

Government of Kenya

Danish Ministry of Foreign Affairs

**COMPETITIVENESS OF MICRO, SMALL AND MEDIUM SIZED
ENTERPRISES**

BUSINESS SECTOR PROGRAMME SUPPORT, PHASE II

KENYA

COMPONENT DESCRIPTION

COVER PAGE

Country	: Kenya
Programme	: Business Sector Programme Support, phase II
Component	: Competitiveness of Micro, Small and Medium Sized Enterprises (MSME)
National Agencies	: Micro Enterprises Support Programme Trust (MESPT)
Starting date	: January 2011
Budget	: DKK 125 million (of which DKK 35 million from the Natural Resource Management (NRM) Programme)

The objective of the Competitiveness of MSMEs Component is to increase access to markets for MSMEs in selected value chains. It is designed to address competitiveness constraints of MSMEs in selected value chains in order to increase market access for Kenyan producers and enterprises, with particular emphasis on rural producers, women and youth. It builds on approaches successfully implemented under BSPS I and the Agricultural Business Development (ABD) component in the Danida supported Agricultural Sector Programme Support (ASPS). The six outputs are:

- Output 1: Market linkages and business growth amongst players in selected agricultural value chains increased – national Making Markets Work for the Poor (M4P) work in continuation of BSPS I;
- Output 2: Manufacturing competitiveness in selected value chains improved – M4P work in support of manufacturing, to be implemented in cooperation with the Kenya Association of Manufacturers (KAM);
- Output 3: Appropriate production and marketing models for selected value chains in the targeted Arid and Semi-arid Lands (ASAL) districts developed and increased – Area-based market facilitation work in continuation of activities under the ABD component of ASPS;
- Output 4: Private sector service provision of appropriate NRM technologies in selected districts piloted and rolled out – a subcomponent of the Danida supported NRM programme, supporting private sector-led NRM solutions mainly in the ASAL districts;
- Output 5: Access to relevant financial services and products for producers, suppliers and processors in value chains increased – facilitating value chain financing through capacity building, bulk lending and loan guarantees, and
- Output 6: Information sharing and coordination among M4P and Business Development Services (BDS) programmes in Kenya improved and capacities for value chain facilitation increased – building a “Market Development Resource Centre”.

It will be implemented by MESPT. Activities related to NRM market development are funded through the NRM Programme. It is designed to build and maintain strong linkages with the other components of BSPS II, and specifically also with other donor-funded programmes in the fields of BDS development/M4P and financial sector development.

.....
For the Royal Danish Embassy

.....
for MESPT

EXECUTIVE SUMMARY

Component Objective

1. The component is designed to address competitiveness constraints of Micro, Small and Medium Sized Enterprises (MSME) in selected value chains in order to increase market access for Kenyan producers and enterprises, with particular emphasis on rural producers, women and youth. It follows a comprehensive approach to strengthen selected agricultural and manufacturing value chains. It will be implemented by the Micro Enterprises Support Programme Trust (MESPT).
2. The component objective is “to increase access to markets for MSMEs in selected value chains. It contributes to the development objective of the Business Sector Programme Support (BSPS) II by improving the competitiveness of producers and businesses leading to increased production and employment. It fits with the objectives and priorities of Kenya’s Vision 2030 and the Private Sector Development Strategy, and supports the recommendations of the Report of the Africa Commission of 2009.

Component strategies

3. The support is based on the following strategic considerations:
 - Developing markets and strengthening competitiveness in order to create employment;
 - Targeting MSMEs that operate in the selected value chains, are growth-oriented, have a growth potential and are willing to innovate;
 - Combining Making Markets Work for the Poor (M4P) work with district-based market facilitation;
 - Integrating natural resource management (NRM) into district-level value chain development;
 - Promoting Value Chain (VC) financing;

- Addressing capacities for market facilitation in Kenya, particularly building capacities in MESPT;
- Improving coordination and information sharing among market development programmes, and
- Facilitating strong linkages with other programmes.

Cross-cutting issues and priority themes

4. The component will address through various means gender issues, environment and climate change, democratisation, human rights, youth and HIV/AIDS. Partner structure and component design follow the alignment and harmonisation principles. Linkages with other Danida business sector instruments will be pursued.

Outputs

5. It will have six outputs:
 - Output 1: Market linkages and business growth amongst players in selected agricultural value chains increased – national M4P work in continuation of BSPS I;
 - Output 2: Manufacturing competitiveness in selected value chains improved – M4P work in support of manufacturing, to be implemented in cooperation with the Kenya Association of Manufacturers;
 - Output 3: Appropriate production and marketing models for selected value chains in the targeted Arid and Semi-arid Lands (ASAL) districts developed and increased – Area-based market facilitation work in continuation of activities under the Agricultural Business Development (ABD) component of the Agricultural Sector Programme Support;
 - Output 4: Private sector service provision of appropriate natural resource management technologies in selected districts piloted and rolled out – a subcomponent of the Danida supported

NRM programme, supporting private sector-led NRM solutions mainly in the ASAL districts;

- Output 5: Access to relevant financial services and products for producers, suppliers and processors in value chains increased – facilitating value chain financing through capacity building, bulk lending and loan guarantees, and
- Output 6: Information sharing and coordination among M4P and Business Development Services programmes in Kenya improved and capacities for value chain facilitation increased – building a “Market Development Resource Centre”.

Budget

6. The total budget contribution is DKK 125 million to cover costs related to facilitation grants, area-based market development activities, research and capacity building of financial institutions, to fund a loan guarantee scheme, to cover activity-related staff, operational costs and management fees of the implementing agency as well as two international Danida advisers.

Budget for the Competitiveness of MSMEs Component

	DKK Million
Output 1 (National M4P Programme, agriculture)	23
Output 2 (National M4P Programme, manufacturing)	3
Output 3 (ABD)	39
Output 4 (NRM)	32
Output 5 (Value Chain Fund)	11
Output 6 (Market Development Resource Centre)	4
International Technical Assistance	7
Sub-Total	119
Contingencies	6
Grand Total <i>(only BSPS II)</i>	125 <i>(90)</i>

7. Funds for Output 4 (and part of the contingencies) will be contributed by the NRM Programme budget. Accordingly, the budget sourced from BSPS II is DKK 90 million.

Implementation Arrangements

8. MESPT will be responsible for implementation of activities through its regular organisational set-up. The Business Services Department will manage activities under Output 1, 2, and 6, while the Credit Department will be responsible for the implementation of the VC Fund under Output 5. New technical staff will be recruited to cater for the extended capacity requirements. For the implementation of Outputs 3 and 4, MESPT will establish a new Outreach Office in Mombasa, organisationally at the level of a MESPT department. Under the Outreach Office district and field offices will be operating to ensure close interaction with target groups and value chain players. The office infrastructure of the former ABD project will be transferred to MESPT, and staff re-employed by MESPT.
9. The MESPT Chief Executive Officer (CEO) will act as a component manager. Oversight of the component rests with the MESPT Board of Trustees.
10. The Founders Committee of MESPT will initiate an immediate reconstitution of the Board of Trustees, based on individual skills and merits rather than institutional representation. A due diligence of MESPT will be carried out, and performance contracts between the Founders Committee and the MESPT Board, and between the MESPT Board and the CEO will be entered into. Progress against set milestones will be part of the requirements for Danida continued support to MESPT under BSPS II.

