

**PROJECT INFORMATION DOCUMENT (PID)  
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC29055

<b>Project Name</b>	Digital Entrepreneurship Kenya
<b>Region</b>	AFRICA
<b>Country</b>	Kenya
<b>Sector(s)</b>	General information and communications sector (70%), General industry and trade sector (30%)
<b>Theme(s)</b>	Micro, Small and Medium Enterprise support (90%), Technology diffusion (10%)
<b>Lending Instrument</b>	Lending Instrument
<b>Project ID</b>	P156466
<b>Borrower Name</b>	iHub
<b>Implementing Agency</b>	iHub
<b>Environment Category</b>	C - Not Required
<b>Date PID Prepared</b>	03-Nov-2015
<b>Estimated Date of Approval</b>	04-Jan-2016
<b>Initiation Note Review Decision</b>	The review did authorize the preparation to continue

**I. Introduction and Context**

**Country Context**

Despite achieving lower middle income status in 2012, according to revised national statistics released on September 30, 2014, and a decline in poverty rates from 47% in 2005 to 34-42% recently, Kenya still faces high income inequality. The World Bank Group's Country Partnership Strategy (CPS) states that Kenya has great potential from its growing and youthful population, a dynamic private sector, a new constitution, and its pivotal role in East Africa, to be one of Africa's success stories. However, the country is facing challenges of poverty, inequality, governance, low investment and low firm productivity to achieve rapid, sustained growth rates that will transform the lives of ordinary citizens.

Kenya has established itself as an important regional player on the continent but its GDP growth lags in comparison to its Sub-Saharan African (SSA) peers. Additionally, 9 out of 10 Kenyans do not live in Nairobi and do not work in the modern services sector. Having a small part of the economy pulling up the rest will not be enough to meet Kenya's development expectations and maintain its regional strength. Medium-term prospects will depend on macroeconomic stability with credible policies, increased investments in infrastructure and human capital. A stronger global economy will revive demand for Kenya's exports and investment flows. The CPS envisages an investment of \$4 billion over the next four years to support Kenya's potential for growth, create jobs for the youth, build vital infrastructure and devolve power to regional communities to end extreme poverty and share prosperity among all Kenyans.

Upon expiration of the Economic Recovery Strategy for Wealth and Employment Creation (ERS), the Government of Kenya (GoK) launched a long-term development plan, Vision 2030, to set objectives to achieve middle-income status and transform Kenya into a newly-industrializing country with a globally competitive and prosperous economy and high quality of life. Kenya's economic model has not been particularly inclusive, thus fueling a devolution initiative as part of Kenya's Constitution 2010 to address disparities in development between regions and improve equity in access to social and economic services at a county level.

Other efforts to meet the Vision 2030 objectives include promoting innovation which fosters economic development by facilitating technology adoption, improving productivity, and as a result increasing competitiveness, employment, and wages. Innovation is widespread in Kenya, but it is also small and incremental with limited impacts on the economy. To achieve greater impact, Kenya must integrate science, technology and innovation (STI) in all aspects of its social and economic development, including sectors which contribute significantly to the economy, such as manufacturing and tourism, and upskilling populations outside of Nairobi. In this regard, STI will be critical to the socio-economic transformation of the country and region.

### **Sectoral and Institutional Context**

#### **Sectoral Context: Importance of the Digital Economy**

Being at the forefront of disruptive technologies and innovative solutions globally, the digital economy is emerging as a crucial force for driving structural change, reducing inequality and strengthening social inclusion.

While difficult to distinguish, the digital economy can be broadly understood to cover ([odec.org.uk/the-concept-of-a-digital-economy/](http://odec.org.uk/the-concept-of-a-digital-economy/)):

- ICT infrastructure (hardware, software, telecoms, networks, etc.),
- digital business (organizational processes conducted over computer-mediated networks). For example, when wind mills are networked, software can adjust the blades on each one to optimize the efficiency of wind mills nearby,
- digital commerce (including electronic trade and transfer of services and goods). Both business-to-business and business-to-consumer transactions increase the availability of goods in both locally and in cross-border markets and reduce the cost of trade.
- digital services, including, for instance, delivery of government services such as health education, and business licenses, as well as tools for transparency, accountability and consumer protection such as tracking of tax payments and issuance of food safety certifications.

The digital economy contributes significantly to GDP in many countries, being part of the broader services sector which contributes more than half of economic growth in Africa. Africa has become the world's second most connected continent by mobile subscriptions expected to hit 1 billion by 2016 and In Sub-Saharan Africa, the mobile industry is expected to be valued at US\$119 billion in 2020 (from estimated US\$60 billion in 2012).

