
NYES	National Youth Empowerment Strategy
NYS	National Youth Service
OM	Operations Manual
PA	Project Account
PCU	Project Coordination Unit
PFM	Public Financial Management
PDO	Project Development Objective
PIM	Project Implementation Manual
PITC	Project Implementation Technical Committee
PIU	Project Implementation Unit
PMC	Professional Management Company
PPOA	Public Procurement and Oversight Authority
PPADA	Public Procurement and Asset Disposal Act
PS	Principal Secretary
RCT	Randomized Control Trial
SAGA	Semiautonomous Government Agency
SBD	Standard Bidding Document
SIYB	Start and Improve Your Business
SOE	Statement of Expenditure
STEP	Skills Toward Employment and Productivity
ToR	Terms of Reference
TVETA	Technical and Vocational Education and Training Authority
TVET	Technical and Vocational Education and Training
VMG	Vulnerable and Marginalized Groups
VMGF	Vulnerable and Marginalized Groups Framework
WA	Withdrawal Application
WEF	Women Enterprise Fund
YEDF	Youth Enterprise Development Fund

Regional Vice President:	Makhtar Diop
Country Director:	Diarietou Gaye
Senior Global Practice Director:	Omar Arias (Acting)
Practice Manager:	Dena Ringold
Task Team Leader:	Cornelia Mihaela Tesliuc

KENYA
Youth Employment and Opportunities Project
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Kenya

Kenya Youth Employment and Opportunities (P151831)

PROJECT APPRAISAL DOCUMENT

AFRICA

Social Protection and Labor Global Practice

Report No.: PAD1654

Basic Information		
Project ID P151831	EA Category C - Not Required	Team Leader(s) Cornelia M. Tesliuc
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints [ ]	
	Financial Intermediaries [ ]	
	Series of Projects [ ]	
Project Implementation Start Date 20-May-2016	Project Implementation End Date 30-June-2021	
Expected Effectiveness Date 01-Sep-2016	Expected Closing Date 31-Dec-2021	
Joint IFC No		

Practice Manager/Manager	Senior Global Practice Director (Acting)	Country Director	Regional Vice President
Dena Ringold	Omar Arias	Diarietou Gaye	Makhtar Diop

Borrower: Republic of Kenya			
Responsible Agency: Ministry of Public Service, Youth and Gender Affairs			
Contact:	Ms. Lilian Mbogo-Omollo	Title:	Principal Secretary
Telephone No.:	254202227411	Email:	ps.psy@psyg.go.ke

Project Financing Data(in US$, millions)					
[ ]	Loan	[ ]	IDA Grant	[ ]	Guarantee
[X]	Credit	[ ]	Grant	[ ]	Other

Total Project Cost:	150.00	Total Bank Financing:	150.00

Financing Gap:	0.00	

Financing Source	Amount
BORROWER/RECIPIENT	0.00
International Development Association (IDA)	150.00
Total	150.00

Expected Disbursements (in US$, millions)

Fiscal Year	2017	2018	2019	2020	2021	2022
Annual	5.00	10.00	20.00	45.00	50.00	20.00
Cumulative	5.00	15.00	35.00	80.00	130.00	150.00

Institutional Data

Practice Area (Lead)

Social Protection & Labor

Contributing Practice Areas

Cross Cutting Topics

[ ] Climate Change
[ ] Fragile, Conflict & Violence
[X] Gender
[X] Jobs
[ ] Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Health and other social services	Other social services	100		
Total		100		

☑ I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)		
Major theme	Theme	%
Social protection and risk management	Improving labor markets	50
Social protection and risk management	Social Protection and Labor Policy & Systems	50
Total		100

Proposed Development Objective(s)

The proposed Project Development Objective (PDO) is to increase employment and earnings opportunities for targeted youths.

Components

Component Name	Cost (US$, millions)
Improving youth employability	75.00
Support for job creation	41.50
Improving labor market information	13.50
Strengthening youth policy development and project management	20.00

Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	High
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	–
OVERALL	Substantial

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [X]

Does the project require any waivers of Bank policies?	Yes [ ]	No [X]
Have these been approved by Bank management?	Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [X]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

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**

Legal Covenants

Name	Recurrent	Due Date	Frequency
Business Plan Competition – Schedule 2, Section V	–		Once

Conditions

Source Of Fund	Name	Type
IDA	Article IV, 4.01 (a) Project Coordination Unit	Effectiveness

Description of Condition

The Recipient has established a Project Coordination Unit and has designated a dedicated National Project Coordinator, an Accountant, a Procurement Officer, and an MIS Specialist, in accordance with the provisions of Section I.A of schedule 2 to the Financing Agreement.

Source Of Fund	Name	Type
IDA	Article IV, 4.01 (b) Subsidiary Agreements	Effectiveness

Description of Condition

The MSEA Subsidiary Agreement and the NITA Subsidiary Agreement have been executed on behalf of the Recipient and the MSEA and NITA respectively.

Source Of Fund	Name	Type

IDA	Section IV B.1 (b) Withdrawal Condition	Disbursement
Description of Condition		
No withdrawal shall be made for under Categories (3), (4) and (5) unless the Recipient has appointed the independent Professional Management Company, in accordance with Section V of this Schedule.		

Team Composition

Bank Staff

Name	**Role**	**Title**	**Specialization**	**Unit**
Cornelia M. Tesliuc	Team Leader (ADM Responsible)	Sr Social Protection Specialist		GSP01
Joel Buku Munyori	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist		GGO01
Dahir Elmi Warsame	Procurement Specialist	Senior Procurement Specialist		GGO01
Nagaraju Duthaluri	Procurement Specialist	Lead Procurement Specialist		GGO01
Henry Amena Amuguni	Financial Management Specialist	Sr Financial Management Specialist		GGO31
Alexandra C. Bezeredi	Safeguards Advisor	Lead Social Development Specialist		GSU01
Alexandra C. Sperling	Counsel	Legal Analyst		LEGAM
Arvil Van Adams	Team Member	Consultant		GSP01
Cecilia Paradi-Guilford	Team Member	ICT Policy Specialist		GTI11
Christiaan Johannes Nieuwoudt	Team Member	Finance Officer		WFALA
David J. McKenzie	Peer Reviewer	Lead Economist		DECFP
Eberhard Kobler	Team Member	Labor Market Information Consultant		GSPDR
Edward Felix Dwumfour	Environmental Specialist	Senior Environmental Specialist		GEN01
Emma S. Mistiaen	Team Member	Social Protection Specialist		GSP01
George Ferreira Da Silva	Team Member	Finance Analyst		WFALA

Gibwa A. Kajubi	Safeguards Specialist	Senior Social Development Specialist		GSU07
Indhira Vanessa Santos	Team Member	Senior Economist		GSP01
Johanna van Tilburg	Safeguards Advisor	Senior Social Development Specialist		OPSPF
Joyce Cheruto Bett	Team Member	Program Assistant		AFCE2
Juan Martin Moreno	Peer Reviewer	Senior Social Protection Economist		GSP04
Kie Chieko Nakamura Riedel	Team Member	Consultant		GSP01
Kathleen G. Beegle	Peer Reviewer	Program Leader		AFCW1
Kendi Martina M Mbijjewe	Team Member	Temporary	Consultant	AFCE2
Kishor Uprety	Counsel	Senior Counsel		LEGAM
Leonardo Iacovone	Team Member	Senior Economist		GTC04
Maina Ephantus Githinji	Team Member	Consultant		GENDR
Maria Laura Sanchez Puerta	Team Member	Senior Economist		GPSJB
Maria Paulina Mogollon	Peer Reviewer	Senior Private Sector Development Specialist		GTC01
Matteo Morgandi	Peer Reviewer	Economist		GSP03
Michael D. Wong	Peer Reviewer	Lead Private Sector Development Specialist		GTCCS
Michael Mutemi Munavu	Team Member	Social Protection Specialist		GSP01
Monica Gathoni Okwirry	Team Member	Program Assistant		AFCE2
Nalin Jena	Team Member	Senior Education Specialist		GED01
Roberta V. Gatti	Peer Reviewer	Lead Economist		GSPDR
Shubha Chakravarty	Team Member	Senior Economist		GCGDR
Sonia Aono Theodora Rasugu	Team Member	Consultant		GSP01
Sophie Nelly Rabuku	Team Member	Program Assistant		AFCE2

Stephen Diero Amayo	Team Member	Consultant		GGODR
Susanne Ndunge Ndivo	Safeguards Specialist	Consultant		GSURR
Teresia Katindi Njonjo	Team Member	Consultant		GSP01

Extended Team

Name	Title	Office Phone	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments

I. STRATEGIC CONTEXT

A. Country Context

1. **Although Kenya's economic growth accelerated in the past decade, the goal of a prosperous society for all Kenyans has yet to be realized**. In 2014, Kenya was classified by the World Bank as a lower-middle-income country, but it is still among the poorest 25 percent of countries in the world, with 40 percent of its population having incomes below the poverty line.[1] The 15–35 age group is becoming an increasingly large part of the adult population, with its share rising from 62.7 percent in 1979 to 66.6 percent in 2009.[2]

2. **This rising number of young people in the working population represents an opportunity for faster economic growth if they can be productively employed**. This effect is called a youth dividend, but realizing the dividend depends on whether an economy can create sufficient jobs to absorb the rising number of new entrants and whether these entrants are adequately prepared and qualified to step into these jobs. The World Bank estimates that Kenya is at the start of its demographic transition[3] and thus the Government's policies regarding the productive employment of its young people will influence the country's future growth rates.

3. **The high numbers of new entrants to the workforce are presently outpacing the capacity of the economy to absorb them in productive employment**. The gross domestic product growth in Kenya is largely driven by consumption with low rates of domestic investment and net export growth.[4] Economic growth is volatile and slower than in comparable countries. The economy is failing to create the jobs needed to employ the more than half million youths entering the workforce annually. Between 2009 and 2013, three million youths came of working age, but the economy was able to add only 2.6 million jobs.[5] During that time, open unemployment among Kenyan youths exceeded that in the neighboring countries of Uganda, Tanzania, and also Ghana.[6]

4. **Just as critically, labor productivity—linked to wages—has stagnated since 2006 because value added and employment grew at the same rate**. This reflects the fact that most employment growth took place in the informal trade sector, a low-productivity sector, and in services more generally, where productivity has actually fallen since 2006.[7] Overall, most of the new jobs created in Kenya in recent years are in the informal sector, also known as the Jua Kali,

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[1] World Bank Group, Kenya Country Economic Memorandum, *From Economic Growth to Jobs and Shared Prosperity*, May, 2016.
[2] The Constitution of Kenya (article 260) defines youths as those between 18 and 34 years of age, while the National Youth Council Act (2009) and the Sector Plan for Labor, Youth, and Human Resources Development (2008–2012) define youths as those between 15 and 35 years of age. The National Youth Policy (2007) and the National Action Plan on Youth Employment (2007–2012) define youths as those between 15 and 30 years of age. The working policy definition for youth empowerment is 15 to 35 years of age (see the National Youth Empowerment Strategy (NYES), (2015–2017).
[3] The demographic transition refers to when a country transitions from having high birth and death rates to having low birth and death rates.
[4] World Bank. Forthcoming. *Kenya Country Economic Memorandum: Kenya: A Sleeping Lion or Speedy Lioness?*
[5] Cirera, Xavier and Mathilde Perinet. 2015. "The Demand for Labor." A background paper prepared for the forthcoming Kenya Country Economic Memorandum.
[6] The World Bank's World Development Indicators.
[7] World Bank. Forthcoming. *Kenya: Jobs for Youth*. Report. 101685-KE. Washington, DC.

which consists of the self-employed, unpaid family workers, and those working for wages in small household enterprises. The failure of the formal sector to generate sufficient wage employment to accommodate all new entrants to the labor force has led to many youths starting their own businesses.

5. **Poor employment and weak productivity growth in services exacerbate some of the employment and productivity constraints that already disproportionately affect youth in Kenya**.[8] Youth tend to lack relevant work experience and even if they are educated, come out of the education system lacking the cognitive, technical, socioemotional, and business skills needed to be productive in today's labor markets. This is important both for self-employment and for wage employment. In addition, the lack of market information about what skills are in demand and where jobs can be found, perpetuate these mismatches.[9] Beyond experience and skills, youth also often lack the social, financial, and physical capital necessary to get a job or to successfully start or expand a business. Women or disadvantaged youth—those living in conflict-affected areas or coming from poor families, for example—face additional constraints related to family and household responsibilities or violence, respectively.

6. **As a result of all of these forces, youth in Kenya—especially the least educated—have poor employment prospects**. Youth unemployment rates measured by the 2009 Kenya Population and Housing Census were highest for younger members of the youth cohort and those in urban areas (table 1). The rate of unemployment in 2009 for all Kenyans between 15 and 64 years of age was 8.6 percent. For those aged 15 to 19 years, it was 15.8 percent, and for those aged 20 to 24 years, it was 13.1 percent, whereas unemployment rates for those over 25 years of age approached that of the adult population. Unemployment rates for urban youth (15 to 24 years) were approximately twice as high as they are for rural youth of the same age. Youth between the ages of 20 and 24 years account for the largest number of the openly unemployed. In urban Kenya, one quarter of those aged 15 to 19 years are not employed, in education, or in training; this share is one-third among those aged 20 to 24 years.[10]

7. **Employment rates are particularly low among young Kenyan women, driven mostly by lower labor force participation**. According to the 2014 Kenya Skills toward Employment and Productivity (STEP) Survey, in urban Kenya, only 37 percent of women aged 20 to 24 years work, compared to 60 percent of men, although there are not more women in education or training. Only 77 percent of women in that age group who are not in school or training, are looking for work or working, compared to 97 percent of men.[11] Household and family responsibilities and gender norms, which mostly affect women's labor market decisions, help explain this gap.

[8] Puerto Sanchez, Maria Laura, and Mathilde Perinet. 2015. *Promoting Youth Employment and Development in Kenya.* A World Bank Study. This study carries out a jobs diagnostic for youth, and compiles evidence on key constraints to youth employment both with regard to labor demand and labor supply.
[9] Kenya, Ministry of Labor, Social Security, and Services. 2013. "Sessional Paper 4 of 2013: on Employment Policy and Strategy for Kenya."
[10] Puerto Sanchez, Maria Laura, and Mathilde Perinet. 2015. *Promoting Youth Employment and Development in Kenya.* World Bank.
[11] Puerto Sanchez, Maria Laura, and Mathilde Perinet. 2015. *Promoting Youth Employment and Development in Kenya.* World Bank.

Table 1. Unemployment Rates (%) in Kenya by Age Group and Sex, 1998/99–2009

	1998/99			2005/06			2009		
Age	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**	**Total**	**Men**	**Women**
Total (rural + urban)									
15–19	24.3	21.8	26.4	25	22.4	27.7	15.8	16.5	15.1
20–24	27.1	19	33.9	24.2	21	27.3	13.1	13.6	12.6
15–64	**14.6**	**9.8**	**19.3**	**12.7**	**11.2**	**14.3**	**8.6**	**8.8**	**8.3**
Urban									
15–19	47	56.2	42.8	16.1	15.1	16.8	27.2	29.4	25.5
20–24	47.3	27.2	58.7	34.9	33.7	35.8	19.1	17.7	20.4
25–29	25.1	9	38.8	24.8	24.6	24.9	10.9	9.4	12.7
30–34	14.3	4.8	27.5	8	8	7.9	7.6	6.5	9.2
15–64	**25.1**	12.5	**38.1**	**19.9**	**15**	**25.9**	**11**	**–**	**–**
Rural									
15–19	15.9	14.3	17.8	21.3	22.2	20.5	13	13.8	12
20–24	15.1	15.5	14.5	30.7	29.3	32	9.9	11.4	8.5
25–29	8.6	7.6	9.5	17.8	17.1	18.5	6.9	8	5.8
30–34	8.2	4.8	10.9	8.6	8.1	9.1	5.6	6.3	4.9
15–64	**9.4**	**8.3**	**10.4**	**9.8**	**9.5**	**10.2**	**5.6**	**–**	**–**

Sources: Central Bureau of Statistics - Kenya (2003), Kenya National Bureau of Statistics (2008) and computations from the 2009 Kenya Population and Housing Census Data.

8. **However, beyond open unemployment or inactivity, the key challenge is raising productivity and hence earnings among young workers**. Critically, this includes raising productivity in the informal sector since formal employment seems unable to absorb new entrants. Youth are more likely to work in sectors and occupations that have lower productivity and command lower earnings. In urban Kenya, almost 80 percent of those employed and aged between 15 and 24 years have an informal job (unpaid, self-employed, and wage workers without social security), against 70 percent or lower for the rest of the population (figure 1). Retail trade, which absorbs the largest share of youth in urban Kenya (one-third), has both low and stagnant productivity, as discussed above. Thus, those employed in the informal sector tend to be younger than those employed in the formal sector, have less education, and are estimated to account for two-thirds of non-farm employment. For youth to find a job in the formal wage sector, they typically need to have at least a secondary education.[12] Even within a given type of job, occupation or sector, youth earn less, considering their lack of experience and connections or their lack of access to capital if self-employed.[13] Although recent earnings data from rural areas are not available, the low productivity of agriculture and informal trade suggests that the earnings and productivity challenge is even more severe in rural areas. Not surprisingly, this challenge is also

[12] Adams, Arvil V., Sara Johansson de Silva, and Setareh Razmara. 2013. “Skills Development in the Informal Sector: Kenya.” Chapter 6 in *Improving Skills Development in the Informal Sector: Strategies for Sub-Saharan Africa*. World Bank. Directions in Development.
[13] Puerto, Sanchez, Maria Laura, and Mathilde Perinet. 2015. *Promoting Youth Employment and Development in Kenya.* World Bank.

more pronounced among the least educated youth. The proposed Project, therefore, targets youth most likely to work in the informal sector.

Figure 1. Urban Kenya: Age, Gender, and Education Levels Matter for the Kind of Jobs One Gets

Source: World Bank, estimates based on STEP survey.

9. **Many youth are disappointed and frustrated because far fewer jobs are created than are needed and when there are jobs pay is low**. Some Kenyan youth, particularly in North-Eastern Kenya and the coastal region, have become increasingly vulnerable to radical groups and their recruitment efforts through false and biased appeals. One major cause for this is a significant lack of labor market prospects for these young people. For the cohesion of the nation, it is of utmost importance to provide opportunities for employment, especially for the young people who might be most vulnerable to criminality and radicalization.

10. **Kenya's youth dividend is a twofold challenge, requiring policymakers to give their attention to both demand and supply forces in the labor market**. Distinct strategies are needed to address the three dimensions of the youth employment problem—lack of skills and work experience in labor supply, insufficient job creation and labor demand, and matching imperfections related to the lack of appropriate information. Addressing these issues under this Project can start to improve—albeit slowly and first just for a subset of youth—the employment and productivity prospects of youth, beginning with the large numbers who have started their own businesses or are employed in informal sector enterprises.

B. Sectoral and Institutional Context

11. **The Government of Kenya (the Government) is committed to increasing youth employment as demonstrated by its various policies and strategies**. Since 2000, the Government has shown that it recognizes the risks that youth unemployment represents for social peace and political stability by formulating policies and plans specifically targeted to young people. The core policy documents are the Kenya National Youth Policy of 2006[14] and the National Action Plan on Youth Employment 2008–2012, which emphasize the need for a

[14] Republic of Kenya. 2007. "Kenya National Youth Policy", Sessional Paper 3, Nairobi, Ministry of Youth Affairs.

coordinated and multi-sectoral approach to addressing the problem of youth unemployment. The post-election crisis of 2008 led the Government to reinforce its commitment to addressing youth issues, in particular to increasing their economic participation.

12. **In March 2008, the Government launched what is commonly referred to as the Marshall Plan for Youth Employment and Development, which focused on the creation of immediate and medium-term youth employment opportunities**.[15] The Kazi Kwa Vijana[16] Program was the main initiative under this plan and it aimed to create 500,000 jobs per year for youths in rural and urban areas in labor-intensive public works projects implemented by various ministries. In 2014/15, the National Youth Service (NYS) became the flagship initiative for youth empowerment, with an emphasis on promoting national service, social transformation, training, and enterprise development.[17] Its annual budget has increased tenfold in the financial year 2014/15 compared to previous years and the number of beneficiaries has reached 22,000 per year.

13. **The Government has developed the National Youth Empowerment Strategy (NYES, 2013–2017) to reflect the emphasis placed on youth empowerment in its second Medium-term Plan (MTP II) (2013–2017)**[18] and also launched, in 2013, the Access to Government Procurement Opportunities (AGPO) initiative.[19] The NYES is a guide to the implementation of youth-targeted empowerment interventions. Its goal is to provide a unified, coherent, and stable framework for the development and empowerment of youth at both national and local levels. The NYES seeks to achieve transformative youth empowerment in the following areas: (a) the policy and legal framework; (b) leadership and participation; (c) employment and skills development; (d) the identification and development of innovation, creativity, technology, and talent; (e) agriculture, environmental management, and sustainable development; and (f) health, crime, and drug and substance abuse.

14. **A myriad of public offices and agencies as well as nongovernment and private agencies are involved in the area of youth employment, but there is excessive fragmentation and poor coordination of interventions among these implementing agencies (IAs)**. After the Government reorganization following the 2013 elections, the Ministry of Youth Affairs and Sports, which previously coordinated youth empowerment initiatives, was dissolved and its responsibilities were transferred to the new Ministry of Devolution and Planning (MoDP) and the Ministry of Education, Science, and Technology (MoEST). The MoDP, through its Department of Youth Affairs, became responsible for integrating youth issues into national planning and development and for implementing programs geared toward empowering youth and providing them with skills and financial resources. In December 2015, a ministerial reorganization has seen

[15] World Bank. 2008. *Kenya Poverty and Inequality Assessment*. (p. 147) and UNICEF. n.d. *Youth: Situation Review and Investment in Kenya.*
[16] "Employment for the youth."
[17] Through the NYS, about 22,000 servicemen and women will 'disciple' 220,000 youth per year who will be engaged for 4 to 6 months as paid labor under their supervision and organized using principles of social movement (regimentation, bonding, and identity)
[18] The strategy is awaiting cabinet approval.
[19] AGPO is an initiative through which youths, women, and people with disabilities can access and take advantage of the 30 percent government procurement reservation scheme.

the Department of Youth Affairs move from the MoDP to the newly-created Ministry of Public Service, Youth, and Gender Affairs (MPYG).[20]

15. **Complementary interventions such as the NYS, the Youth Enterprise Development Fund (YEDF), and Women Enterprise Fund (WEF) have been established**. The MoEST, through its Youth Polytechnics, is responsible for technical and vocational education and training (TVET). The National Industrial Training Authority (NITA), a semiautonomous agency under the Ministry of Labour and East Africa Affairs (MLEAA), is responsible for apprenticeships and industrial attachments. As well as these public interventions, hundreds of projects and initiatives related to youth employment are being offered by nongovernmental organizations (NGOs), faith-based organizations, companies, and community organizations, either initiated by development partners or funded by foreign organizations and firms.

16. **The Government is implementing a variety of different youth employment programs, but information about their impact is limited**. A recent review of youth employment initiatives has identified critical knowledge gaps, particularly regarding the effectiveness and impact of the various initiatives.[21] The lack of impact assessments of large-scale government-run programs such as the TVET, NYS, YEDF, and Youth Empowerment Centers is a specific problem because substantial public funding has been allocated to these programs with no rigorous assessment of whether these programs are actually achieving their objectives.

17. **Some progress has been made in improving the knowledge base, particularly related to training and internship programs and entrepreneurship education and training provided through donor-funded programs**. The World Bank has been instrumental in adding to the evidence base about what works in youth employment promotion, through the Busia Vocational Training Voucher Program[22] and the training and private internship pilot under the Kenya Youth Empowerment Project (KYEP).[23] These programs have been evaluated using random experimental methods and their interventions are shown to have a net positive impact on youth employment and earnings. A recent World Bank study of entrepreneurship education and training programs revealed an abundance of information about their impact, results, and good practices and found that program managers were prepared and willing to modify program designs in accordance with the evaluation's findings.[24]

18. **The World Bank has added to this knowledge base with its recent study of the Kenyan labor market focusing on the key growth sectors of manufacturing and services**.[25] Its analysis using the 2010 Kenya Census of Industrial Production and the 2011 Integrated Survey of Services has identified barriers to entry from the informal sector to the formal sector that

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[20] With the December 2015 ministerial reorganization, the Department has now become a Directorate.
[21] Jutta, Franz. 2014. "*Youth Employment Initiatives in Kenya.*" Report of a Review Commissioned by the World Bank and Vision 2030.
[22] Hicks, Joan Hamory, Michael Kremer, Issac Mbiti, and Edward Miguel. 2011. *Vocational Education Voucher Delivery and Labor Market Returns: A Randomized Evaluation among Kenyan Youth.* A Report for the Spanish Impact Evaluation Fund, Washington, D.C: World Bank.
See:http://siteresources.worldbank.org/INTHDOFFICE/Resources/VocEd_SIEF_Report_2011-04-07_final.pdf
[23] World Bank. 2010. *Kenya Youth Empowerment Project Appraisal Document.* Report: 53090-KE.
[24] Jutta, Franz, Kiambuthi Wairimu, and Muthuku David. 2013. "*Entrepreneurship Education and Training in Kenya.*" Draft paper.
[25] World Bank. Forthcoming. *Youth Employment and Opportunities Analytical Work.*

constrain employment generation. The analysis has highlighted the importance of service sector employment for women and the added value to employment generation of promoting resource mobility and the movement of labor and capital to more productive uses. On the supply side of the labor market, its analysis of the 2014 STEP skills survey focused on urban youth aged 15 to 24 years and identifies the employment challenges they face as outlined above.

19. **The Government has demonstrated its commitment to increasing the coverage and budget allocations for key initiatives and interventions that specifically affect youth employment**. However, more effort is needed to improve the implementation of youth employment initiatives and to increase them to a scale sufficient to address the full extent of the need. The initiatives taken thus far fall into three groups: (a) those that affect labor demand; (b) those that affect labor supply; and (c) those that aim to improve the match between supply and demand. Alongside improvements in implementation and expanding the reach of youth initiatives, more attention needs to be given to evaluating the impact of these initiatives and adopting an evidence-based approach to youth employment policies.

C. Higher Level Objectives to which the Project Contributes

20. **The World Bank Group Kenya Country Partnership Strategy (CPS) (2014–2018) and this proposed project are consistent with the Government's development priorities as defined in its Vision 2030**.[26] Vision 2030 is a broad blueprint for Kenya's development that articulates a vision in which, by 2030, the country will be a globally competitive nation characterized by a high quality of life for its people. Vision 2030, on which the CPS itself rests, is based on three pillars—economic, social, and political. The proposed Project, which seeks to increase employment and earning opportunities among targeted young people, is very much consistent with the social pillar of Vision 2030, which focuses on investing in people, including in the areas of education, health, and housing, with a focus on women, youth, and vulnerable communities.

21. The CPS identifies three domains in which the World Bank Group will support the Government. In particular, the second area of engagement, Domain 2: Protection and Potential, aims "to protect the vulnerable and help them [to] develop their potential, which is critical to sharing in prosperity." Moreover, the CPS acknowledges that "the burgeoning youth population brings opportunities and challenges for the World Bank Group's support in education, jobs, and skills" and commits the World Bank to help the Government in its efforts to reduce unemployment. The World Bank expects to continue its work as needed on youth employment, including exploring other interventions to help ensure that young people are properly prepared for work. Through the proposed Project, the World Bank will support the Government's efforts to equip young people with skills and competencies that are in demand in the changing market and therefore increase their prospects of finding and keeping gainful work, to help youth in launching new business startups, and to expand the potential of informal and formal sector enterprises to create jobs and improve productivity. By targeting vulnerable youths, the project supports the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity.

[26] World Bank. 2014. Country Partnership Strategy (2014-2018) for Kenya. (No. 88940, v1-v3).

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

22. The project development objective is to increase employment and earnings opportunities for targeted youths.

Project Beneficiaries

23. **The main beneficiaries of the proposed Project will be youth between 18 and 29 years of age, who are without jobs and have experienced extended spells of unemployment or who are currently working in vulnerable jobs**.[27] The level of education of targeted beneficiaries will be up to Form 4. As discussed in the country context, this group—especially youth aged under 25—has unemployment rates that are more than twice as high as the unemployment rates for older workers, and critically, have a significantly higher incidence of low-productivity, low-paying jobs. As labor force participation profiles for Kenya show, these are also the critical years when women start to form a family and when they are most likely to drop out of the labor force altogether.[28]

24. **For one of the interventions supported by the Project, the Business Plan Competition (Subcomponent 2.2), the age limit for direct beneficiaries (entrepreneurs receiving grants as winners of the competition) is raised to 35**. This activity aims to foster job creation among high-potential young entrepreneurs, and the evidence from Kenya and elsewhere suggests that having the experience, capital, and the social and professional networks that come with age is very important for the success of entrepreneurs.[29] While the grants could be received by older youths, however, the objective of this activity remains to create jobs and increase earnings among the main beneficiaries (those aged 18–29 years old). Here, the international evidence also indicates that including entrepreneurs who are slightly older, as was done in the business plan competition for Nigeria after which this activity is modelled, leads to job creation among the primary target group of youths.

PDO Level Results Indicators

25. The PDO will be measured by the following indicators:

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[27] Youth working in vulnerable jobs are defined as those working on their own (or self-employed), a contributing family worker, or working for wages in a household enterprise with fewer than 10 workers. These are mostly informal workers.

[28] Puerto Sanchez., Maria Laura, and Mathilde Perinet. 2015. *Promoting Youth Employment and Development in Kenya.* World Bank.

[29] In Kenya, for example, self-employment peaks after 30 years of age while younger workers are most often informal employees rather than entrepreneurs. Similarly, experimental evidence from developing countries also suggest that younger youth benefit from entrepreneurship interventions mostly through higher employment (gaining their first job, for example) but less than older youth in terms of higher earnings, productivity or business survival (Almeida, Rita, and Emmanuela Galasso. 2010. *Jump-starting Self-Employment? Evidence for Welfare Participants in Argentina*. World Development 38, (5): 742-755; McKenzie, David. 2015. *Identifying and spurring high-growth entrepreneurship: experimental evidence from a business plan competition*. Policy Research Working Paper Series 7391. The World Bank).