11. The Business Services Committee of the MESPT Board will be in charge of approving facilitation grants under Outputs 1 and 2, and providing day-to-day guidance to all component activities under the Business Services Department. The committee will be re-constituted following the reconstitution of the MESPT Board.
12. The new MESPT Board will form a new ABD Committee for operational oversight of activities under Output 3 and 4. This committee will comprise, among others, members of the former ABD Board.
13. The reconstituted Credit Committee will be charged with operational oversight of the VC Fund. This includes particularly the approval of loans, capacity building matching grants, guarantee subsidies and research and product development contracts.
14. Two international Danida advisers will support implementation: One Business Services Adviser for the entire programme period, and one Agricultural Business Development Adviser, mainly responsible for coaching the integration of the former ABD project into the MESPT structure.
15. Funds will be disbursed by Danida directly to MESPT. For the wholesale lending activities, MESPT will not receive any additional funding from Danida.
16. The new VC-related wholesale lending facility will be sourced by the capital of the ABD Loan Fund and the BSPS I Wholesale Fund. The ABD Fund, which was previously managed by MESPT on behalf of ABD, will be handed over to MESPT as donated equity. The management of the entire VC Fund will be fully financed through interest accrued to the lending operations. Seed capital for the VC wholesale lending facility will be

advanced from the funds earmarked for subsidising the loan guarantee scheme, which is not expected to become operational during the first year of component implementation.

Monitoring

17. Component monitoring is part of the overall BSPS II monitoring structure. Suggested indicators and means of verification will be developed in further detail and quantified during the inception period. Collection and compilation of necessary data at immediate objective (component) level will be done externally. As all value chain activities are based on prior sub-sector (value chain) analysis, these studies serve as baselines on which progress can be measured. Data and information for monitoring at the output level will all be available from component documents. An own monitoring framework will be defined for each of the facilitation sub-projects to be outsourced under Outputs 1 and 2. Apart from the monitoring exercises in order to report progress against defined indicators, additional impact assessments on specific topics may be commissioned.

Assumptions

18. Major assumptions include:

- Kenya remains politically stable and the Government continues to promote a conducive environment for private sector development;
- The Kenyan Government will not distort private business service development by initiating subsidised service provision in the targeted value chains;
- The MESPT Board is fully supportive of the market development facilitation projects and value chain financing initiative;
- MESPT is capable to absorb international Technical Assistance in its daily operations;

- The Kenya Association of Manufactures retains capacities to implement facilitation projects for the development of manufacturing in selected value chains, and
- The new MESPT spin-off *Century Bank* will operate fully independent from the MESPT Trust.

Risks

19. Major risks include:

- MESPT will not be able to recruit and retain sufficient and appropriately qualified staff to satisfactorily implement value chain facilitation work under BPS II and at the same time under other projects taken on already and in the future (Risk rated as medium);
- Facilitation sub-projects are not sufficiently coordinated with other donor-funded programmes leading to duplications and inefficiencies in the market (risk rated as low);

- KAM will not have the capacities and/or the support from its governance structures to embark on market facilitation activities in the manufacturing sector (risk rated as low);
- The transformation of ABD activities and approaches from the independent project set-up under ASPS into the MESPT structure is not accomplished smoothly leading to staff frustration, reduction of trust into ABD among local players and decision-makers and discontinuation of ongoing activities (risk rated as medium);
- The MESPT Board will not be re-constituted ahead of the start of the new programme phase (risk rated as medium), and
- MESPT not sufficiently staffed in its Business Services Department to absorb the level of assistance provided (risk rated as medium).

TABLE OF CONTENTS

Executive Summary	i
Abbreviations	iv
1 National sector context	1
2 Description of the component	4
2.1 Summary statement	4
2.2 Component objective	4
2.3 Component strategy to reach objectives	5
2.4 Crosscutting issues and priority themes	7
2.4.1 Gender	7
2.4.2 Environment and climate change	7
2.4.3 Democratisation	8
2.4.4 Human Rights	8
2.4.5 Youth	8
2.4.6 HIV/AIDS	8
2.4.7 Addressing harmonisation and alignment	9
2.4.8 Linkages to other Danida business sector instruments	9
2.4.9 Cross-component synergies	9
2.5 Outputs, activities and approach	9
2.5.1 Output 1	9
2.5.2 Output 2	11
2.5.3 Output 3	11
2.5.4 Output 4	13
2.5.5 Output 5	14
2.5.6 Output 6	17
2.6 Communication Strategy	18
3. Inputs and budget	18
3.1 Inputs	18
3.2 Budget	20
4. Implementation arrangements	21
4.1 Management and administration	21
4.2 Financial management and flow of funds	23
5. Monitoring, reporting, reviews and evaluation	25
5.1 Monitoring	25
5.2 Reporting	26
5.3 Reviews	26
5.4 Evaluations	27
6. Key Assumptions and risks	27
6.1 Assumptions	27
6.2 Risks	27
7. Implementation plan	28

Appendices:

1. Logical Framework Analysis Matrix
2. Detailed component budget
3. Draft MoU between MESPT and Danida
4. Draft MoU between MESPT and KAM
5. Terms of reference for International BS Adviser
6. Terms of reference for International ABD Adviser
7. Job Descriptions for new MESPT staff to be funded from BSPS II
8. Chart: Component Organisation
9. Chart: MESPT Organisational Structure
10. Flow of Funds Chart
11. Schedule for VC Fund/Wholesale lending facility phasing-in
12. Rationale for district and value chain selection for Output 3
13. Matrix of MSME and market development interventions in Kenya
14. List of documents consulted
15. NRM Subcomponent 3.2 Description (Separate file)
16. Results of a study on monitoring requirements and NRM integration (Separate file)

