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Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 13-Mar-2018 | Report No: PIDISDSA21556

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Kenya	P161317	Kenya Industry and Entrepreneurship	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
AFRICA	23-Feb-2018	14-May-2018	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	The Republic of Kenya	Ministry of Industry, Trade and Cooperatives	

Proposed Development Objective(s)

Increase innovation and productivity in select private sector firms

Components

Strengthening the innovation and entrepreneurship ecosystem
SME linkages and upgrading
Communications, M&E, and Project Implementation Support

Financing (in USD Million)

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

Environmental Assessment Category

B - Partial Assessment

Decision

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Other Decision (as needed)

B. Introduction and Context

Country Context

1. **Kenya is a lower middle-income country that has exhibited robust economic growth over recent years, however its GDP growth fell in 2017, triggered by both cyclical and structural factors.** Kenya being an oil importer, the slump in oil prices fueled its economy. In addition, its tourism sector rebounded in 2016, and domestic developments, such as the government's infrastructure drive and a stable macroeconomic environment, also supported economic activity. However, in the first half of 2017, Kenya's GDP growth fell to 4.8 percent due to drought, which adversely affected half of its counties, and hampered private sector output and credit growth. The downturn was exacerbated by the cap on commercial lending rates, and the political uncertainty coming from a prolonged election period, which weakened private investment.

2. **According to the 2016 Country Economic Memorandum, Kenya's long-term growth will depend on: oil and natural resources, the urbanization process, and the extent of innovation of the economy.** Kenya's economic growth has been constrained by low investment and firm-level productivity, particularly in labor-intensive sectors. Services, including financial intermediation and mobile communications, have grown remarkably, representing 72 percent of the GDP increase between 2006 and 2013. However, major employment generating sectors such as agriculture and manufacturing, have been stagnating, with a retracting share in GDP between 2009 and 2013. This divergent growth underlines the two-track nature of the Kenyan economy, where the sectors with the highest growth create few, and mostly high-skilled jobs.

Sectoral and Institutional Context

1. **Kenya's Vision 2030 and its Second Medium Term Plan 2010-2017 (MTP2) have set ambitious growth targets in private sector employment, generation, and productivity.** The Ministry of Industry, Trade and Cooperatives (MoITC) leads this agenda. Vision 2030 aims to transform Kenya into a newly industrialized, globally competitive, middle-income country. The Kenya Industrial Transformation Program (KITP), as MTP2's vehicle, highlights the importance of technology and innovation to the development of industry, and recognizes the centrality of firm-level support to Kenya's industrialization.
2. **While Kenya is among the top innovation leaders in Africa, it still ranks 80th out of 127 countries in the Global Innovation Index 2017, with room for improvement in human capital, research, knowledge and technology outputs.** Linkages between players in Kenya's innovation ecosystem are weak. This leads to capacity underutilization and a disconnect between industry and research organizations, hindering innovation for small and medium-sized firms in particular. The Global Accelerator Learning Initiative illustrates the value and impact of supporting acceleration programs for startups.The number of incubators and accelerators in Kenya is large, with more than 38 currently

in the market, most Information and Communication Technology (ICT)-oriented and concentrated in Nairobi. Many remain in a nascent-stage of development and are dependent on grants, which precludes them from pursuing financially viable business models. Their focus on appeasing grant makers, rather than on operational strategy, diminishes the quality and differentiation of their services. As a result, the relevance and impact of incubation and acceleration programs is mixed.