(a) Percentage of youth receiving training and an internship who find a job or are self-employed after at least six months

(b) Number of youth employed, including self-employed, at least 6 months after receiving a startup grant and/or business development services (BDS)

(c) Percentage increase in average earnings among workers (self-employed or wage) at least 6 months after receiving a startup grant, BDS, or a business competition award

(d) Direct Project beneficiaries (number), of which women (percentage)

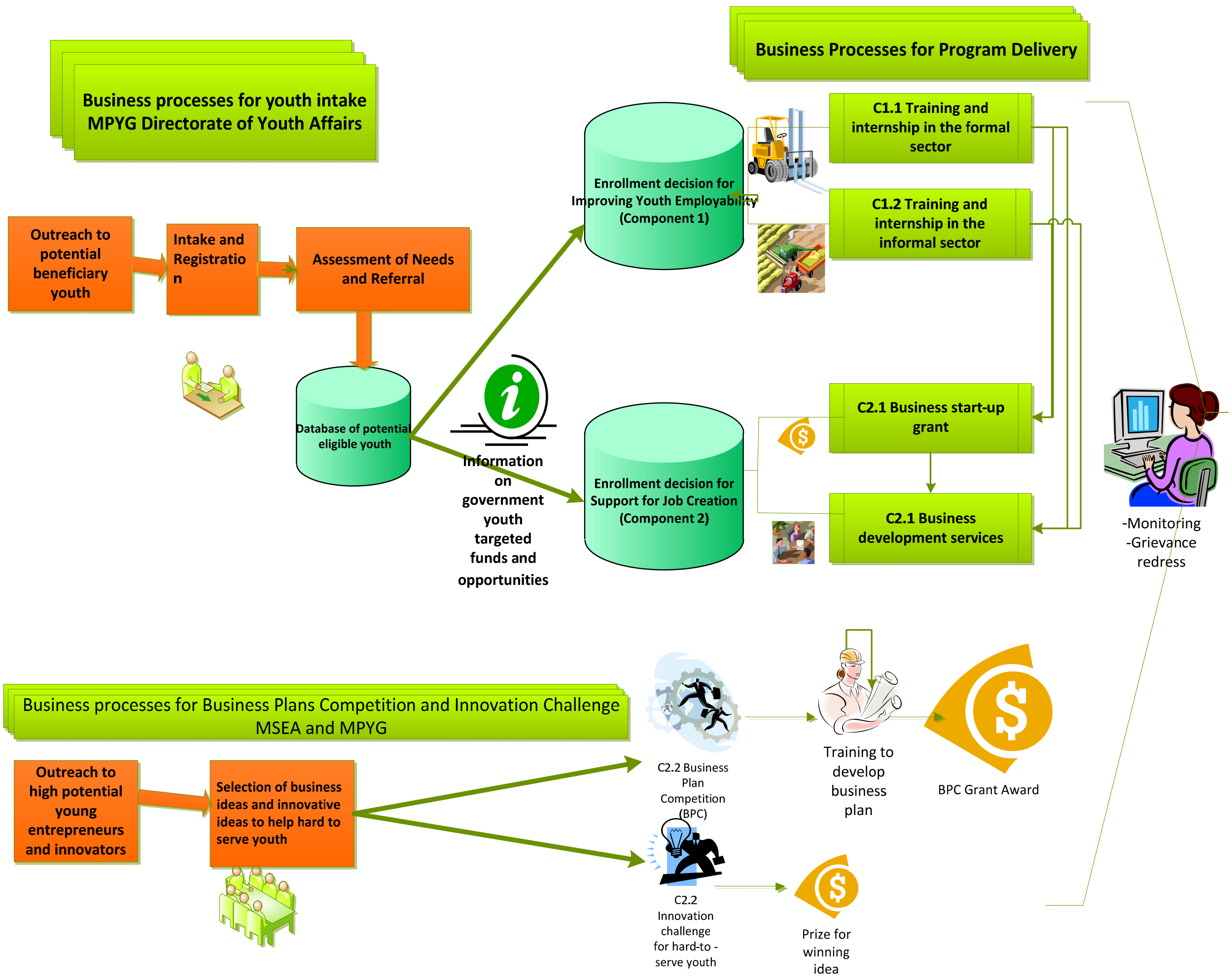
III. PROJECT DESCRIPTION

A. Project Components

26. The Project consists of four components. Component 1 addresses the skills mismatch of youth by engaging training providers and private sector employers to offer training and work experience to targeted youth. Component 2 responds to the need for job creation with initiatives to help launch new businesses, improve the productivity and job creation potential of existing microenterprises and among self-employed youth, and support innovative approaches to improve job and earning opportunities among the hard-to-serve youth.[30] Component 3 plans to improve access to and the quality of labor market information (LMI) to help public and private actors make decisions and formulate policies. Component 4 provides support for strengthening youth policy development, monitoring and evaluation (M&E), and management of the Project. Annex 2 presents a detailed description of project activities. Figure 2 shows the key interventions under each component and the functional linkages between them.

[30] The specific groups that will be considered as "hard-to-serve" under this project will be determined in the operations manual, and may include persons living with disability, single mothers with young children, living in conflict-affected areas, marginalized counties, or in isolated communities, and so on.

Figure 2. Key Interventions under KYEOP



Note: KYEOP = Kenya Youth Employment and Opportunities Project.

Component 1: Improving Youth Employability (US$75 million)

27. This component responds to Kenyan employers who assert that youth who come out of schools and training centers frequently lack the relevant work experience and competencies, including behavioral skills, needed for employment. The component will scale up the pilot KYEP providing targeted youth with training and work experience in the private sector with the goal of improving youth employment outcomes. The component will be jointly implemented by the MPYG and NITA.

28. This component will contain two subcomponents:

(a) *Subcomponent 1.1: Provision of training and work experience in the formal sector (US$37.5 million of which US$29 million for NITA and US$8.5 million for MPYG).* This subcomponent will provide targeted beneficiaries with three months of training and three months of internship experience with a formal sector employer. The training will cover life skills, core business skills, and technical skills. The MPYG will enter into a national contract with a number of providers for delivery of life skills and core business skills using a standard curriculum. Following completion of the life skills and core business skills training, NITA will organize further job specific training that will include an internship. The job specific training will be offered by public and private formal training institutions accredited by NITA, the Technical Vocational Training Authority, or other recognized accreditation agencies under a results-based contract[31]. These training providers will partner with employers and provide skills training demanded by the employer. This and the following subcomponent will include support for NITA capacity building and program management by a Project Implementation Unit (PIU).

(b) *Subcomponent 1.2: Provision of training and work experience in the informal sector (US$37.5 million of which US$29 million for NITA and US$8.5 million for MPYG).* This subcomponent will be especially suitable to vulnerable youth with limited education and youth in rural areas. Its duration and training approach will be the same as that in the formal sector with targeted youth receiving the same life and core business skills training organized by the MPYG. Job specific training, however, will be offered on the job by a master craftsman in a traditional apprenticeship. NITA will contract with master craftsmen to deliver this training and an internship. Master craftsmen will be certified by NITA. To improve the quality of the training offered by master craftsmen and the recognition of this training in the marketplace, the subcomponent will support the (i) upgrading of master craftsmen skills and (ii) development and updating of NITA certification standards for traditional apprenticeship trades. NITA will implement this activity.

- **Improving the quality of training offered by master craftsmen**. This subcomponent will support the training and upskilling of up to 1,000 master craftsmen and their certification to expand the training and employment capacity for youths.

- **Promote greater efficiency in the training market for traditional apprenticeships.** This subcomponent will expand the number of traditional apprenticeship trades for which standards and testing and certification instruments have been developed. Up to 20 additional apprenticeship standards and testing instruments will be developed and up to 35 existing apprenticeship standards and their testing instruments will be reviewed and updated as needed.

29. **Phasing in the component.** The MPYG will organize the intake of youth for this component and along with NITA it will phase in the training and internship activity to allow time to refine the systems required for contracting, payment of stipends, M&E, and so on. Clear criteria will be established by the MPYG, in consultation with the implementing agencies and the Council of Governors, for the initial selection of counties considering geographic balance, implementation capacity, and numbers of vulnerable youth.[32] The phasing will require coordination with

[31] The Technical Vocational Training Authority and NITA have accredited about 1,500 public and private training institutions (Technical Training Institutes, Institutes of Technology, National Polytechnics and Technical Universities, Youth Polytechnics).

[32] The DOYA has been located within the MoDP, but has been moved to the MPYG following a ministerial reorganization in November 2015.

Component 2 so that after completing training and internships, those wanting to start their own business can be referred to the activities of Component 2 in the same locations.

30. **Lessons learned and reflected in project design.** The lessons learned from the earlier pilot KYEP offering training and work experience include the following:[33]

(a) Training is more relevant when employers are engaged in defining the competencies taught by schools and training institutions.

(b) The teaching of life skills is popular with employers and youths, but the payoff is higher when these skills are combined with other skills training and work experience.

(c) The program impact can be increased by connecting those who want to start their own business with financing and BDS.

(d) The benefits of six months of training and work experience in additional employment and earnings are sufficient to yield a positive return to the investment.

(e) Program retention rates can be increased by ensuring that all training and the internship experience are delivered in a seamless fashion without delays between activities.

(f) Using taxpayer money to finance the full cost of a training and work experience program is justified if it properly targets the most vulnerable youth.

31. **Potential risks and mitigation measures**. The movement from the small pilot KYEP with three urban areas to a national program covering urban and rural areas and reaching 47 counties will introduce added risks for program management and pressure on capacity for the delivery of training services. The Project may also face difficulties in mobilizing sufficient numbers of employers willing to offer internships and work experience to youths. This may be particularly true in rural areas for the formal sector. From experience with the KYEP, the retention of young women due to their household responsibilities may be difficult along with the challenge of opening internships in non-traditional trades for women.

32. The phasing in of the component during the first year will provide time for testing a decentralized management structure and building the necessary capacity in the MPYG and NITA for contracting and delivery of project services. For outreach to the private sector, NITA will work with the Federation of Kenya Employers, whose representatives sit on its Board, to build employer support for internships. It will also work with the Kenya Private Sector Alliance and expand on the base of about 3,000 employers who participated with internships in the pilot KYEP. It will allow financing for the component to be demand driven between formal and informal sectors with rural areas expected to offer more informal sector internships. NITA will develop a gender strategy including financial incentives in results-based contracts for the completion of internships by young women and their participation in non-traditional trades. The MPYG and

[33] Lessons are taken from Honorati, Maddalena. 2015. "The Impact of Private Internships and Training on Urban Youth in Kenya". World Bank Policy Research Working Paper Series 7404.

NITA will jointly develop a grievance redress mechanism to document and address grievances arising from implementation of Component 1.

Component 2: Support for Job Creation (US$41.5 million)

33. While skills and work experience are important, expanding opportunities for youth also requires interventions that expand job creation and increase earnings for youth who are interested in self-employment or wage employment, whether in the formal or informal sectors. This component will address key constraints and market failures that limit the demand for youth employment and hamper youth productivity, once they are employed. Specifically, this component will finance activities addressing the following specific constraints: (a) lack of start-up financing for young entrepreneurs; (b) lack of managerial and entrepreneurial skills among youth; (c) lack of relevant exposure and networks for starting and growing a business among youth; (d) limited information and capacity to take advantage of government programs, in particular AGPO;[34] and (e) highly specific income generation and productivity constraints faced by the 'hard-to-serve' youth subgroups and limitations in knowledge and experience in effectively addressing these at scale in the local context.

34. This component is structured into two subcomponents, jointly implemented by the MPYG and the Micro and Small Enterprises Authority (MSEA).

35. *Subcomponent 2.1: Support for the self-employed (US$22 million of which US$21.7 million for MSEA and US$0.3 million for MPYG).* This subcomponent supports employment and earnings generation among urban and rural youth by financing (a) business start-up grants and (b) relevant BDS. The financed activities will target youths who express interest in self-employment and either complete on-the-job training under Component 1 (traditional apprenticeships or internships) or are in the general pool of applicants for the overall Project but have not participated in Component 1.

(a) **Business start-up grants.** This grant will provide up to US$400 in seed funding for youth-led start-ups to invest in tools and inputs.[35] This activity aims to support a total of at least 30,000 beneficiaries over the project duration. The operations manual will clarify upfront the selection criteria (including those related to an entrepreneurship aptitude test), and information on selected candidates will be widely disclosed to minimize abuse. Start-up grants will be disbursed in two tranches. MSEA will hold one-day orientation sessions with grantees before it makes disbursements of each tranche. These sessions will be used to develop simple entrepreneurship plans outlining the investments and expenditures to be financed by the grant. Given the spread of mobile money in Kenya, especially among youth, MSEA will use existing mobile payment services for the disbursements of the start-up grants and will cover the corresponding fees. MSEA will monitor and evaluate, through an MIS and beneficiary assessments, progress under this activity and the satisfaction of beneficiaries. The MPYG will follow-up on beneficiaries as well through visits and

[34] Under its program for AGPO, the Government has set aside 30 percent of its procurement for enterprises owned by youths, women, and persons with disabilities.

[35] This cap amount was decided upon based on the experience with similar programs in the region, as well as consultations with local academics and Jua Kali associations,

focus group discussions at the local level. Under Component 4, the MPYG will also manage the rigorous impact evaluation of both grants and BDS.

(b) **BDS.** This activity will support access to up to US$400 worth of BDS for the young self-employed and entrepreneurs. MSEA will work with entrepreneurs and service providers in determining services needed, and will write and manage performance-based training contracts with specific providers. These services, which will be designed by a specialized consultant under the supervision of MSEA, will encompass a basic package of business and entrepreneurship training (for example, domestication of Start and Improve Your Business (SIYB) program from the International Labour Organization [ILO] or Business Edge from the International Finance Corporation [IFC]) as well as mentoring, specific consulting, and advisory services for marketing or technical issues. Direct beneficiaries will be at least 8,000 entrepreneurs/self-employed. MSEA will monitor through an MIS, beneficiary assessments and visits to providers, the performance of service providers, progress under this activity and the satisfaction of beneficiaries. The MPYG will follow-up on beneficiaries as well through visits and focus group discussions at the local level.

36. **Intake of youth for subcomponent 2.1**. The MPYG will organize the intake of youth for this component. For youth interested in participating in subcomponent 2.1 after completing activities under Component 1, the MPYG—in coordination with NITA—will refer them to MSEA. For youth that are eligible to participate directly in subcomponent 2.1, without having completed activities in Component 1, MPYG will directly refer them to MSEA after the general intake process is completed and overall eligibility is determined. In both cases, after the eligibility of interested youth is determined, and youth are referred to MSEA, MSEA will apply an entrepreneurship aptitude test to identify entrepreneurs with most potential.

37. **Phasing-in subcomponent 2.1**. Start-up grants and BDS activities will be phased in geographically in selected urban and rural counties to ensure the availability of these services for youth completing Component 1 activities, and to allow for learning and adaptation of the delivery mechanisms and content of the BDS.

38. **Activities to be financed under subcomponent 2.1**. In order to carry out the activities described above, the Project, under this subcomponent, will finance:

(a) Grants to young entrepreneurs to be disbursed and managed by MSEA;

(b) Delivery of BDS to young entrepreneurs to be disbursed and managed by MSEA;

(c) MSEA’s operational costs for designing and managing start-up grants and BDS;

(d) MSEA’s costs for monitoring and evaluating both grants and BDS provision; and

(e) MPYG’s costs for follow-up of grants and BDS beneficiaries.

39. *Subcomponent 2.2: Catalytic interventions for job creation (US$19.5 million of which US$3.5 million for MSEA and US$16 million for MPYG).* This subcomponent supports innovative interventions to create jobs for targeted youths by financing (a) a business plan competition for

high-potential job creators; and (b) an innovation challenge to identify high-impact interventions for creating economic opportunities for the hard-to-serve and fund them to scale.

(a) **Business plan competition.** The business plan competition will elicit business ideas from high-potential young entrepreneurs interested in expanding their companies or starting up new ventures with the potential to create jobs for the targeted youth. It is important to note that entrepreneurs benefitting from awards under this activity can be aged up to 35 years (compared to the age limit of 29 for the overall Project). This is in response to the evidence from Kenya and elsewhere that suggests that having the experience, capital, and the social and professional networks that come with age is very important for the success of entrepreneurs. While the grants could be received by older youths, however, the objective of this activity remains to create jobs and increase earnings among the main beneficiaries (those aged 18–29 years old). MSEA will competitively select and manage the contract for an independent professional management company of international reputation to manage the business plan competition, including the selection of awardees. Support for business plan development and AGPO will also be provided during the business competition. Through three competitive rounds of selection by independent expert judges, up to 500 business plans will be selected on the basis of their economic viability and the potential to create jobs for vulnerable youth. Among winners, half will be randomly selected to receive an award of US$18,000 and the other half, US$36,000. Prizes will be disbursed in three tranches by the MPYG, after referral from the independent professional management company. Before receiving the first award, the professional management company will be responsible for verifying the legal status of the firm to be awarded, its overall financial situation and that it follows appropriate financial processes. The following two tranches will be conditional on appropriate verification by the managing firm that the firm remains in operation, and is advancing in its business plan. This business plan competition will be rigorously evaluated under Component 4.

(b) **Innovation challenge for the hard-to-serve.** This activity, to be fully implemented by the MPYG, is exploratory in nature and aims to catalyze interventions to expand economic opportunities to youth between the ages of 16 to 29 years who are hard-to-serve.[36] This will be done through an innovation challenge open to NGOs, the private sector, community-based organizations, and so on, that serve the targeted youth.[37] The challenge will be managed by an independent firm that will call for proposals on ideas to create opportunities for the targeted youth, and select the winners based on their track record, and the economic viability, merit, sustainability and potential to improve earnings and employability of targeted youth.

40. **Activities to be financed under Subcomponent 2.2**. In order to carry out the activities described above, the Project, under this subcomponent, will finance:

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[36] The MPYG will define the hard-to-serve groups to focus on as part of the definition of the challenge.
[37] In the operations manual, the MPYG will further specify the eligibility criteria for organizations eligible to submit ideas for the Innovation Challenge.

(a) The management of the business plan competition (including the provision of BDS for accessing AGPO and for the development of business plans) by an independent professional management company, whose contract is to be managed by MSEA; as well as MSEA's associated operational costs, including PIU costs, consultancies for designing ToRs, equipment, and capacity building;

(b) Grant awards, disbursement costs, monitoring of selected awardees, and public ceremonies associated with the business plan competition, and carried out by MPYG;

(c) The design of the innovation challenge by an expert consultant under the supervision of the MPYG; the management of the challenge, by an independent management firm, whose contract is to be managed by the MPYG; and the MPYG's operational costs associated with the design, management, and monitoring of the innovation challenge;

(d) Grant awards for winners of the innovation challenge, to be disbursed by MPYG.

41. **Lessons learned and reflected in project design.** Each subcomponent draws on a series of lessons learned from academic and other analytical work, ongoing Bank operations, and promising experiences in Kenya and abroad. Although the evidence base for entrepreneurship programs is growing, there is still a lack of knowledge on what combination of services is most effective. As a result, the proposed activities in Subcomponent 2.1 will offer: (a) grants to some entrepreneurs; (b) grants and advisory services to other entrepreneurs; and (c) only advisory services to others. The impact of these different support packages on entrepreneurship and job creation will be rigorously evaluated through a randomized control trial (RCT) (see Component 4).[38]

42. The business plan competition, under Subcomponent 2.2, will differ from other components by covering entrepreneurs up to 35 years of age. Evidence from Nigeria and Kenya has shown that it is crucial to target youth up to 35 years of age as job creators because the highest likelihood to be an entrepreneur occurs between the ages of 29 and 35 years, and these young entrepreneurs are especially likely to hire youth under 29 years of age. Key lessons from business competitions focus on the importance of a wide outreach campaign that highlights the transparency and independence of the business plan competition processes, including having an independent firm of renowned reputation manage the competition, including the selection of awardees. Similar lessons can be drawn from the experience with innovation challenges. There is also a growing body of literature documenting the benefits of innovation challenges and prizes as effective mechanisms to elicit creative and cost-effective solutions for entrenched development problems and reach vulnerable youth. Prizes have been found to be an effective use of resources due to low monitoring costs of fund disbursement and quicker feedback cycles.[39]

43. **Potential risks and mitigation measures.** There are a number of risks associated with the different activities. For Subcomponent 2.1, the main risk is a lack of transparency in the selection of potential beneficiaries. This risk will be managed by ensuring wide outreach, a strong

[38] The possibility to realize an RCT is also facilitated by the expectation that the demand for these activities will substantially outstrip the supply capacity.
[39] Everett, B., 2011. *Evidence Review: Environmental Innovation Prizes for Development.*

MIS system, a mechanism for addressing grievances and complaints, and consultations with youth who end up as beneficiaries as well as others who do not, albeit being eligible. There is also a risk that grant resources are not put to productive use. MSEA will provide orientation sessions and will provide support for entrepreneurs benefitting from the start-up grants.

44. In subcomponent 2.2, the main risk of the business competition is a lack of transparency in the overall process. This risk will be mitigated by having a transparent process for the selection of the professional management company, and ensuring this firm is qualified, independent, and of renowned reputation. There is also a risk that grant resources received under the business plan competition will be misused. This will be mitigated by ensuring selected firms have appropriate legal status and follow appropriate financial processes, as well as by setting up a disbursement system based on tranches and carefully monitored milestones. A related risk is that some recipients may elect not to hire youth. This will be closely monitored and incentives will be built into the competition design to encourage the employment of youth. Finally, beneficiaries of the competition may lack the capacity to deliver on their promises. Advisory services helping young entrepreneurs prepare bids that match their capacity will be employed during the competition.

45. Under the innovation challenge for the hard-to-serve, the main risk is that interventions proposed may not produce scalable or sustainable solutions. The Project will mitigate this through a careful assessment of design options for the innovations challenge, the target participants, and the critical challenges of the end beneficiaries to surface quality ideas. The subcomponent will also include scalability and sustainability in the selection criteria for the supported interventions and provide support to develop M&E mechanisms to assess and monitor the scalability and sustainability of the selected initiatives. For all activities, there will be a grievance redress system set in place.

Component 3: Improving Labor Market Information (US$13.5 million)

46. This component responds to the problem of obtaining timely information about labor demand and supply as well as career prospects in Kenya. LMI helps private and public actors in the labor market make decisions and formulate policies. The LMI currently available is often scattered over different locations and is hard to find. It is infrequently interpreted and analyzed for decision making and policy formulation. The lack of easily available information about the employment outlook, job profiles, and career prospects makes it difficult for job seekers to plan their careers. Similarly, it is difficult for schools and training institutions to identify competencies sought by employers and for individuals and families to get a clear idea of which skills and occupations are most rewarded in Kenya.

47. In response, this component will support the development of a one-stop-shop for access to LMI by strengthening Kenya's Labor Market Information System (LMIS) with its survey and administrative data sources. The component will finance the following activities: (a) identification of LMIS users and their information needs; (b) production of LMIS content; and (c) dissemination of LMI content and creation of awareness. It will be implemented by the MLEAA.[40]

[40] As part of a ministerial reorganization in November 2015, the Ministry of Labor, Social Security, and Services (MLSSS) has been reorganized into the MLEAA.

48. The main activities funded under this component include the following:

(a) **Identification of LMIS users and specification of LMI needs.** This activity will finance the identification of priority LMI users and the type of indicators, analysis, and reports needed, including details about content and how to produce them (data dictionary). This activity will also finance the assessment of data gaps to meet user needs and the development of strategies and action plans with costs for bridging the data gaps. The Project will finance consultancies to carry out the identification and specification of user needs and workshops to define the content of the LMIS.

(b) **Production of LMIS content.** This activity will support the development of content for the LMIS to include labor market statistics and indicators, reports analyzing these data, occupational outlook surveys, career navigator tools for job seekers, and a skills inventory, among others. This will be done through financing the following activities:

(i) Strengthening the capacity of the LMIS unit in the MLEAA to conduct labor research and administer the LMIS;

(ii) Data gathering through surveys and collection of administrative data as well as data sharing agreements with providers of existing labor market data;

(iii) Update of the standard classification of occupations and localization of the classification of industries. The update of the Kenya National Occupations Classification Standard (KNOCS) 2000 will be in line with the International Standard Classification of Occupations 2008, and the localized industrial classification will be in line with the International Standard Industrial Classification (ISIC Rev 4); and

(iv) Validation of the LMIS content.

(c) **Dissemination of LMIS content and creation of awareness.** The reports and indicators that are produced and validated will be distributed to primary LMIS users for whom they are produced, other stakeholders, and the general public. The publications will be advertised and explained to various audiences so that the recipients of the reports are aware of the benefits the reports can provide. The Project will support the development and implementation of a communications strategy and the dissemination of LMIS content.

49. The Project will finance training, exchange programs, management information system (MIS) development, equipping the LMIS unit with information and communication technology (ICT) equipment, consultancies, and workshops.

50. **Lessons learned and reflected in project design**. The lack of relevant LMI about the earnings associated with different levels of education and occupations, has constrained labor market choices for students and workers in low- and middle-income countries. In Kenya, for example, Hicks, Kremer, Mbiti, and Miguel (2011) (see footnote 21) show that more accurate information on the earnings of different occupations leads to the choice of TVET fields of study

with higher earnings, especially among women; and Lucas and Mbiti (2012)[41] show how the lack of appropriate information on quality and returns to education in different institutions can have significant consequences for students choosing where to go for higher education. In addition, lack of LMI is also a constraint for policymakers because relevant data often does not exist, it is hard to find, or difficult to interpret.

51. The Government of Kenya, with technical assistance from the International Labor Organisation (ILO), reviewed its LMIS and developed a roadmap for improvements to the system. Lessons from this review included the following:

(a) Software development for LMIS should start only after the system has been completely designed and validated;

(b) Only those features should be included in an LMIS, for which continuous human and financial resources are available and budgeted; and

(c) Capacity for an LMIS cannot be created by a one-off training exercise. It requires a well-planned longer-term development process.

52. **Potential risks and mitigation measures.** Capacity will be built in the MLEAA to implement the LMIS and manage labor market data and conduct policy analysis and research. The risk exists, however, that this capacity will be lost over time through staff turnover. This is a risk that all capacity-building initiatives face. To manage this risk, the MLEAA will ensure that staff selected for this training will not be reassigned during the project term and will be retained in place for a reasonable period of time for the Government to realize the benefits of the investment in training.

Component 4: Strengthening Youth Policy Development and Project Management (US$20 million)

53. Component 4 will support capacity building for the MPYG and the management and coordination of the overall Project. It includes three subcomponents: (a) building youth employment policy development and coordination capabilities; (b) M&E of youth employment policies and funds; and (c) project management and coordination. The overall implementation, coordination, and progress reporting of the activities under this component will be assigned to a Project Coordination Unit (PCU) to be established within the Directorate of Youth Affairs.

(a) *Subcomponent 4.1: Building youth employment policy development capabilities. (US$1.3 million)***.** Component 4.1 will finance activities aimed at building the capacities of the MPYG, relevant ministries and agencies to review current policies and conceptualize, develop, and coordinate new policies and strategies, including the proposed NYES[42] and the National Youth Internship Policy. The Government's

[41] Lucas, A., and I. Mbiti. 2012. "The Determinants and Consequences of School Choice Errors in Kenya". American Economic Review, Papers and Proceedings. 102(3): 283–288.

[42] The NYES (2013–2017) aims to guide the implementation of youth empowerment activities by building a framework for development and empowerment of the youth at national and devolved levels. The NYES is one of the flag-ship projects for MTP II.

efforts to implement youth employment and empowerment strategies can be revealed through the National Youth Policy (2007), the National Youth Council Act (2009), the Sector Plan for Labor, Youth, and Human Resources Development (2008–2012), and the National Action Plan for Youth Employment (2007–2012). Under this component, the Project will finance, among others: (i) training for staff to support the review and development of policies; (ii) technical assistance to carry out organizational and functional reviews of various ministry agencies involved in the youth employment dialogue and to develop a strategy and action plan for improved internal coordination; and (iii) forums and workshops to support validation and consultation activities. Considering the myriad of institutions, agencies, and ministries involved in the youth employment dialogue, there will be a need to train key officers in communications, advocacy, and lobbying, equipping them to manage the consultations and validation processes that are key to building policy ownership.

(b) *Subcomponent 4.2: Building capacity for monitoring and evaluation of youth employment policies and programs (US$2.75 million).* The continuous M&E of the implementation of policies and key programs will be a critical role of the MPYG and therefore there will be a need for strong M&E skills. This subcomponent will finance capacity-building activities for program evaluation in the MPYG to improve its ability to plan for, evaluate, and disseminate the impacts and cost-effectiveness of youth employment policies and programs and generate a more solid evidence base for decision making. The planned activities aim to address the current lack of skills and resources necessary to effectively monitor and evaluate youth employment policies and programs, determine what is working and not working, and scale up or revise their design or implementation accordingly. This subcomponent will finance the following:

(i) **Capacity building for monitoring and evaluation**. For this, staff from the MPYG will receive training in M&E and in management of evaluation contracts; and

(ii) **Evaluation of selected youth employment programs,** including programs and activities to be financed under this Project. Independent consultancies will be procured to undertake impact evaluations of support for the self-employed and the business plan competition activities under Component 2.

(c) *Subcomponent 4.3: Project management and coordination (US$15.95 million)*. The MPYG will be responsible for the overall project management of the KYEOP. Day-to-day management and implementation of each component will remain with the corresponding IA. The PCU will coordinate the implementation of the activities of these agencies and take responsibility for (i) project management and progress reporting; (ii) managing the process of intake, awareness-raising on government funds and AGPO, and channelling of eligible project beneficiaries to appropriate services; and (iii) the execution of all the activities under Component 4 and those activities under the responsibility of MPYG under Components 1 and 2. An important function for the PCU will be to design and implement a grievance redress system that will allow potential beneficiaries, the wider public, and other stakeholders to raise grievances related to the intake process or the overall administration of the Project. The system will enable the PCU to record and address complaints and grievances. The grievance redress system should be linked to the project MIS to ensure proper recording and tracking of complaints received, referred, and resolved.

54. **Lessons learned and reflected in project design.** Depending on a PCU to support the long-term institutional strengthening of the Government's capacities can lead to problems of morale among government officials if not located within government structures and not well-embedded in the activities of the IAs.[43] Even when a PCU is set up for the Project, it is important to also build the capacity of the relevant ministries' and agencies' departments to gradually mainstream the activities of the PCU into permanent government structures that can be sustained beyond the life of the Project. Hence, the PCU will be domiciled within the MPYG and consultants within it will have capacity building of government counterparts included in their terms of reference of various consultants.

55. **Potential risks and mitigation measures.** There are several risks to the successful implementation of this component. First, there is a risk that the MPYG staff benefiting from the training and capacity-building activities may leave the project prematurely. This risk applies to all project components. To mitigate this risk to a manageable level, the MPYG will ensure that staff selected for this training will not be reassigned during the project term and will be retained in place for a reasonable period of time for the Government to realize the benefits of the investment in training. There is also a risk that the PCU may hire experts who later leave the Project. This may be mitigated by providing motivation for PCU staff through adequate remuneration, and engaging them for the full duration of the project conditioned on satisfactory performance. These measures will help in attracting and retaining high-quality staff.

56. A ministerial reorganization took place in November 2015. The former Department of Youth Affairs has been moved to the MPYG. Given the imminent election period, further administrative realignments are possible, which may in turn cause administrative delays in project implementation. This can be mitigated by expediting the establishment of the PCU and providing adequate resourcing so that it is fully functional and ensures smooth implementation of the Project, regardless of its ministerial location. Finally, there is a risk of lack of ownership of the Project among IAs which could lead to poor quality delivery and results for some components. To mitigate this risk, a National Steering Committee (NSC) will be established to promote mainstreaming of the program's activities in their respective ministries.

B. Project Financing

57. The total cost of the Project is US$150 million equivalent, which will be fully funded by an IDA credit to the Government. A Project Preparation Advance (PPA) for US$2.2 million was approved in December 2015 with a refinancing date of July 31, 2016.