ABBREVIATIONS

ABD	Agricultural Business Development
ASAL	Arid and Semi-arid Lands
ASMEP	Assistance to Small and Medium Enterprises Programme
ASPS	Agricultural Sector Programme Support
BAF	Business Advocacy Fund
BS	Business Services
BDS	Business Development Services
BSMDP	Business Services Market Development Project
BSPS	Business Sector Programme Support
CEO	Chief Executive Officer
CDA	Credit Development Authority
CTIC	Climate Technology Innovation Centre
Danida	Danish International Development Assistance
DFID	Department for International Development (UK)
DKK	Danish Kroner
DO	District Office
DTM	Deposit Taking Microfinance Institutions
EAC	East African Community
EU	European Union
FI	Financial Institution
FMPM	Financial Management and Procurement Manual
FO	Field Office
FSDT	Financial Sector Deepening Trust
GAP	Good Agricultural Practice
GDP	Gross Domestic Product
GOE	Growth-Oriented Enterprises
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IFU	Industrialisation Fund for Developing Countries
IPD	Innovative Partnerships for Development
IPM	Integrated Pest Management
KAM	Kenya Association of Manufacturers
KARF	Kenya Agricultural and Rural Finance
KCB	Kenya Commercial Bank
KES	Kenyan Shilling
MAP	Market Assistance Programme
M&E	Monitoring and Evaluation
M4P	Making Markets Work for the Poor
MESPT	Micro Enterprises Support Programme Trust
MFI	Microfinance Institutions
MOU	Memorandum of Understanding
MSE	Micro and Small Enterprises
MSME	Micro, Small and Medium Enterprise
NGO	Non-Governmental Organisation
NRM	Natural Resource Management
PRIME	Promoting Better Regulation, Investment, Markets and Employment

PROFIT	Programme for Rural Outreach of Financial Innovations and Technologies
PSC	Programme Steering Committee
PSDS	Private Sector Development Strategy
RDE	Royal Danish Embassy
SACCO	Savings and Credit Co-Operative
SME	Small and Medium Enterprises
SMEP	Small and Medium Enterprise Programme
TA	Technical Assistance
UNDP	United National Development Programme
USAID	United States Agency for International Development
USD	United States Dollar
VC	Value Chain
WOCCU	World Council of Credit Unions

1. NATIONAL SECTOR CONTEXT

With¹ its relatively well-developed agricultural and industrial sectors and significant foreign exchange earnings through tourism and agricultural exports, Kenya is considered the best-developed economy in East Africa. Yet, it faces increasing poverty and unemployment challenges. With an average per capita income of USD 1,542², the country ranks number 147 of 182 countries in the UNDP's Human Development Index. It is estimated that more than half of Kenya's population of 31.3 million is considered poor, with around 7.5 million living in extreme poverty. Three-quarters of the poor live in rural areas; however, poverty is not only a rural phenomenon. There are indications that urban poverty is increasing faster than rural poverty. A World Bank study of 2006 found that 73% of slum dwellers in Nairobi live below the poverty line and under appalling socio-economic conditions. It is generally believed that the plight of the unemployed urban youth contributed significantly to the violence in the aftermath of the 2007 general elections in Kenya.

The likelihood of being poor is influenced by people's employment status and the nature of the jobs they hold. As such, the significance of youth unemployment in Kenya is a cause of concern. While open unemployment was officially estimated at 12.7% in 2005/6 (down from 25.1% in 1998/99), these figures are about 25% for people aged 24 and below. Unemployment is also more pronounced among women. Overall, employment in Kenya has increasingly been provided by the informal sector over the last twenty years. While in 1990, only one quarter of all employment was found in the informal sector, its share has risen to more than 80% in 2008. This goes hand in hand with a significant increase in precarious employment such as casual, temporary and low paid work.

Growth of the private sector, in particular of its micro and small-scale segment, is considered the engine of employment-intensive economic growth and development. The private business sector currently accounts for 80% of Kenya's GDP and around half of its wage employment. While about 35,000 formal large and medium sized businesses produce some 60% of the GDP, some 1.7 million micro and small enterprises account together for 20% of GDP. Despite considerable growth in the service sector, which produces some 60% of GDP, the majority of the population (62%) is employed in agriculture. Of these, 70% are women.

It is generally considered that Kenya still has a significant potential in increasing the competitiveness of its business sector and that it can exploit the new opportunities arising from the formation of the new East African Community (EAC) and the large regional market it creates, especially if the costs of doing business could be significantly reduced. Among the major factors negatively affecting competitiveness are high cost of finance (or non-availability in case of micro, small and medium enterprises³ (MSMEs), an inappropriate tax system, substantial costs related to transport and logistics, costs and reliability of energy supply as well as costs related to crime, security and corruption. Specifically for female-owned enterprises, access to investment and working capital is still considered a key constraint.

¹ Information presented in this section is taken from the sources referred to in Appendix 15.

² Data of 2007, according to purchasing power parity method, see UNDP 2009.

³ MSMEs are defined following the definition of the government in its MSME Bill of 2009. The Bill categorises MSMEs along the criteria *number of employment* and *annual turnover*. Accordingly, a micro enterprise has typically 1 to 9 employees and an annual turnover not exceeding KES 500,000. Small enterprises are defined to employ among 10 and 49 employees and have a turnover between KES 500,000 and 5 million. A company with 50 to 99 employees and a turnover between KES 5 million and 800 million is considered a medium-sized enterprise.

The government is acknowledging the importance of further strengthening the MSME sector in its development framework. Kenya's Vision 2030 issued in 2007, which aims at an average annual growth rate of 10% to elevate Kenya into middle-income country status, has identified tourism, agriculture, manufacturing, wholesale and retail trade, business process off shoring and financial services as priority sub-sectors with a particular potential to generate growth. The Vision 2030 also highlights the need to support the large informal sector in the country and competitiveness increase at firm level in order to effectively address productivity, employment, income and public revenue. Strengthening micro and small enterprises, specifically targeting gender issues and addressing regional disparities, is supposed to foster inclusive growth and address the striking socio-economic imbalances. Particular attention should be given to investments in the arid and semi-arid lands (ASAL) districts, to communities with a high poverty incidence, to unemployed youth, women and vulnerable groups.

The long-term Vision 2030 has been translated into a number of ministerial strategic and master plans. Of importance in this context is the Private Sector Development Strategy (PSDS) 2006 – 2010, which represents a development framework for different government and donor-supported programmes. Its two major strategies, i.e. (1) creating a conducive business environment for the private sector and (2) increasing growth and competitiveness of private firms, in particular MSMEs, are translated into five goals: (i) improvement of the business environment; (ii) accelerating transformation of public sector institutions; (iii) trade expansion, (iv) improving productivity, and (v) supporting entrepreneurship and indigenous enterprise development.

Kenya has over the last three decades received considerable donor support for developing MSMEs with a clear shift in the early part of this decade to strengthening the private sector-led business support environment. Facilitating the emergence of sustainable private Business Development Services (BDS) along value chains, this approach has proven to be most promising and with a high impact on poverty reduction and outreach to the smallest producers. Some of the programmes implemented during this period have come to be seen as important international models for successful BDS projects because they clearly focused on the provision of complementary services to improve competitiveness and profitability of the industry they worked in. More inclusive is the Making Markets Work for the Poor (M4P) concept, which aims at addressing market constraints along entire value chains in a comprehensive manner (including addressing business climate and regulatory constraints). This has now evolved as best practice and a default conceptual framework for new interventions in business development and MSME competitiveness in Kenya.