The GoK acknowledges that inclusive growth at rapid sustained rates will require strengthened support of innovation, entrepreneurship, ICT and digital solutions. The GoK Vision 2030 recognizes ICT as a foundation for economic development and the aims of the Kenya ICT

Masterplan is for the country to be an ICT hub and globally competitive economy. There has been “remarkable growth in the ICT sector particularly in the mobile sector, which by September 2013, had 31.3 million subscribers and a penetration of 76.9 percent. At the same time, there were 25.1 million mobile money subscribers and an estimated 19.1 million Internet users with 47.1 per 100 inhabitants having access to Internet services.”

Based on these trends related to digital economy, the Kenya ICT Masterplan has set ambitious outcome targets by 2017:

- 8% ICT contribution to GDP
- Creation of 180,000 direct jobs
- 37 successfully commercialized ICT applications with at least two being transformative
- 55 ICT companies established, two of which will have a customer base of over 5 million
- Improved global competitiveness by moving up 15 points on GII, e-Government and NRI ranking
- Recognition of Kenya as a regional ICT hub
- Increased public value of e-Government services with 50% of adults accessing at least one e-Government service
- ICT is classified as a standalone economic sector by 2016

The ICT Masterplan has an emphasis on private sector and innovation, and it is of utmost importance to create enabling environment that supports digital entrepreneurship. This agenda will also provide opportunities for Kenyan youth, who are at the crux of the digital economy. The relatively low barriers of entry will inspire young budding entrepreneurs to start a digital business and equip them with modern skills, essential to the growth of the digital industry in Kenya. This also provides an opportunity to develop locally relevant digital solutions for key sectors, including manufacturing, as digital technologies are integrated into business processes.

#### Institutional Context: iHub and the m:lab East Africa

Digital technologies are advancing quickly, but organizations and skills advance slowly. Many countries, including Kenya as outlined in Vision 2030 and ICT Masterplan, are seeking to improve the policy frameworks, technical programs, digital skills development, and financing initiatives that support entrepreneurship in the digital economy, in order to take advantage of the opportunity to improve competitiveness, attract investment, create jobs and grow markets domestically and globally. However, countries and key institutions can be overwhelmed by the rapid pace of change in digital industries, for which a continuous evolution of approaches and methodologies is required. Relevant financial and technical assistance are thus essential to effective support for entrepreneurs in digital industries.

The grant recipient, iHub, is an innovation hub located in Nairobi ([www.ihub.co.ke](http://www.ihub.co.ke)), which has become the centerpiece of growing digital technology community in Kenya with over 16,500 members. iHub has several initiatives that catalyze the growth of the community by developing and connecting people, supporting start-ups and surfacing information. One of the key initiatives of iHub is the m:lab East Africa, which was launched in November 2010 through a World Bank grant, which totaled US\$725,000. The m:lab’s mission is “to facilitate demand-driven innovation by regional entrepreneurs, ensuring that breakthrough low-cost, high-value mobile solutions can be developed and scaled-up into sustainable businesses that address social and economic needs”. Since its inception, the m:lab has been the flagship of 5 mLabs launched by infoDev globally, and has built its brand as the region’s center for mobile entrepreneurship. The mLab is run in a

partnership with a training company eMobilis and University of Nairobi, and it has been strongly supported by the private sector and has partnered with Qualcomm, Samsung, Nokia, Microsoft, Seacom, and Facebook, to bring the most current skills to its entrepreneurs.

The mLab services include office space up to 8 resident companies, testing laboratory, training programs and an annual startup challenge, Pivot East, targeting East African sub-region. As a result of these programs, startups such as Kopo Kopo, mFarm, ENEZA education and many others have thrived and become nationally and internationally recognized as exceptional innovators. These applications benefit hundreds of thousands of small businesses, school age children and farmers. The Kenyan Government considers innovation hubs and incubation centers such as the iHub, the m:lab and government supported Nailab as key stakeholders in the creation of tech businesses and subsequent jobs. In fact, President Uhuru Kenyatta, visited each of them in March 2015 to show his support to their efforts. In addition, in the inaugural National Innovation Forum in March 2015, iHub was invited to act as one of the strategic advisors by the Kenya ICT Authority.