3. **Kenya has not developed enough talent with key skills to produce a solid pool of internationally competitive technology-enabled businesses.** In a 2016 World Bank study on rapid technology skills trainings (bootcamps), many companies in Kenya's ICT sector, including startups, SMEs, and large companies, reported challenges in finding recruits with the soft and technical skills they require. They noted that bootcamps, not formal tertiary education institutions (TEIs), are the suppliers of employment-ready technology talent. In filling the skills gap, bootcamps play an important role in generating and improving employment opportunities. However, the market of such providers is still nascent in Kenya, and similarly to the abovementioned intermediaries, most of them do not have mature business models. Moreover, women are typically underrepresented in their programs. The nascent ecosystem provides an opportunity to avoid replicating the gap that exists between men and women in the tech sector elsewhere.
4. **Limited connections to networks of international mentors, angel investors, and venture capitalists (VCs) make it difficult for local startups to grow and compete internationally.** Exposure to experienced mentors and investors, and deeper networks of global resources, can increase the likelihood of startup survival and growth, including their possibility to obtain funding. Kenya is considered a hub for venture capital in Africa. However, given the high risks associated with early stage businesses, combined with the macroeconomic risks of operating in Africa, venture funds capital in Kenya is limited. In addition, female startup founders report a disproportionate lack of industry-specific mentoring, networks, and information, and they too stand to benefit from these broader linkages.
5. **There is currently limited contact between traditional industry and technology-enabled startups in Kenya, a missed opportunity for both sides.** Firms in major employment generating sectors, such as agriculture or manufacturing, have not yet absorbed the benefits from Kenya's growing technology scene, and tech firms are not creating solutions that respond to their specific needs. Closer linkages with larger firms would help young firms better target their products and services, and become viable more quickly. Similarly, despite some programs to encourage collaboration between academia and industry, companies are not sufficiently leveraging young talent. This highlights the need to foster linkages between students in TEIs and industry players. Such linkages would serve to better prepare graduates for the job market, and better acquaint them with the inner workings of the private sector, should they wish to start their own businesses.
6. **SMEs also have difficulties in leveraging technology, due to poor managerial practices and the very incremental nature of Kenya's innovation.** Firm-level data in Kenya reveals most firms have low productivity due to a skills deficit both at the managerial and technical levels. While Kenya fares better than other African countries in terms of management quality, it is far below the managerial capabilities in most middle-income and emerging markets. Analyses of various manufacturing sub-sectors show that Kenyan firms operate with outdated technology and have difficulties connecting to global and regional value chains. These factors are holding back Kenyan SMEs from increasing their productivity to grow and scale-up. Meanwhile, recent World Bank reports show a direct impact of advanced managerial and organizational practices on innovation and productivity. They also show the benefits of interventions that incorporate both firm-level capabilities (supply), and access to markets (demand), in linking them and building viable markets. For companies to adapt to the changing

landscape of manufacturing and secure higher level jobs, they need new approaches that consider an economy's competitiveness, capabilities, and connectedness.

7. **For women entrepreneurs, particularly those who own SMEs, these issues are even more pronounced.** While, Kenya has the highest number of women entrepreneurs in East Africa, with 48 percent of firms owned by women, women land ownership is 7 percent, versus 30 percent for men. This lack of asset ownership locks women out of the credit that they need to grow their businesses. Moreover, insights from consultations with women entrepreneurs reveal challenges around access to information, networks, and a range of growth-oriented business skills.

C. Proposed Development Objective(s)

Note to Task Teams: The PDO has been pre-populated from the datasheet for the first time for your convenience. Please keep it up to date whenever it is changed in the datasheet. ***Please delete this note when finalizing the document.***

Development Objective(s) (From PAD)

Increase innovation and productivity in select private sector firms

Key Results

1. The PDO will be measured by the following indicators: 1) Number of firms with a developed innovation; and 2) Number of firms with increased productivity.
2. The Project will also contribute to poverty alleviation by catalyzing the creation of higher quality and more productive jobs, and by introducing incentives to increase inclusivity within Kenya's competitive labor force.

D. Project Description

1. The proposed Project has three components, summarized here and detailed in Annex 2 of the PAD.
2. **Component 1. Strengthening the innovation and entrepreneurship ecosystem (US$25 million): This component aims to improve the survival and growth rates of technology-enabled startups in Kenya through a stronger innovation and entrepreneurship ecosystem and talent base.** It endeavours to improve the quality of services provided by ecosystem Intermediaries by engendering stronger competition among them, in order to attract the best startups and talent. The component has two subcomponents: (i) strengthening the ecosystem's support infrastructure, and (ii) connecting the ecosystem to international networks and local traditional industries.
3. **Subcomponent 1a: Strengthening the ecosystem's support infrastructure (US$14 million)**: **This subcomponent will build the Intermediaries' capacity in developing their individual business models towards operational sustainability, expansion, and increased quality of services provided.** It will finance competitively awarded performance contracts to Intermediaries. There will first be a competitively awarded diagnostic for Intermediaries, to help them assess their management and operations. Following the diagnostic, these Intermediaries will be invited to submit and pitch their

action plans, identifying focus areas and targets based on the results of the diagnostic. A smaller cohort of Intermediaries will be selected to receive funding through a performance contract, that will last 18-24 months, with 2-3 cohorts during the life of the project. The disbursement of funds will be tied to an action plan and milestones, and will cover a percentage of the estimated cost of the milestones. The Project will introduce financial incentives for bootcamp providers to increase the number of women among their cohorts. To reduce the risk of funding non-viable or non-performing entities, and ensure that reliance on donor funds is not perpetuated by the Project, selected Intermediaries will have to demonstrate their ability to contribute towards the achievement of their performance contracts.