[43] World Bank. 2005. "Guidance Note for Project Management: Strengthening Institutional Capacity during Project Implementation." Washington, DC.

Project Cost and Financing

Project Components	Project Cost (US$, millions)	IBRD or IDA Financing	% Financing
1. Improving Youth Employability	**75.0**	IDA	100
MPYG	17.0		
NITA	58.0		
2. Support for Job Creation	**41.5**	IDA	100
MPYG	16.3		
MSEA	25.2		
3. Improving Labor Market Information	**13.5**	IDA	100
4. Strengthening Youth Policy Development and Project Management	**20.0**	IDA	100
Total Costs			
Total Project Costs	150.0	–	–
Front-end Fees	–		
Total Financing Required	**150.0**		

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

58. In order to ensure the successful implementation of the Project and coherence across the various activities, two bodies will coordinate the overall project: a National Steering Committee (NSC) and a Project Implementation Technical Committee (PITC).

59. The National Steering Committee will meet quarterly and be chaired by the Cabinet Secretary (CS) of MPYG and members will include the Principal Secretary (PS) MPYG, PS of National Treasury, PS of the MLEAA and the PS of the Ministry of Industry, Investment and Trade (MIIT)[44], the Chairman of the Council of Governors and the Chairman of the National Youth Council. The PS MPYG will be the secretary to this Committee. The Committee's mandate includes overall supervision and policy guidance in the implementation of the Project and enhancing visibility of the Project.

60. The PITC will be chaired by the Principal Secretary MPYG and meet monthly (or as often as required). The Director of DOYA will be the secretary to this Committee. Members include the Directors/CEOs of the departments/agencies implementing the Project and the National Project Coordinator and coordinators of PIU's in NITA, MSEA and MLEAA. The committee will oversee the implementation of the Project, ensuring smooth progress and advising the PCU as needed. The PITC will be supported by a PCU in the MPYG.

61. The PCU will be headed by a National Project Coordinator who will report to the PS responsible for youth affairs through the Director of DOYA. The PCU will include an Accountant, a Procurement Officer, an M&E Officer, an MIS specialist, a Public Communications Officer, and three full-time officers to coordinate life skills and core business training, and the innovation challenge. Other short-term consultants will be engaged as may be required, including an impact evaluation specialist, a communication specialist and a social enterprise development specialist.

[44] Before the Government ministerial restructuring in 2015, MIIT was the Ministry of Industrialization and Enterprise Development.

The PCU will be responsible for (a) project management and progress reporting; (b) managing the process of intake and channeling of eligible project beneficiaries to appropriate services; (c) providing technical assistance in major procurement for all four components; and (d) the execution of all the activities under Component 4, as well as those activities under the responsibility of MPYG under Components 1 and 2.

62. **Component 1.** This component will be jointly implemented by the MPYG and NITA[45]. The MPYG will be responsible for the initial life skills and core business skills training while NITA will assume responsibility for job specific training and internships that follow. An output-based financing formula will be used by NITA for disbursements for job specific training with possible outputs focused on internship completion and certification rates. Implementation will subsequently extend to all 47 counties, but during the first year, the program will be phased in to allow time for testing a decentralized management structure and building of the capacity needed for scaling up the program nationally. The initial subset of selected counties will be balanced across the country geographically.

63. The delivery of the life skills and core business skills training will require further planning by the MPYG which will assume responsibility for this training. In the absence of larger organizations with adequate capacity for national coverage, multiple providers will likely be required for delivery of life skills and core business training. The direct and indirect cost of residential training will have to be weighed against the challenge of delivery to a large number of settings accessible to beneficiaries. Ensuring quality and uniformity in delivery in a decentralized framework will also require attention.

64. **Component 2.** This component will be jointly implemented by the MPYG and MSEA[46]. Subcomponent 2.1 will be implemented by MSEA, with the MPYG taking the lead role in outreach and intake at the local level as well as in the follow-up of beneficiaries also at the local level. Subcomponent 2.1 will be implemented at the county level. The MSEA is a relatively new government agency and will require project support for capacity building. A small number of contract staff will be added to the MSEA staff for each subcomponent to enhance implementation capacity.

65. Subcomponent 2.2 will be implemented at the national level with the selected projects serving youth in local areas. For the business plan competition, under Subcomponent 2.2, MSEA will be in charge of contracting a professional management company who will manage the business competition, managing this contract, and coordinating the associated BDS on accessing government procurement opportunities. The professional management company/firm which will be selected in a transparent and competitive manner, will be in charge of marketing and outreach, the application process, screening, training, and evaluation, and identification of high potential proposals to be awarded. The responsibility to disburse the awards and hold award ceremonies rests with the MPYG. The managing firm has then the responsibility for independent monitoring of awardees, but youth officers at MPYG, together with MSEA enterprise officers, will

[45] NITA is a Semiautonomous Government Agency (SAGA) under MLEAA.
[46] MSEA is a SAGA under the MIIT.

accompany the firm in a subset of visits to employers as part of the monitoring arrangements for the business competition.

66. The innovation challenge for the hard-to-serve youth will be implemented by the MPYG. The MPYG will contract an expert consultant to provide support in the design of the innovation challenge. As with the business plan competition, the management of the challenge and the selection of awardees will be in the hands of an independent firm or NGO with a relevant track record. This firm or NGO will be selected competitively through a process managed by the MPYG.

67. **Component 3.** This component will be implemented by the MLEAA through its Department of National Human Resource Planning and Development (DNHRP&D). The latter Department has been given a clear mandate for the LMIS by Executive Order No. 2 of 2013 and the Kenya Government Blueprint the Vision 2030 through its Second-Term Medium Plan (2013–2017). Staff and budget for the LMIS are in place within the DNHRP&D, including 25 technical staff and additional staff who can be requested as and when needed. ICT maintenance services will be provided for the LMIS by the ministry's existing ICT Department, which has already procured some of the necessary ICT equipment.

68. **Component 4.** This component will be implemented by the MPYG through its Directorate of Youth Affairs. The PCU will provide for overall coordination of these components and implementation of Component 4 and of activities under Components 1 and 2 to be implemented by the MPYG.

B. Results Monitoring and Evaluation

69. The Project will provide institutional support to help the Government develop and implement a strong M&E system and framework to gather the data needed for the key performance indicators for the PDO and the intermediate indicators. The PDO indicators include the number of male and female beneficiaries of the Project, as well as three outcome-level indicators to document the employment and earnings of youth who benefit from Components 1 and 2. A number of output-level intermediate indicators will be used to track periodic progress toward achieving the PDO. See annex 1 for a complete list of indicators along with the planned frequency and responsibility for data collection. The M&E system will feature an MIS, spot checks, process and implementation evaluations, and beneficiary assessments to gather accurate data on the indicators.

70. Because a robust impact evaluation was carried out for the earlier KYEP model, on which Component 1 will build, priority will be given to the job creation initiatives that have not been rigorously evaluated in the Kenyan context to keep costs down. Two planned impact evaluations will assess the net impact of job creation initiatives in Component 2 using a random experimental design to assess different packages of matching startup grants and BDS on job creation and its sustainability. These impact evaluations are described in annex 6.

C. Sustainability

71. The Government's commitment and ownership of the Project is clear from the high level of involvement during the preparation stage and the full participation in all details of the project

design. The appointment of a technical preparation committee with members from each of the IAs has ensured a deep understanding of the project design and expression of the Government's ideas. The Government's commitment to realizing the youth dividend and ensuring the integration of youth into productive employment is also clear from the increasing resources allocated to youth initiatives and the number of programs that have been introduced in the last few years.

72. The use of results-based contracting for training and BDS (under component 1 and 2) is expected to lead to a more sustainable and effective public training system and employment creation for youth. By introducing results-based contracting for skills development and BDS with contracts that are focused on buying outputs rather than inputs, the Government can demonstrate the benefits of this approach and, in doing so, it can promote reforms in public provision and financing that lead to more sustainable and effective training and job creation activities. The opening of the market to private delivery of training and innovative services for youth can further promote competition in the public sector leading to better outcomes for youth.

73. Capacity building for Component 3 will equip staff in the NHRP&D department with skills that will enable the LMIS to continue functioning even after the end of the Project. The integration of the component activities into the ministerial/departmental annual work plans and in line with its mandate will ensure that NHRP&D continues to generate, update and disseminate labor market information. Moreover, MLEAA through the annual budget has already assigned a budget item specifically for LMIS and this will also ensure sustainability.

74. The Project places emphasis on Component 4 for building the capacity of the MPYG for development of youth policies and for M&E of the Government's diverse youth initiatives. Through this, the Project strives to build support for evidence-based policy development that will enable the Government to refocus its substantial spending on youth initiatives in various line ministries to those initiatives found to produce positive net benefits for youth in relation to their costs. Sustainability of these programs can be achieved by weeding out spending on programs that provide marginal benefits in relation to their cost and reallocating expenditures to youth initiatives that show evidence of working.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	High
7. Environment and Social	Low
8. Stakeholders	Moderate
9. Other	–
OVERALL	Substantial

75. The overall risk to achieving the PDO is Substantial. While the design for the main project component builds on the proven experience of the KYEP which has been successful in improving labor market outcomes for targeted youth, political, institutional, and fiduciary risks stand out as threats to achieving the development objectives. The complexity of a multi-sectoral operation also means that the technical design of the Project presents substantial risks. Building public ownership of the Project and its objectives through an effective public communications strategy will be important to reduce the risk associated with changes in government in the upcoming election. Institutional capacity building and effective coordination by the DOYA will reduce the risk associated with the complex implementation structure and lack of institutional experience with a World Bank project. As part of this capacity building, steps will need to be taken to strengthen the fiduciary capacity of the implementing institutions informed by the FM and procurement assessment. Each major risk is further described below.

76. **Political and governance.** The next general elections in Kenya are scheduled for August 2017. The political campaign period is likely to begin in early 2017, the period when the Project is expected to be kicking off its initial stage of implementation. There is a significant risk (a) of political interference in project implementation; and (b) that key political decisions relating to the policies and programs for the youth could change in the face of possible political transitions post-2017. In addition, the challenges of devolution and tensions between both levels of government may increase the political risks and could affect implementation. To mitigate this risk, the Project is developing a comprehensive communications and branding strategy, designed to provide accurate information to the public on the design, objectives, and implementation of the KYEOP.

77. **Technical design of project or program.** The Project is complex and large in scope, requiring the delivery of various initiatives, each implemented by a different public agency. Some specific interventions, such as demand-driven training and internship, have only previously been offered on a pilot scale in 3 counties; scaling up significantly presents

implementation and capacity risks. Additionally, the exploratory nature of some specific interventions, such as pursuing innovations to reach out to hard-to-reach youth may not produce scalable or sustainable solutions. The project design reflects the main lessons learned from previous experiences in Kenya and best practices elsewhere.

78. **Institutional capacity for implementation and sustainability.** The implementation arrangements, given the complexity of the Project, span a number of agencies and ministries. Some IAs, such as NITA and the MSEA, have not directly implemented World Bank projects before, presenting substantial implementation capacity risks. While the DOYA has previously implemented a youth employment project, the capacity to implement an operation of the scale, geographic coverage, and dispersed IAs as in the KYEOP, will remain a challenge. Mitigation measures will include a detailed capacity assessment for each IA and Ministry, and the development and resourcing of a capacity-building plan.

79. **Fiduciary.** A Financial Management assessment of all agencies has been undertaken during preparation and shows that the lack of human resource capacity to effectively meet the FM standards and flow of funds requirements pose a high risk to the Project. Similarly, the Procurement Assessment shows that the lack of adherence to procurement timelines, guidelines, and standards could jeopardize the capacity of the Project to meet its objectives. In response, detailed action plans have been developed for meeting the fiduciary capacity requirements, as detailed in annex 3.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

80. The expected costs and benefits of the main interventions supported by the Project were analyzed using the best available evidence of the impact of similar programs in Kenya and other countries in Sub-Saharan Africa. The benefits are defined as the average expected increase in annual earnings as a result of program participation, though these activities can be expected to result in other monetary benefits (for example, increases in business assets), benefits to human capital (for example, improved business, vocational, and life skills), and other socioeconomic benefits (for example, women's empowerment). The expected baseline earnings of participants are estimated using the 2013 STEP survey in Kenya.

81. The expected impact of the various project components on the earnings of youth is positive and robust to a range of assumptions. The details of the analysis and results are presented in annex 5. The results for Component 1 (Improving Youth Employability) indicate that the costs of the training and internship program will be recouped through the increased earnings of program participants within 3 to 7 years, yielding an internal rate of return (IRR) of at least 10 percent. For Component 2 (Support for Job Creation), several project elements are analyzed. The estimated IRR under subcomponent 2.1 (Support for the self-employed) is at least 17 percent for the grants and 15 percent for the BDS. Finally, for the business plan competition under subcomponent 2.2 (Catalytic interventions for job creation), applying the results of a similar competition in Nigeria, we find that the cost of grant provision will be recouped solely through the increased earnings of the employees of winning firms within 6 to 11 years, with an IRR between 5 and 13 percent. This

estimate is possibly a lower limit because it does not include any of the other expected impacts on winning firms, such as improved firm survival or capital holdings.

82. The rationale for public sector financing rests on the inability of the economy to create enough jobs to absorb the growing population of young people and the particular constraints that youth, particularly poor and vulnerable youth, face in accessing employment. For example, youth are especially vulnerable to credit constraints due to limited collateral and work experience and less likely to be able to access private sector opportunities. An underdeveloped credit market for entrepreneurs, both low-skilled (as in Subcomponent 2.1) and high-skilled (as for those participating in the business plan competition) means that there is scope for catalyzing public financing. Government intervention is also needed to overcome existing information asymmetries in services currently available to young people. Certification of master craftsmen under Component 1, for example, will provide trainees with a signal of the quality of the trainer, which will both facilitate better matches and potentially encourage more trainees to enter the market. Similarly, Component 3 will create public good by developing and disseminating LMI services to improve decision making by governments, firms, and households.

83. The rationale for Bank involvement stems from the strong alignment of the Project with the current CPS between the World Bank and Kenya, as well as the World Bank's global expertise in supporting youth employment. This allows the World Bank to provide, in addition to financial support, knowledgeable technical assistance on project design, with insights as to which interventions make a program successful in a range of environments.

B. Technical

84. The project design conforms to best practices in all four components. Component 1 builds on the carefully evaluated KYEP pilot offering employer-designed training and work experience.[47] The design adopts the lessons learned from the pilot and now plans to scale up the program to a national level. While implemented by the Government, it retains a partnership with the private sector that will offer training and work experience. It brings employers into the design of the job specific training that is offered to ensure that the training matches employer needs. The training model, overall, was found in the KYEP evaluation to be cost-effective and successful in improving the employment and earnings of targeted youth compared with a similar control group. The component uses lessons from training for the informal sector to improve the design of the scaled up program by upgrading the skills of master craftsmen as instructors and encouraging certification of apprenticeship skills to measure skills attainment and promote the portability of skills acquired.

85. Component 2 also builds on lessons from the KYEP with its initiative to link trained youths wanting to start their own business with capital and BDS. Lack of access to capital was found to be a major constraint to starting a new business in the KYEP. The component will also add to the knowledge base on what works best to help young entrepreneurs by testing different packages of matching grants and BDS and their impact on job creation. The component uses competition for grants to help identify young entrepreneurs with ideas that can lead to accelerated job creation and this same competitive model is used to stimulate innovations that will help

[47] Honorati, Maddalena. 2015. *Impact Evaluation of Kenya Training and Internship Pilot*. World Bank.

provide hard-to-reach youth with services helping them create employment and improve their employability.

86. Component 3 will bring together a highly fragmented system of LMI under one roof and build government capacity for policy analysis and research using the data acquired. Finally, the component will update Kenya's occupation and industry classification systems to current international standards and improve the quality and comparability of LMI available for all users.

87. Component 4 will empower the MPYG to play a larger role in youth policy development, its primary mandate, by building capacity for carrying out policy studies and introducing the use of best-practice research methods for youth policy development. The Project will support hands-on experience in evaluating existing youth programs and policies, on which the Government is spending large sums, without knowledge of their effectiveness. Finally, the component will support DOYAs role in project management and coordination with the staffing of a PCU. This PCU will be domiciled in DOYA with each of the PCU specialists hired by the Project having capacity building of counterparts and stakeholders included in the ToR to promote sustainability.

C. Financial Management

88. The World Bank FM team conducted an FM assessment of the implementing agencies charged with the responsibility of the KYEOP: MPYG (DOYA was previously under MoDP),[48] MLEAA[49], NITA (under MLEAA) and MSEA (under MIIT)[50]. The conclusion of the assessment is that the FM arrangements have an overall residual risk rating of Substantial, which satisfies the World Bank's minimum requirements under OP/BP 10.00, and therefore is adequate to provide, with reasonable assurance, accurate and timely information on the status of the Project required by IDA.

89. The FM assessment revealed adequate accounting capacity in the implementing agencies. The IAs have qualified accountants and effective accounting systems. The Project will be implemented using existing government public financial management (PFM) systems with appropriate capacity strengthening. The budgeting, funds flows, accounting, internal control, financial reporting, and auditing arrangements are assessed as adequate.

90. However, the FM assessment identified certain fiduciary risks. For instance, the FY13 and FY14 audit reports of the IAs revealed certain internal control weaknesses. All the five agencies received qualified audit reports. The basis of the audit qualification included insufficient supporting documents for expenditures, noncompliance with PFM regulations and procedures, inaccuracies and incompleteness in financial statements, imprests not surrendered and staff advances, weak accountability mechanisms, and poor records management. It is noted that the audited financial statements were all issued in August being eight months after the statutory

[48] As noted previously, following a ministerial reshuffle, the Directorate of Youth Affairs was earlier located in the MoDP, but has now moved to the MPYG. The FM assessment, however, was undertaken on the MoDP, given that the executive order officially establishing the new ministries and defining their functions, roles, and responsibilities is yet to be established by the Government.
[49] As with MODP, the FM assessment was conducted before the recent Government reshuffling, and hence it was undertaken on the MLSS (which preceded MLEAA).
[50] The MSEA was located in the MoIED prior to the ministerial reorganization. MoIED however changed name to MIIT after the ministerial reorganization in 2015.

deadline of December 31. There are risks related to grants administration such as payments to fake businesses or other undeserving persons, or to firms that may not use the funds for the intended purposes.

91. To mitigate these risks, MSEA will hire an independent professional management company (PMC) to assist in managing the Business Plan Competition Awards. The PMC will conduct due diligence on the proposals before selection and award and post-selection checks. The pre-selection checks will include obtaining and reviewing documents related to registration of business, PIN certificates, and following up on references, and occasional spot checks. The post-selection checks will include receiving and reviewing reports from the grantee before the release of subsequent tranches and, when required, getting an independent audit of the awardees. The Government has developed an FM manual which contains details of these procedures. The Financing Agreement provides for a comprehensive oversight for the Business Plan Competition Grant Awards including the provision that the grant award will be released in three tranches with subsequent disbursement for the second and the third tranche based on a detailed financial and performance report satisfactory to the World Bank, and the obligation of the beneficiary to maintain adequate records and, at the request of the World Bank, have such records audited by independent auditors acceptable to the World Bank. Each of the IAs will designate dedicated accountants based on ToRs agreed with the World Bank. In addition, the World Bank's fiduciary team will conduct regular training and capacity building in FM, procurement, and disbursements throughout project implementation. The Project will also maintain segregated bank accounts.

92. The Internal Audit Department (IAD) of the National Treasury will conduct annual risk-based fiduciary reviews of the Project and submit copies of the reports directly to the World Bank. These reviews will complement the annual audits by the Office of the Auditor General (KENAO). The Project also has social accountability procedures which include public disclosure of financial information, complaints handling and corruption reporting which will further enhance the fiduciary controls. These are detailed in the FM assessment report in Annex 3. The scope of the annual audit will include audit of the Business Plan Competition Grant Awards and utilization of the grants. There have been challenges of limitation of scope by KENAO in the audit of decentralized projects whereby the audit of decentralized expenditures is not done. In the FY15 audit, the reason provided by KENAO in the audit reports for not auditing such expenditures was "lack of resources". To mitigate this risk, the FA gives the World Bank or the Government the flexibility to hire independent private auditors to conduct the audit. As part of project design, there will be advertisement and publication of the grant award process. This forms part of the social accountability mechanisms which will allow the public to provide feedback and whistle-blowing on any malpractices. There will be public disclosure of the annual project audit reports in line with the World Bank's Access to Information Policy. The World Bank FM team will conduct on-site, randomized FM reviews at least once every year and follow up on the implementation of the FM action plan prepared on the basis of recommendations of the various audit and review reports.

D. Procurement

93. The World Bank has conducted an assessment of the capacity of the IAs to implement procurement actions for the Project, using the World Bank's Procurement Risk Assessment and Management System in December 2015. The assessment reviewed the organizational structure

for implementing the Project and the interaction between the project's staff who are responsible for procurement duties and management of their respective agencies.

94. Although some of the staff have the requisite qualifications and experience to manage Bank-funded operations, the assessment found that there is less than sufficient capacity for an optimally operating procurement function in all the IAs.

95. The key issues and risks concerning procurement that have been identified and require mitigation, include systemic weaknesses in the areas of (a) office infrastructure; (b) capacity of procurement staff in the implementation of Bank-financed operations; (c) procurement planning; (d) procurement process administration including award of contracts; (e) contract management; and (f) procurement oversight. Based on the findings of the procurement capacity assessment and taking cognizance of the limited experience, existing capacity, and insufficient office infrastructure of the agencies carrying out procurement under the Project, the overall project risk for procurement is assessed as High. To reduce the risks, several corrective and/or mitigation measures have been agreed as follows:

(a) After effectiveness, all entities need to be equipped with sufficient basic office infrastructure such as computers, printers, photocopiers, and so on and reliable internet connectivity to facilitate project operations;

(b) The PIM dated April 6, 2016 provides a comprehensive and detailed but simplified procurement procedures and processes. The PIM will among others (i) define the roles and responsibilities of all officers who will be working in any aspect of procurement implementation of the Project; (ii) set out the sequence and timeframe for the completion of procurement decisions of all procurement staff as well as for the coordination of inputs from all other players in procurement implementation; (iii) establish service standards for processing of payments to suppliers and service providers; and (iv) set out the criteria for assessing staff who have received the relevant procurement skills and the appropriate indicators for assessing skills transfer; and

(c) Establish separate effective tracking systems for (i) procurement plan implementation; and (ii) processing of payments to suppliers and service providers.

E. Social (including Safeguards)

96. The KYEOP triggers OP 4.10 - Indigenous Peoples and the applicable laws and regulations of the Government. OP 4.10 is triggered because it is likely that groups which meet the criteria of OP 4.10 "are present in, or have collective attachment to, the project area." The Government has developed the Vulnerable and Marginalized Groups Framework (VMGF). This framework will provide a mechanism for the inclusion and informed participation of VMGs in the Project, in a culturally appropriate manner. The Government undertook consultations on the project design and on the planning framework with selected VMGs. Consultations were held with the Sengwer and Ogiek in Rift Valley (Trans Nzoia and Nakuru Counties), the semi nomadic Waat and Sakuuye peoples in Isiolo County, and the hunter-gatherer and fishing communities of the Boni people in Kwale, in the coastal region of Kenya. The field consultations also provided

information for a social assessment to further guide the finalization of the VMGF. Final consultations and disclosure of the framework took place in February 2016, among VMG communities and other stakeholders. VMGF was disclosed in the country on February 29, 2016 and on the World Bank's external site on March 1st, 2016

97. Among the VMGs, deliberate efforts were made to include in the consultations and field assessment: (a) youth aged between18 and 29 years, without jobs or working under vulnerable employment and with up to Form 4 level education; (b) young women; and (c) persons living with disability. However, the wider communities also participated in the focus group discussions, survey, and key information interviews.

98. In addition, the Project will mainstream gender-informed approaches in its design, implementation, and monitoring of activities, by factoring in different needs, constraints, and opportunities of young men and women in all components. The Project will support targeted interventions aimed at addressing gender-related challenges, including access to information, skills, and interventions for job creation. Key results indicators will be disaggregated by gender to track down female youth participation in the various interventions. The Project will also enhance inclusion of vulnerable hard-to-serve youth through the innovation challenge.

99. It is anticipated that the Project will have positive social impacts at the individual, community, county and national levels. Increased youth employability will result in: (a) increased incomes among vulnerable youth, which will enable them to improve their living standards and participate in the social-economic life of their communities; (b) reduce idleness and drug abuse among youth, especially in the coastal and Northern Eastern regions where consultations with the communities indicated the practice is rampant; (c) enhanced capacity (technical skills and knowledge) among the youth and communities to strengthen livelihoods; (d) enhanced civil awareness among the youth to know their rights and claim their entitlements, enabling them to play an active role in their lives and participate in public governance; and (e) improved leadership and organizational capacity among youth.

100. However, social risks envisioned in the implementation process include: (a) the provision of grants to support job creation may face risks related to corruption. The Project will put in place accountability systems where the targeted beneficiaries at county, sub-county and community level will monitor project activities and outputs; (b) the participation of county governments in county-level activities remains relatively low, in comparison to the national Government. The project implementation manual will clearly indicate the roles and responsibilities of the various stakeholders with a view to enhancing county participation in the Project; (c) socio-cultural issues such as early pregnancy and early and forced marriage have forced many young girls to devote their time to caring for their children and families. This situation may hinder vulnerable girls and women from benefiting from the Project, as some communities (such as Somali, Turkana) perceive marriage as a form of employment. The Project will be intentional in targeting an equitable number of youth (male and female) in the components. Moreover, the Project will make efforts to remove barriers that make it difficult for either gender to access project benefits. For example, the Project will aim to schedule training for young mothers at a time convenient to them, allowing lactating mothers to participate in training with their young babies and caregivers among others.

101. A Vulnerable and Marginalized Groups Framework has been prepared in consultation with youth in vulnerable communities. The VMGF spells out appropriate grievance handling procedures, from community level, county and national level. The youth among other stakeholders (civil society organization, local leaders) will be actively involved in monitoring project implementation at the various levels through, for example, the establishment of youth and other local committees.

F. Environment (including Safeguards)

102. The Project does not trigger OP/BP 4.01. This is fundamentally a capacity building project to train and upgrade skills of unemployed youth to find employment and to help launch new business start-ups. These activities will not result in any adverse environmental risk or impact. The Project is categorized as Environmental Category "C".

G. Other Safeguards Policies Triggered

103. Not applicable

H. World Bank Grievance Redress

104. Communities and individuals who believe that they are adversely affected by a Bank-supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed to address project-related concerns. Project-affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel, which determines whether harm occurred or could occur, as a result of the World Bank's noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank's Inspection Panel, visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Kenya **Youth Employment and Opportunities (P151831)**						
Results Framework						
Project Development Objectives						
PDO Statement						
The project development objective is to increase employment and earnings opportunities for targeted youths.[51]						
These results are at	Project Level					
Project Development Objective Indicators						
Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Direct project beneficiaries (Number) - (Core)	0	33,500	89,000	191,000	274,000	280,500[52]
Female beneficiaries (Percentage) – (Subtype: Supplemental) - (Core)	0	33	40	45	50	50
Percentage of youth receiving training and an internship who find a job or are self-employed after at least six months (Percent)	55[53]	70	70	70	70	70

[51] The target group is defined as youths between 18 and 29 years of age who are without jobs and have experienced extended spells of unemployment or who are currently working in vulnerable jobs, defined as those working on their own (or self-employed), a contributing family worker, or working for wages in a household enterprise with fewer than 10 workers. The level of education of targeted beneficiaries will be up to Form 4.
[52] The total number of direct project beneficiaries includes 70,000 from component 1; 19,000 from Sub-component 2.1 (these are incremental beneficiaries to those in Component 1 since 15,000 will benefit from Component 1 and from the start-up grants);2,500 from the business plan competition (1,500 firms that benefit from one week training and 1,000 youths expected to be hired by the awardees) ; and for Component 4, 188,500 from activities to improve AGPO.
[53] Percentage is based on control group for KYEP.