With respect to financial services available information indicates that access in Kenya has almost doubled in the past three years. The expansion has been driven by aggressive marketing and expansion strategies by several banks and increasing penetration of some newer microfinance banks. The microfinance segment too has contributed significantly to this expansion - with client numbers more than doubling from about 0.5 million to more than 1.2 million and loans outstanding increasing by four times during the last five years. However, despite the growth in recent years and significant liquidity in the commercial banking sector, demand for wholesale lending and capacity development services remains high and is expected to remain so for the foreseeable future. Access to a full range of financial services is still limited and skewed largely in favour of urban areas. According to the latest FinAccess survey, up to 50% of rural Kenyans still do not have access to credit or savings services, in contrast to only 39% in urban areas. Most banks find it difficult to expand lending to rural areas, largely due to the high costs and perceived risk of reaching out to this

underserved segment. While new regulations (the Microfinance Act covering deposit taking Micro Finance Institutions (MFI) (Deposit Taking MFIs (DTM)) and the Savings and Credit Co-Operative (SACCO) Act) will allow MFIs and SACCOs to access cheaper deposits in the market place, attaining compliance standards will take time and significantly contribute to their operational costs.

Until recently, support programmes to financial services on the one hand, and to non-financial BDS on the other, were often separated. Experience in many value chain programmes, however, shows that technical support units encounter major practical difficulties in securing appropriate finance for the numerous good investment opportunities they identify. For example, agricultural development requires medium-term loans for individual farming operations with single repayments at time of harvest or sale. In this context, value chain (VC) financing has emerged as a new paradigm, where rural finance is applied in systematic ways to alleviate constraints across the complete value chain from input supply to production and marketing.

Arrays of public and private Kenyan stakeholders are involved in MSME development, including government agencies, research institutions, business associations and other Non-Governmental Organisations (NGO). During recent years, Danida has operated in close cooperation with the Micro Enterprises Support Programme Trust (MESPT), a Kenyan development trust originally founded by the Kenyan government and the European Union (EU). MESPT operates on two legs: support to financial services through wholesale lending to financial institutions, and support to business services. The latter, strengthened through support under BSPS I, still reveals substantial capacity constraints caused by a too lean and turnover-affected departmental staff and deficient BDS/market development expertise at Board level, issues to be addressed under BSPS II. Another stakeholder to be mentioned is the Kenya Association of Manufacturers (KAM), which will be the partner for value chain work in the manufacturing sector. In its Business Competitiveness Services Unit KAM has recently started to build up capacities for more systematic market development initiatives. To this end, an (Catalyst Fund-funded) international technical adviser has been recruited to strategically assist the Business Competitiveness Services Unit.

A substantial and still increasing number of donor programmes in support of MSMEs through value-chain-oriented market development and M4P programmes is active in Kenya, among them USAID, UNDP, DFID, EU, World Bank, Bill and Malinda Gates Foundation, German cooperation, Netherlands Trust Fund II, and others. A synopsis of the most relevant programmes is attached in Appendix 13. Some coordination is facilitated through the BDS Donor Coordination Group. More systematic cooperation or joint implementation has not yet been achieved after the joint DFID/Danida Business Services Market Development Project (BSMDP) (supported by Danida under BSPS I) came to an end. It is expected that activities under the EU ASMEP programme, for which MESPT is the executing agency, will be implemented in close cooperation with the new Danida activities under BSPS II.

The most important donor-supported programmes in support of improving access to financial services and value chain financing include the Financial Sector Deepening Trust (FSDT), the USAID supported Kenyan Agricultural and Rural Finance (KARF), the World Bank's Financial and Legal Sector Technical Assistance Project, VC operations by the World Council of Credit Unions, and the IFAD Programme for Rural Outreach of Financial Innovations and Technologies. The multi-donor funded FSDT has assumed the role of a knowledge hub related to financial sector development and is currently in the process of establishing a Value Chain Financing Centre.

A number of crosscutting issues are pertinent and need to be addressed to secure success of implementation:

- In the Kenyan business sector women are generally underrepresented especially in terms of decision making and benefitting from development achievements. Women, although fairly represented in formal and informal MSMEs are still mainly found in the lower and less productive segments. Their lack of mobility, lack of access to assets and markets and lack of linkages to other value chain actors are among the major gender-based constraints;
- Energy efficiency and conservation is still an issue in the Kenyan business sector needed to be addressed in order to reduce cost and wastage.
- The HIV/AIDS adult prevalence rate is estimated at 6.7%, with serious consequences for private sector development in Kenya. Enterprises are not able to make full use of all trained staff members, encounter a high level of absence, low productivity and lower demand for many products due to falling real incomes of affected families, and
- Lack of political participation and ethnic conflicts constitute a permanent risk for business and private sector development as experienced in the post-election violence in 2008.

2. DESCRIPTION OF THE COMPONENT

2.1 SUMMARY STATEMENT

The Competitiveness of MSME Component is designed to address competitiveness constraints of MSMEs in selected value chains in order to increase market access for Kenyan producers and enterprises, with particular emphasis on rural producers, women and youth. It will follow a comprehensive approach to strengthen selected agricultural and manufacturing value chains. Its particular features include a complementarity of area-based facilitation work and comprehensive value chain development at a national scale and an interlinkage between market facilitation and value chain financing. It will be implemented by MESPT.

The component has six main pillars each representing one output: (1) Systematic value chain development facilitation (following the M4P approach) with a national outreach (initially targeting the dairy sector, horticulture and fisheries), implemented through facilitation sub-projects that are outsourced to external facilitators; (2) facilitation of increased competitiveness of manufacturing in selected, but yet to be defined value chains; (3) area-based facilitation work in agricultural value chains in selected Arid and Semi-arid Lands (ASAL) districts in continuation of the approach followed by the Agricultural Business Development (ABD) component of the Danida supported Agriculture Sector Programme Support (ASPS); (4) support to the establishment and dissemination of private sector-led natural resource management (NRM) solutions in selected value chains; (5) development of value chain financing; and (6) strengthening information sharing and cooperation between market development programmes in Kenya and capacity development for local BDS/M4P facilitators. Under Output 4, the component includes activities funded under Danida's NRM Programme with Kenya.

2.2 COMPONENT OBJECTIVE

The objective of the component is to increase access to markets for MSMEs in selected value chains.

It contributes to the development objective of BSPS II by improving the competitiveness of producers and businesses in targeted value chains leading to increased production and employment. It fits with the objectives and priorities of Kenya's Vision 2030, and supports three of the five goals of the PSDS referring to trade expansion, productivity improvement and indigenous enterprise development. It is in line with the recently launched Agricultural Sector Development Strategy and the Master Plan for Kenyan Industrial Development. The objective also supports the recommendations of the Report of the Africa Commission of 2009, which highlight the need for increased competitiveness of the private sector in Africa, and the need to create economic opportunities and employment for the youth.

2.3 COMPONENT STRATEGY TO REACH THE OBJECTIVE

Learning from previous Danida interventions and other programmes to strengthen the competitiveness of MSMEs in Kenya the support is based on the following strategic considerations:

Developing markets and strengthening competitiveness

The core approach is to develop market systems in selected value chains in a comprehensive manner in order to increase competitiveness of Kenyan producers and enterprises. Increased competitiveness is expected to sustainably create employment, increase income of farmers and producers, and eventually lead to poverty reduction.