While there has been early success in startup creation and the demand for entrepreneurial support is evident, it is not clear how initiatives such as the iHub and m:lab East Africa optimize their effectiveness and sustainability. This is the case not only in Kenya, but worldwide, as institutions and countries seek to identify how to best position their entrepreneurs and economies for participation in the digital economy. Continuous learning, innovation and adaption of business models and service models are therefore needed.

### **Relationship to CAS/CPS/CPF**

The proposed project aligns with the first domain of engagement (Competitiveness and sustainability—growth to eradicate poverty) of the Country Partnership Strategy (CPS) for Kenya FY14-FY18, which also notes that ICT sector has been identified as one of the important sectors as being attractive in their ability to create jobs, make an impact on poverty, and be commercially viable. The project will improve business environment and firm level productivity, which are topics of the Improved Enabling Environment for Private Investment outcome. The project will include activities in Mombasa and Kisumu, and strengthening the enabling environment of the ICT sector in these cities. As many of the digital entrepreneurs are young, the project would also support youth to gain skills which help them to develop their potential.

By promoting growth and the development of Kenya as a regional hub for digital entrepreneurship, the proposed project will also be supporting the advancement of two of the core components of GoK Vision 2030: ICT and Science, Technology & Innovation. The project aligns with the economic and social pillars of Vision 2030 which envisages inclusive growth, generation of more and better jobs, as well as strengthening the country's knowledge based economy for the future.

The team has identified collaboration possibilities with the Kenya Transparency and Communication Infrastructure Project (KTCIP), which is part of the Regional Communications Infrastructure Program (RCIP), as one of the project beneficiaries has been Nailab, that has grown a cadre of digital entrepreneurs who are likely to be interested in additional support by iHub/m:lab. Similarly, entrepreneurial talent will be sought from other Bank projects in the region that have supported digital technology innovation, namely Negawatt Challenge for Energy Efficiency Project (P152261) and Support to Open Data in Tanzania Project (P150543). Since the project includes a subnational focus, the team will explore collaboration opportunities with the Kenya Devolution Support Project (P149129) which is working with national and county governments.

## **II. Project Development Objective(s)**

**Proposed Development Objective(s)**

The Project Development Objective: To support Kenya's leading ICT focused business enabler (m:lab East Africa) to improve and scale-up its service models and better foster the growth of digital entrepreneurs.

**Key Results**

The support to iHub in Kenya is part of a global digital entrepreneurship program funded by the infoDev multi-donor-trust-fund. In order to enable benchmarking and cross-country learning, results indicators are standardized across country implementations.

The progress towards achieving the PDO would be monitored through the following indicators which align with the 3 components of the grant which are: (1) scaling the mLab's capacity, (2) facilitating a regional acceleration program, and (3) increasing investment readiness of entrepreneurs.

**Project Development Objectives Indicators:**

- Enabler cost to sustainable revenue ratio
- Number of businesses/entrepreneurs receiving services
- Number of businesses who raised early and growth stage finance

**Intermediate Results Indicators:**

- Monitoring & Evaluation framework and tools upgraded (Refers to business enablers that train personnel to implement and periodically update an M&E framework. A previous infoDev evaluation revealed that many business enablers are not using, or have a limited, business analytics framework, making data collection and results tracking difficult.)
- Number of business enablers' staff trained
- Number of m:lab service sessions (with entrepreneurs), including one-on-one individual sessions and group service sessions
- Number of partnerships with financial services providers

**III. Preliminary Description****Concept Description**

The project is to extend capacity and service portfolio of m:lab East Africa to launch globally competitive, growth-oriented, mobile and digital technology businesses and further position it as a regional hub for the advancement of digital entrepreneurship.

The project activities build upon earlier projects of T&C's Digital Entrepreneurship Program (formerly Mobile Innovation Program), which has designed, tested and derived lessons from 13 mobile business enablers (mLabs and mHubs) in Asia, Africa, ECA and the Caribbean.

While the mLabs and mHubs initiated by T&C through infoDev (a global trust funded program) were first of their kind at the time, there has since been a proliferation of activities aimed to assist tech entrepreneurs in Africa, signaling an enormous demand for entrepreneurship support.

There are however still critical gaps in the service offering available to digital enterprises. Start-up is no longer the issue. There are lots of business plan competitions, technology bootcamps, etc that provides an opportunity for individuals and teams to get started. The key gap relates to the ability of business enablers to identify and to meet the needs of digital entrepreneurs with the growth

potential, to help them build links to wider value chains, enter new markets, secure finance and build a team to reach scale.