Number of youth employed, including self-employed, at least 6 months after receiving a startup grant and/or BDS	0	0	2,400	7,200	18,100	27,200
Percentage increase in average earnings among workers (self-employed or wage) at least 6 months after receiving a startup grant, BDS, or a business competition award (Percent)	0	0	0	10	10	10
Intermediate Results Indicators						
		Cumulative Target Values				
Indicator Name	Baseline	YR1	YR2	YR3	YR4	End Target
Number of beneficiary youths receiving life skills, technical, and entrepreneurship training and internships	0	10,000	30,000	50,000	70,000	70,000
Number of beneficiary youths obtaining a skill certification	0	5,000	15,000	25,000	35,000	35,000
Number of craftsmen who participate in upgrading and obtain master craftsman certification	0	200	450	700	1,000	1,000
Number of new trade standards and testing instruments developed or revised for traditional apprenticeships	0	10	20	30	50	50
Percentage of beneficiary youth satisfied with the training and internship program	0	n.a.	65	70	75	80
Number of beneficiary youth receiving a startup grant and/or BDS	0	0	3,000	9,000	22,000	34,000
Number of applicants to the business competition	0	0	3,000	3,000	3,000	3,000

Percentage of beneficiary youth satisfied with the start-up grants and the business development services	0	n.a.	65	70	75	80
Number of and Types of LMIS Reports published by the LMIS unit	0	1) Revised KNOCS 2) Skills and Occupational outlook for the informal sector	1) Localized ISIC Rev 4 2) Updated Skill inventory	National Manpower Profile Report	National Occupational Outlook Report	Fully functional LMIS generating and disseminating various LMI reports
Number of visitors of the LMIS website	0	0	1,000	4,000	7,000	10,000
Number of youth who participate in the awareness sessions on government opportunities (AGPO and government funding)	0	23,500	55,000	133,500	188,500	188,500
Implementation plan for new NYES submitted to the Cabinet Office	Implementation plan not submitted	n.a.	n.a.	n.a.	n.a.	Implementation plan submitted
Complete process and beneficiary assessment for at least one of the Government funding programs for youth	No process and beneficiary assessments conducted	Consultant(s) to conduct process evaluation and beneficiary assessments hired	Process evaluation completed	Beneficiary assessment completed	Process evaluation and beneficiary assessments published online and disseminated to relevant stakeholders	One or more process and beneficiary assessments completed

Indicator Descriptions

Project Development Objective Indicators				
Indicator Name	**Description (Indicator Definition and so on.)**	**Frequency**	**Data Source/Methodology**	**Responsibility for Data Collection**
Direct project beneficiaries (Number) - (Core)	Direct beneficiaries are people who directly derive benefits from an intervention.	Annual	MIS	MPYG
Female beneficiaries (Percentage) – (Subtype: Supplemental) - (Core)	This indicator measures the percentage of beneficiaries who are female.	Annual	MIS	MPYG
Percentage of youth receiving training and an internship who find a job or are self-employed after at least six months. (Percent)	Youth completing training and an internship who hold wage employment or who are self-employed six months after the internship	Once in six months after each six month training and internship cycle is completed	Tracer study inquiring about youth employment status and other activities conducted six months after a cycle of training and internship is completed	NITA with the assistance of survey consultant firm
Number of youth employed, including self-employed, at least 6 months after receiving a startup grant and/or BDS (Number)	Youth who receive either a startup grant or BDS through Subcomponent 2.1 and hold wage employment or are self-employed at least six months after receiving the intervention	Annual, at least six months after grants and BDS are delivered	MIS	MSEA
Percent increase in average earnings among workers (self-employed or wage) at least6 months after receiving a startup grant, BDS, or a business competition award (Percent)	Average percentage difference between monthly earnings at baseline and follow-up for youth who participate in Subcomponent 2.1 or are employees of firms who receive a business competition award, compared to a control group who do not receive services	Once, at least six months after services/grants are delivered	Impact evaluation survey	Independent impact evaluation firm
Intermediate Results Indicators				
Indicator Name	**Description (indicator definition, and so on)**	**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**
Number of beneficiary youths receiving life skills, technical, and entrepreneurship training and internships (Number)	Number of beneficiary youth completing life skills and core business skills training	Once after each six month training and internship	MIS	NITA

		cycle is completed		
Number of beneficiary youths obtaining a skill certification (Number)	Number of beneficiary youth who complete an internship	Once after each six month training and internship cycle is completed	MIS	NITA
Number of craftsmen who participate in upgrading and obtain master craftsman certification (Number)	Number of craftsmen selected by NITA for upgrading, who obtain a NITA skill certification	Annual	MIS	NITA
Number of new trade standards and testing instruments developed or revised for traditional apprenticeships (Number)	Number of new trade standards and testing instruments developed or revised by NITA	Annual	MIS	NITA
Percentage of beneficiary youth satisfied with the training and internship program	This indicator reflects the percentage of beneficiary who report being somewhat or very satisfied in a survey conducted after they complete their training and internship program	Annual	Beneficiary survey	NITA
Number of beneficiary youth receiving a startup grant and/or BDS (Number)	Number of youth who receive a grant and/or complete training or receive a specific consulting service from at least one BDS provider	Annual	MIS	MSEA
Number of applicants to the business competition (Number)	Number of applications submitted to the business plan competition	Once	Inspection of applications	MSEA
Percentage of beneficiary youth satisfied with the start-up grants and the business development services	This indicator reflects the percentage of beneficiary who report being somewhat or very satisfied in a survey conducted after they receive a start-up grant and/or receive business development services	Annual	Beneficiary survey	MSEA
Number of and Types of LMIS Reports published by the LMIS unit	Number and types of LMIS reports produced and published by the LMIS unit annually	Annual	Inspection of reports on the LMIS website	LMIS unit
Number of visitors of the LMIS website (Number)	1,000 visitors of the LMIS website in the second year and 3,000 visitors in average during the subsequent years	Annual	Counting of ‘hits’ on the LMIS website	LMIS unit
Number of youth who participate in the awareness sessions on	Number of youth who participate in awareness sessions of government opportunities including	Annual	MIS	MPYG

government opportunities (AGPO and government funding) (Number)	AGPO, Youth Enterprise Development Fund, Women's Enterprise Fund, or UWEZO Fund.			
Implementation plan for new NYES submitted to the National Cabinet Office	This indicator reflects the development and submission to the National Cabinet Office of a plan to guide the implementation of the Government's new NYES	Once	n.a.	MPYG
Complete process and beneficiary assessment for at least one of the Government funding programs for youth	At least one process and beneficiary assessment completed	Once	Independent evaluation	MPYG

Annex 2: Detailed Project Description

Kenya: Youth Employment and Opportunities Project (P151831)

1. The Project consists of four components. Component 1 addresses the skills mismatch of youth by engaging training providers and private sector employers to offer training and work experience to targeted youth. Component 2 responds to the need for job creation with initiatives to help launch new business start-ups, improve the productivity and job creation potential of existing enterprises, and offer innovative approaches to help hard-to-reach youth. Component 3 plans to improve access to and the quality of LMI. Component 4 provides support for strengthening youth policy development, M&E, and management of the Project by the DOYA of the MPYG.

2. **Target group.** The primary beneficiaries for the Project will be youths between 18 and 29 years of age who are without jobs and have experienced extended spells of unemployment or who are currently working in vulnerable jobs, defined as those working on their own (or self-employed), a contributing family worker, or working for wages in a household enterprise with fewer than 10 workers. The level of education of targeted beneficiaries will be up to Form 4, a high school education. As discussed in the country context, this group—especially youth aged under 25— has unemployment rates that are more than twice as high as the unemployment rates for older workers, and critically, have a significantly higher incidence of low-productivity, low-paying jobs. Among women, as labor force participation profiles for Kenya show, these are also the critical years when women start to form a family and when they are most likely to drop out of the labor force altogether.

3. For one of the activities, the Business Plan Competition (component 2.2), the age limit for direct beneficiaries (entrepreneurs receiving grants as winners of the competition) is raised to 35. This activity aims to foster job creation among high-potential young entrepreneurs, and the evidence from Kenya and elsewhere suggests that having the experience, capital, and the social and professional networks that come with age is very important for the success of entrepreneurs.[54] While the grants could be received by older youths, however, the objective of this activity remains to create jobs and increase earnings among the main beneficiaries (those aged 18–29 years old). Here, the international evidence also indicates that including entrepreneurs who are slightly older, as was done in the business plan competition for Nigeria after which this activity is modelled, leads to job creation among the ultimate targeted youths.

4. **Process for targeting and intake.** Intake will be done at the sub county level by the MPYG youth development officers. The MPYG will be responsible for informing the potential target population about the Project and the youth development officers will receive and screen applications for referral of eligible youth to NITA, which will implement Component 1's job

[54] In Kenya, for example, self-employment peaks at around 35-40 years of age while younger workers are most often informal employees rather than entrepreneurs. Similarly, experimental evidence from developing countries also suggest that younger youth benefit from entrepreneurship interventions mostly through higher employment (gaining their first job, for example) but less than older youth in terms of higher earnings, productivity or business survival (Almeida, Rita, and Emmanuela Galasso. 2010. *Jump-starting Self-Employment? Evidence for Welfare Participants in Argentina*. World Development 38, (5): 742-755; McKenzie, David. 2015. *Identifying and spurring high-growth entrepreneurship: experimental evidence from a business plan competition*. Policy Research Working Paper Series 7391. The World Bank).

specific training and work experience intervention. Youths interested in self-employment may be referred by youth officers directly to the MSEA, who would complete the selection process for subcomponent 2.1., or they may just be provided with information regarding the availability of various youth-targeted funding interventions. Procedures will be developed to ensure a gender balance in program participation.

5. The MPYG youth development officer in each sub county will provide an entry point into the program for targeted youths in Component 1 and subcomponent 2.1. The youth development officer will counsel and channel eligible youth to the services offered. Different actors may be involved in mobilizing youth for participation and generating applications including, for example, county youth officers and other relevant line ministries. The DOYA of the MPYG will lead this activity and will use all tools and means available to reach eligible youths with information about Component 1 and Component 2 services. The MPYG youth development officers will be trained to counsel and advise eligible youths on available youth-targeted funding initiatives and assist them in connecting with NITA and MSEA services as appropriate. The Project will support the development of automated management information systems in DOYA, NITA, and MSEA with interoperability capabilities to register, refer, match, and track the outcomes of participating in various interventions.

Component 1: Improving Youth Employability (US$75 million)

6. This component responds to Kenyan employers who assert that youth who come out of schools and training centres frequently lack relevant work experience and competencies, including behavioural skills, needed for employment. The component will scale up the pilot KYEP, providing targeted youth with training and work experience in the private sector, with the goal of improving youth employment outcomes. The component will be jointly implemented by the MPYG and NITA.

7. This component will contain two subcomponents:

(a) *Subcomponent 1.1: Provision of training and work experience in the formal sector (US$37.5 million of which US$29 million for NITA and US$8.5 million for MPYG)***.** This subcomponent will provide targeted beneficiaries with three months of training and three months of internship experience with a formal sector employer. The training will cover life skills, core business skills, and technical skills. The MPYG will enter into a national contract with a number of providers for delivery of life skills and core business skills using a standard curriculum. Following completion of the life skills and core business skills training, NITA will organize further job specific training that will include an internship. The job specific training will be offered by public and private formal training institutions accredited by NITA or other recognized accreditation agencies under a results-based contract. These training providers will partner with employers and provide skills training demanded by the employer. This and the following subcomponent will include support for NITA capacity building and program management by a PIU.

(b) *Subcomponent 1.2: Provision of training and work experience in the informal sector (US$37.5 million of which US$29 million for NITA and US$8.5 million for MPYG).* This subcomponent will be especially suitable to vulnerable youth with limited education and youth in rural areas. Its duration and training approach will be the same as that in the formal sector with targeted youth receiving the same life and core business skills training organized by the MPYG. Job specific training, however, will be offered on the job by a master craftsman in a traditional apprenticeship. NITA will contract with master craftsmen to deliver this training and an internship. Master craftsmen will be certified by NITA. To improve the quality of the training offered by master craftsmen and the recognition of this training in the marketplace, the subcomponent will support (i) the upgrading of master craftsmen's skills; and (ii) the development and updating of NITA certification standards for traditional apprenticeship trades. NITA will implement this activity.

- **Improving the quality of training offered by master craftsmen.** This subcomponent will support the training and upskilling of up to 1,000 master craftsmen and their certification to expand the training and employment capacity for youths.

- **Promote greater efficiency in the training market for traditional apprenticeships**. This subcomponent will expand the number of traditional apprenticeship trades for which standards and their testing and certification instruments have been developed. Up to 20 additional apprenticeship standards and testing instruments will be developed and up to 35 existing apprenticeship standards and their testing instruments will be reviewed and updated as needed.

8. **Phasing in the component.** The MPYG will organize the intake of youth for this component and along with NITA it will phase in the training and internship activity to allow time to refine the systems required for contracting, payment of stipends, M&E, and so on. Clear criteria will be established by the MPYG, in consultation with the implementing agencies and the Council of Governors, for the initial selection of counties, considering geographic balance, implementation capacity, and numbers of vulnerable youth. The phasing in will require coordination with Component 2 so that after completing training and internships those who want to start their own business can be referred to the activities of Component 2 in the same locations. Similarly, coordination with Component 4 will be required so that the program intake is situated in the counties selected for the initial phasing in of the program.

9. **The intake of youth.** The DOYA of the MPYG will manage the youth intake process. The intake process will require youth sensitization, receipt of applications, and screening of the applications by the DOYA. Intake will be managed by the DOYA at the sub county level. Among the first actions taken, the MPYG will enrol youths in training for life and core business skills, and afterwards, it will refer youths to NITA which will offer group counselling on the Kenyan labor market and make available to the youths a list of approved trainers with internships and master craftsmen offering traditional apprenticeships. This list will provide a profile of the job specific training offered and of the employer offering the internship. Youth will choose among the options for training and internships and then be referred to the preferred trainer source by NITA. If the formal sector is chosen, the youth will be referred to a formal training organization that will provide job specific training and placement with a formal sector employer for an internship. If the informal sector is chosen, the youth will be referred to a master craftsman who will provide the job specific training and an internship.

10. **Selection of training providers**. The NITA team will offer results-based job specific training contracts to training organizations and master craftsmen on a competitive basis. Results sought, such as retention and completion rates, will be defined in a request for proposals and training organizations and master craftsmen will respond with technical and financial proposals. Bonuses may be offered as incentives to achieve certain targets, for example, rural youth participation, retention rates for young women, and placement rates of young women in non-traditional employment. Selection will be based on proposals that exceed minimum quality standards and are competitive with other providers. To be eligible for contracting, training organizations must be accredited by NITA, the Technical Vocational Education Training Authority[55] or another recognized accreditation agency. In turn, master craftsmen must be certified by NITA.

11. **Payment of stipends.** Youth will be offered a small stipend during the training and internship. The value of the stipend will be set consistent with stipends paid by other government internship programs. Alternative modes of payment, including mobile money transfers, will be considered. More than one method may be used, based on differences in accessibility in urban and rural areas. Priority will be given to ensuring accountability for funds. A stipend would also be availed to small enterprises in the informal sector and master craftsmen to cover the cost of materials used by interns during the internship, based on satisfactory performance on agreed outputs. The Government of Kenya has implemented a policy of VAT rebates to employers who absorb interns in the organizations/firms. In this regard VAT registered firms / companies would not be paid any stipend.

12. **Selection and upgrading of master craftsmen.** NITA expects to develop criteria for the selection of master craftsmen for upgrading, with priority for those who will offer training to youth. It will set limits on the duration of the training offered, extending up to 30 days. Delivery timing and methods will have to consider the high opportunity cost of time away from work for master craftsmen. Training providers for the upgrading of master craftsmen will be selected competitively, following similar procedures to those outlined for the training of youth. As in all training offered under this component, NITA will seek to adopt gender-friendly operational procedures.

13. **Certification of skills.** NITA will review certification standards and testing for trades held by apprentices and master craftsmen. The review will be expected to highlight trades where such instruments are unavailable and others where updating of the instruments is needed. NITA will engage consultants to fill the gaps with certification standards and testing instruments for trades where these instruments do not presently exist and update standards and testing for trades where the instruments available are outdated. NITA expects to be able to certify the skills attained in the workplace, which in most instances will be entry-level skills.

14. **M&E.** NITA will maintain a robust M&E system for assessing performance and contributing to evidence-based policy development referring to youth employment. The M&E plan

[55] NITA has about 500 accredited training institutions and the Technical Vocational Education Training Authority has over 1000 accredited institutions. Many training institutions are accredited by both.

will include regular reports from an MIS established by NITA, periodic beneficiary assessments, and tracer studies conducted six months after the completion of all training and internship cycles.

15. **PIU in NITA.** NITA has established a preparation team with some staff members expected to become part of the NITA PIU. The PIU will be situated in NITA's Department of Industrial Training reporting to the director of this unit. The unit will be strengthened through training activities and the employment of specialized consultants. It will prepare a capacity-building plan for this, to be financed by the Project. NITA will consider engaging some of the KYEP PIU staff for its PIU to take advantage of their experience as the KYEP project comes to a close in February 2016.

16. **Lessons learned and reflected in project design.** The lessons learned from the earlier KYEP pilot, offering training and work experience, include the following:[56]

(a) Training is more relevant when employers are engaged in defining the competencies taught by schools and training institutions.

(b) The teaching of life skills is popular with employers and youths, but the payoff is higher where these skills are combined with other skills training and work experience.

(c) The program impact can be increased by connecting those who want to start their own business with financing and BDS.

(d) A public-private partnership for delivery of training and work experience for youths has benefits for both parties in the form of improved labor supply and conditions for growth.

(e) The benefits of six months of training and work experience in additional employment and earnings are sufficient to yield a positive return to the investment.

(f) Program retention rates can be increased by ensuring that all training and the internship experience are delivered in a seamless fashion without delays between activities.

(g) Using taxpayer money to finance the full cost of a training and work experience program is justified if it properly targets the most vulnerable youth.

17. **Potential risks and mitigation measures.** The movement from the small pilot KYEP with three urban areas to a national program covering urban and rural areas and reaching 47 counties will introduce added risks for program management and pressure on capacity for the delivery of training services. The Project may also face difficulties in mobilizing sufficient numbers of employers willing to offer youth internships and work experience. This may be particularly true in rural areas for the formal sector. From experience with the KYEP, the retention of young women,

[56] Lessons are taken from Honorati, Maddalena. Forthcoming. *The Impact of Private Internships and Training on Urban Youth in Kenya.* World Bank Policy Research Working Paper Series.

because of their household responsibilities, may be difficult along with the challenge of opening internships in non-traditional trades for women.

18. The phasing in of the component during the first year will provide the MPYG and NITA sufficient time for testing a decentralized management structure and building the necessary capacity for contracting and delivery of project services. For outreach to the private sector, NITA will work with the Federation of Kenya Employers, whose representatives sit on its Board, to build employer support for internships. It will also work with the Kenya Private Sector Alliance and expand on the base of about 3,000 employers who participated with internships in the pilot KYEP. It will allow financing for the component to be demand-driven between formal and informal sectors with rural areas expected to offer more informal sector internships. NITA will develop a gender strategy, including financial incentives in results-based contracts, for the completion of internships by young women and their participation in non-traditional trades.

Component 2: Support for Job Creation (US$41.5 million)

19. While skills and work experience are important, expanding opportunities for youth also requires interventions that expand job creation and increase earnings for youth interested in self-employment or wage employment, whether in the formal or informal sectors. This component will address key constraints and market failures that limit the demand for youth employment and hamper youth productivity, once youth are in employment. Specifically, this component will finance activities addressing the following constraints: (a) lack of start-up financing for young entrepreneurs; (b) lack of managerial and entrepreneurial skills among youth; (c) lack of relevant exposure and networks for starting and growing a business among youth; (d) limited information and capacity to take advantage of government programs, in particular AGPO;[57] and (e) income generation and productivity constraints faced by the hard-to-serve youth subgroups and limitations in knowledge and experience in effectively addressing these at scale, in the local context.

20. This component is structured into two subcomponents, jointly implemented by the MPYG and the MSEA: (a) support for the self-employed; and (b) catalytic interventions for job creation.

Subcomponent 2.1: Support for the self-employed (US$22 million of which US$21.7 million for MSEA and US$0.3 million for MPYG)

21. This subcomponent supports employment and earnings generation among urban and rural youth, self-employed or aspiring for self-employment, by financing (a) business start-up grants and (b) relevant BDS.

22. **Business start-up grant.** This grant will provide up to US$400 in seed funding for youth-led start-ups to invest in tools and inputs.[58] To increase the chances that the grants will go to individuals who are interested in growing their businesses and to reduce moral hazard risks,

[57] Under its program for AGPO, the Government has set aside 30 percent of its procurement for enterprises owned by youths, women, and persons with disabilities as a means to encourage these entrepreneurs.

[58] There are a series of public and private sources of financing for self-employed and new businesses in Kenya, but most are either small with regard to beneficiaries, provide much larger grants or soft loans, or reach better-off and educated youth. Probably, the schemes most similar to what is proposed here are the YEDF, the Women's Enterprise Fund, and the UWEZO Fund, all public initiatives that provide low-interest rate loans to youth, among other groups. Increasing access to these sources is also part of this project's activities, under Component 4.

eligibility for the grant (and the BDS) will depend—in addition to the general eligibility criteria of the overall project and expressing interest in business—on attaining a minimum score on an entrepreneurship aptitude test (including, for example, risk attitudes, personality, socio-emotional skills, information on past business or work experience, and description of business idea).[59]

23. This activity aims to support a total of at least 30,000 beneficiaries over the project duration. Half of the beneficiaries of the activity will be a subset of youth who complete training under Component 1 (either internships in the formal sector or apprenticeships in the informal sector) and express an interest in becoming self-employed. The other half of the beneficiaries will be youth from the general pool of applicants for the overall project, who have not participated in Component 1. The Project will aim to achieve at least 50 percent women among the beneficiaries, above and beyond the one-third of each gender specified in the constitution of Kenya. Outreach activities will specifically aim to include VMGs, and after geographic phasing in is decided, the operations manual will set some minimum targets for coverage of these populations.

24. The operations manual will clarify upfront the selection criteria (including those related to an entrepreneurship aptitude test), and information on selected candidates will be widely disclosed to minimize abuse. Start-up grants will be disbursed in two tranches. MSEA shall disburse the first tranche upon completion of an entrepreneurship session and the second upon submission of a simplified entrepreneurship plan. MSEA will hold one-day orientation sessions with grantees before it makes disbursements. These sessions will be used to develop simple entrepreneurship plans outlining the investments and expenditures to be financed by the grant. Given the spread of mobile money in Kenya, especially among youth, MSEA will use existing mobile payment services for the disbursements of the start-up grants and will cover the corresponding fees. MSEA will monitor and evaluate, through an MIS and beneficiary assessments, progress under this activity and the satisfaction of beneficiaries. The MPYG will follow-up on beneficiaries as well through visits and focus group discussions at the local level. Under Component 4, the MPYG will also manage the rigorous impact evaluation of both grants and BDS.

25. **BDS.** This activity supports access to up to US$400 worth of BDS for the young self-employed and entrepreneurs.[60] MSEA will work with entrepreneurs and service providers in determining services needed, and will write and manage performance-based training contracts with specific providers (after competitive selection). These services, which will be designed by a specialized consultant under the supervision of MSEA, will encompass a basic package of business and entrepreneurship training (for example, domestication of Start and Improve Your Business (SIYB) program from the International Labour Organization [ILO] or Business Edge from the International Finance Corporation [IFC]) as well as mentoring, specific consulting, and advisory services for marketing or technical issues.[61] In rural areas, additional services may include agriculture extension services and advice on micro-franchising. Direct beneficiaries will be at least 8,000 entrepreneurs/self-employed. Half of the beneficiaries will be a subset of the start-up grantees and the other half will be other vulnerable youth entrepreneurs/self-employed who apply

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[59] This entrepreneurship aptitude test will be evaluated during the phasing in of this subcomponent.
[60] The value of US$400 was estimated from the unit cost of ILO’s Start and Improve your Business Program which provides a similar bundle of services in a number of countries.
[61] The specific set of BDS will be identified before implementation and through extensive consultations and will be based on the needs of the target population and services feasible to deliver in Kenya.

directly for BDS. The Project will aim to achieve 40 percent of either gender as beneficiaries, above and beyond the one-third of each gender specified in the constitution of Kenya.

26. Training will be accompanied by transport stipends. Contracts with providers will include provisions for the delivery of services, including types of services to be offered, prices, place and duration of training, qualification of trainers, conditions for payment, transport stipends, and reporting. The Project will aim to provide flexibility of schedules in BDS training and include provisions for childcare services (either through higher stipends for women with children or through direct contracts with service providers).

27. MSEA will monitor through an MIS, beneficiary assessments and visits to providers, the performance of service providers, progress under this activity and the satisfaction of beneficiaries. MSEA will conduct at least two beneficiary assessments through an independent third party to seek evaluations from trainees and providers.[62]The MPYG will follow-up on beneficiaries as well through visits and focus group discussions at the local level.

28. **Intake of youth for Subcomponent 2.1.** The MPYG will organize the intake of youth for this component. For youth interested in participating in subcomponent 2.1 after completing activities under Component 1, the MPYG—in coordination with NITA— will refer them to MSEA. For youth that are eligible to participate directly in subcomponent 2.1, without having completed activities in Component 1, MPYG will directly refer them to MSEA after the general intake process is completed and overall eligibility is determined. In both cases, after the eligibility of interested youth is determined, and youth are referred to MSEA, MSEA will apply an entrepreneurship aptitude test to identify entrepreneurs with most potential.

29. **Phasing-in Subcomponent 2.1.** Start-up grants BDS activities will be phased in geographically in selected urban and rural counties to ensure the availability of these services for youth completing Component 1 activities, and to allow for learning and adaptation of the delivery mechanisms and content of the BDS.

30. To allow for learning and adaptation, there will be a rigorous impact evaluation (under Component 4) of the activities under this subcomponent. The results of this evaluation will be used to assess the cost-effectiveness of this activity, adapt the design, and inform the development of alternatives, including low or interest-free loans for grants.

31. **Activities to be financed under Subcomponent 2.1.** In order to carry out the activities described above, the Project, under this subcomponent, will finance:

(a) Grants to young entrepreneurs to be disbursed and managed by MSEA;

(b) Delivery of BDS to young entrepreneurs to be disbursed and managed by MSEA;

(c) MSEA's operational costs for designing and managing start-up grants and BDS;

[62] To guarantee quality, a simple feedback form will be developed that can be filled in physically or through short message service to obtain real time feedbacks of customers' satisfaction.

(d) MSEA's costs for monitoring and evaluating both grants and BDS provision;

(e) MPYG's costs for follow-up of grants and BDS beneficiaries;

(f) A contingency to be managed by MSEA in order to cover unexpected operational costs or award additional business start-up grants.

32. **Lessons learned and reflected in the project design.** The design of this subcomponent reflects lessons learned from academic and other analytical work, ongoing Bank operations, and promising experiences in Kenya and abroad. In particular, the following lessons are adapted:

(a) The international experience on entrepreneurship programs shows that grants often have the largest employment/earnings impact when compared to other interventions (Blattman, Fiala, and Martinez 2013;[63] McKenzie and Woodruff 2014[64]). In addition, bulk cash grants are easier to administer than business services and many of the other alternative interventions.

(b) The largest impact of entrepreneurship interventions is likely to be on beneficiaries who are the most constrained (Blattman, Fiala, and Martinez 2013). For example, providing grants is likely to make a bigger difference (for example, in the likelihood of starting a business) for someone who otherwise has no access to finance.

(c) Management skills appear to be an important constraint, even for micro and small firms. McKenzie and Woodruff (2015[65]) show in a wide range of developing countries, including Kenya, that differences in business practices in micro and small firms are responsible for much of the difference in performance and that better business practices do predict higher survival rates and faster sales growth.

(d) Business services can only be scaled up in phases. The needs of entrepreneurs and businesses change with the life cycle of their firms. This is reflected, for example, in the ILO's entrepreneurship programs that go from the generation of ideas for aspiring entrepreneurs to the Start and Improve your Business Program for early entrepreneurs to Expand Your Business for more mature entrepreneurs.

(e) Although the evidence base for entrepreneurship programs is growing, there is still a lack of knowledge on what combination of services is most effective. As a result, the proposed activities, which for some entrepreneurs will focus on grants, for others will combine grants and advisory services, and for others just services, will be rigorously evaluated through an RCT (see Component 4).

33. **Potential risks and mitigation measures.** There are a number of potential risks involved in the activities proposed under this subcomponent that this project will seek to mitigate through

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[63] Blattman, C., N Fiala, and S Martinez. 2014. Generating Skilled Self-Employment in Developing Countries: Experimental Evidence from Uganda. Quarterly Journal of Economics. 129(2).

[64] Mckenzie, David, and Woodruff, Chris. 2014. "What are we learning from business training evaluations around the developing world?", *World Bank Research Observer*, 29(1): 48-82, *World Bank, Washington, DC*

[65] Mckenzie, David, and Woodruff, Chris. 2015. "Business Practices in Small Firms in Developing Countries", *World Bank Policy Research Working Paper no. 7405, World Bank, Washington, DC.*

specific design choices and rigorous M&E. For subcomponent 2.1, the main risk is a lack of transparency in the selection of potential beneficiaries. This risk will be managed by ensuring wide outreach, a strong MIS system, a mechanism for addressing grievances and complaints, and consultations with youth who end up as beneficiaries as well as others who do not albeit being eligible. There is also a risk that grant resources are not put to productive use. MSEA will provide orientation sessions and will provide support for entrepreneurs benefitting from the start-up grants.

Subcomponent 2.2: Catalytic interventions for job creation (US$18.2 million of which US$3.5 million for MSEA and US$16 million for MPYG)

34. This subcomponent supports innovative interventions to create jobs for targeted youths by financing (a) a business plan competition for high-potential job creators; and (b) an innovation challenge to identify high-impact interventions for creating economic opportunities for the hard-to-serve and fund them to scale.

35. **Business plan competition**. The business plan competition will elicit business ideas from high-potential young entrepreneurs up to the age of 35 years who are interested in expanding their companies or starting up new ventures with the potential to create jobs for the targeted youth. It is important to note that entrepreneurs benefitting from awards under this activity can be aged up to 35 years (compared to the age limit of 29 for the overall project). This is in response to the evidence from Kenya and elsewhere that suggests that having the experience, capital, and the social and professional networks that come with age is very important for the success of entrepreneurs. While the grants could be received by older youths, however, the objective of this activity remains to create jobs and increase earnings among the main beneficiaries (those aged 18–29 years old).

36. Following the successful experience in Nigeria with a similar program, as well as World Bank experience with business plans competitions, the Government will recruit a professional consulting company/consortium with experience in managing business plan competitions to implement this activity.[66] The company will be in charge of marketing and outreach; the application process, screening, training, and evaluation; and identification of high potential proposals to be awarded.

37. MSEA will competitively select and manage the contract for the professional management company of international reputation to manage the business plan competition. In addition, the subcomponent will support linkages and access to networks, mentoring, and business support services that can be purchased using the grant prize. Approximately 300 of the qualifying firms applying to the business competition will also receive intensive support and mentoring for accessing AGPO.[67] Through three competitive rounds of selection by independent expert judges, up to 500 business plans will be selected on the basis of their economic viability and the potential to create jobs for vulnerable youth.

38. The target will be to receive 3,000–5,000 online applications, out of which up to 1,000–-1,500 will be selected to participate in a week-long (intensive) training to develop the ideas into a

[66] In the case of the Nigeria business plan competition, ‘YouWin!’, the process was managed by a consortium composed of the Enterprise Development Centre Lagos , Price Waterhouse Coopers, and Plymouth Business School.
[67] For accessing AGPO, enterprises need to be at least 70 percent owned by youth, women, and people with disabilities.

business plan and then will be asked to submit the plan to be evaluated by two judges through a blind review.[68] Up to 500 business plans selected by a panel of judges set by the professional management company on the basis of their economic viability and the potential to create jobs for vulnerable youth will be awarded a prize.[69] Among winners, half will be randomly selected to receive an award of US$18,000 and the other half, US$36,000. Prizes will be disbursed in three tranches by the MPYG, after referral from the professional management company.

39. To maintain accountability and avoid fraud, the prize disbursement will be done in three tranches, the first one never above 30 percent the total award. Before receiving the first award, the managing firm will be responsible of verifying the legal status of the firm to be awarded, its overall financial situation and that it follows appropriate financial processes. The following two tranches will be conditional on appropriate verification by the managing firm that the firm remains in operation, and is advancing in its business plan. Given the innovative nature of this intervention, a rigorous impact evaluation will be carried out to evaluate the value for money with regard to job creation for the target group (see Component 4).

40. The rationale to select a business plan competition is driven by four main reasons. First, recent research points to the importance of young companies as a key driver of job creation both in developed countries as well as in developing ones. Second, in Kenya, these young companies tend to be limited in their growth potential, among other things, by lack of access to start-up and scale-up finance, especially for young entrepreneurs, which is exacerbated by the lack of track records and limited collateral. Third, the growth potential of many young entrepreneurs appears to be hampered by limited exposure to entrepreneurial networks and mentoring. Fourth, rigorous recent evidence from Nigeria shows that a similar intervention has had a substantial impact on job creation for youth, with a similar profile as those targeted by the Project (that is, low education and vulnerable employment conditions).[70] The business plan competition will be combined with support for accessing AGPO given its current underutilization.[71] During consultations for project preparation, youths identified two critical barriers to exploiting these opportunities. First, there is a lack of awareness among youth about the existence of these programs as well as limited understanding and knowledge about the eligibility criteria and the application process. Second, the processes to qualify for these programs (including the requirement to formally register a business) are too cumbersome to be accessible to many youth.[72] Finally, recent evidence from Brazil

[68] Blind review means that the judges will not know the identity of the firm behind the business plan. In addition, the judges will review the proposals independently.

[69] In addition, for verification purposes, up to 20 percent of the awarded entrepreneurs will be invited to pitch their idea in person.

[70] McKenzie, David. 2015. *Identifying and spurring high-growth entrepreneurship: experimental evidence from a business plan competition.* Policy Research Working Paper Series 7391. The World Bank.