Addressing competitiveness constraints entails firstly understanding market potentials, market mechanisms and constraints to competitiveness, and secondly to support effective change of mechanisms and market functions where necessary. Depending on the specific value chains, competitiveness of enterprises may be influenced by different factors: Inhibitive legal and regulatory environment, unfavourable tax regime, lack of or insufficient access to markets, finance, skills and technologies, infrastructure, information or access to linkages with larger companies, inadequate business skills and other formal and informal market entry barriers.

The component will address such constraints as they occur and with methodologies that are appropriate in the concrete case. This may include organising producers, supporting development and implementation of improved production methods and technologies, facilitating the emergence of necessary business services (transport, storage, packaging, marketing, management services, training, etc.) facilitating linkages to buyers, processors and exporters, supporting the development of appropriate financial services, lobbying for necessary changes in the legal/regulatory environment and improving the specific business environment. The support provided will be at all levels of the agri-business value chains, from primary producers to markets (domestic and international). A market development approach implies that the support being provided plays a facilitating role, seeking to catalyse others in the market system and eventually becoming redundant.

Target groups

The target group are MSMEs that operate in the selected value chains, and that are growth-oriented, have a growth potential and are willing to innovate (e.g. venture into new markets, improve their productivity through new technologies, products, strategies and market linkages). Since the approach chosen is to develop markets, actual targeted businesses will depend on the specific economic environment, business organisation and market structures in the targeted value chains. They may typically include, for example, micro-sized (family) farm businesses, small input

delivery, processing or service companies, small or medium sized buyers, processors and/or exporters. Emphasis in the support to growth oriented enterprises will be on their development impact, including contribution to growth and employment of youth. MESPT will discuss with and utilise methodologies developed by the African Enterprise Challenge Fund for assessing development impact (growth, employment generation, impact on market system, benefit to other businesses in the value chain, gender and youth) of investments in private sector companies.

Combining M4P work with district-based facilitation

In its approach to facilitate markets, the component builds on two approaches previously supported by Danida under BSPS I and ABD. ABD was successfully acting as a facilitator on the ground targeting selected ASAL districts, while the BDS sub-component under BSPS I was designed to operate nation-wide, acting as a supra-facilitator (i.e. outsourcing facilitation work to other organisations via disbursement of grants). The component will combine both approaches. It is expected that this combination of a systematic and comprehensive value chain development approach with concrete facilitation capacities in defined areas will reinforce impact, not only in the targeted districts, but also nation-wide as market models developed and tested on the ground can be up-scaled and rolled out. The two activity levels will therefore be closely interlinked, through targeting the same value chains and integrated organisational and governance structures.

Integrating NRM into district-level value chain development

Subcomponent 3.2 of Danida's NRM Programme will become an integrated part of the competitiveness of MSMEs component. This provides for opportunities to (1) integrate green solutions (renewable energy, water resource management, Integrated Pest Management (IPM), or waste management) into the targeted agricultural value chains, which is also likely to increase productivity in the value chains; and to (2) utilise ABD's district-level presence and its expertise in adapted market development to pilot viable models for private business service provision in NRM.

Promoting value chain financing

In line with emerging international best practice the component will establish a complementary link between market development facilitation and VC financing. This responds to the experience in many value chain programmes, which encounter major practical difficulties in securing appropriate finance for the numerous good investment opportunities that are emerging. In parallel to the technical market development work, which facilitates market linkages and provision of appropriate and private sector-led business services, value chain financing will support the systematic development and provision of "the right" financial products, specifically needed by farmers and other actors in the value chain to increase competitiveness.

Addressing capacities for market facilitation in Kenya

Capacity constraints within Kenya for M4P facilitation are evident. This is also demonstrated by MESPT's recent challenges to retain qualified staff in its Business Services (BS) Department in a situation where new programmes are starting up and recruiting qualified staff. The component will pro-actively address this capacity challenge by supporting the development of systematic market facilitation training programmes within Kenya.

Improving coordination and information sharing

In view of the widening landscape of BDS/M4P programmes in Kenya coordination and information sharing is essential. MESPT started to assume a coordinating role with support under BSPS I, facilitating the BDS donor coordination group and organising the annual BDS conference.

However, a more systematic approach to coordination is felt to be in need in Kenya, focussing on comprehensive stocktaking of approaches and lessons learnt, making relevant documents easily accessible for stakeholders, facilitating targeted discussions and peer reviewing and, equally important, facilitating cooperation and synergies between different programmes in Kenya.

Capacity development of MESPT

The component will be implemented by MESPT. With its history as a financial organisation targeting the development of microfinance and its newly emerging focus on business development, the Trust is ideally positioned to develop into a leading Kenyan implementer of market development programmes in an environment, which is still dominated by donor-driven initiatives and foreign organisations. MESPT revived this strategic orientation two years back when it incorporated the BDS subcomponent under BSPS I in its operations. Under BSPS II Danida will support reinforcing this direction thus strengthening domestic capacities. In this context, it is necessary to build substantial further capacity of MESPT's BS Department and to develop effective inter-linkages between its various value-chain-related activities (including programmes funded by other development partners). International Technical Assistance (TA) will support this process. The component will provide funding for some of the core costs of MESPT associated with building up this capacity. It is expected that while MESPT develops strength as a market facilitator these core institutional costs will gradually be shared with other programmes that MESPT will take on in the future. As such, Danida's contribution to MESPT core funding will largely be allocated as a lump sum management fee. To reflect the strategic directions under BSPS II, MESPT will prepare a revised five-year Strategic Plan for the Trust.

Facilitating strong linkages with other programmes

Linkages and synergies are expected with other market development programmes in Kenya. This refers first of all to the EU/ASMEP programme through integrated management arrangements for the two and through partly targeting same value chains. The wide spectrum of potential synergies with other market development programmes in Kenya will be explored and exploited. Coordination activities funded under Output 6 will act to achieve a deepening of such synergies.

2.4 CROSS CUTTING ISSUES AND PRIORITY THEMES

2.4.1 Gender

The component strongly addresses gender issues. Firstly, gender relevance and potential for women to increase employment and income has been considered in the selection of value chains to be focussed on. The inclusion of sunflower and small stock/poultry is a result of this focus. Secondly, the approach to gendered value chain studies (where new studies are to be commissioned) and gendered conceptualisation of intervention projects will be employed to identify and address gender-specific participation and growth barriers. This will help emphasise on gender impact in the selection of facilitation and VC financing sub-projects to be supported. A special gender window in the VC Fund may be considered. Gender pointers in the annual budgets will control a strong gender mainstreaming commitment and process. Thirdly, gender policies of partner organisations will be considered in a way that commitment to gender will play an important role in the selection of consultants to be contracted for facilitation projects. Finally, gender will feature prominently in monitoring and evaluation (M&E), i.e. disaggregating, thorough tracking of development on gender, and reporting M&E indicators and data by gender. Gender sensitive indicators have been identified and will further be specified at the level of individual grants.