To address this gap, the program will strengthen the institutional capacity of m:lab East Africa to provide quality services to growth-oriented digital entrepreneurs. Based on best practices around the world, the program aims also to test an innovative business advisory approach known as “acceleration” that takes growth oriented enterprises and start-ups through a rapid-cycle competitive curriculum, and matches them quickly to appropriate capital and business mentors. Similar projects will be implemented in Senegal and South Africa targeting the West African and Southern African markets.

A key challenge for digital entrepreneurs in Kenya and other African markets is the lack of agglomeration – investors and industry know to look to European and US technology hubs for prospective “deals”, and there are economies of scale to them of investing time and money in these geographic areas. Digital entrepreneurs who truly have growth potential in Kenya or other African markets may however be few and far between. A critical contribution of this project is to aggregate high growth potential entrepreneurs and raise their visibility vis-à-vis larger industry and financial actors to bring the promising enterprises to scale.

The following key activities will be implemented within the project scope:

1. Strengthening of m:lab East Africa’s institutional capacity to support growth-oriented digital entrepreneurs

Expected Deliverables: (1) improved business and sustainability models (including strategy on engagement with early-stage investors and enhanced services portfolio); (2) improved M&E framework and tools critical for tracking the progress of entrepreneurs and other business analytics.

2. Improving m:lab East Africa’s capacity to increase investability of digital entrepreneurs

Expected Deliverables: (1) staff trained via participation in "Master training" on increasing entrepreneurs investability; (2) up to 10 Access to Finance workshops for select group of at least 50 investment-ready entrepreneurs organized; (3) links with early-stage financiers strengthened to ensure that GO entrepreneurs have an improved access to early stage financiers as entrepreneurs become investment ready.

3. Implementation of regional acceleration program

The core grant funding will be allocated to the design and delivery of a regional acceleration program aimed to identify prominent digital entrepreneurs in East Africa and provide them with intensive face-to-face and virtual support in order to link them with expertise, capital and markets they need to grow.

m:lab East Africa will run regional acceleration program for East Africa, where it will be responsible for reaching out to the large network of technology innovation hubs and incubators (including Nailab, and hubs in Mombasa and Kisumu) and act as regional hub, facilitating a sub-regional program and addressing the issue with limited local deal flow individual business enablers typically face. With the aim to building awareness around innovative digital technology solutions for the

manufacturing sector, specific outreach campaign will also be implemented to encourage digital entrepreneurs with solutions for the manufacturing sector to apply to the program.

During each round of regional acceleration program, 20 of the most talented entrepreneurs will be nominated by the participating business enablers (based on rigorous selection criteria) and cultivated by m:lab East Africa over a limited period of time combining both virtual and residential acceleration methods.

The program will introduce an advanced acceleration curriculum for the participating entrepreneurs. The curriculum will include topics such as investment readiness and investor engagement, diaspora networks, and internationalization of digital enterprises, and will seek to create the capacity and networks necessary to take most potential entrepreneurs “up the ladder.”

Two rounds of acceleration programs should be implemented within the grant scope. It is expected that the outcomes of the first round will inform on potential adjustments to the program design to ensure the most efficient approach. The overall objective is that the business enablers may adapt and replicate the program in future years.

It is also expected that m:lab East Africa will work closely with the task team and nominate entrepreneurs from regional acceleration program for a Pan-African Acceleration Program that will be implemented through bank-executed activities and aimed to bring around 20 star performers across Africa to scale through a rapid process of exposure to global capital and industry connections.

#### IV. Safeguard Policies that Might Apply

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	<b>TBD</b>
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	

#### V. Financing (in USD Million)

Total Project Cost:	0.45	Total Bank Financing:	0
Financing Gap:	0		
<b>Financing Source</b>			<b>Amount</b>
InfoDev			0.45

#### VI. Contact point

**World Bank**

Contact: Toni Kristian Eliaz

Title: Projects Officer  
Tel: 473-8047  
Email: teliasz@worldbank.org

Contact: Markus Njehiah Kimani  
Title: Associate Operations Officer  
Tel: 5327+7625 /  
Email: mkimani@ifc.org

**Borrower/Client/Recipient**

Name: iHub  
Contact: Josiah Mugambi  
Title: Executive Director  
Tel:  
Email: jmugambi@ihub.co.ke

**Implementing Agencies**

Name: iHub  
Contact: Josiah Mugambi  
Title: Executive Director  
Tel: -  
Email: jmugambi@ihub.co.ke

**VII. For more information contact:**

The InfoShop  
The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 458-4500  
Fax: (202) 522-1500  
Web: <http://www.worldbank.org/infoshop>