[71] For example, the AGPO initiative requires that 30 percent of government procurement has to be allocated to enterprises owned by youth, women, or disabled persons. It is estimated that the 30 percent share of all the Government procurement amounts to approximately KES 200 billion but only KES 16 billion are currently procured through companies owned by youth, women, or disabled persons. Furthermore, of the approximately 60,000 business currently registered with AGPO, only 10,000 have been awarded government tenders so far.

[72] Specifically, youth face difficulties both in registering for the program and in bidding for government tenders, once registered.

suggests that accessing government procurement has the potential to generate large and sustained impact with regard to jobs creation for the benefited firms.[73]

41. **Innovation challenge for the hard-to-serve.** This activity, to be fully implemented by the MPYG, is exploratory in nature and aims to catalyse interventions to expand economic opportunities to youth between the ages of 18 to 29 years who are hard-to-serve.[74] This will be done through an innovation challenge open to NGOs, private sector, community-based organizations, and so on, that serve the targeted youth.

42. For this Project, the hard-to-serve are subgroups within the targeted youth of the overall Project who are unlikely to directly benefit from the other activities under Component 2. This is due to unsurmountable obstacles inherent in their context and living conditions. These subgroups are to be further defined before implementation. They are considered to include youth who are the most vulnerable.[75] These groups can include, for example, youth who live in one of the 14 marginalized counties or are from marginalized communities of Kenya,[76] persons with disabilities, or those affected by conflict. These youth also require specifically targeted and customized interventions to access economic opportunities.

43. As with the business competition and following best international practices, the Government will recruit an independent firm or NGO with experience in managing innovation challenges or similar programs to implement this activity. The firm will call for proposals on ideas to create opportunities for the targeted youth, and, through a panel of independent judges, will select the winners based on their track record, and the economic viability, merit, sustainability and potential to improve earnings and employability of targeted youth. The firm will be in charge of marketing and outreach; the application process, screening, training, and evaluation; and identification of high-potential proposals to be awarded. The firm will set up a committee in charge of screening and making award recommendations.

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[73] Ferraz, Claudio, Frederico Finan, and Dimitri Szerman. 2015. "Procuring Firm Growth: The Effects of Government Purchases on Firm Dynamics" NBER Working Papers 21219, National Bureau of Economic Research Inc.

[74] The MPYG will define the hard-to-serve groups to focus on as part of the definition of the challenge.

[75] Based on the World Bank's Orphans and Vulnerable Children's Toolkit, vulnerability is defined as "a high probability of a negative outcome" or an expected welfare loss above a socially accepted norm, which results from risky/uncertain events and the lack of appropriate risk management instruments. This is consistent with the definition used in the World Bank's social protection framework for social risk management (see Robert Holzmann and Steen Jorgemsen.2000. "Social Risk Management: A Conceptual Framework for Social Protection and Beyond", Social Protection Discussion Paper no. 0006, World Bank, Washington DC.). Vulnerability is shaped by risk and stress characteristics such as magnitude, frequency, duration, and scope, to which individuals, households, and communities are exposed. http://imagebank.worldbank.org/servlet/WDSContentServer/IW3P/IB/2000/12/15/000094946_00111805312190/Rendered/PDF/multi_page.pdf

[76] The interpretation clause in the constitution defines 'marginalized community' to mean a traditional community that, out of a need or desire to preserve its unique culture and identity from assimilation, has remained outside the integrated social economic life of Kenya as a whole; or an indigenous community that has retained and maintained a traditional lifestyle and livelihood based on a hunter or gatherer economy; or pastoral persons and communities, whether they are nomadic or a settled community, that because of their relative geographic isolation have experienced only marginal participation in the integrated social and economic life of Kenya as a whole. http://www.wipo.int/wipolex/en/text.jsp?file_id=207673#LinkTarget_21360

44. The innovation challenge will start by clearly identifying the problem that needs to be addressed—lack of sustainable employment and earning opportunities, as well as low productivity—and the specific groups to be targeted. Proposals will be requested for ideas on employment and earning-generation ideas for these populations, with the goal of reaching at least 100 idea submissions. Training programs that help women access new markets for selling products (for example, M-KOPA Solar who trained women to sell solar panels), the development of new products or services can help earn a living (for example, EconFinder in Kisumu and Lake Victoria area which organized local youth to improve their earnings from tourist boat trips on the lake), are examples of the types of interventions that the innovation challenge would seek to support. Applicants will initially submit their ideas and the most promising 30 percent will be selected to submit full proposals and show proof of concept. Small grants- to be determined during the design of the challenge, will be awarded to the selected organizations. After an evaluation of the full proposals and proofs of concept, between three to five awardees will be selected. Interventions will be selected based on their ability to address a specific population need, their expected impact on the target group, sustainability, cost-effectiveness, and scalability.

45. Prizes for final winning interventions may be of different value (capped at US$500,000)—to be specified during the design of the challenge and determined, by a panel of independent expert judges, based on the maturity and potential impact of the intervention. Final prizes will be disbursed in three tranches, to be further defined during the design of the challenge. Before receiving the first award, the managing firm will be responsible of verifying the legal status of the organization to be awarded, its overall financial situation and that it follows appropriate financial processes. The following two tranches will be conditional on appropriate verification by the managing firm that the organization remains in operation, and is advancing in the implementation of its proposal. An outreach and communications campaign to raise public awareness of the challenge, attract idea submissions, and disseminate results, will be conducted.

46. This subcomponent, because it is exploratory in nature, will be limited in size to test the innovation challenge instrument before exploring the possibility of scaling up. Prizes will be released in phases to first test and then help scale-up interventions, contingent on results. The winning interventions will be supported with guidance and mentorship on how to move toward scale. The activity will also track the impact of the selected interventions on employment, earnings, quality of life, and access to services among the target subgroups. The challenge will aim to reach at least 3000 beneficiaries within these subgroups, over two years. The committee will also monitor the progress of the innovation challenge, and propose modifications to its design to the MPYG as needed.

47. **Activities to be financed under Subcomponent 2.2.** In order to carry out the activities described above, the Project, under this subcomponent, will finance:

(a) The management of the business plan competition (including the provision of BDS for accessing AGPO and for the development of business plans) by an professional management company, whose contract is to be managed by MSEA; as well as MSEA’s associated operational costs, including PIU costs, consultancies for designing ToRs, equipment, and capacity building;

(b) Grant awards, disbursement costs, selected monitoring of awardees, and public ceremonies associated with the business plan competition, and carried out by MPYG;

(c) The design of the innovation challenge by an expert consultant under the supervision of the MPYG; the management of the challenge, by an independent management firm, whose contract is to be managed by the MPYG; and the MPYG's operational costs associated with the design, management and monitoring of the innovation challenge;

(d) Grant awards for winners of the innovation challenge, to be disbursed by MPYG.

48. **Lessons learned and reflected in the project design.** The design of this subcomponent reflects lessons learned from previous Bank operations, academic research as well as lessons learned during project preparation.

49. For the business plan competition, the key lessons learned are the following:

(a) For the successful implementation of a business plan competition, it is of crucial importance to set up a rigorous selection process implemented by professional management companies. In addition, to maximize the impact of the business plan competition on job creation, it is important to cast a wide net to capture relevant and high-impact ideas and to not discriminate between start-ups and scale-ups as the job creation impact for these two types of companies appear similar.[77]

(b) Delivering the grant from the business plan competition in tranches helps ensuring accountability and minimizes risks of misuse of funds.

(c) Based on data from Nigeria and Kenya, it is crucially important to target youth up to 35 years of age as job creators because the highest likelihood to be an entrepreneur occurs between the ages of 29 and 35 years and these young entrepreneurs are especially likely to hire youth under 29 years of age.

(d) Providing access to training for business plan and pitch development can improve the quality of the business plans and their success rate.

50. Among programs attempting to serve hard-to-reach populations that offer lessons for the innovation challenge are the Open IDEO,[78] the Human Development Innovation Fund[79] financed by the United Kingdom International Development Funding, the Rockefeller Foundation Centennial Innovation Challenge,[80] and the Index-Based Livestock Insurance Innovation Challenge.[81] The Open Ideo fund invested in solutions to improve the quality, value-for-money, and sustainability of basic services in education, health, water, sanitation, and hygiene. The Rockefeller Foundation

[77] In Nigeria, the start-ups experienced an increase in the probability of having a company with more than 10 employees after 3 years by 23 percentage points while the impact for scale-ups was 21 percentage points.
[78] Open IDEO provides an open innovation platform to solve social issues through a challenge, a three- to five-month collaborative process. https://challenges.openideo.com/
[79] https://www.gov.uk/international-development-funding/human-development-innovation-fund-of-tanzania
[80] https://www.rockefellerfoundation.org/about-us/news-media/rockefeller-foundationlaunches-2013/
[81] https://ibliinnovationschallenge.wordpress.com/

Centennial Innovation Challenge focused on finding approaches that could transform the lives of billions working in informal economies across the globe. The Index-Based Livestock Insurance Innovation Challenge sought to surface innovative approaches to support pastoralists in protecting their livelihoods amid climate change through insurance mechanisms. Among the lessons drawn from these initiatives are the following:

(a) Existing programs to reach these subgroups offer an opportunity for further expansion. Current interventions aimed to support these subcategories of youth in Kenya focus on providing them with basic social safety nets and public services and, more recently, access to economic opportunities. The latter emerged in Kenya over the past five years, primarily supported by donors and NGOs, and includes the BOMA Project,[82] Kiva Zip,[83] or the Economic Empowerment of Refugee Girls and Women in Nairobi,[84] which was born out of an innovation challenge.[85] As these interventions are still emerging, the Project can expand on them and spur additional similar initiatives to increase development impact.

(b) Research findings and emerging lessons suggest that such innovation challenges and prizes serve as effective mechanisms to elicit creative and cost-effective solutions to entrenched development problems and to reach vulnerable youth. The prize model works in the development space by providing incentives and publicity in areas of market or system failure to an array of key actors, to elicit creative and effective solutions to problems and challenges. The role of challenges and prizes is changing: nearly 80 percent of those announced since 1991 have been designed to provide incentives for specific innovations rather than to reward excellence in general. Prizes have proven particularly effective at producing solutions to a clearly defined problem, raising public awareness, and crowding in private capital.[86]

(c) According to research commissioned by the United Kingdom Department for International Development, the Shell Springboard Prize, for example, achieves a return on investment of between 200 and 900 percent, with the return measured as the total spending from competitors and investment representing the total cost of running the competition. Prizes also are usually an effective use of resources because of low

[82] BOMA implements a high-impact poverty graduation program for very poor women in the drought-threatened arid lands of Kenya. The program helps them to start small businesses in their rural communities, so they can pay for food, school fees, and medical care for their families. http://bomaproject.org
[83] Kiva Zip is a micro-lending program that facilitates loans to refugees in Nairobi. https://zip.kiva.org/
[84] The project aims to provide refugee women with economic support and stability through loans, financial literacy, and vocational training, as well as with case management services to ensure that their basic needs are met. https://challenges.openideo.com/challenge/refugee-education/ideas/economically-empowering-refugee-women-in-nairobi-kenya
[85] Ideo is an international design and consulting firm that applies open innovation methodologies for corporates as well as for social impact through its for-profit and non-profit arms. As part of its initiative to further social impact, it runs an open innovation platform called Open Ideo, which hosts innovation challenges to solve critical problems in international development. The innovation challenge helped to surface this particular initiative. https://challenges.openideo.com/
[86] And the winner is, McKinsey & Co., 2009

monitoring costs of fund disbursement, a relatively simple application process (compared to grant funding), quicker feedback cycles, and external peer review.[87]

(d) A basic catalogue of innovation challenges shows that the size of the prize can widely differ from US$5000 to US$15 million based on the intended outcome and maturity of supported interventions. Prizes that aim to support piloting are generally in the range of US$100,000 to US$300,000, whereas support for scaling can be up to several million dollars. They are also contingent on the winners' results.

51. **Potential risks and mitigation measures.** There are a number of risks involved in the activities proposed under this subcomponent that this Project will seek to mitigate through specific design choices and rigorous M&E. In Subcomponent 2.2, the main risk of the business competition is a lack of transparency in the overall process. This risk will be mitigated by having a transparent process for the selection of the management firm, and ensuring this firm is qualified, independent, and of renowned reputation. There is also a project risk that resources from the business plan competition may be appropriated fraudulently or misused upon successfully receiving the grant. Contestants may request specialized consultants to develop their application and upon receiving the resources may not use them for the intended purposes. This will be mitigated by checking on financial and professional track records upon eligibility for awards, releasing awards in tranches, and introducing a requirement that up to 20 percent of the applicants will have to pitch in person their business proposal and the Project will disburse the resources only upon verification of achievement of the established milestones. A related risk is that the recipients of the business plan competition prizes may not hire youth from the project target group. To minimize this risk, the Project will include the potential of the business idea to create jobs for this target group as a critical criterion for selection. There are also risks related to the sustainability of the jobs created. To minimize this risk the Project will conduct a second wave of a rigorous impact evaluation at least 12 months after the release of the grant and facilitate linkages with the investment and business ecosystem. Finally, beneficiaries of the competition may lack the capacity to deliver on their promises. Advisory services helping youth prepare bids that match their capacity will be employed during the competition.

52. With regard to the innovation challenge, due to the exploratory nature of the activity, the main risk is that the interventions proposed may not lead to scalable or sustainable solutions. The Project will mitigate this through a careful assessment of design options for the challenge, the target audience, and the critical challenges of the end beneficiaries to surface quality ideas. The subcomponent will also include scalability and sustainability in the selection criteria for the supported interventions and provide M&E mechanisms to assess and monitor the scalability and sustainability of the selected initiatives. For all activities, there will be a grievance redress system set in place.

Component 3: Improving Labor Market Information (US$13.5 million)

53. This component responds to the problem of obtaining timely information about labor demand and supply, as well as career prospects in Kenya. LMI helps stakeholders and actors in the labor market decide and formulate policies. Currently available LMI is often scattered over

[87] Everett, B. 2011. *Evidence Review: Environmental Innovation Prizes for Development.*

different locations and is hard to find. It is infrequently interpreted and analysed for decision making and policy formulation. The lack of easily available information about job profiles, the employment outlook, and career prospects makes it difficult for job seekers to plan careers and search for suitable jobs. Similarly, it is difficult for schools and training institutions to identify competencies sought by employers and for individuals and families to get a clear idea of which studies and occupations are most rewarded in Kenya.

54. In response, this component will strengthen Kenya's LMIS with its survey and administrative data sources by financing the following activities: (a) identification of LMIS users and their information needs; (b) production of LMIS content; and (c) dissemination of LMI content and creation of awareness. It will be implemented by the MLEAA through its DNHRP&D.

(a) **Identification of LMIS users and specification of LMI needs.** The Project will finance consultancies to carry out the identification and specification of user needs and workshops to validate the content definition of the LMIS as follows:

   (i) **Identification of priority LMIS users and the LMI needs of these users.** As a result, a complete list of users and labor market topics for the LMIS to cover will be produced. This activity will identify the type of indicators, analyses, and reports needed, including details about how to produce these indicators and reports (data dictionary). The data dictionary will consist of two parts. One part will list the labor market indicators and the other part will list the analytical reports to be produced by the LMIS. For each indicator, an 'indicator specification sheet' will be produced describing the type, source of data, formula for calculation, frequency, and its use. For each type of report, details about the nature and significance, content, data required, and frequency will be described;

   (ii) **Assess the sufficiency of available data to meet user needs, identify data gaps, and develop strategies to address them.** Consultancies will assess existing labor market data and its quality and ease of access, identify data gaps and interoperability requirements for automatic data access or updating, and propose a strategy and action plan with costs to address gaps; and

   (iii) **Awareness creation.** The assessment of user information needs requires stakeholders and users to cooperate with one another and become aware of the benefits the LMIS provides. They can benefit from participating constructively together in interviews, surveys, and workshops. An awareness campaign before and during the assessment of users' information needs will promote the LMIS and advertise the benefits for its users, for the labor market, and for the national economy in general.

(b) **Production of LMIS content.** This activity will support the development of content for the LMIS with the content including labor market statistics and indicators, analysis, reports, occupational outlook surveys, carrier navigator tools, and a skills inventory, among others. The following activities will be financed:

(i) **Capacity building**. The Project will finance capacity strengthening for the LMIS unit in the DNHRP&D in the MLEAA through, among others:

- short-term and longer-term training in local and international settings to equip staff with skills ranging from basic data processing to high-level analytical and report writing skills as well as management of data and administration of the LMIS data warehouse and managing LMIS content on the web portal;

- exchange programs with LMIS offices overseas to become familiar with international best practices in the production of labor market indicators, data analysis, and production and dissemination of analytical LMIS reports;

- the engagement (approximately 24 months) of a technical adviser to assist LMIS staff in their daily work and to conduct on-the-job training;

- study visits to gain familiarity with international best practices;

- developing of a MIS that allows the LMIS unit to manage and interrogate the data warehouse, to produce LMIS content and to upload LMIS content to the web portal

- equipping the LMIS unit with ICT equipment and statistical software for the analysis of data;

(ii) **Data gathering.** The Project will finance interventions for the collection of primary and secondary data from different sources,[88] including among others:

- conducting establishment surveys to obtain data on employment, skills supply, and occupations in high demand;

- conducting manpower surveys to obtain data on the supply and demand of skills;

- conducting informal sector surveys to obtain data about the profile of skills and occupations prevalent in the informal sector;

- development of data sharing agreements with providers of existing primary data;

[88] The MLEAA is expected to finance and work with national survey organizations, including the Kenya National Bureau of Statistics, in collecting and processing survey data for analysis and reporting.

- assessment of the existing MIS of providers of LMI data[89] to determine possible improvements toward interoperability for transmitting appropriate data to the LMIS;

- MIS enhancement for providers of administrative data (business licensing offices, TVET providers, and so on) so that relevant data can electronically be exported into a universal data format (for example, Extensible Markup Language) and then imported into the LMIS database, irrespective of the platform on which it is built; and

- ICT equipment for the LMIS digital data warehouse and content management software. In addition, the Project will support the MLEAA in adapting data collection and data processing procedures in the LMIS. The procedures used currently are outdated and based on a manual last revised in July 1987. This will require the services of a national consultant who will be responsible for documenting standard procedures for data collection and coordination with data providers.

(iii) **Revision of standard classifications for occupations and industries.** Data from different sources can only be reliably aggregated when the data providers use the same terminology and classification standards for occupations and industries and when these are up-to-date and reflective of the socioeconomic context. The Project will support the revision and alignment of KNOCS 2000 to International Standard Classification of Occupations 2008 and the localization of the industrial classification to be in line with the International Standard Industrial Classification (ISIC Rev 4). This activity involves collecting the tasks and responsibilities of current jobs in all industry sectors. This will be done with employers, who will need to analyze the job profiles and map each job to the revised KNOCS and to the localized ISIC. The Project will support consultations with sector working groups through facilitated workshops. Expediency of the work in these groups will be achieved through extensive assistance by consultants such as the ILO and by facilitators with expertise in the field of occupational and industrial classifications.

(iv) **Data analysis.** Data analysis capacity in the LMIS unit will be enhanced by the engagement of a labor market economist to provide training and ensure that all analyses meet highest quality standards. In addition, consultants will be engaged to conduct ultra-specialized analysis.

(v) **Validation of LMIS content.** Stakeholder input will be sought in the production of LMIS reports and indicators. Stakeholders, including the Labor Market Statistics Committee, will be engaged to provide support and input on defining the scope of work, discussing preliminary results, and validating the results. This

[89] Under consideration are: MLEAA Departments: National Social Security Fund (NSSF), Labor Department, Directorate of Occupational Safety and Health Services (DOSHS); National Employment Bureau (NEB); MoEST; TVET Authority; and Commission for University Education.

stakeholder engagement should ensure that LMIS content responds to users' needs and is presented in an easily understandable format.

(c) **Dissemination of LMIS content and creation of awareness.** The reports and indicators produced and validated will need to be distributed to primary LMIS users and to other stakeholders and the general public. Through dissemination activities, the public will be made aware of the content of reports and interpretation of indicators to better understand their significance and promote their use. This subcomponent will support the following:

(i) **Development and implementation of a communications strategy.** The development and implementation of a communications strategy for the dissemination of LMI will ensure that stakeholders and actors in the labor market become aware that LMI reports are available and understand the significance and benefits of these reports. The communications strategy will outline methodologies of publicizing LMI as well as measuring customer satisfaction. The communications strategy will not only explain and promote the use of labor market reports and indicators, it will also promote the LMIS unit, its purpose and mission. At the time of launching Component 3, the target of the communications strategy will be employers, to engage their interest in and raise their awareness of KNOCS. The communication strategy will further aim to motivate employers to cooperate by providing information about job profiles with required details, cooperating in the revision of KNOCS and localization of ISIC and participating in other issues where their input is required.

(ii) **Dissemination of LMIS content.** The dissemination of analyses, reports, and indicators will be in printed and digital formats, including through a web portal, for various different types of LMIS users. The Project will finance the following activities:

- Stakeholder awareness and training workshops to present and explain major reports 'packaging' LMIS content according to the requirements of specific user types and annotating the reports and indicators for their correct understanding of the publication;

- Development of a career navigator for job seekers or employees who want to further their careers or change careers with information about jobs and job profiles, educational and vocational requirements for the job, wages, and practical advice for a job search;

- Training of employment services officers and operating costs to assist disadvantaged users in remote areas or without access to internet sources and the LMIS; and

- Organization of annual LMI conferences to present and discuss the status of the labor market, current issues, prospects, and trends.

55. **Lessons learned and reflected in project design.** The lack of relevant LMI, including the earnings of different education levels and occupations, has acted as a constraint to labor market choices and higher earnings for students and workers in low- and middle-income countries such as Kenya. In Kenya, for example, Hicks, Kremer, Mbiti and Miguel (2011)[90] show that more accurate information on returns to different occupations can lead to the choice of TVET fields of study offering higher earnings, especially among women[91]; and Lucas and Mbiti (2012)[92] show how appropriate information on quality and returns to education in different institutions can help students choose where to go for higher education. In addition, lack of LMI is also a constraint for policymakers because relevant data often does not exist, it is hard to find, or difficult to interpret.

56. Kenya, with technical assistance from the ILO, has reviewed its LMIS and developed a roadmap for improvements to the system. Lessons from this review included the following*:*

(a) Software development for LMIS should start only after the system has been completely designed and validated.

(b) Only those features should be included in an LMIS, for which continuous human and financial resources are available and budgeted.

(c) Capacity for LMIS cannot be created by a one-off training exercise but only by a well-planned longer-term development process.

57. **Potential risks and mitigation measures.** Capacity will be built in the MLEAA to implement the LMIS and manage labor market data and conduct policy analysis and research. The risk exists, however, that this capacity will be lost over time through staff turnover. This is a risk that all capacity-building initiatives face. To manage this risk, the MLEAA will ensure that staff selected for this training will not be reassigned during the project term and will be retained in place for a reasonable period of time for the Government to realize the benefits of the investment in training.

Component 4: Strengthening Youth Policy Development and Project Management (US$20 million)

58. This component will support capacity building for the MPYG (Directorate of Youth Affairs) and the management and coordination of the overall Project. It includes three subcomponents: (a) building youth employment policy development, and coordination capabilities; (b) M&E of youth employment policies and funds; and (c) project management and coordination. The overall implementation, coordination and progress reporting of the activities under this component will be assigned to a PCU to be embedded within the existing departmental structures of the Directorate of Youth Affairs.

[90] Hicks, J., M. Kremer, I. Mbiti, and E. Miguel. 2011. "Vocational Education in Kenya: Evidence from a Randomized Evaluation among Youth."

[91] Although, as an updated version of this paper shows, these gains can be short-lived, suggesting that it is important to address information constraints at the same time as other constraints (as this Project aims to do).

[92] Lucas, A., and I. Mbiti. 2012. "The Determinants and Consequences of School Choice Errors in Kenya". American Economic Review, Papers and Proceedings. 102(3): 283–288.

59. The development of youth policies and operationalizing these policies has encountered significant delays attributed to the cross-sectoral nature of the youth employment sector and the resulting fragmentation of policy formulation. Critical knowledge gaps affect policy development because of insufficient impact evaluation studies and robust data on this area and lack of experience on how to use these studies to develop effective policies and lobby for the adoption of programs to address these challenges.[93]

60. The experience in developing and coordinating youth policies contrasts with that of other sectors related to social protection and labor. For example, the (then) MLSSS, with its National Social Protection Secretariat, in 2012, successfully coordinated the formulation and implementation of a National Social Protection Policy largely addressing the policy and coordination requirements for the social assistance sector in Kenya. The policy was underpinned by robust sector analysis and intense consultative and validation processes.

61. To address these issues and equip the ministry for management of the Project, the component will include three subcomponents.

Subcomponent 4.1: Building youth employment policy development and coordination capabilities. (US$1.3 million)

62. This subcomponent will finance activities aimed at building the capacities of the MPYG, relevant ministries and agencies to review current policies and to conceptualize, develop, and coordinate new policies and strategies, including the proposed NYES[94] and the National Youth Internship Policy[95]. The Government's efforts to implement youth employment and empowerment strategies can be revealed through the National Youth Policy (2007), the National Youth Council Act (2009), the Sector Plan for Labor, Youth, and Human Resources Development (2008–2012), and the National Action Plan for Youth Employment (2007–2012). National youth policies on youth employment and empowerment are yet to realize meaningful impact. This is due to limited financial and human resources capacities as well as inadequate coordination of interventions among IAs. Therefore the proposed NYES seeks to propose a coordinated approach during the policy formulation and review process, implementation, and M&E.[96] The Project will support this approach mainly through enhancing the capacities of staff for policy development and coordination through training and related activities and acquiring new staff/consultants with relevant skills.

63. Under this component, the Project will finance, among others (a) training for staff to support the review and development of policies; (b) technical assistance to carry out an organizational and functional review of various agencies involved in the youth employment

[93] Franz, J. 2014. Youth Employment Initiatives in Kenya: Report of a Review commissioned by the World Bank and Kenya's Vision 2030.

[94] The NYES (2013–2017) aims to guide the implementation of youth empowerment activities by building a framework for development and empowerment of the youth at national and devolved levels. The NYES is one of the flagship projects of MTP II (2013–2017).

[95] The Directorate of Youth Affairs and other stakeholders in the sector are discussing the development of a National Internship Policy which would set out the principles and guidelines for individual attached and internships for young people in Kenya. A number of such policies exist but these are sector and institutional policies and there is lack of a coherent national policy on internships.

[96] Government of Kenya (2015), NYES (2015–2017), A flagship project of Vision 2030 MTP, 2013–2017

dialogue and develop a strategy and action plan for improved coordination; and (c) forums and workshops to support validation and consultation activities. Considering the myriad of institutions, agencies, and ministries involved in the youth employment dialogue, there will be a need to train key officers in communications, advocacy, and lobbying, equipping them to manage the consultations and validation processes that are key to building policy ownership.

64. The training will be provided through a combination of in-house training sessions and external training opportunities, such as at the Kenya School of Government (KSG) and the Kenya Institute of Policy Research and Analysis and Research and other reputable training providers in the areas of policy design, analysis and development, and strategic leadership; as well as communication, lobbying, and consensus building. Subcomponent 4.1 will specifically finance costs related to training fees, transport, conference venues, and facilities as well as development of training materials.

Subcomponent 4.2: Building capacity for monitoring and evaluation of youth employment policies and programs (US$2.75 million)

65. The continuous M&E of the implementation of policies and key programs will be a critical role of the MPYG and therefore there will be a need for strong M&E skills. This subcomponent will finance capacity-building activities for M&E in the MPYG, to improve its ability to plan for, evaluate, and disseminate the impacts and cost-effectiveness of youth employment policies and programs and generate a more solid evidence base for decision making. The planned activities aim to address the current lack of skills and resources necessary to effectively monitor and evaluate youth employment policies and programs and determine what is working and not working and scale up or revise their design or implementation, accordingly. This subcomponent will finance two types of activities:

(a) **Capacity building for monitoring and evaluation.** This subcomponent will finance training and capacity building on different methodologies for monitoring and evaluating policies and programs related to youth employment (including, for example, impact evaluations, process evaluations, beneficiary assessments, and satisfaction surveys), as well as the development of M&E plans for key policies and programs. In addition, it will finance the building of capacity in the Directorate of Youth Affairs to manage outside consultants conducting evaluations on behalf of the Directorate (for example, in developing ToRs, reviewing and providing feedback on draft reports, and contract management), as well as to disseminate and communicate results. Finally, it will finance capacity-building activities for staff in catalytic funds to improve their ability to monitor and evaluate their funding programs for youth.

(b) **Conducting evaluations of youth employment programs.** To start applying the skills learned in training, gain practical experience in program evaluation, and inform policy reforms, this subcomponent will finance different evaluations of youth employment programs. In particular, this component will finance a design and process evaluation of the main government financing programs for youth (UWEZO, Women's Enterprise Fund, and the YEDF) and a beneficiary satisfaction survey for the YEDF. These evaluations should help identify key bottlenecks and barriers to accessing and using these funds among youth. In addition, this subcomponent will finance rigorous impact evaluations of at least two of the key interventions on job creation under Component 2 of this project, namely (i) the targeted start-up grant and BDS; and (ii) the business plan competition for high-potential job creators.

66. Youth officers will receive training at the KSG/East and Southern Africa Management Institute (ESAMI) in M&E of youth projects. Officers will also receive training in contract management, given that the PCU will be expected to manage large contracts, including those related to impact evaluation and monitoring of the Project. Following the training of the selected officers, a consultancy will be brought on board to evaluate the effectiveness of the training provided to the officers with a view of further improving the training approach. An independent consultancy will undertake design and process evaluations of the YEDF and the UWEZO fund to identify the barriers and constraints that young people experience in accessing government catalytic funds and propose improvements in their operation. Reports of these assessments will be published and disseminated to stakeholders and the wider public, through stakeholder meetings and forums. The component will therefore also finance costs related to transport, conference venue/facilities, and printing, publishing, and dissemination of the related reports and policy briefs. Two consulting firms will evaluate (a) the impact of the start-up grants and BDS under Component 2; and (b) the business plan competition for high-potential job creators under the same component. These two impact evaluations will be widely disseminated through meetings, conferences, and other forums. This will require the financing of transport and conference/meeting venue costs, as well as printing and publishing costs related to the reports and policy briefs arising from these evaluations.

Subcomponent 4.3: Project management and coordination. (US$15.95 million)

67. The MPYG will be responsible for the overall project management of the KYEOP. Given the complexity of the project with different IAs for each component, there is a need to establish a PCU. Day-to-day management and implementation of each component will remain with the corresponding IA. The PCU will coordinate the implementation of the activities of these agencies and take responsibility for (a) project management and progress reporting; (b) managing the process of intake and awareness raising on government funds and AGPO; and (c) the execution of all the activities under component 4.

68. **Project management.** The PCU will be responsible for (a) developing and updating, as needed, the PIM; (b) routine monitoring of project implementation; (c) preparing the annual budget and work plan for the whole project; (d) monitoring disbursements in all the implementing entities through the 'Client Connection' system; (e) FM and procurement of goods, works, and services, related to Component 4; and (f) external communications and branding of the KYEOP as a whole.