2.4.2 Environment and climate change

The introduction of environmentally friendly and climate change technologies in particular in agricultural value chain development is an integrated part of the component through the implementation of the Subcomponent 3.2 of the Danida supported NRM programme. The emergence of a viable market for private-sector led NRM services, the major aim of the subcomponent, will have an impact on the use and dissemination of green solutions in agricultural production.

2.4.3 Democratisation

Component activities are directly supporting transparency and democratic participation by employing consultative and participatory methods in analysing value chain challenges and planning interventions, as well as in stimulating group formation and activities among producers and other economic players in the value chains. The component will also specifically address the challenge of corruption, considered to be widespread in market access and with reference to financial markets in Kenya. MESPT (at governance, management and operational levels) and any partner and beneficiary organisation will be required and supported to develop and implement anti-corruption strategies according to international best practice. Under Output 6, anti-corruption measures in market development programmes will be made a topic in the wider stakeholder environment.

2.4.4 Human rights

Human rights are addressed by working towards improved livelihoods of poor producers, specifically in the rural areas. By forging mutually beneficial horizontal and vertical linkages among market players, and bringing vulnerable groups into the economic equation, successful value chain development acts to reduce social and inter-ethnic tension which is prevalent in Kenya and has in the past been the breeding-ground for violence and human rights violations.

2.4.5 Youth

Youth and youth employment creation is a special theme and objective of BPS II. The potential of youth employment creation has been considered in the selection of targeted value chains, and will be among the criteria for the selection of market facilitation sub-projects. Strengthening manufacturing competitiveness in value chains is expected to create employment for youth, in particular in urban areas.

2.4.6 HIV/AIDS

Prevention of HIV/AIDS and decent conduct vis-à-vis people living with HIV/AIDS are supported by integrating HIV/AIDS issues in all training activities directly or indirectly supported through component activities. Furthermore, implementing partners, including sub-contracted consultants, partner financial institutions or producer groups and business associations, will be encouraged and supported to develop HIV/AIDS policies for their organisations, if not available and implemented already.

2.4.7 Addressing harmonisation and alignment

Alignment is addressed in the component design by choosing a local Kenyan organisation as the implementing agency. Harmonisation with EU interventions will take place with reference to activities under Output 1, Output 2 (where EU potentially targets manufacturing in its flexible fund) and Output 5 (MFI capacity building). Activities of the two programmes will work in close cooperation through the same MESPT personnel and organisational structure. Through Output 6 the important, yet still insufficiently solved, challenge of harmonisation between the many donor programmes in support of value chain development will be directly addressed by investing into cooperation activities.

2.4.8 Linkages to other Danida business sector instruments

Possible synergies and cooperation with the Danida B2B programme will be explored, and experiences gained from especially the ABD component of the former Agricultural Sector Programme Support in this regard will be further developed during BSPS II. Linkages may occur between investments in micro finance institutions by the Danish Industrialisation Fund for Developing Countries that are at the same time instrumental in funding value chains, and with B2B supported SMEs that are key players in targeted value chains. The Innovative Partnerships for Development instrument may be instrumental in stimulating NRM investment in enterprises. Where relevant, the Corporate Social Responsibility approach will be pursued when support is being provided to enterprises in value chains.

2.4.9 Cross-component Synergies

Synergies with other BPS II components and sub-components will be systematically pursued: With the Improvement of the Business Environment component to address business environment issues in targeted value chains and with the Innovation and Piloting Green Energy component in the support to enterprise development in the field of clean energy technologies, as well as identifying innovative entrepreneurs to be eligible for support from the Climate Technology Innovation Fund. Discussions with the African Enterprise Challenge Fund on methodologies to assess development impact of investments in private sector companies will be carried out.

2.5 OUTPUTS, ACTIVITIES AND APPROACH

2.5.1 Output 1: Market linkages and business growth amongst players in selected agricultural value chains increased

This output represents a continuation of value chain facilitation activities under BPS I. In accordance with international best practice in market development, BPS II funds will be used for comprehensive market development in selected agricultural value chains in accordance with the M4P approach. This entails support to address constraints of competitiveness and growth identified at different points in a value chain (from agricultural production technologies, skills deficits, lack of relevant business services, up to business climate and export market constraints) in order to unlock the productive potential of poor rural households in Kenya.

It is envisaged that activities under this output will initially concentrate on the dairy sector, horticulture and fisheries. Work towards strengthening the dairy industry and horticulture represents a continuation of successful work started during BSPS I. In dairy, where other donor-supported programmes are active as well, focus will be on strengthening service provision such as artificial insemination, input supply, local advisory and training services in milk quality, feed preservation and storage. Horticulture (in its wider definition including vegetable, fruits and nuts) in particular will add the dimension of integrating the area-based facilitation with the more nationally oriented M4P approach. Targeting value chains at the national level that are also supported by the area-based facilitation work under Output 3 (ABD) will provide for opportunities to disseminate successful business models developed by ABD in the field beyond the boundaries of targeted districts, and will at the same increase the scope of ABD for tackling value chain constraints at the macro level and market challenges outside the target areas.

Under this output, systematic in-depths analysis of selected commodity value chains will be conducted and stakeholder fora facilitated in order to identify relevant intervention points in consultative processes. A number of valuable analytical studies and subsequent stakeholder consultations with respect to selected value chains (dairy sector, passion fruits and other horticulture commodities) have already been conducted and these will be used to conceptualise further interventions. For other commodities, additional research may be necessary. Based on the generated knowledge, tailor-made interventions will be conceptualised to address identified competitiveness constraints and market failures.

Interventions vary depending on the particular circumstances in the targeted markets, but will usually include development and dissemination of appropriate technologies (e.g. post-harvest treatment), producer group organisation, skills development, development of needed business services (e.g. transport, storage, packaging, marketing, input treatment) and of commercially viable business models to deliver the services, development of processing businesses, facilitation of market linkages, as well as advocacy initiatives to address important policy issues and to remove regulatory burdens and constraints. With respect to the latter type of interventions, MESPT will coordinate its work and cooperate, where suitable, with the Business Advocacy Fund (BAF II) also supported by BSPS II.

Unlike the area-based approach under Output 3, the national M4P programme will not operate as a direct facilitator in the field, but will instead outsource the actual interventions to external facilitators⁴. This “supra-facilitation” approach is instrumental to reaching out nation-wide, to engage special technical and methodological (e.g. in community mobilisation) expertise, and not least to broaden the Kenyan network of competence and experience in market development facilitation, thus helping to make the M4P approach sustainable in the long run.