4. **Subcomponent 1b: Connecting the ecosystem to international networks and local traditional industries (US$11 million) This subcomponent will connect the local Kenyan ecosystem to international networks.** It will also seek to bridge the gap between local industry and technology-enabled startups, and between local industry and TEI students. The subcomponent aims to strengthen the innovation absorption capacity of Kenyan firms in traditional sectors, and familiarize both startups and students with local industry.
5. **This subcomponent will provide funds to attract a leading international accelerator (IA) to establish a physical presence and program in Nairobi.** Some examples of successful IA programs that have been approached and have already expressed interest include 500 Startups, Seedstars, Startupbootcamp, and Techstars. By attracting an accelerator program of this caliber, this subcomponent aims at (i) increasing the competition (through a race to the top) and capacity within the accelerator landscape in Kenya; (ii) connecting the Kenyan ecosystem to international networks of talent and support infrastructure (e.g. mentors and early-stage investors); (iii) attracting international and regional talent to establish their startups in Kenya; and (iv) pairing established firms with technology-enabled startups. The IA will be recruited through an internationally competitive process and be required to partner with a local intermediary, to ensure knowledge of the local context is appropriately incorporated into market entry.
6. **In addition, a local ecosystem intermediary, such as a TEI, will host an industry-academia platform.** This will connect a network of different formal tertiary education institutions, and their students, to individual companies through specific product development sessions with company staff. This activity will support open innovation in Kenyan companies through access to relatively low-cost human capital, and help students develop practical, in-demand skills and experience during their formal education. It draws on good practices from models from around the world, such as Demola in Namibia, Design Factory in Finland, and Celulas de Innovacion in Mexico. It will also increase the competitiveness of students in the labor market, and enhance their ability to set up their own businesses.
7. **Component 2: SME Linkages and Upgrading (US$20 million): This component aims to strengthen the productivity and internal capabilities for innovation of Kenyan SMEs, so that they can better compete for local and international market opportunities.** The component will support SMEs in improving their managerial and technical skills, and their use and access to technology. This component will finance diagnostics and performance-based contracts to select SMEs. Similarly to the mechanism proposed under subcomponent 1a, the performance contracts will be based on individual action plans, developed following a diagnostic, and will be complemented by coaching by business advisors throughout the process.
8. **The experience in other SME upgrading programs suggests that program uptake is sometimes low, because SMEs do not see the need to upgrade.** In order to address that potential weakness, the Project will rely on strong, larger lead firms as one of the ways to identify SME beneficiaries. Lead