69. Specifically, the establishment of the PCU will involve the procurement and payments of personnel, in the form of consultants, and training and equipping the staff with adequate ICT equipment and mobility. Costs to be financed will include fees for the consultants, training, vehicles, and ICT equipment, including mobile phones and air time, computers, laptops, and printers to support the day-to-day administrative tasks of the PCU. Given that the PCU will, by necessity, include staff seconded from within the ministry there will be need to train staff in key areas including management of the project, monitoring, FM and procurement, and communication, among others. The activity will therefore finance training costs in the form of fees at reputable

training institutions and in-house training. A consultancy will be procured to support the development of an MIS to manage the intake and referral of beneficiaries into the project, as well as track and monitor the progression of the beneficiaries through the duration of their engagement in the project. The MIS will also support routine administrative functions of the PCU, including financial tracking and reporting. To enhance the capacity of the PCU for outreach, mobilisation, and M&E, there will be a need for transport and communication costs, to be financed by the project.

70. Given its role in outreach, communication, and branding, they will need to develop a clear and comprehensive communication and branding strategy for the project as a whole. To this end, a consultancy will be procured to develop a communication strategy and implementation plan, in a consultative manner, and to provide initial support to the PCU and other agencies in implementing this strategy. Communication activities will therefore include (a) development of the communications, branding, and marketing strategy and implementation plan for the KYEOP; (b) printing and publishing of information, education, and communication materials for the strategy; (c) media publicity, including social media; and (d) convening of dissemination and awareness-raising forums for key stakeholders and the wider public, as required.

71. **Registration, enrolment and referral of youth**. The MPYG, in consultation with NITA and MSEA, will also be responsible for designing and managing the process for registration, enrolment, referral and tracking of all project beneficiaries. This will involve making use of existing MPYG youth officers at county and sub-county levels to create awareness of the different project components and the eligibility criteria for selection into each component. Through outreach and communication campaigns and use of existing structures for community mobilization, youth officers will support potentially eligible young people with their initial application into the project. Further, youth officers will undertake the initial beneficiary eligibility assessments and orientation into the project. The eligibility of youth will be validated by the DOYA's PCU and referrals made to NITA and MSEA as. In this regard, the youth officers will work closely with county government counterparts (county youth vocational and training officers, and enterprise officers) and consult closely with existing social protection targeting structures at the community level, including the Constituency Social Assistance Committees. This component will therefore finance the training of youth officers to fulfil this function, hiring of community-based organizations and temporary staff, the provision of computers and related equipment and motor vehicles to support youth mobilization activities, and the production and printing of information, education and communication materials required for outreach and mobilization.

72. The process of registration, enrolment, and referral of project beneficiaries will need to be underpinned by a robust MIS that can be used to track and document enrolment details for each beneficiary. The MIS will support the process of assessing eligibility of the youth, registering eligible young people, coordinating and referring beneficiaries across components, and tracking and monitoring the delivery of benefits (quality and timeliness). Based on the process for the identification, enrolment, and referral of beneficiaries, the PCU will lead the design of an automated MIS that will be used to (a) directly collect beneficiary biodata at the county and sub-county level; (b) document the referral details of the enrolled beneficiaries; and (c) transfer such information, in real time, to the national level (PCU and implementing unit MIS).

73. In managing the intake and referral process, the DOYA will also develop implementation manuals and guidelines to guide detailed operations related to community mobilisation, awareness

raising, providing information to all youth on existing youth funds, generally, and on the KYEOP, specifically. The youth officers at the sub county who will be directly involved in the intake process, will require sensitisation and training on the project and the intake and referral process. Financing will be provided for training of trainers and for transport, conference venues, and production of training materials. Additional data clerks/interns across all the sub-county offices, will be recruited to take part in the mobilisation, awareness raising, and intake/referral process. This process will be phased-in with a smaller number of counties initially to allow time to develop and test the systems required for receiving applications and making referrals. Salaries for temporary clerks will be paid from credit proceeds. Given the critical role of the MIS in the intake and referral process, information technology (IT) equipment, including computers, tablets, printers, and modems, will be provided to county and sub-county officers. Further, their skills will be enhanced through training on the use of the MIS. The sensitisation and outreach, with respect to objectives of the projects and the dissemination of information of existing youth funds, will require significant mobility at the sub county levels. As such, costs to be financed will include printing application forms, delivery of forms (for example, through post), and procurement of vehicle to support these activities, among others.

74. A key element of the intake process will include sharing information on the catalytic funds, including AGPO. Anecdotal evidence, based on consultations with young people, suggests that a significant barrier to the access and use of these sources of financing relates to lack of information and understanding of the existence of the funds, requirements for accessing these funds, and the procedures for applying for these funds. To this end, the project will ensure that the young people registered in the project, regardless of the component to which they will be referred, will be provided with this information. As noted above, a comprehensive assessment of the barriers and constraints to young people making use of these funds will be undertaken and will inform future counselling and information-sharing on how best to access and use these resources.

75. **Lessons learned and reflected in the project design.** Depending on a PCU to support the long-term institutional strengthening of governments' capacities can lead to problems of morale among government officials if they are not located within government structures, not well-embedded in the activities of the IAs, and not well-linked with relevant government staff in the different IAs.[97] Even when a PCU is set up for the project, it is important to also build the capacity of the relevant ministries' and agencies' departments to gradually mainstream the activities of the PCU into permanent government structures that can be sustained beyond the life of the project. Such a PCU should have dedicated staff who are tasked with linking the PCU with each of the IAs or functions. To this end, each of the PCU specialists hired by the project will have capacity building of counterparts and stakeholders included in the ToR.

76. **Potential risks and mitigation measures.** There are several risks to the successful implementation of this component. First, there is a risk that MPYG staff benefiting from the training and capacity-building activities may leave the project prematurely. This risk applies to all project components. To mitigate this risk to a manageable level, the MPYG will ensure that staff selected for this training will not be reassigned during the project term and will be retained in place for a reasonable period of time for the Government to realize the benefits of the investment in

[97] World Bank. 2005. "Guidance Note for Project Management: Strengthening Institutional Capacity during Project Implementation." Washington, DC.

training. There is also a risk that the PCU may hire experts who later leave the project. This may be mitigated by providing motivation for PCU staff through adequate training, salary reviews, and offering them meaningful responsibilities. These measures will help in attracting and retaining high-quality staff.

77. The Department of Youth Affairs has moved from another ministry. Given the imminent election period and possible political transitions, there is a risk that ministerial homes may change again. This can be mitigated by expediting the establishment of the PCU and providing adequate resourcing so that it is fully functional and ensures smooth implementation of the project, regardless of its ministerial location. Finally, there is a risk of lack of ownership of the project among IAs which could lead to poor quality delivery and results for some components. To mitigate this risk, the MPYG will sign memorandums of understanding with the IAs, specifying the resources, implementation responsibility, and accountability for each component of the project which will lie with the corresponding agency.

Annex 3: Implementation Arrangements

Kenya: Youth Employment and Opportunities Project

Project Institutional and Implementation Arrangements

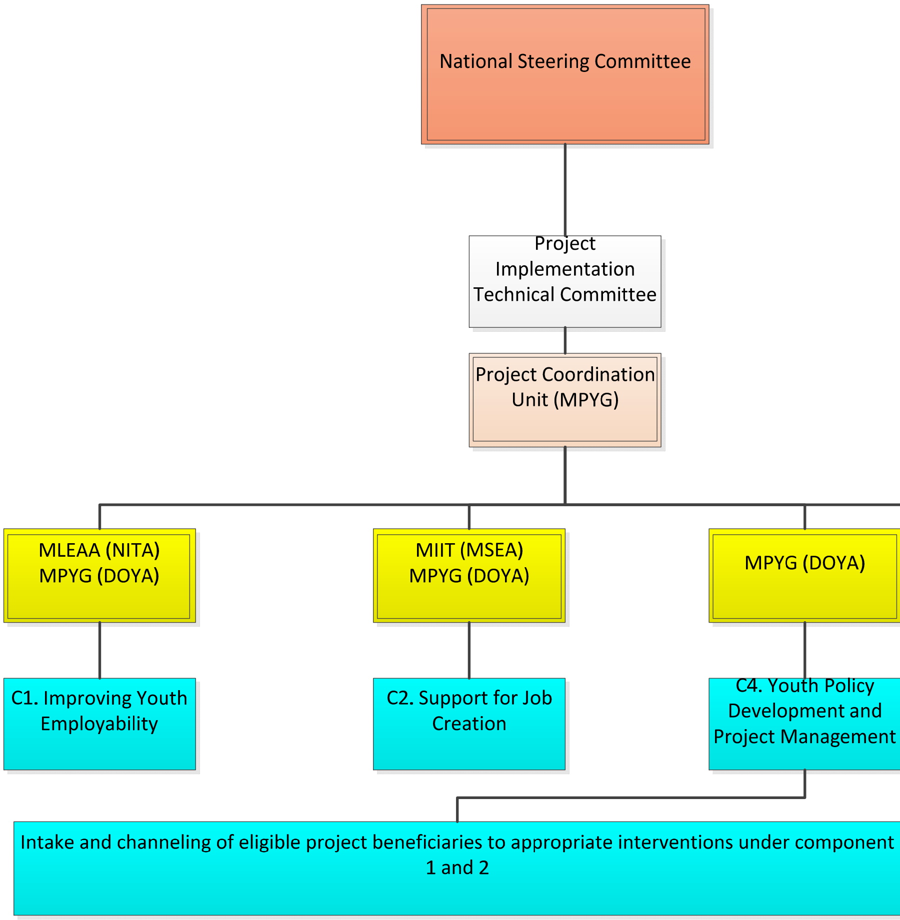
1. In In order to ensure the successful implementation of the Project and coherence across the various activities, two bodies will coordinate the overall project: a National Steering Committee (NSC) and a Project Implementation Technical Committee (PITC).

2. The National Steering Committee will meet quarterly and be chaired by the Cabinet Secretary (CS) of MPYG and members will include the PS MPYG, PS of National Treasury, PS of the MLEAA and the PS of the Ministry of Industry, Investment and Trade (MIIT), the Chairman of the Council of Governors and the Chairman of the National Youth Council. The PS MPYG will be the secretary to this Committee. The Committee's mandate includes overall supervision and policy guidance in the implementation of the Project and enhancing visibility of the Project.

3. The PITC will be chaired by the Principal Secretary MPYG and meet monthly (or as often as required). The Director of DOYA will be the secretary to this Committee. Members include the Directors/CEOs of the departments/agencies implementing the Project and the National Project Coordinator and coordinators of PIU's in NITA, MSEA and MLEAA. The committee will oversee the implementation of the Project, ensuring smooth progress and advising the PCU as needed. The PITC will be supported by a PCU in the MPYG.

4. The PCU will be headed by a National Project Coordinator who will report to the PS responsible for youth affairs through the Director of DOYA. The PCU will include an Accountant, a Procurement Officer, an M&E Officer, an MIS specialist, a Public Communications Officer, and three full-time officers to coordinate life skills and core business training, and the innovation challenge. Other short-term consultants will be engaged as may be required, including an impact evaluation specialist, a communication specialist and a social enterprise development specialist. The PCU will be responsible for (a) project management and progress reporting; (b) managing the process of intake and channeling of eligible project beneficiaries to appropriate services; (c) providing technical assistance in major procurement for all four components; and (d) the execution of all the activities under Component 4, as well as those activities under the responsibility of MPYG under Components 1 and 2.

Figure 3.1. Implementation Arrangements



5. More specifically, the PCU will be responsible for (a) project management and progress reporting; (b) managing the process of intake and channeling of eligible project beneficiaries to appropriate services; (c) provide advice on all major procurement for all four components; and (d) the execution of all activities under Component 4, as well as those activities under the responsibility of MPYG under components 1 and 2 (see figure 1). Among its responsibilities are the following:

(a) **Developing the Project Implementation Manual (PIM).** The PCU will coordinate the production and revision of a PIM describing the procedures and business processes for the implementation of the project. Each project component will develop a detailed Operations Manual (OM) which will be abridged in the general PIM. For example, the PCU, which is tasked with managing the process for intake and channelling of eligible youth into the various project components, will also develop a detailed OM for this process. NITA, the MSEA, and the MLEAA will each develop OMs for their activities. The PCU will also develop a detailed OM for the activities it will implement under Components 1 and 2. Recognizing the evolving context and implementation realities, these manuals will be regularly reviewed and updated.

(b) **Project monitoring.** The unit will ensure regular monitoring of progress in project implementation. This will require the unit to design and monitor the Project Results

Framework and undertake process monitoring activities. To support this process effectively, the unit will also need to develop and manage a Project Monitoring Protocol which will articulate the data required to track progress and monitor project results, the timing for collection of such data, the sources of data, and persons/units responsible for submitting such data to the PCU for consolidation and reporting purposes. To inform management decisions, progress with implementation will regularly be monitored. A strong MIS will contribute to providing regular, automated, and quality administrative data on this component, as well as summary data based on pre-identified indicators, on the project as a whole.[98]

(c) **Financial management.** FM responsibilities for the PCU will include technical assistance to each IA for the preparation and submission of component interim financial reports (IFRs), budgeting and financial planning, and reporting. With regard to budgeting, the PCU will have a key role in the consolidation of a project-wide annual work plan (AWP) and budget, which will incorporate the work plans and budgets for each component. The PCU will therefore approve NITA, MLEAA, and MSEA's work plans and budgets and develop a consolidated KYEOP AWP and budget. Given that each implementing agency will have a designated account (DA), each ministry will be accountable, financially, to the PS in that ministry. As such, each agency will be audited (internal and external) as separate entities in individual line ministries.

(d) **Procurement processes.** In relation to procurement, each component implementing entity will be responsible for the preparation of their own work plans, preparation of component procurement plans, and execution of procurement activities. They will also be responsible for the preparation of technical specifications, ToRs and corresponding activity cost estimates and budgets. The PCU will be responsible for the consolidation of the overall procurement plan for the project and advise the IAs on the procurement of complex and high-value contracts, as will be stipulated in the procurement plan. The PCU will also assist the IAs as and when needed in the development of technical specifications, TORs, and budgets. The PCU will further provide technical support as may be required in the administration and management of contracts.

(e) **External communications and project branding.** The PCU will undertake external communications for the project. This will include the development and implementation of a communication and media strategy as well as branding and marketing for the project. For brand design and marketing for the KYEOP, the PCU will consult closely with communications and branding teams from the relevant other agencies. Communications media appropriate to young people (including social media such as Facebook, Twitter, and Instagram) will form an integral part of the external communication strategy. A common brand for the project will communicate

[98] Component 1 and 2 will develop an MIS to manage the enrolment and tracking of beneficiaries of the components. The types of data maintained and used administratively may vary by component, however, it is important that there is an agreed set of data that provides program-wide progress against indicators. The various project MISs will therefore be designed with capabilities to share data with each other and with a central project database.

to the public and the potential beneficiaries that, despite the various components delivered by a number of different agencies, the KYEOP project is a coherent and unified project with a single development objective. An aggressive communication strategy will increase public understanding of the project design, objectives, and progress, encouraging additional transparency and accountability.

6. **Subsidiary Agreements.** To facilitate the carrying out of Component 2, the Government shall make part of the project funds, in the form of grants, available to MSEA under a subsidiary agreement between the Government and MSEA, under terms and conditions approved by the World Bank. To facilitate the carrying out of Component 1, the Government shall make part of the project funds, in the form of grants, available to NITA under a subsidiary agreement between the Government and NITA, under terms and conditions approved by the World Bank. The Government shall exercise its rights under the Subsidiary Agreements in such manner as to protect the interests of the Government and the World Bank and to accomplish the purposes of the project funds. Except as the World Bank shall otherwise agree, the Government shall not assign, amend, abrogate or waive the Subsidiary Agreements or any of its provisions. The MSEA Subsidiary Agreement and the NITA Subsidiary Agreement are both conditions of effectiveness.

7. **Component 1.** This component will be jointly implemented by the MPYG and NITA. The MPYG will assume responsibility after intake for the delivery of life skills and core business training. After completion of this training youth will be referred to NITA for job specific training and an internship. In executing this component, NITA may utilize the DYA officers during referral of youth to training providers after the life skills and core business skills training. Contractual agreements between NITA and the service providers should recognize this role by DYA. For the job specific training and the internship, an implementation unit will be based within the NITA Department of Industrial Training. It will include staff and consultants responsible for overall program management and implementation. The functions that it will carry out include: reception and counselling of targeted youth for job specific training and internships; assignment and monitoring of youth in training and internships; contracting with public and private training organizations and master craftsmen as trainers; selection of and capacity building for master craftsmen; development of certification instruments for traditional apprenticeship trades that currently are without these instruments; updating of existing certification instruments for traditional apprenticeship trades; accounting and FM; and preparation of project reports for the PCU. The implementation unit will be responsible for development of an MIS, preparation of an OM, and creation of a communications strategy and action plan. A 10-member advisory committee will be established and chaired by the NITA director general. This committee will meet quarterly to review implementation plans and progress and provide NITA with advice on implementation. Its members appointed by the NITA director general will represent youth, employers, master craftsmen, training organizations, and members of civil society.

8. **Component 2.** This component will be jointly implemented by the MPYG and MSEA. Subcomponent 2.1 will be implemented by MSEA, with the MPYG taking the lead role in outreach and intake at the local level as well as in the follow-up of beneficiaries also at the local level. Subcomponent 2.1 will be implemented at the county level. The MSEA is a relatively new government agency and will require project support for capacity building. A small number of contract staff will be added to the MSEA staff for each subcomponent to enhance implementation capacity.

9. Subcomponent 2.2 will be implemented at the national level with the selected projects serving youth in local areas. For the business plan competition, under subcomponent 2.2, MSEA will be in charge of contracting an independent firm who will manage the business competition, managing this contract, and coordinating the associated BDS on accessing government procurement opportunities. The independent firm managing the business competition will be selected in a transparent and competitive manner, and this firm will be in charge of marketing and outreach, the application process, screening, training, and evaluation, and identification of high potential proposals to be awarded. The responsibility to disburse the awards and hold award ceremonies rests with the MPYG. The managing firm has then the responsibility for independent monitoring of awardees, but youth officers at MPYG, together with MSEA enterprise officers, will accompany the firm in a subset of visits to employers as part of the monitoring arrangements for the business competition.

10. The innovation challenge for the hard-to-serve youth will be implemented by the MPYG. The MPYG will contract an expert consultant to provide support in the design of the innovation challenge. As with the business plan competition, the management of the challenge and the selection of awardees will be in the hands of an independent firm or NGO with a relevant track record. This firm or NGO will be selected competitively through a process managed by the MPYG.

11. **Component 3.** This component will be implemented by the MLEAA. The Department of National Human Resource Planning and Development Department (DNHRP&D) in the MLEAA will be in charge of overall implementation. The Director of the DNHRP&D will have overall responsibility for the activities under the component. Staff and budget for the LMIS are in place within the DNHRP&D, including 25 technical staff and additional staff who can be requested as and when needed. An LMIS PIU will be established within the DNHRP&D to carry out the management of the project-related activities. It will include at the minimum a project coordinator, an LMIS specialist, an MIS and web development expert, and a communication expert. Some of these positions will be filled with existing staff who will be released from their other duties while others will be filled with consultants. A LMIS National Steering Committee, with its own budget, is already established for the coordination of the collection and use of labor market data. Basic ICT maintenance services will be provided for the LMIS by the ministry's existing ICT Department. Specific additional maintenance services for the LMIS will be included in the KYEOP support. Some ICT equipment used for LMIS purposes has been procured through normal government budgetary acquisition. The KYEP will support the acquisition of additional ICT equipment as needed.

12. **Component 4.** This component will be implemented by the MPYG and its Directorate of Youth Affairs. The PCU embedded within the Directorate of Youth Affairs, as described above, will have overall responsibility for implementation of this component, including building the capacity of the MPYG youth officers to serve as the primary intake point for vulnerable youth participating in the project. Additional responsibilities of the PCU are described above.

Financial Management, Disbursement and Procurement

13. The FM assessment revealed adequate accounting capacity in the IAs: MSEA (under, MIIT), DOYA under MPYG (previously under MoDP),[99] MLEAA[100], and NITA. The IAs have qualified accountants and effective accounting systems. The project will be implemented using existing government PFM systems with appropriate capacity strengthening.

14. The Project will adopt the statement of expenditure (SOE) method of disbursement. To avoid fragmentation and to ensure better coordination of project activities, the PCU in MPYG will clear all work plans and consolidate them before these are submitted to the World Bank for approval. The PCU will also clear all withdrawal applications (WAs) of funds before these are submitted to the World Bank through the National Treasury. Each implementing ministry will open and maintain a Designated Account (DA) in U.S. dollars and a project account (PA) in Kenya shillings from which the respective IAs will make payments for eligible expenditures. The three DAs and the PAs for the line ministries will be opened in the Central Bank of Kenya (CBK) while the PAs for the two semiautonomous government agencies (SAGAs) will be opened in financial institutions acceptable to the World Bank. In order to ensure efficiency in the process of funds flow, the implementing ministries will seek NT approval to have project funds transferred from the DA to the PA without passing through the ministry development account. Each IA will submit quarterly IFRs and annual audited financial statements to the World Bank. The project audit will be conducted by the Office of the Auditor General, KENAO, in each of the four IAs.

15. Nevertheless, the FM assessment identified certain fiduciary risks. For instance, the FY13 and FY14 audit reports of IAs revealed certain internal control weaknesses. All the IAs received qualified audit reports. The basis of the audit qualification included insufficient supporting documents for expenditures, noncompliance with PFM regulations and procedures, inaccuracies and incompleteness in financial statements, impressts and staff advances not surrendered or properly accounted for, weak accountability mechanisms, and poor records management. It is noted that the audited financial statements were all issued in August, eight months after the statutory deadline of December 31. In addition, the MoDP is in the process of investigating cases of suspected fraud and corruption in payments made under the NYS. Another challenge is the long in-country funds flow delays of 3–7 months and cases of line ministries failing to release project funds (or making partial releases) from the ministry development accounts to the relevant PAs. The portfolio has also registered high incidences of ineligible expenditures.

16. To mitigate these risks, the Government has developed an FM manual to ensure more stringent controls over project activities. The FM manual provides for robust social accountability mechanisms which will include public disclosure of FM information and complaints handling structures. Corruption reporting will be made to the Integrity Vice Presidency Unit (INT) as provided for in the World Bank's Anti-corruption Guidelines. The manual will also have

[99] As noted previously, following a ministerial reshuffle, the Directorate of Youth Affairs which was earlier located in the MoDP, has now moved to the MPYG. The FM assessment, however, was undertaken on the MODP, given that the executive order officially establishing the new ministries and defining their functions, roles, and responsibilities, is yet to be established by the Government.

[100] As with MoDP, the FM assessment was conducted before the recent Government reshuffling, and hence it was undertaken on the MLSS (which was renamed later MLEAA).

comprehensive fraud and corruption prevention and detection procedures. Each of the IAs will designate dedicated accountants on the basis of ToRs agreed with the World Bank.

17. The World Bank's fiduciary team will conduct regular training and capacity building in FM, procurement, and disbursements throughout project implementation. Additional capacity-building training will be provided through the KSG/e-learning and Development Institute (eLDi). The project will also maintain segregated bank accounts. The Internal Audit Department (IAD) of the National Treasury will conduct annual risk-based fiduciary reviews of the project and submit copies of the reports directly to the World Bank. These reviews will complement the annual audits by KENAO. There will be public disclosure of the annual project audit reports in line with the World Bank's Access to Information Policy. The World Bank FM team will conduct onsite randomized FM reviews at least once every year and follow up on implementation of the FM action plan prepared on the basis of recommendation of the various audit and review reports. As a result of the above weaknesses, the project FM risk has been assessed as Substantial which satisfies the World Bank's minimum requirements under OP/BP 10.00 and therefore is adequate to provide, with reasonable assurance, accurate and timely information on the status of the project required by IDA.

18. Given the unique risks associated with Subcomponent 2.1 (Business Start-up Grants) and 2.2 (Business Plans Competition), the fiduciary arrangements have been enhanced on the basis of the review and adoption of good practice from four other countries in the Africa Region that have successfully implemented similar programs. These are Guinea Bissau, Ivory Coast, Benin and Gabon. The measures are as follows:

Business Plans Competition

(a) The hire of a Professional Management Company (PMC) to manage the BPC will be included as condition of disbursement for the category "Business Plan Competition Grants Awards" in the Financing Agreement (FA). The TOR should be reviewed and cleared by the World Bank;

(b) The key eligibility criteria for firms/business to qualify for the 'Grant Awards" should be defined in the FA which will include, for example, registration of the business and a business plan that foresees the employment of youth;

(c) The PMC will enter into an award agreement with the winners of the grants which provides for proper use of the funds, maintenance of proper accounting records and be subject to independent audit on request by the World Bank or the PMC (audit to be financed by the Project);

(d) The Business Plan Competition Grants Awards will be released in tranches with subsequent disbursement based on a detailed financial and performance report satisfactory to the World Bank by the awardee describing how resources were used and progress made in the implementation of the awarded business plan.

Business Start-up Grants

19. For these grants, the payments will be recognized as expenditure at the point of payment. However, the payment schedules should be availed to the World Bank on quarterly basis as part of the IFR, and the schedules will contain detailed information on the beneficiaries including full names, cell phone number, national identity card number and payment should be made directly to bank account or via electronic payment such as mobile cash payment like M-pesa. There should be no cash payments. There should also be evidence that the beneficiaries met the eligibility criteria before the payment was made.

Project Specific Fiduciary Arrangements

20. **Budgeting.** The budgeting process under the project will follow country systems with each ministry and State Corporation incorporating the budget for project activities in its annual budget to be approved by the National Treasury and the National Assembly. The project budget will be done on the basis of the Government standard chart of accounts and will be included in the national budget printed estimates. Each implementing unit will initially develop AWPs of activities expected to be undertaken during the year which will be reviewed and consolidated by the PCU in the MPYG before being submitted to the World Bank for approval. Budgeting will follow a consultative process among the key implementers and other stakeholders where the work plans will be harmonized, approved, and compiled into the overall project budget under each IA. Budget execution will be effected by each IA using the Government vote book system, which is considered adequate. The budgeting arrangements for the IAs are assessed to be adequate.

21. **Accounting systems.** The IAs have been assessed as having adequate accounting capacity headed by qualified and experienced heads of accounting units (HAUs) supported by a team of accountants with the requisite qualifications and experience. In addition, the ministries also have qualified and experienced chief finance officers who are in charge of budgeting arrangements. The HAUs and the chief finance officers independently report to the PS in the respective line ministries. An FM procedures manual has been developed for the Project based on the Government Financial Regulations and Procedures Manual and is included in the PIM. The accounting processes within the implementing ministries are based on the IFMIS which has been adopted for use in all government ministries and departments and the counties. However, the ministries still maintain manual cashbooks alongside the IFMIS records. The project FM arrangements will be aligned to existing Government financial management arrangements. The National Treasury will designate qualified project accountants in each of the IAs (MSEA, NITA, MLEAA, and MPYG) and will ensure that these arrangements remain in place throughout project implementation. The three line ministries are linked to the IFMIS and the project will be assigned budget codes on the IFMIS on the basis of the Government standard chart of accounts.

22. **Internal controls.** The FM assessment confirmed that the IAs maintain elaborate internal control arrangements involving approval and authorization procedures, adequate segregation of functions, and internal check mechanisms in line with the Government's financial regulations and procedures. The payment processing system for the project will be mainstreamed within the accounting system of the respective IAs which have been assessed as having adequate segregation of functions and authority levels. The FM manual has been developed, including comprehensive financial procedures to enhance the fiduciary controls over the Project. Project oversight arrangements will be effected by the interministerial PITC bringing together the respective ministries. The parent ministries also have audit and finance committees which function as

oversight committees on budget execution and implementation of internal audit recommendations. Bank reconciliation statements are prepared on a monthly basis and approved by the Head of Accounting Unit (HAU) or his designate.

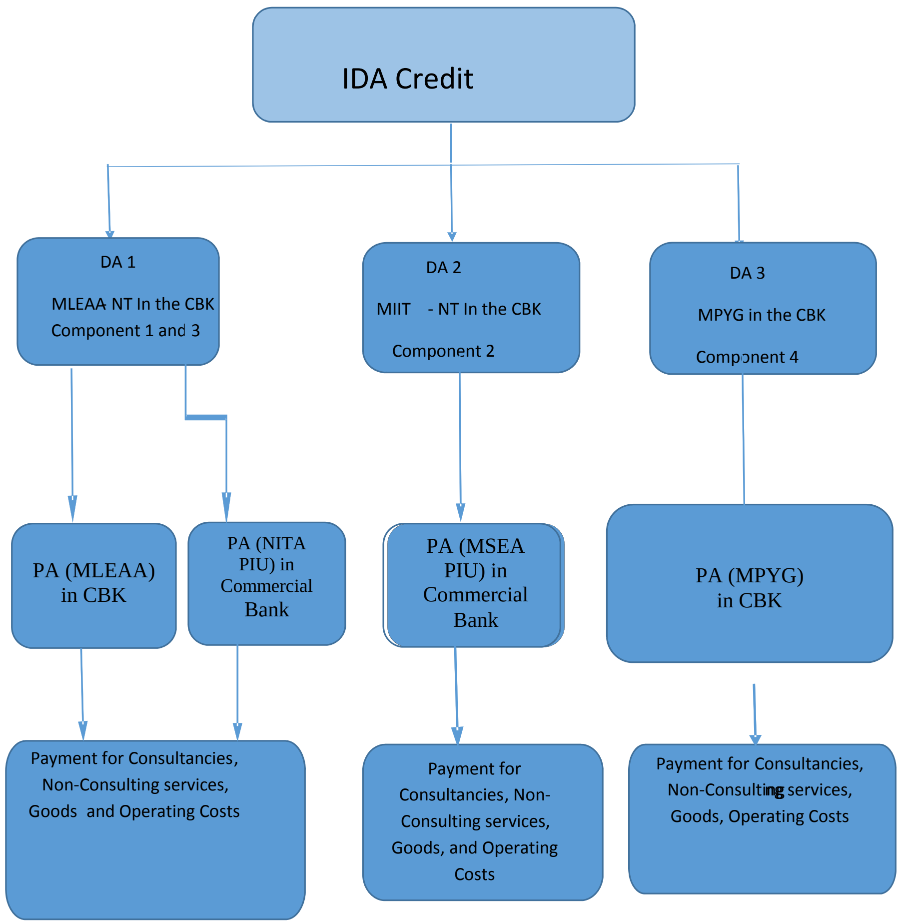
23. In addition, the ministries have internal audit functions with auditors seconded from the IAD of the National Treasury. NITA has established an internal audit function within its establishment headed by the internal audit manager. The capacity of the internal audit unit was noted to be adequate for purposes of project implementation. The assessment however revealed that the MSEA does not maintain an established internal audit function. As such, the MSEA currently does not have adequate capacity for internal audit oversight and this may affect project implementation. As a mitigation measure, the National Treasury's IAD auditors will conduct annual risk-based internal audits of project activities at the IAs to strengthen internal controls. The in-year fiduciary review report will be shared with the World Bank together with a time-bound action plan. The project will also be subjected to FM supervision review by the World Bank. The project FM procedures manual sets out the detailed internal control procedures for management of the Project.