Sub-contracts to external facilitators will be awarded on the basis of a transparent and competitive selection process, for which procedures were already developed under BSPS I. These procedures will be evaluated and, if necessary, revised during the inception period. In this process, the selection criteria should be harmonised with the selection criteria for grant-projects under the EU/ASMEP programme. Despite of contracting out the facilitation projects to Kenyan consultants and

⁴ These will normally be Kenyan private organisations and consultancies. However, there may also be some opportunities to cooperate with public agencies if they fit into the strategic framework. A case in point may be the 4K MSE 2030 Initiative implemented by the Ministry of Industrialisation, which already cooperated with the Royal Danish Embassy (RDE) under BSPS I.

organisations, considerable technical work and expertise is required from MESPT to initiate the identification of intervention points, to conceptualise together with external facilitators the actual interventions and to monitor the sub-projects.

Activities under this output will be implemented by the BS Department of MESPT, supported by international TA. Activities to promote horticulture and fisheries will be closely harmonised and coordinated with facilitation projects funded under the EU/ASMEP programme, which is funding specialised project officers for these value chains.

Summary of main activities:

- Commodity-based value chain studies, where necessary, and facilitation of consultative processes to identify intervention points;
- Selection of sub-projects and sub-contracting external facilitators;
- Management of performance-based contracts with external facilitators, and
- Supervision and M&E of sub-projects.

2.5.2 Output 2: Manufacturing competitiveness in selected value chains improved

Activities to achieve this output will follow the same implementation logic (M4P approach) as the previous output. It will concentrate on developing viable manufacturing businesses in selected value chains and as such will have a stronger focus on target groups in urban and semi-urban areas.

MESPT will work under this output in cooperation with the Kenya Association of Manufactures (KAM). Based on a Memorandum of Understanding (MoU), KAM will be the implementing partner of MESPT to drive the processes of analytical work, stakeholder consultation and facilitation of agreed market development intervention. MESPT on its part will oversee and monitor the interventions.

Sectors and sub-sectors to be targeted have not been identified so far. With funds from BSPS I, KAM is currently conducting a scoping and identification study concentrating on manufacturing potentials and constraints in agro-processing, the metal sector, in light engineering and in construction-related manufacturing (window frames, doors, etc.). The study is expected to be completed by the start of BSPS II. Further, decisions on focal areas will accordingly been done during the BSPS II inception period.

Further synergies can be expected with the EU/ASMEP programme, which may target under its flexible fund light engineering.

Summary of main activities:

- Conclusion of agreements about cooperation modalities between MESPT and KAM, signing of MoU;
- Stakeholder consultative processes to identify intervention points;
- Conceptualisation, implementation of facilitation projects, and
- M&E.

2.5.3 Output 3: Appropriate production and marketing models for selected value chains in the targeted ASAL districts developed and increased

Under Output 3, Danida will support the continuation of the area-based value chain facilitation work of the ABD in selected ASAL districts. The output aims at strengthening selected value chains with high economic potential in the targeted (cluster of) districts. This will involve also the continuation of activities to strengthen agricultural commercialisation, e.g. through irrigation, that were started previously in cooperation with other ASPs components.

More than previously activities will have a strong emphasis on rolling out and scaling up successful production and business models in order to achieve a lasting impact on the production patterns, and the economic and social environment in the targeted districts.

Responsibility for achieving the output rests with the newly created MESPT Outreach Office in Mombasa and its attached district and field offices. The decentralised offices are critical to maintain a close contact with the actors in the districts.

Value chain development at district level involves the stimulation of effective farmers organisation, capacity development and coaching of farmer groups; support to product development and business models/plans; capacity building and coaching support to MSMEs involved in processing, marketing and business services provision, as well as facilitation of linkages between producers, processors and business service providers. All value chain facilitation work will be based on thorough sub-sector/commodity studies, and necessary studies will be funded, if these are not already available⁵. Financing needs of various players in the targeted value chains will be addressed by the Value Chain (VC) Fund under Output 5. To this end, the Mombasa office staff will liaise closely with the staff in MESPT's Credit Department responsible for the VC Fund activities, to indicate funding needs and facilitate linkages between players in the value chain and appropriate financial institutions.

Activities under this output will concentrate on the following ASAL districts: Mombasa, Kwale, Kilifi, Malindi, Tana River, Lamu and Taita Taveta in the Coastal region, Machakos, Makueni, Kitui and Yatta in the Eastern region, as well as Loitokitok, which is adjacent to and accessible from Taita Taveta. This represents a slightly smaller catchment area than the ABD was serving excluding Mwingi, Embu, Mbeere, Meru and Tharaka. It is expected that the reduced geographical focus will strengthen the impact on the remaining districts. Selected high impact activities from the ABD (e.g. in Central) may continue to be supported for an initial 1-2 years from the Matuu districts office. A more detailed rationale for the selection of targeted districts and value chains is included as Appendix 12.

A stronger focus is also expected with respect to value chains/commodities supported. Although a certain degree of flexibility is foreseen, it is expected that activities will concentrate on supporting the development of markets for coconuts, cashew nuts, mangos, passion fruits, dairy, horticulture, macadamia nuts, sunflower, fisheries and small stock/poultry. Commodities to be supported in each district will vary depending on the specific economic and agro-ecological environment. Activities in support to coastal fisheries, and selected horticulture interventions will, where possible, be

⁵ At the moment, sub-sector/commodity studies are available or are about to be finalised for coconuts, passion, mango, cashew in the coastal areas, horticulture, sunflower, mango and pulses in Eastern.

addressed in cooperation with the EU/ASMEP programme, which operates under the BS Department of MESPT.

It is expected that business and linkage models that have proven successful and are potentially replicable in other parts of the country will be taken up and promoted elsewhere through facilitation activities under Output 1. A close cooperation between activities under this output and Output 1 is also expected with respect to addressing business environment issues, developing national and export market structures and other issues that imply operations beyond the ABD target area.

Activities under this output will continue to be implemented under the established brand name “Agricultural Business Development (ABD)” in order to stay recognisable among farmers and stakeholders in the districts, thus making sure that the momentum and trust built up previously can be maintained.

Summary of main activities:

- Further value chain studies, where necessary, with identification of relevant intervention points;
- Continuing, scaling up and rolling out successful business models;
- Facilitation of stakeholder groups/forums;
- Facilitation of group formation, capacity building and coaching of farmers;
- Capacity development, development of products, business and linkage models for MSME in the value chain;
- Linking value chain actors with financial services, in cooperation with the VC Fund;
- Linking local MFIs with assistance provided under the VC Fund, and
- Combine and create synergy between activities under this output and Output 4.

2.5.4 Output 4: Private sector service provision of appropriate natural resource management technologies in selected districts piloted and rolled out

This output represents Subcomponent 3.2 of Danida’s NRM Programme, aimed at creating private sector participation to support and influence natural resource management as a contribution towards poverty alleviation and strengthening of the MSME sector.