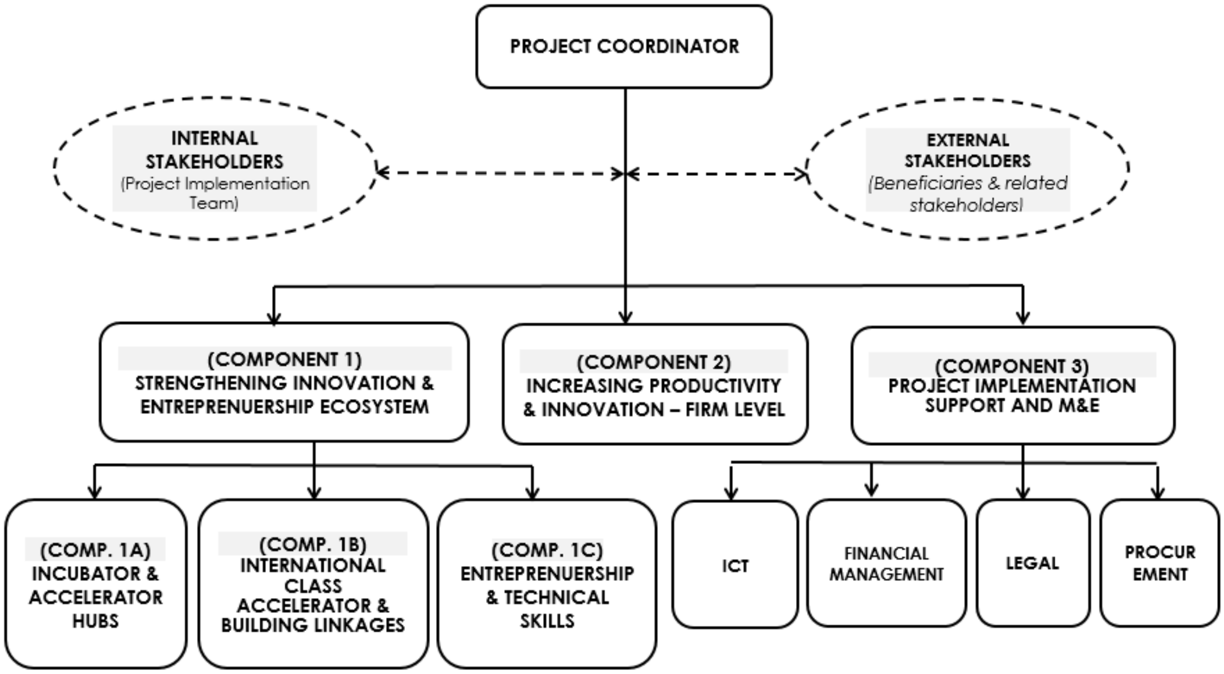
firms will be asked to identify SMEs in their supply chain, or with interest in becoming part of their supply chain, with potential to benefit from the program. Industry associations will also be used to identify high potential SMEs. The Operations Manual will provide a detailed account of the different methods to identify the SMEs. By targeting an increase in the productivity of participating SMEs, the Project hopes to make SMEs more competitive and enhance their growth prospects. This ought to contribute to overall economic growth and job creation in Kenya, and thus contribute to the World Bank's twin goals.

9. **Component 3: Project implementation support, Communications and M&E (US$5 million): The objective of this component is to provide resources for (i) project implementation, through the Project Implementation Unit (PIU); (ii) communications to facilitate diffusion and replication of promising innovations; and (iii) monitoring and evaluation analyses to ensure the implementation and sustainability of the Project's activities.** A PIU has already been created, and it sits within the MoITC. This component will finance support to the PIU for project implementation and monitoring activities, including conducting project audits, and training to strengthen capacity within the PIU and ensure retention in the unit. This component will also finance the design and implementation of a communications strategy, and dissemination tools to inform stakeholders on the Project's progress, and facilitate replicability of early success stories. These are intended to support the Project in having a demonstration effect and contribute to broader capacity building. Finally, the component will fund conducting an impact evaluation, including surveys, to evaluate the Project's impact.

E. Implementation

Institutional and Implementation Arrangements

1. **The MoITC has created a PIU which will be responsible for the implementation of the proposed Project.** The PIU will be responsible for the fiduciary aspects of the Project, the coordination of the technical, logistics, and implementation aspects of the Project, as well as the coordination of the relevant stakeholders and beneficiaries. Given that staff of the MoITC has had limited experience with the Bank's procurement and FM processes, the PIU will be strengthened through capacity building in the Bank's procurement and FM procedures and requirements. The Project will be implemented in accordance with the Project Operational Manual, which will be adopted by the Recipient prior to signature of the Financing Agreement. Detailed implementation arrangements are included in Annex 3 of the PAD.



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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The KIEP will be primarily implemented in locations within urban areas in Kenya. There will not be land take nor physical displacement of people; no loss of assets or access to assets; no loss of income or livelihoods of people in locations that subprojects will be implemented. Since no specific sub-projects have been identified at this stage during project design, an environmental and social framework approach is adopted. The recommended safeguard instrument is an Environmental and Social Management Framework (ESMF). However, as and when sub-projects are identified during the implementation phase of the project, appropriate supplemental safeguard instruments such as site-specific environmental and social management plans (ESMPs) may be prepared to mitigate any safeguards risks and impacts likely to emerge from implementation of the subprojects. Also, the project has completed a "Negative List of Sub-projects" that will not be financed under this project. Exclusions from financing will include, among others:
•Subprojects assigned Environment Assessment Category A, they will either be redesigned and rescreened or dropped because the parent KIEP has been assigned Category B; •Project that will require land acquisitions, will Involve Physical/economic displacements of persons; •Project likely to affect the

Vulnerable Marginalised Group /Indigenous People; •Project activities that will involve expansion of existing infrastructure or construction of new buildings.