24. **Disbursements.** Three DAs, one for each implementing ministry, will be opened at the CBK in line with the Public Financial Management Act 2012. The National Treasury will open special DAs for each of the three implementing ministries in the CBK through which proceeds of the IDA credit will be channeled. Each implementing ministry will open and maintain separate segregated non-comingled local currency PAs at the CBK. NITA and the MSEA will open their PAs in financial institutions acceptable to the World Bank. In order to ensure efficiency in the process of funds flow, the implementing ministries will seek NT approval to have project funds transferred from the DA to the PA without passing through the ministry development account. Payments for goods, consultancies, and operating costs will be made from the PA.

Category	**Amount of the Credit Allocated (expressed in SDR)**	**Percentage of Expenditures to be Financed (inclusive of Taxes)**
(1) Goods (including vehicles), non-consulting services, consultants' services, Training and Operating Costs		100%
(a) under Parts A1(a) and A.2(a) to be implemented by MPYG	12,070,000	
(b) Under Parts A1(b) and A.2(b) to be implemented by MLEAA (NITA)	41,170,000	
(2) Goods (including vehicles), non-consulting services, consultants' services, Training and Operating Costs under Part B of the Project (excluding Business Start-up Grants, and Business Plan Competition Awards, and Innovation Awards)		100%

(a) MIIT (MSEA) (Parts B.1 and B.2(a)) (b) MPYG (Parts B.2(a) and B.2(b))	9,370,000 783,000	
(3) Business Start-up Grants under Part B.1 of the Project, to be implemented by MIIT (MSEA)	8,520,000	100%
(4) Business Plan Competition Awards under Part B.2(a) of the Project, to be implemented by MPYG	9,940,000	100%
(5) Innovation Awards under Part B2(b) of the Project, to be implemented by MPYG	852,200	100%
(6) Goods (including vehicles), non-consulting services, consultants' services, Training and Operating Costs under Part C of the Project, to be implemented by MLEAA	9,590.000	100%
(7) Goods (including vehicles), non-consulting services, consultants' services, Training and Operating Costs under Part D of the Project, to be implemented by MPYG	12,640,000	100%
(8) Refund of Preparation Advance	1,565,000	Amount payable pursuant to Section 2.07(a) of the General Conditions
TOTAL AMOUNT	106,500,000	

Figure 3.2. Funds Flow Arrangements for KYEOP



25. The project will adopt the SOE method of disbursement in which an initial advance agreed on between IDA and the project will be made to the respective ministry's DA. The project will be required to submit WAs accompanied by SOEs to seek replenishment from the World Bank. Proceeds of the IDA credit will be made on the basis of WAs submitted by the IAs through the National Treasury and will be credited to the respective DA. WAs are prepared against each DA. Hence, WAs will be submitted to the World Bank against each of the three DAs. Although the MLEAA and NITA share one DA, each will submit its own WA for the replenishment of the DA accompanied by an SOE already incurred. The MSEA will prepare and submit their WAs through their line ministry, MIIT.

26. The WAs will be prepared electronically through the World Bank's Client Connection/e-disbursement system. Each IA will submit their own WA through their line ministry in Client Connection before these are cleared for processing by the National Treasury for submission to the World Bank. The funds from the DA will be transferred following an exchequer requisition/request from the IA (through the line ministry for SAGAs) to the National Treasury, with copy to MPYG. NITA will request for funds from the DA maintained under the MLEAA while the MSEA PA will be replenished from the DA maintained under the MIIT. Payments for project activities will be

made out of the respective ministry's PA through the G-pay/Electronic Funds Transfer (EFT) system. Similarly, the PAs maintained at NITA and the MSEA will be used to make payments for project activities in these SAGAs.

27. In Kenya, a key FM risk which has been identified is material delay in transfer of funds from the DA to the PA, resulting in delayed project implementation. This is a portfolio-wide problem affecting the entire Kenya portfolio and is progressively being addressed through constant engagement between the World Bank and the National Treasury. The accountant general has established External Resources Sections in each ministry to fast track the funds flow process as a means of addressing this issue. The other risk is delayed or partial release of funds from the ministry development account into the PA. To mitigate against this risk, the FM arrangements for this Project will require that the ministry responsible will transfer funds from the development account to the PA within one week. Each IA will draw funds from the respective ministry's DA upon submission of an exchequer request to the National Treasury through the line ministry.

28. **Financial reporting.** Each IA will be responsible for the preparation of quarterly IFRs which will be submitted to the World Bank within 45 days after the end of every calendar quarter. The IFRs will be done against each DA. For project coordination purposes, copies of the IFRs submitted by the individual IAs will be simultaneously shared with the PCU and the World Bank. For component 2.1 MSEA will include quarterly financial reports on the grants as part of the IFRs. For Business Plan Competition Grant Awards under Component 2.2. MPYG will include the financial reports on the disbursement of grant awards as part of their quarterly IFR. The Project will prepare and submit four IFRs to the World Bank, one from each of the implementing entities. The MLEAA and NITA will each prepare and submit IFRs indicating the respective amounts received into the DA against their respective expenditures under the Project. The MSEA will prepare and submit its IFR to the World Bank. The IFRs will mainly be used for monitoring and financial reporting but not as a means of initiating disbursements from IDA because the Project will be on the reimbursement SOE method of disbursement. It is noted that the two ministries, the MLEAA and MPYG, already have adequate experience in the preparation and submission of quarterly IFRs to IDA in the required format, having implemented World Bank-financed projects in the past. The assessment further revealed that both NITA and the MSEA are already operating a system of quarterly financial reporting to their respective boards of directors and this will provide a good background for quarterly financial reporting to the World Bank.

29. The IAs will also ensure preparation of annual financial statements which will be submitted for external auditing within three months after the financial year end. The annual project financial statements will be prepared in the same manner as the quarterly IFRs. This means four financial statements for the MLEAA, NITA, MSEA, and MPYG will be prepared and submitted for audit. The annual financial statements will be prepared on the basis of the international public sector accounting standards cash basis of accounting issued by the Public Sector Accounting Standards Board for donor projects. The formats of both the quarterly IFRs as well as the annual financial statements have already been agreed on with the relevant IAs.

30. **Audit arrangements.** KENAO, which is the Supreme Audit Institution in Kenya and is responsible for the audit of all Bank-funded projects in Kenya, will be responsible for the audit of the KYEOP. KENAO audited the implementing ministries as part of the Government's financial

statements for FY14 and expressed a qualified opinion on the financial statements for each of the three ministries.

31. As a mitigation measure, the project funds will be ring-fenced from ministry-wide risks by ensuring segregated PAs, cashbooks, and financial statements that are operated, maintained, and prepared by the respective IAs. The risks associated with the grants will be mitigated through oversight by the Professional Management Company (PMC) and inclusion of grants disbursement reports as part of the quarterly IFR. The hire of the PMC on TOR acceptable to IDA is a disbursement condition. The grant awards under the Business Plan Competition will be included in the annual work-plan for internal and external audit. Under the FA, the World Bank reserves the right to conduct additional audit using independent auditors of the grant awards under the business plan competition (BPC). As explained under the 'Financial reporting' section, the MLEAA, NITA, MSEA, and MPYG will be responsible for the submission of the four project annual financial statements to KENAO for audit within three months after the financial year end. The four separate audit reports and management letters will be submitted to the World Bank within six months after the financial year end. The ToRs for KENAO annual audit have been discussed and agreed with the IAs.

Table 3.1. Risk and Mitigation

Type of Risk	Initial FM Risk Rating	Brief Explanation	Risk Mitigation Measures Incorporated in Project Design	Condition of Effectiveness/Disbursement (Y/N)?	Residual Risk Rating
Inherent Risk					
Country Level	S	Country-level risks including weaknesses in PFM and governance environment and corruption concerns	Being strengthened as part of the country-level PFM reforms	No	S
Entity Level	H	Challenges of oversight and coordination of the multiple IAs GAC and political capture risk which could lead to conflict of interest and collusive practices in grant process.	Clearly defined roles for the IAs in the project documents Hire of PMC to manage grants as disbursement condition. PMC to submit quarterly financial reports on grantees	Yes- PMC is a condition of disbursement	S
Project Level	H	Project design involves funds flowing to multiple implementers with inherent FM risks Grant award to undeserving grantee through conflict of interest and collusive practices.	Clearly defined roles for the IAs in the project documents Hire of PMC to for management of grants	Yes- PMC is a condition of disbursement	S

Type of Risk	Initial FM Risk Rating	Brief Explanation	Risk Mitigation Measures Incorporated in Project Design	Condition of Effectiveness/Disbursement (Y/N)?	Residual Risk Rating
		Grantee not using funds for purposes intended	Spot checks by KENAO during annual audit Bank or MSEA has discretion to request for independent audit		
Overall Inherent Risk	**H**	**–**	**–**	**–**	**S**
Control Risk					
Budgeting	M	No major risks	–	No	M
Accounting	H	Entity accountants may not dedicate adequate time on project activities Weak records management for grants	• Ministries to designate project accountants with adequate experience • Regular FM trainings to be conducted for project staff • PMC to oversee selection of grant awardees and release of subsequent tranches	Yes- The Recipient has established a Project Coordination Unit and has designated a dedicated an Accountant is a condition of effectiveness Yes- PMC is a condition of disbursement	S
Internal controls, management oversight, and risk management	H	Unsupported expenditure, imprests not surrendered, and funds not properly accounted for noted for the three ministries Risks associated with grants including GAC and political capture, conflict of interest, selection/disbursement to undeserving grantee and failure to use funds for intended purposes	• Ring-fenced project funds. • Project FM manual to detail the internal control arrangements. • Regular internal audit oversight, Bank FM supervision and KENAO to strengthen controls. • Disbursement of grants on basis of detailed eligibility criteria. • Award prize agreement between PMC and awardee with	No	S

Type of Risk	Initial FM Risk Rating	Brief Explanation	Risk Mitigation Measures Incorporated in Project Design	Condition of Effectiveness/Disbursement (Y/N)?	Residual Risk Rating
			terms on proper use of the grants. Disbursement in tranches on the basis of detailed financial reports		
Funds flow	H	Significant delays in funds flow from the DA to PA Disbursement of grant funds without due diligence	Project will open and maintain segregated PAs where disbursements from the DA and payments will be made. BPC grants disbursed in tranches with due diligence by PMC before replenishment	No	S
Financial reporting	S	Risk of late submission of IFRs and annual audit reports Quality of IFR especially for grants	Regular FM trainings to be conducted for project staff Due diligence by PMC, MSEA and MPYG	No	M
Auditing	H	FY14 and FY13 audit reports received substantive audit report qualification. Possible limitations of scope for grants by KENAO	• Project funds will be ring-fenced from other regular Government funds. • Regular monitoring including IAD in-year fiduciary reviews to enhance accountability • FA provides option for independent audit by the World Bank	No	M
Overall Control Risk	**H**	**–**	**–**	**–**	**S**

Type of Risk	Initial FM Risk Rating	Brief Explanation	Risk Mitigation Measures Incorporated in Project Design	Condition of Effectiveness/Disbursement (Y/N)?	Residual Risk Rating
Overall Project Residual FM Risk			**Substantial (S)**		

Note: H = High; S = Substantial; M = Moderate; L = Low**.**

Procurement

General

32. Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works, and Non-Consulting Services Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 revised July 2014; and "Guidelines: Selection and Employment of Consultants Under IBRD Loans and IDA Credits & Grants by World Bank Borrowers" dated January 2011 revised July 2014**,** and the provisions stipulated in the Legal Agreement. The various items under different expenditure categories are described below. For each contract to be financed by the credit, the different procurement methods or consultant selection methods, the need for prequalification, estimated costs, prior review requirements, and time frame are agreed between the borrower and the World Bank in the procurement plan. The procurement plan, dated April 7, 2016 will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The proposed project will carry out implementation in accordance with the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants" dated October 15, 2006 (the Anticorruption Guidelines) and revised in January 2011 and the provisions stipulated in the Financing Agreement.

33. **Procurement implementation arrangements.** The project comprises four components to be implemented by the MPYG, MLEAA, NITA, and MSEA. The overall coordination of the project will be carried out by a PITC. The PITC will be supported by a PCU in the MPYG. The PCU will be responsible for (a) overall project management and reporting; (b) providing the necessary technical assistance to the IAs in the procurement and implementation phases for all complex and high-value contracts under the project; (c) managing the process of intake and channeling of eligible project beneficiaries to appropriate services; and (d) procurement of activities under Component 4, and corresponding activities to be implemented by the MPYG under Components 1 and 2.

34. Component 1 will support the improvement of youth employability and will be jointly implemented by the MPYG and NITA. The procurement activities envisaged under this component include, but are not limited to, the procurement of IT equipment and related software, consultant services, technical assistance, capacity building, and training. To effectively undertake and manage procurement activities under the project, NITA and MPYG will be required to engage and maintain, throughout the life of the project, adequate procurement staff with qualifications and experience acceptable to the World Bank.

35. Component 2 will support job creation and will be jointly implemented by the MPYG and the MSEA. MSEA is relatively new and has limited capacity and staffing. To fill the capacity gap, it is expected that MSEA will engage technical and support staff with relevant qualifications and

experience acceptable to the World Bank and further obtain the services of a consultant firm and/or an NGO to assist in the initial implementation of the project and institutional capacity building. Technical assistance may also be provided as needed.

36. Component 3 will support the improvement of LMI and will be implemented by the MLEAA. Before the current ministerial reorganization the former MLSSS through the Department of Social Services has been implementing two Bank-financed operations, the Cash Transfer for Orphans and Vulnerable Children and the National Safety Net Program for Results. The Directorate of Social Services was retained in the new ministry. The ministry has therefore the requisite institutional framework, knowledge, and experience necessary for implementing Bank-financed operations. Additional capacity and resources will, however, be required to supplement the existing staffing and physical office infrastructure.

37. Component 4 will support the strengthening of youth policy development and project management and will be implemented by the MPYG through the DOYA which has been moved to the new ministry and has been implementing the KYEP under the former MoDP. The ministry therefore has the requisite institutional framework, knowledge, and experience necessary for implementing Bank-financed operations. Additional capacity and resources will, however, be required to supplement the existing staffing and physical office infrastructure.

38. **Use of national procurement procedures.** All contracts other than those to be procured on the basis of international competitive bidding (ICB) and consulting services shall follow the procedures set out in the Public Procurement and Asset Disposal Act of 2015. The Public Procurement and Asset Disposal Act of 2015 (PPADA) governs the purchase of works, goods, and services using public resources by central government entities, county governments, state corporations, education institutions, and other government institutions. Under the PPADA, the PPOA has been established in addition to the Public Procurement Directorate in the National Treasury. The PPADA sets out the rules and procedures of public procurement and provides a mechanism for enforcement of the law. Some provisions of PPADA are not fully consistent with the World Bank Procurement and Consultants Guidelines and therefore these may not be applied for the implementation of this project without modification. These provisions and their respective modifications are the following:

(a) **PPADA 89(c).** Instead, the tender submission date shall be set so as to allow a period of at least 30 days from the later of (i) the date of advertisement; and (ii) the date of availability of the tender documents.

(b) **PPADA 4(2) (c).** Instead, the recipient’s government-owned enterprises shall be allowed to participate in the tendering only if they can establish that they are legally and financially autonomous, operate under commercial law, and are an independent agency of the recipient’s government.

(c) The borrower shall use, or cause to be used, bidding documents and tender documents (containing, among others, draft contracts and conditions of contracts, including provisions on fraud and corruption, audit, and publication of award) in form and substance satisfactory to the Association.

(d) **PPADA 89 (f).** Instead, no domestic preference shall be used in the evaluation of tenders. Therefore, as a result of the non-application of PPADA 89 (f), contracts shall be awarded to qualified tenderers having submitted the lowest evaluated substantially responsive tender.

(e) **PPADA 108**. Instead, the shopping procedure will apply for each low value contract except as otherwise previously agreed in writing by the Association.

(f) **Regulations 47.** Instead, the two envelope bid opening procedure shall not apply. Under the National Competitive Bidding (NCB) contracts, the World Bank's standard bidding documents (SBDs) for goods and works shall be used with appropriate modifications.

39. **Procurement of goods.** Goods to be procured under this project will include: ICT goods (hardware and associated software), office equipment, and motor vehicles. The procurement will be carried out using the World Bank's SBDs for all ICB and NCB contracts.

40. **Procurement of non-consulting services.** Non-consulting services envisaged under the project include printing of training materials, renting/leasing of IT services workshop venues, and leasing of office premises. The procurement will be carried out using the World Bank's SBDs for all ICB and NCB contracts. The type and budget for such services will be defined and agreed upon between the borrower and IDA before their inclusion in the updated annual procurement plans.

41. **Direct contracting.** Direct contracting may be an appropriate method when it can be justified that competitive bidding is not advantageous and it meets the requirements of paragraph 3.7 of the Procurement Guidelines after consultation with the Association. In particular, direct contracting may be used under the following circumstances: (a) where an existing contract for goods, awarded in accordance with procedures acceptable to the Association, may be extended for additional goods of similar nature and character; (b) where the need for standardization of equipment or spare parts to be compatible with existing equipment may justify additional purchases from the original supplier; (c) where the required equipment is proprietary and obtainable only from one source; (d) where a contractor responsible for a process design requires the purchase of critical items from a particular supplier as a condition of a performance guarantee; and (e) in exceptional cases such as in response to a natural disaster.

42. **Use of framework agreements.** Framework contracting is permitted as an alternative to the shopping and NCB methods and may be used to implement procurements such as (a) goods that can be procured off-the-shelf or are of common use with standard specifications; (b) non-consulting services that are of a simple and non-complex nature and those that may be required from time to time by the same agency or agencies of the borrower; or (c) small value contracts for works under emergency operations. Such arrangements should not restrict foreign competition and should be restricted to a maximum duration of three years. The nature and budget for such goods including the circumstances and justification for its use, the particular approach and model to be adopted, the procedures for selection and award, and the terms and conditions of contracts will be defined and agreed upon between the borrower and IDA before their inclusion in the updated annual procurement plans.

43. **Selection of consultants.** Consulting services to be procured under the project include selection of firms and individuals for the provision of training services, information management services, policy reviews and development, program evaluation, external financial audit and technical assistance services. All consulting services will be procured using the World Bank's Consultant Guidelines.

44. **Capacity building, training programs, and workshops.** Training and capacity-building activities, including the development of capacity in the procurement units and user departments of the IAs, will take place for the staff who are directly involved in project procurement activities, to enhance their capability to manage the procurement process in compliance with both the World Bank's and Government's procurement guidelines. Training and capacity-building activities will include workshops, seminars, conferences, short-term courses, and on-the-job training. All training will be carried out on the basis of approved annual training plans that will identify the general framework of training activities for the year, including (a) the type of training or workshop; (b) the personnel to be trained; (c) the selection methods for the institutions or individuals conducting such training; (d) the institutions which will conduct the training; (e) justification for the training, that is, how it would lead to effective performance and implementation of the project and or sector; (f) the duration of the proposed training; and (g) the estimated cost of the proposed training. Reporting will be required by trainees upon completion of training.

45. **Operating costs.** Operating costs for the project are incremental expenses arising under the project and based on AWPs and the budget approved by the World Bank. Operating costs comprise the reasonable incremental expenses incurred by the IAs and approved by the World Bank that are attributable to project implementation, management, and monitoring, consisting of the following costs: office supplies and consumables; communication; operation and maintenance of office vehicles; per diem and travel costs for project staff; reasonable bank charges; and allowances and salaries of contracted staff (excluding salaries of the recipient's civil servants). These items will be procured using the IAs' administrative procedures, which are reviewed and found acceptable to the World Bank.

46. **PIM.** The procurement procedures and SBDs to be used for each procurement method, as well as model contracts for works and goods procured, are presented in the PIM.

Assessment of the Agencies' Capacity to Implement Procurement

47. Procurement activities under the project will be carried out by four entities: (a) MPYG; (b) MLEAA; (c) NITA; and (d) MSEA. The MPYG will also have the overall responsibility of project coordination and management. The project implementation will be supported by dedicated functions such as project management, procurement, FM/disbursement, communications, MIS, and M&E. These functions will be carried out by full-time personnel competitively selected or seconded to the project by the respective IAs.

48. An assessment of the capacity of the IAs to implement procurement actions for the project was carried out by the World Bank procurement team. The assessment reviewed the organizational structure for implementing the project and the interaction between the project's staff who are responsible for procurement duties and management of their respective agencies. The procurement units at the MPYG have a total of 5 procurement staff, out of a staff requirement of 8, MLEAA

has a total of 10 out of 16, NITA has 10 out of a requirement of 15, and the MSEA has 3 out of a total requirement of 6. Although some of the staff have the requisite qualifications and experience to manage Bank-funded operations the assessment found that there is less than sufficient capacity for an optimum operating procurement function in all the IAs.

49. The key issues and risks concerning procurement which have been identified and require mitigation include systemic weaknesses in the areas of (a) office infrastructure; (b) capacity of procurement staff in the implementation of Bank-financed operations; (c) procurement planning; (d) procurement process administration, including award of contracts; (e) contract management; and (f) procurement oversight. The corrective and/or mitigation measures which have been agreed are the following:

(a) After effectiveness, all entities to be equipped with sufficient basic office infrastructure such as computers, printers, photocopiers, and so on and reliable internet connectivity to facilitate project operations

(b) By effectiveness, prepare a PIM providing comprehensive and detailed but simplified procurement procedures and processes. The PIM will among others (i) define the roles and responsibilities of all officers who will be working in any aspect of procurement implementation of the project; (ii) set out the sequence and timeframe for the completion of procurement decisions of all procurement staff as well as for coordination of inputs from all other players in procurement implementation; (iii) establish service standards for processing of payments to suppliers and service providers; and (iv) set out the criteria for assessing staff who have received the relevant procurement skills and the appropriate indicators for assessing skills transfer.

(c) Establish separate effective tracking systems for (i) procurement plan implementation; and (ii) processing of payments to suppliers and service providers

50. Based on the findings of the procurement capacity assessment and taking cognizance of the limited experience, existing capacity, and insufficient office infrastructure of the agencies carrying out procurement under the project the overall project risk for procurement is assessed as High**.**

Procurement Plan

51. The IAs have prepared a procurement plan dated April 7, 2016 for project implementation which provides the basis for the procurement methods. The plan has been discussed and agreed between the agencies and the project team and will be posted in the World Bank's external website. The procurement plan will be updated in agreement with the project team annually or as required to reflect the actual project implementation needs and improvements in institutional capacity. The World Banks's review of procurement decisions will be provided in the procurement plan.

Frequency of Procurement Supervision

52. In addition to the prior review supervision to be carried out from Bank offices, annual supervision missions will be conducted to carry out post review of procurement actions undertaken.

Annex 4: Implementation Support Plan

Kenya: Youth Employment and Opportunities Project (P151831)

Strategy and Approach for Implementation Support

1. This implementation support plan (ISP) describes how the World Bank will support risk mitigation measures and provide the technical advice necessary to help the client achieve the PDO. This ISP also identifies the minimum requirements to meet the World Bank's fiduciary obligations. The ISP takes into consideration the fact that the initiatives under both the Improving Youth Employability and the Support for Job Creation components mark a significant shift in current procedures in NITA and the MSEA and that the project will operate in an inadequate capacity environment. As such it recognizes that the Government will benefit from increased hands-on technical support and capacity building, learning by doing, and exchange programs which will enable constructive dialogue to address emerging issues as both initiatives are rolled out.

Implementation Support Plan

2. There will be strong coordination between the World Bank and the MPYG, NITA, MSEA, and MLEAA, the parties responsible for the day-to-day administrative project management and implementation. Formal implementation support missions and field visits will be carried out semiannually, jointly with the Government, and focused on areas detailed below. Initially, these missions will focus on strengthening project management and fiduciary capacity in all four agencies and development of the operational guidelines and roll-out plan for the Improving Youth Employability and the Support for Job Creation components' initiatives and identification of synergies across both in areas of common interest (for example, awareness creation and intake, referral from one intervention to the others, development of an automated MIS, tracing of project beneficiaries, and so on). In later years, the missions will focus on reviewing progress toward achieving results and strengthening systems essential for ensuring sustainability. In addition to the joint implementation support missions, a midterm review will be carried out during the implementation to assess if the project design assumptions are still valid. Missions and reviews will be complemented by specific reviews that will include FM and procurement areas. Ongoing dialogue through audio conferences and email will ensure continuous monitoring of progress implementation and identification of areas in need of support.

3. The project will require intensive procurement and FM implementation support during the first year considering the lack of previous experience with IDA-funded projects for some of the IAs such as NITA and the MSEA. Support will be provided from the World Bank office in Nairobi where the senior procurement and financial specialists are based. Training will be organized periodically by the World Bank's FM and procurement specialists to help the ministries build their fiduciary and procurement capacity.

4. Support for M&E will be a priority area. Given the Government's high level of interest in building evidence on what works for job creation, a rigorous impact evaluation of the support for the self-employed and the business plan competition interventions will be carried out. The impact evaluation proposes to use an RCT to test not only the full package of services, but also different combinations of those interventions, using multiple treatment arms. The proposed design requires

careful attention to develop the identification strategy and to ensure that the implementation respects the initial design. The impact evaluation, which is further described in annex 6, will be designed jointly with the Government and summarized in a concept note before any data collection activities are started. This process will require intense engagement in the form of learning sessions on impact evaluations, workshops for evaluation design, testing of instruments, development of a ToR for data collection, and so on. In addition, the Government is interested in knowing more about the effectiveness of existing youth-targeted funding programs, including the bottlenecks youth face in accessing them, and the project will support implementation evaluations of key programs. Bank staff as well as external experts with expertise in impact and implementation evaluations will provide technical advice to the Government while also building their capacity.

Table 4.1. Implementation Support Plan

Time	Focus	Skills Needed	Resource Estimate
First twelve months	Awareness creation and intake	Knowledge in establishing a targeting and enrollment system	TBD
	MIS	ICT expert with knowledge of MIS	–
	Building procurement capacity and supervision	Procurement	–
	Building FM capacity	FM	–
	Preparation of detailed program OM for all interventions	Operational consultant	–
	Development of M&E system for Improving Youth Employability and the Support for Job Creation components' initiatives	M&E, including various types of evaluation (impact, process, spot checks)	–
	LMIS	Labor economist and LMIS expert	–
12–48 months	Impact evaluation	Impact evaluation	–
	Implementation of establishment and manpower surveys	Labor economist and survey design expert	–
	MIS enhancement and maintenance	MIS	–
	Building procurement capacity and supervision	Procurement	–
Other	–	–	–

5. Given the substantial FM risk for this project, special focus will be placed on risk mitigation using the following annual ISP:

Table 4.2. Annual Implementation Support Plan for FM

FM Activity	Frequency	FM Output
Desk Reviews		
IFRs review	Quarterly	Interim Financial statements review report
KYEOP audit report review	Annually	Audit review report
Review of other relevant information such as internal control systems reports	Continuous as they become available	FM review report
Onsite Visits	–	–

Review of overall operation of the FM system including internal controls.	Once every 12 months	FM review report
Monitoring of actions taken on issues highlighted in audit reports, auditors' management letters, internal audit, and other reports	As needed	FM review report
Transaction reviews (if needed)	Annually or as needed	FM review report
Capacity-building support		
FM training sessions	By effectiveness and thereafter as needed	Training sessions held

6. The skills needed and the estimated amount of time required are listed in table 4.3.

Table 4.3. Skills Mix Required

Skills Needed	Number of Staff Weeks per Year	Number of Trips	Comments
Procurement	8	–	Nairobi based
FM	8	–	Nairobi based
Operations	15	–	Nairobi based
BDS specialist	4	2	HQ
MIS	4	2	HQ
Business plan competition expert	4	2	International consultant
Labor market economist	4	2	HQ
LMIS	4	2	International consultant
M&E	6	2	6 in first two years, 4 in the subsequent years
Demand-driven training	6	2	International consultant First 2 years
Task team leader	10	2	Nairobi based

Annex 5. Economic Analysis

Kenya: Youth Employment and Opportunities Project (P151831)

1. The KYEOP has three components which are expected to directly impact beneficiaries' outcomes by (a) expanding piloted supply-side interventions to improve youth employability; (b) supporting demand-side interventions which have been effective in creating jobs in other African countries; and (c) producing and disseminating labor market data to reduce information asymmetries. These components do not lend themselves to traditional cost-benefit analysis, as the benefits are wide-ranging and there is limited evidence to indicate, ex ante, the anticipated effect sizes. The analysis in this section will make use of the best evidence available from literature to prospectively compare the costs and benefits of each component.

Analysis of Anticipated Costs and Benefits

2. For the purpose of this analysis, the benefits of each component are defined as the anticipated average increase in annual earnings as a result of program participation.[101] Although these activities are expected to result in other monetary (for example, increases in business assets) and non-monetary benefits (for example, improved human capital, women's empowerment), only expected increases in earnings will be included in the cost-benefit analysis. While the benefits of each subcomponent are estimated separately, it is expected that some beneficiaries will participate in more than one. When that happens, the impact of the combined interventions may be smaller or larger than the interventions in isolation.

3. The cost-benefit analysis rests on several assumptions. The percentage increase in earnings is based on the reported impacts of similar programs in Kenya or other countries in Sub-Saharan Africa. In cases where evaluations do not report the percentage increase in earnings for interventions targeting businesses, the percentage increase in profits is used as a proxy. Gender-differentiated effect sizes are utilized when available. The expected impacts are then compared to the estimated baseline earnings of KYEOP participants, which are derived using the 2013 STEP survey in Kenya and the 2005 Kenya Integrated Household Budget Survey.[102] All calculations assume a discount rate of 10 percent per year. Finally, calculations assume that 33 percent of beneficiaries will be female and 30 percent of beneficiaries will be from rural areas.

Table 5.1. Results of Economic Analysis

Component	Years to Recover Costs	IRR (%)	Studies Utilized to Estimate Expected Benefits
1. Improving Youth Employability	3–7	10–31	Honorati, M. 2015. The Impact of Private Sector Internship and Training on Urban Youth in Kenya.

[101] All prices in this analysis are reported in U.S. dollars. The anticipated average annual increase in earnings is calculated using the product of baseline earnings and the expected percentage increase in the earnings of beneficiaries.

[102] The 2005 Kenya Integrated Household Budget Survey data was utilized to estimate the urban to rural wage ratio for men and women separately (median urban wage/median rural wage). The 2013 STEP data was used to estimate the median urban wage for men and women who are self-employed and wage employees. The 2005 wage ratio was applied to the 2013 urban data to estimate the rural wage. Both wages and wage ratios are calculated using the median non-zero wage of individuals aged 16 to 29 years with less than post-secondary education levels.