G. Environmental and Social Safeguards Specialists on the Team

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

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	The Environmental Assessment OP/BP 4.01 has been triggered; the Environmental Category assigned this Project is Category B Partial Assessment. The performance grants provided under the Project will be used to support selected firms in upgrading their equipment, machinery and systems. An draft ESMF has been prepared by the MoITC, consulted upon and disclosed in country and World Bank InfoShop. This will help mitigate and manage potential environmental impacts of sub projects , and provide guidance on methodologies, measures and procedures to facilitate environmental risks and impacts management related to investments financed under the project.
Natural Habitats OP/BP 4.04	No	The policy is not triggered because the project will not finance any activities that will result in direct or indirect impacts on natural habitats.
Forests OP/BP 4.36	No	The policy is not triggered because the project will not finance any activities that would be deemed to bring about conversion of natural forests or changes in management and protection or utilization of natural forest or plantations.
Pest Management OP 4.09	No	The policy is not triggered because the project will not finance any activities that will require use of pesticides.
Physical Cultural Resources OP/BP 4.11	No	The policy is not triggered because the project will not finance activities that will affect or involve physical cultural resources.

Indigenous Peoples OP/BP 4.10	No	The project location in urban areas and within existing premises means there will be no direct interaction between the project and people who meet the indigenous peoples' criteria. In addition, projects that may have impacts on VMGs are excluded.
Involuntary Resettlement OP/BP 4.12	No	The project will be located in existing premises in urban centers. No project activity will involve land acquisition, resettlement or restrictions of access to resources and livelihoods. In addition, projects that may involve land acquisition or physical and economic displacement are excluded.
Safety of Dams OP/BP 4.37	No	The project will not finance construction or rehabilitation of any dams.
Projects on International Waterways OP/BP 7.50	No	The project does not affect any international waterways , hence the policy is not triggered.
Projects in Disputed Areas OP/BP 7.60	No	The policy is not triggered because the project does not operate in any disputed areas

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

The project is assigned Environment Assessment category B. The project is expected to have positive environmental and social positive impacts, site specific and localized environmental and social negative impacts may happen in relation to proposed performance grants to the Small and Medium Enterprises (SMEs). These impacts may include air pollution due to fumes, electronic and electrical waste, metallic equipment, byproducts, that will be produced as a result of installation and manufacturing processes of the SMEs. SMEs will be responsible for controlling pollution . A draft ESMF has been prepared, consulted upon and disclosed in country and in the Bank's InfoShop .

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

NA

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.

NA

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

The Borrower prepared the draft ESMF, in a participatory and consultative manner, the draft Environmental and Social Management Framework (ESMF) has been prepared to ensure that the process of identifying, assessing, and mitigating environmental and social impacts is integrated in the development of the specific subprojects. The ESMF is prepared in accordance with the Bank’s Operational Policy on Safeguards and the Kenya National Environment

Management Authority's requirements. A draft ESMF has been disclosed in-country and at the Bank's InfoShop.

The project will be implemented by the Project Implementation Unit (PIU) in the Ministry of Industry, Trade and Cooperatives (MoITC), the PIU will be responsible for managing the environmental and social safeguards requirements. Safeguards capacity assessment carried out by the Bank, established that the PIU has no effective system in place to identify, implement and monitor safeguards requirements, and ensuring safeguards compliance for the project. The PIU has designated a staff to be responsible for the management of the safeguards issues in the project. The staffs will require targeted training on Bank safeguards policies and procedures requirements .
The PIU safeguard officer (s) will be working on the environmental and social safeguards issues and also be responsible in providing technical advice to SMEs during preparation of supplementary safeguards instruments and implementation of mitigation plans and monitoring compliance of safeguards.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
The key stakeholders include private sector firms in Kenya, SMEs and corporates including women entrepreneurs, the stakeholders have been consulted during the preparation of the draft ESMF.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission for disclosure	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
05-Mar-2018	08-Mar-2018	

"In country" Disclosure

Kenya
05-Mar-2018

Comments

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
Yes
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?

Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank for disclosure?
Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
NA

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
NA

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

CONTACT POINT

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APPROVAL

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