Component	Years to Recover Costs	IRR (%)	Studies Utilized to Estimate Expected Benefits
2.1.1: Support for the Self-Employed: Business Start-up Grant	1–5	17–110	Blattman, C., N Fiala, and S Martinez. 2014. Generating Skilled Self-Employment in Developing Countries: Experimental Evidence from Uganda. Quarterly Journal of Economics. 129(2).
2.1.2: Support for the Self-Employed: BDS	2–5	16–75	Berge, L. I. O., K Bjorvatn, and B Tungodden. 2012. Human and Financial Capital for Microenterprise Development: Short-term and Long-term Evidence from a Field Experiment in Tanzania. Dartmouth University. Adoho, F., S Chakravarty, D.T Korkoyah, M.K Lundberg, and A Tasneem 2014. The Impact of an Adolescent Girl's Employment program: the EPAG project in Liberia. World Bank Policy Research Working Paper. (6832).
2.2: Business Plan Competition	6–11	5–13	McKenzie, D. 2015. Identifying and Spurring High-Growth Entrepreneurship. Policy Research Working Paper Series 7391. The World Bank.

4. **Component 1: Improving Youth Employability.** Component 1 is based on a pilot program implemented under the KYEP conducted from 2012 to 2014 and the cost-benefit analysis is based on these results. The KYEOP will make several changes to the pilot program, including expanding the geographic reach of the program to include rural areas, shifting the responsibility for implementation to the MPYG and NITA, and improving the curriculum of the program. As the pilot found limited changes in earnings for self-employed individuals, the KYEOP will also expand support for this population. Although these design changes are likely to reduce the costs of the program, the impact on benefits is unknown and, hence, the analysis assumes the same level of costs and benefits as the KYEP pilot. While the pilot observes increases in earnings for men and women on average, the results for men are not statistically significant. Using a range of estimates from the KYEP impact evaluation, an IRR between 10 and 31 percent is estimated, implying that it would take between 3 and 7 years to recover the cost of investment in each beneficiary through his/her improved earnings.[103]

5. **Subcomponent 2.1. Support for Self Employed: Business Start-up Grants.** For this subcomponent, the estimated increase in earnings is based on data from a study conducted in rural Uganda between 2008 and 2012 (Blattman 2014)[104]. The study was selected because it uses an RCT to examine the effects of an unconditional grant (the Youth Opportunities Program) distributed to individuals aged 18 to 35 years, the only example of such an evaluation in Sub-Saharan Africa. The program also offered beneficiaries a similar grant size, US$382, to that proposed for the KYEOP. However, the baseline earnings of the beneficiaries in the Ugandan study were far lower than those estimated for Kenya. Hence it is expected that the percentage increase in earnings for the KYEOP will be lower. To account for this, the analysis uses benefit-per-dollar estimates from the Ugandan study, in addition to the percentage increase in earnings, to determine a range of potential returns on investment: it is estimated that an IRR between 17 and

[103] Both the intent-to-treat and average-treatment-on-treated estimates as reported in Honorati (2015) are used to derive the range of estimates. The results are weighed by the proportion of beneficiaries who are self-employed versus wage employed and assume that 33 percent of beneficiaries will be female.
[104] The program offered unsupervised grants, but beneficiaries had to apply as a group and submit proposals for vocational training and business start-up. In preparing the proposal, groups selected their own trainer.

110 percent and expect that it will take between 1 and 5 years to recover costs through improved earnings for beneficiaries. Notably, the program in Uganda observed several other positive results which are not included in the cost-benefit analysis: improvements in business practices and formalization, increases in business assets and non-durable consumption, and limited hiring of additional labor by beneficiaries.

6. **Subcomponent 2.1 Support for Self-Employment: BDS.** In 2013, McKenzie and Woodruff (2014[105]) reviewed a wealth of studies of BDS offered to various target beneficiaries and various industries around the world. While most studies observe an improvement in business practices, changes in profits vary greatly based on the specific context. There are two rigorous studies from Sub-Saharan Africa that are relevant. However, they report vastly different results. A BDS program conducted through a microfinance institution in Tanzania (Berge 2012[106]) uncovered benefits for men, including improvements in happiness and business practices and increases in sales, short-term profits, and loans taken. Training was found to have a larger influence than grants on business performance. However, women reported no increases in profits. In contrast, a BDS program for adolescent girls in Liberia (Adoho, 2014[107]) found significant positive benefits for participants' earnings. Using these two studies as the upper and lower bounds of expected impact, the estimated IRR ranges from 16 to 75 percent and the time to recoup investment is between 2 and 5 years.

7. **Subcomponent 2.2 Catalytic Interventions for Job Creation: Business Plan Competition.** For this subcomponent, the estimated increase in earnings is based on data from a business plan competition in Nigeria, on which the business plan competition in Subcomponent 2.2 of the KYEOP was modeled. The benefits of the program include increased earnings among existing employees of winning firms, as well as the earnings of newly hired employees, assuming that the newly hired employees are paid the same average wage of existing employees. To allow a more conservative estimate which considers inclinations toward investment in the early years of a firm, we also calculate benefits assuming that earnings do not increase. Thus, considering wages of new hires and allowing for a range of potential increases in wage rates produces an estimated IRR between 5 and 13 percent, such that it will take between 6 and 11 years to recoup the investment through earnings. In Nigeria, the program was found to increase the likelihood of a firm having 10 or more workers, in addition to increasing the likelihood of a firm's start-up and survival. The program also appeared to reduce the gender gap in firm survival rates.

8. **Component 3: Labor Market Information.** This component is intended to increase the availability of LMI to job seekers and employers, making it difficult to conduct an ex ante cost-benefit analysis. Better information will allow individuals to take advantage of arbitrage opportunities and improve career aspirations and human capital investments, as individuals will be more aware of the returns associated with their skills. Through better education and career

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105 Mckenzie, David, and Woodruff, Chris. 2014. "What are we learning from business training evaluations around the developing world?", World Bank Research Observer, 29(1): 48-82, World Bank, Washington, DC
106 Berge, L. I. O., K Bjorvatn, and B Tungodden. 2012. Human and Financial Capital for Microenterprise Development: Short-term and Long-term Evidence from a Field Experiment in Tanzania. Dartmouth University
107 Adoho, F., S Chakravarty, D.T Korkoyah, M.K Lundberg, and A Tasneem 2014. The Impact of an Adolescent Girl's Employment program: the EPAG project in Liberia. World Bank Policy Research Working Paper. (6832).

choices, employers may benefit from improved human capital and employees may benefit from higher earnings and job satisfaction.

Rationale for Public Sector Financing

9. This project proposes government support for a market-driven approach to increasing employment and opportunities for the youth. The Government has demonstrated commitment to youth employment through its NYES, the priorities established in Vision 2030, the creation of funding organizations for start-ups, and affirmative action in procurement contracts for youth, women, and disabled people.

10. Kenya's economic growth is constrained by the inability of the economy to create enough jobs to absorb the growing population of young people joining the labor market. While youth in urban areas face higher unemployment rates than older adults, youth in rural areas are often under-employed, which contributes to poverty and poses a risk to political stability. Youth are also more likely to be employed in the informal sector, which offers lower earnings and limited access to social protection. Employment issues are compounded for young women, as women with less than tertiary education levels experience longer spells of unemployment.

11. The risk involved with public investment in training, start-ups, and small business expansion is that it could impede private sector involvement. The private sector has had limited incentives to address the credit constraints and information asymmetries that have limited job creation and created structural and frictional unemployment. However, this program targets the young and poor, who are particularly vulnerable to these credit constraints due to limited collateral and work experience and are less likely to be able to access private sector opportunities. Thus, public involvement is necessary to (a) provide stipends for unaffordable high-quality training; and (b) invest in businesses owned by young people who are credit constrained, thereby creating jobs. Additionally, public sector financing does not preclude private sector involvement in service delivery. The project aims to involve the private sector in implementation by funding private training providers and hiring a private entity to manage the business plan competition.

12. Government intervention is also crucial to overcome existing information asymmetries in services currently available to young people. Component 1 includes vocational education, internships, and apprenticeships. Although these services are currently available, they are limited in quality and quantity by inefficient matching mechanisms, in which trainers and interns are matched by word of mouth. Further, trainers vary in quality of skill, technology utilized, and pedagogical practices. By assessing and certifying trainers, the proposed program will provide trainees with a signal for the quality of the trainer, which will both facilitate better matches and potentially encourage more trainees to enter the market. Similarly, creating quality BDS under Component 2 can result in higher demand for such services, generating a virtuous cycle in which BDS improve as well. Component 3 allows for production and dissemination of information and statistics to better inform decision making for policy makers, hiring decisions for firms, and career path decisions for individuals. The LMIS will serve as a public good, providing information which private firms may not be individually incentivized to collect and share, hence justifying the Government's involvement.

13. Finally, the Government, several NGOs, companies, and community organizations have attempted to improve youth employment by offering grants, mentorship, and training opportunities. However, many youth, particularly poor and vulnerable youth, remain unaware of these opportunities, highlighting the need for public involvement in awareness activities.

Rationale for Bank Involvement

14. The proposed program is strongly aligned with the World Bank's Kenya CPS and is a natural extension of the World Bank's earlier support for social protection initiatives. The World Bank has acquired knowledge and experience through its active involvement in implementing and evaluating similar programs in Nigeria, Liberia, and Kenya itself.[108] Thus, in addition to granting financial support, the World Bank can convene interested and capable stakeholders and provide knowledgeable technical assistance on project design, with insights as to which interventions make a program successful in a range of environments.

15. While several existing government programs have attempted to improve the quantity and quality of youth employment opportunities, the effectiveness of these programs is unknown and often demonstrated through anecdotal evidence. The World Bank has expertise in implementing, monitoring, and rigorously evaluating programs and in operationalizing such systems (through MIS, spot checks, process and implementation assessments, and beneficiary satisfaction surveys) such that programs are self-sufficient in this regard. Thus the World Bank's involvement will improve initial program design as well as long-term effectiveness.

16. The rationale for using World Bank funding for financing business grants instead of relying on private sector credits is threefold. First, as in many other developing countries, financing for young entrepreneurs is very limited –largely because it is considered too risky. Second, soft credit schemes do exist in Kenya (largely subsidized by the Government), but have a very weak track record. As part of component 4, the project will aim to better understand how to improve these programs. Initial evidence suggests that, if subsidized by government, the transaction costs are very high, and take-up very low (especially for this project's target group). For this targeted group, financial access in general is very limited. Finally, existing evidence, while limited, seems to be more favorable for grants rather than credits –especially among this project's target group. This said, the evidence is still fairly limited, and therefore, the grants schemes envisioned under this project will be rigorously evaluated, both for the self-employed and for the business competition awardees.

[108] Since 2005, the World Bank has supported the Government in delivering a flagship social protection initiative, the Cash Transfer for Orphans and Vulnerable Children (CT OVC) Project. In 2013, the World Bank worked closely with the Government and other development partners to launch the Kenya National Safety Net Program. The program, financed through a Program for Results instrument, was underpinned by the development of the Kenya National Social Protection Policy (2012), an initiative also supported by the World Bank. Moreover, as noted in earlier sections, the World Bank previously supported the implementation of a pilot youth training and internship program as part of the KYEP.

Annex 6: Impact Evaluation

Kenya: Youth Employment and Opportunities Project (P151831)

1. The project will include rigorous impact evaluations of Subcomponents 2.1 (Support for the Self-Employed) and Subcomponent 2.2 (Catalytic interventions for job creation). These subcomponents were prioritized for impact evaluation because there is relatively less evidence for these interventions in Kenya, whereas Component 1 (Improving Youth Employability) already builds upon a successful impact evaluation of the pilot during the KYEP. The high degree of innovation, complexity, and risk involved in undertaking these new initiatives merits the use of impact evaluation to systematically identify whether these activities are achieving their intended outcomes and are offering value for money.

2. The detailed methodology for each impact evaluation will be jointly designed by the World Bank and the Government, but in principle the use of RCTs has already been agreed upon. RCTs are considered the gold-standard approach for establishing the causal impacts of a development intervention and the evidence derived from RCTs will be directly applicable to government decision making on the continuation and/or scaling up of these initiatives after the project period. The results of these impact evaluations will also serve as a public good by contributing to the burgeoning evidence base in Africa on effective approaches to support self-employment of poor youth and on the sex-disaggregated impacts of such programs.

3. **Subcomponent 2.1 (Support for the Self-Employed).** This subcomponent will provide start-up grants to 30,000 youth-led businesses and will provide BDS to 8,000 youth entrepreneurs. Half of the beneficiaries of Subcomponent 2.1 will be a subset of youth who complete the on-the-job training under Component 1, while the other half will be youth who apply directly to the program. Further, half of the BDS beneficiaries will be selected from those who receive start-up grants. Finally, males and females will each comprise 40 percent of the beneficiaries for this component. To test the impact of these interventions, assuming adequate oversubscription to the program, a subset of Subcomponent 2.1 beneficiaries will be randomly assigned to one of four experimental arms: Grant only, BDS only, Grant and BDS, and Control (no services). Furthermore, the analysis will be disaggregated by gender and by participation in Component 1. Impacts on firm creation, survival, and productivity will be assessed at least six months after the intervention period. This experimental design will allow the project to answer the following questions: What is the optimal combination of capital and skills to assist young entrepreneurs to start businesses? Is support for self-employment enhanced by offering vocation-specific skills training in advance of starting a business? What are the relative impacts on male and female youth?

4. **Subcomponent 2.2 (Catalytic Interventions for Job Creation).** An impact evaluation will be conducted on the business plan competition under this subcomponent. The business plan competition will seek between 3000–5000 applications. Among these, the program will provide an intensive training for 1000–1500 high-potential young entrepreneurs to develop business plans, which will be judged through a blind review.[109] Up to 500 winning plans will receive prizes. Randomization will be conducted among proposals above a threshold (that is, top 30–35 percent).

[109] Blind review means that the judges will not know the identity of the firm behind the business plan. In addition, the judges will review the proposals independently.

Among those selected, a second randomization will cap grants at US$18,000 for one group and US$36,000 for the other, in order to assess if one can fund only smaller grants without losing much in terms of impact. Outcomes such as firm survival, productivity, number of (youth) employees hired, and wages of employees will be measured at least 6 months after the prizes are awarded. Results will be disaggregated by the age and gender of the entrepreneur and employees. This experimental design will be able to answer the following questions: To what extent is lack of access to start-up and scale-up finance a barrier to young companies in Kenya? Does providing capital to young companies improve their potential for growth and their ability to create jobs for vulnerable youth? How does the provision of additional support to AGPO enhance or detract from the impact of the award?

5. At least two rounds of surveys will be conducted for each of these impact evaluations: (a) at baseline, before any project activities have begun, but after the pool of eligible applicants has been identified; and (b) at least 6 months after the program has been delivered. An independent firm will be contracted to conduct the surveys and the World Bank will provide technical assistance to the Government on the design, supervision, analysis, and dissemination of the research.

Annex 7: Project Budget

Kenya Youth Employment and Opportunities Project

Table 7.1. Project Budget by Implementing Agency

Agency	FY16/17–19/20 (US$, millions)
NITA	58.0
MSEA	25.2
MLEAA	13.5
MPYG	53.3
TOTAL	**150.0**

Table 7.2. Project Budget by Component

Component 1: Improving Youth Employability						
Subcomponent 1.1: Provision of Training and Work Experience in the Formal Sector						
	Activities	**Total cost US$**	**Expected output**	**Expected contract signing date**	**Expected date for output finalizati on**	**Comments**
	Baseline survey	131,800.00	Report on training needs assessment	7/1/2016	7/21/2016	Update on Training Needs Assessment, productive sectors per county
	Orientation and delivery of life skills training	4,270,000.00	35,000 youth trained	7/1/16	Ongoing to June 2020	Training & stipends/MPY G
	Delivery of core business skills training	4,2702,000.00	35,000 youth trained	7/1/2016	Ongoing to June 2020	Training, stipends/MPY G
	Group labor market counseling of trainees and selection of formal sector	350,000.00	35,000 youth	7/1/2016	Ongoing to June 2020	LMI counseling
	Delivery of technical skills training	9,270,000.00	30,000 youth trained	7/1/2016	Ongoing to June 2020	Training, stipends
	Provision of internships	10,522,200.00	30,000 youth internships provided	11/1/2016	Ongoing to June 2020	Employer and trainee stipends
	Graduation and referral counseling	150,000.00	30,000 youth undergo graduation and referral counseling	1/1/2017	Ongoing to June 2020	Certification, referrals to component 2
	NITA capacity building	720,000.00	NITA's staff trained	Ongoing from July 2016	Ongoing to June 2020	Training, per diems

	PIU operations for subcomponents 1.1 and 1.2	5,000,000.00		Ongoing from January 2016	Ongoing to June 2020	Salaries, operating cost
	Project monitoring and evaluation	1,720,000.00	2 BA's, MIS, 8 tracer studies	Ongoing from March 2016	Ongoing to June 2020	–
	Subtotal 1.1	**36,272,200.00**	**–**	**–**	**–**	**–**
Subcomponent 1.2: Provision of Training and Work Experience in the Informal Sector						
	Orientation and updating skills of master craftsmen	500,000.00	1000 master craftsmen certified	7/1/16	7/1/17	–
	Development of new competency standards for traditional apprenticeships	60,000.00	20 new apprenticeship standards	Ongoing from July 2016	7/1/2018	–
	Updating of existing competency standards for traditional apprenticeships	75,000.00	30 updated apprenticeship standards	Ongoing from July 2016	7/1/2018	–
	Orientation and delivery of life skills training	4,270,500.00	35,000 youth trained	7/1/2016	Ongoing to June 2020	Training, stipends/MPYG
	Delivery of core business skills training	4,270,500.00	35,000 youth trained	7/1/2016	Ongoing to June 2020	Training, stipends/MPYG
	Group labor market counseling of trainees and selection of informal sector	350,000.00	35,000 youth	7/1/2016	Ongoing to June 2020	–
	Delivery of technical skills training and internship on-the-job	26,400,000.00	40,000 youth trained	8/1/2016	Ongoing to June 2020	–
	Graduation and referral counseling	200,000.00	40,000 youth internships	1/1/17	Ongoing to June 2020	–
	Sub-total 1.2	36,125,000.00	–	–	–	–
	TOTAL	72,397,200.00	–	–	–	–
	Contingency	2,600,800.00	–	–	–	–
	TOTAL Component 1	**75,000,000.00**	–	–	–	–
	Component 2: Support for Job Creation					
	Subcomponent 2.1 : Support for the self-employed					
	Business start-up grants	12,000,000	Increased access to income generating activities for targeted youth.	n.a.	Ongoing to June 2020	Grants

	Delivery of BDS	5,000,000	Improved productivity in youths’ business through better entrepreneurship skills, mentorship and advice	Jul-16	Ongoing to June 2020	BDS value Contracting with providers Training of trainers Stipends
	Operational costs for start-up grants and BDS	2,700,000	Effective and efficient achievement project targets	n.a.	Ongoing to June 2020	PIU costs Beneficiary selection Consultancies Marketing and Communicatio n Motor vehicles and Office equipment Study Tour Capacity Building
	Component monitoring and evaluation	1,000,000	2 beneficiary assessments, MIS, visits and regular phone surveys with BDS providers and beneficiaries of grants and BDS to check on delivery of services	n.a.	Ongoing to June 2020	Consultancy, transport costs, operating costs of regular checkups MIS Grievance mechanism
	BDS and grants follow-ups by MPYG	300,000	Visits and focus groups with beneficiaries of grants and BDS	n.a.	Ongoing to June 2020	Operating costs of regular checkups/MP YG
	Contingency	**1,000,000**	–	–	–	For operating costs or for additional start-up grants
	Subtotal 2.1	**22,000,000**	–	–	–	
	Subcomponent 2.2 : Catalytic interventions for Job Creation					
	Business plan competition’s Firm Contract, AGPO BDS and operational costs	3,500,000	Independent firm to manage the BPC hired	May-16	Ongoing to June 2020	PIU costs, Consultancies Motor vehicles and Office equipment Study Tour AGPO BDS for youth entrepreneurs

						Grievance mechanism
	Business plan competition awards, monitoring by MPYG and public ceremonies	14,000,000	Awards to firms disbursed and recognized publicly	n.a.	Ongoing to June 2020	Grant Awards and cost of Monitoring/ Ceremonies/MPYG
	Innovation challenge for the Hard – to-Serve: Firm contracts to design and manage the competition, individual consultants and operational costs	800,000	Independent firm to manage the innovation challenge hired (US$550,000). Individual consultants (social enterprise expert and innovation challenge manager) hired	May-16	Ongoing to June 2020	Consultancies, Monitoring, Outreach, Communication, Grievance mechanism
	Innovation challenge for the Hard-to-Serve: Awards	1,200,000	Expanded economic opportunities to youth who are hard to serve	n.a.	Ongoing to June 2020	Grants
	Sub-total 2.2	**19,500,000**	–	–	–	–
	TOTAL Component 2	**41,500,000**	–	–	–	–
Component 3: Labor Market Information Systems						
Activity 1: Identification of LMIS Users and specify their LMI Needs						
	Identification of information needs of users of LMIS	60,000.00	Reports on need of LMIS users	Feb-16	Apr-16	User needs, Data Dictionary, gaps and inconsistencies in available data, and so on
	An assessment of MIS of Entities with Administrative Data relevant for LMIS	72,000.00	Report about (1) User Requirements Specification (URS): (2) Technical Environment Specification (TES):	Feb-16	Apr-16	Documentation of user requirements for the system and the technical environment

	Modification of the MIS of entities with administrative data	108,000.00	Standardized MIS interface for sharing of administrative data	Jun-16	Oct-16	–
	Development of MIS for LMI in the Ministry of Labor and East African Affairs	108,000.00	Comprehensive MIS Complete with the Administrator and User's manual	Jun-16	Oct-16	–
	Validation Workshops of Consultant's Reports	120,000.00	Validation of Consultants Reports	Jun-16	Oct-16	Workshops and related costs
	Activity 1 total	**468,000**	–	–	–	**–**
Activity 2: Production of LMIS Content						
	Engage Technical advisor to guide in the overall development of LMI Content	44,000.00	DHRP&D staff members are equipped to produce and disseminate LMI Content	Aug-16	Aug-16	Recruitment of consultant and fees
	Staff Short-Term Training Local in interactive data analysis; Monitoring and Evaluation;	162,000.00	18 staff members trained in three short term courses of 20 days each	Sep-16	Ongoing to Decembe r 2016	Training of staff including in Manpower Projections; Strategic Leadership
	Staff Long-Term Training Local in Applied Statistics, Research Methods,	24,000.00	4 staff members trained in 4 long term courses of 200 days each	Sep-16	Ongoing to Decembe r 2018	Training of staff including in Policy Analysis, Labor Economics, Human Resource Planning
	Staff Short-Term Training International in Labor Market Statistics and Analysis's	70,000.00	10 staff members trained overseas for 2 weeks each	Sep-16	Ongoing to Decembe r 2016	Training to include Labor Market Information: Business Establishment Survey; Measuring Productivity, and so on.
	Staff Long-Term Training International in Applied Labor Economics for Development	1,500,000.00	4 staff members trained	Sep-16	Ongoing to Decembe r 2018	Training and fees

	Exchange Program with LMIS office in Overseas Country	72,000.00	4 DHRP&D staff members are familiar with international best practice	May-16	Ongoing to June 2020	Travel and related costs
	Regional Study Tours	12,900.00	5 staff members are familiar with regional best practice	Jan-17	Ongoing to June 2020	Travel and related costs
	International Study Tours	24,570.00	5 staff members are Familiar with international best practice	Apr-17	Ongoing to June 2020	Travel and related costs
	Procure software package	25,000.00	LMIS unit has the necessary working tools to produce LMIS content	Jul-16	Jul-16	–
	Procure Hardware	160,000.00	LMIS unit has the necessary ICT equipment to produce LMIS content	Jul-16	Jul-16	–
	Refurbish LMIS Unit	50,000.00	LMIS Unit is fully furnished and operational	Jul-16	Jul-16	–
	Workshops for Stakeholder Engagement	64,000.00	Stakeholder commitment to provide necessary support and data to the LMIS	Jul-16	Ongoing to June 2020	Conference, travel and related costs
	Data gathering from existing data sources	120,000.00	Agreed procedures, templates and data sharing protocols and agreements	Jul-16	Dec-16	Consultation, research and validation costs
	Collecting Primary Data through Establishment Survey	2,000,000.00	Information on skills and occupations in demand	Jul-16	Dec-16	Consultation, research and validation costs
	Manpower Survey	3,450,000.00	Manpower Profile, Projections and Skills Inventory	Jul-16	Dec-16	Consultation, research and validation costs
	Informal Sector Survey	2,000,000.00	Profile of skills and occupations prevalent in the informal sector	Jul-16	Dec-16	Consultation, research and validation costs
	Domestication and localization of ISIC	600,000.00	ISIC domesticated and localized	Jul-16	Dec-16	Consultancy and validation forum costs
	Revision of Kenya National Occupational Classifications Standard (KNOCS)	1,000,000.00	KNOCs is revised	Jul-16	Dec-16	Consultancy and validation forum costs

	Analysis of various datasets	135,000.00	Analytical Reports	Jul-16	Dec-16	Consultancy and validation forum costs
	Total Activity 2	**11,909,470.00**	–	–	–	–
Activity 3: Dissemination of LMIS Content and Awareness Creation						
	Development of a Communications Strategy	36,000.00	Strategy	Jul-16	Aug-16	Consultancy
	Publishing LMI in Print Media	40,000.00	Full page LMI in a mainstream newspaper	May-16	Ongoing to June 2020	Media costs
	Airing of LMI outlook on Electronic Media	40,000.00	Electronic broadcast of LMI outlook	Jul-16	Ongoing to June 2020	Media costs
	Publishing and Printing of Reports	100,000.00	Printed Reports	Jul-16	Ongoing to June 2020	Printing and dissemination
	National Labor market Information Conference	400,000.00	Public is aware of the current status of the Labor Market	Jul-16	Jul-16	Conference, travel
	Stakeholder Awareness and Training Workshops	500,000.00	Public is informed about the content and purpose of the reports	Aug-16	Ongoing to Decembe r 2019	Conference, travel
	Total Activity 3	**1,116,000.00**	–	–	–	–
	Total	**13,025,470.00**	–	–	–	–
	Contingency	**474,530.00**	–	–	–	–
	Total Component 3	**13,500,000.00**	–	–	–	–
	Component 4: Strengthening Youth Policy Development and Project Management					
	Subcomponent 4.1: Building youth employment policy development capabilities					
	Train Youth Officers on Policy Development and Policy Review.	150,000.00	100 Youth Officers trained	Ongoing from July 2016	Ongoing to June 2020	Training courses at KIPPRA/KSG
	Train Youth Officers on Project Management	500,000.00	20 Officers trained in Project Management	Ongoing from July 2016	Ongoing to June 2020	Training courses at KSG/ESAMI
	Develop National Youth Internship Policy	100,000.00	Draft Policy Written	7/1/2016	6/1/2017	Individual consultancy/D YA
	Review the National Youth Policy	100,000.00	Revised Policy	7/1/2016	6/1/2017	Individual consultancy/D YA
	Develop Youth Mainstreaming Policy	100,000.00	Draft Policy Written	7/1/2016	6/1/2018	Individual consultancy/D YA
	Hold validation and consultation forums for policy development/policy review	150,000.00	5 validations forums convened annually	Ongoing from July 2016	Ongoing to June 2020	Transport, Conference and Printing costs

	Printing and dissemination of policies	200,000.00	1,000 copies of three policy documents published and disseminated	Ongoing from July 2016	Ongoing to June 2020	Transport, Conference and Printing costs
	Subcomponent 4.1	**1,300,000.00**	**–**	**–**	**–**	**–**
	Subcomponent 4.2: Building capacity for monitoring and evaluation of youth employment policies and programs					
	Design and process evaluation of Government youth empowerment funds (YEDF and UWEZO) barriers and constraints faced by youth in accessing Government funds	250,000.00	2 Process evaluations completed	7/1/2016	12/1/2016	consultancy/DYA
	Conduct impact evaluation of start-up grants and BDS under component 2	1,000,000.00	Impact evaluation completed	7/1/2016	6/1/2018	Consulting firm
	Conduct impact evaluation of business plan competition for high-potential job creators under component2	1,000,000.00	Impact evaluation completed	1/1/2017	6/1/2020	Consulting firm
	Publish and disseminate reports (a) youth empowerment funds, (b) impact evaluations of startup grants and BDS (c) impact evaluation of business competition for high potential hob creators and (d) barriers and constraints faced by youth in accessing Government funds	500,000.00	1,500 copies of impact and process evaluations published and disseminated	Ongoing from July 2016	Ongoing to June 2020	Transport, communication, conference costs, printing and publishing
	Subcomponent 4.2	**2,750,000.00**	**–**	–	–	–
	Subcomponent 4.3: Project Management and Coordination					
	Hire of personnel for Project Coordination Unit	1,500,000.00	10 PCU staff hired and working in PCU	7/1/2016	12/1/2016	Salaries and remuneration

	Equipment for Project Coordination Unit	150,000.00	Equipment procured	7/1/2016	12/1/2016	ICT equipment (computers, laptops, printers)
	Capacity building of PCU	150,000.00	50 staff in PCU and DOYA HQ trained	Ongoing from July 2016	Ongoing to June 2018	Training
	Transport and communication	2,000,000.00	Vehicles procured	Ongoing from July 2016	Ongoing to June 2018	Vehicles
	Develop communication strategy	200,000.00	Communication Strategy Produced	7/1/2016	12/1/2016	Individual consultancy
	Implementation of communication activities	700,000.00	5 media campaigns completed annually	Ongoing from July 2016	Ongoing from June 2020	Develop and produce IEC material, media publicity and stakeholder forums
	Sub component 4.3 (a)	**4,700,000.00**	–	–	–	–
	Develop manuals/guidelines for the intake process	100,000.00	Manuals and guidelines produced	7/1/2016	12/1/2016	Manual preparation, Printing
	Develop Project-wide MIS (including for intake process)	750,000.00	MIS system developed and functional	7/1/2016	9/1/2016	Firm consultancy, Software maintenance and upgrade
	Sensitize Youth Officers/County Government Officers on KYEOP	6,000,000.00	Youth officers trained on KYEOP	Ongoing from July 2016	Ongoing to June 2017	Transport Conference, Training materials
	Engage data clerks/interns at 290 sub-county youth offices for data entry(two data clerks/interns per sub-county)	350,000.00	Data Clerks contracted	7/1/2016	8/1/2016	Stipend
	Social Safeguards monitoring	350,000.00	Monitoring and evaluation of implementing the VMGF;	Ongoing from July 2016	Ongoing June 2020	Transport, workshops for stakeholder consultations, training materials
	Train Youth Officers and data clerks/interns on MIS for intake	700,000.00	Youth officers trained on MIS	Ongoing from July 2016	Ongoing to June 2018	Transport, conference, training materials

	Sensitize youth on component 1 and 2, and provide sensitization on catalytic funds	2,500,000.00	200,000 Youths trained on catalytic funds	Ongoing from July 2016	Ongoing to June 2018	Transport, conference, training materials
	Coordinate application and publicity for Component 1 and 2	500,000.00	Youths enrolled and referred to Components 1 and 2	7/1/2016	Ongoing to June 2020	Local level advertisements Delivery of forms, Printing of application forms
	Sub component 4.3 (b)	**11,250,000**	**–**	**–**	**–**	**–**
	Total for Component 4	**20,000,000.00**	**–**	**–**	**–**	**–**