Activities will concentrate on water conservation (irrigation initiatives, water harvesting, water efficient technologies and water recycling), promotion of renewable energies (wind power, solar energy, water turbines, biogas, bio-fuels, energy saving stoves, charcoal bricks), IPM (focussing on training and certification of farmers and on dissemination of bio-pesticides and eco-friendly inputs) and, if appropriate, other NRM initiatives (agro-forestry, carbon trading). Being part of BSPS II, activities will concentrate on developing and disseminating “green solution” in those value chains, which are specifically supported by the Competitiveness of MSME component under the other outputs. It is expected that this linkage will be instrumental in increasing acceptance among the target groups, as NRM strategies can directly be part of integrated business strategies. Conventional energy sources account for up to half of operational costs in some of the service and processing Micro and Small Enterprises (MSE) previously supported by ABD. Reducing such costs through renewable energy and/or energy efficiency solutions will increase competitiveness of the businesses, and thus acceptability of the new technologies. Another example is the promotion of Global GAP/Kenya GAP certification, which is/will be a precondition of access to export/domestic

markets, or other environmental certificates (Organic, Rainforest Alliance, Sustainable Forestry Initiative, etc.), which act to improve marketability of products.

Activities under this output can be clustered into three groups⁶:

1. Development of business opportunities, which include appropriate technology development, linkage models and lending instruments for water resources, renewable energy, IPM and other NRM services. Activities will include surveys to establish resources and business potentials. Starting point of all activities will be existing experience with NRM and emphasis will be laid on finding feasible solutions to commercialisation and scaling up. With respect to appropriate lending models, activities will be closely coordinated and possibly supported by the VC Fund under Output 5;
2. Support to MSME to develop viable services in support of NRM investments, and
3. Promotion of incentive structures based on innovative fiscal and financial instruments that foster renewable energy provision and other NRM-related business opportunities. Implementation of these activities, as far as they involve advocacy and strengthening of relevant advocacy bodies, will be closely coordinated, and possibly supported by the BAF II.

Field activities will focus on the same ASAL districts in which ABD interventions will take place and to the extent possible fully integrated into the target value chains. Activities under both outputs will be implemented in an integrated manner, facilitated by the new MESPT outreach office in Mombasa and its attached district and field offices. Field staff with expertise in NRM and business development will be attached to the Mombasa office and district/field offices. It is expected that activities will be implemented in close cooperation with the district environmental officers, which have been benefitting from substantial capacity development support through other programmes.

Summary of main activities:

- Establishment of appropriate support infrastructure, recruitment of NRM officers for district offices, as far as not already accomplished in the finalisation phase of ABD;
- Capacity building of NRM field staff;
- Surveys (e.g. of water resources, potential of various energy sources);
- Development of appropriate technology packages and business models to disseminate the technologies;
- Identification and capacity development of private service providers;
- Facilitation of various NRM initiatives (certification for farmers, tree planning, water harvesting and MSME support in relation to renewable energy, water saving, IPM and waste management protocols, etc.);
- Impact assessments, consolidation and review of assessments of lessons learnt, and
- Identification of incentive structures for private sector-led NRM initiatives and necessary advocacy activities, in cooperation with the BAF II.

⁶ Representing Outputs in the NRM Subcomponent document attached as Appendix 16.

2.5.5 Output 5: Access to relevant financial services and products for producers, suppliers and processors in value chains increased

To achieve this output, MESPT will form a VC Fund. The fund will work towards providing appropriate financing to the various players in the value chains including producers/farmers, processors, service providers, and businesses involved in marketing. The fund will not get directly involved in retail financing operations, but will through product development, capacity building, bulk lending and credit guarantees capacitate retail financial institutions to provide appropriate financial services (tailor-made loan products, invoice discounting, warehouse receipting, insurance schemes, etc.) to their clients.

The VC Fund will be sourced by merging the Wholesale Fund for growth-oriented enterprises (GOE) established under BSPS I with the ABD Loan Fund. The previous two funds managed by MESPT under Danida programmes combine a capital of KES 414 million (about DKK 31 million). The existing funds are currently in operation with outstanding loans and commitments beyond December 2010. A plan and schedule for phasing-out the previous loan portfolios and phasing-in the new VC funding activities is presented in Appendix 11.

The VC Fund will primarily support financing in those value chains that are directly supported under the Component as well as under the MESPT value chain operations under the EU/ASMEP programme. For this reasons, its operations need to be closely coordinated with activities under Output 1 to 4. The implementation arrangements, in particular the staffing structure of the MESPT Mombasa Office, have been designed to facilitate such an integrated implementation structure. Secondly, the Fund may also become instrumental in supporting and facilitating the development of appropriate funding in value chains supported by other programmes. This would for example suggest itself when financing instruments and models developed in the component-supported value chains can be applied in other value chains, and it would assist MESPT in establishing itself as a key player in VC financing in Kenya.

Support to GOEs will in future focus much more on economy than on enterprise, resulting in support be provided to enterprises that have a high growth potential and are able to substantially increase employment.

It is foreseen that the VC Fund will operate through the following instruments:

1. *Product development and capacity building of financial institutions:* This will address the development of new loan and other financing products appropriate to serve a specific client group or client relationship in the targeted value chains, as well as necessary capacity building of participating financial institutions. Capacity building may include analytical work on financing needs in value chains, matching grants for diagnostic studies of Financial Institutions (FI), staff training, system development and purchase of hardware (e.g. computer equipment). With respect to analytical work, product development and development/implementation of capacity building concepts, MESPT will, guided by a general MoU, cooperate with the Financial Sector Deepening Trust (FSDT) that will facilitate and oversee analytical studies and product development, and advise on capacity building initiatives. Synergies are expected with the MFI Capacity Building support under the EU/ASMEP programme, which is also implemented by MESPT.

2. *Wholesale lending*: Wholesale loans for on-lending in accordance with MESPT established terms and procedures may be extended to MFIs, SACCOs and other locally operating financial institutions, when loan capital has been identified as a key constraint to financial service provision, for example to groups of farmers. Loan capital will only be provided for targeted on-lending (in terms of target groups and purpose of loans) in order to develop and advance operations and business transactions in the targeted value chains. Often, further capacity building support will accompany wholesale lending. For wholesale lending the capital of the two previous Danida funded loan facilities (GOE and ABD Loan Fund) will be used. No additional Danida funding specifically for wholesale lending is foreseen. However, to smooth the transition from the previous funding purposes to VC relating funding, Danida will initially provide some seed funds for VC related wholesale lending, to be returned after 18 months into the guarantee facility. MESPT may invite other donors to contribute further to the wholesale lending facility.
3. *Loan guarantee facility*: A loan guarantee facility may be set up in established retail financing institutions to reduce the risk of lending to non-traditional target groups and clients without sufficient collateral, and to venture into innovative loan products. This instrument is expected to facilitate loans to small and medium sized enterprises (SME) along the value chains.

MESPT will not provide guarantees itself, but will rather make use of established guarantee facilitation mechanisms in Kenya. To this end, cooperation with USAID and its project Kenya Access to Rural Finance (KARF) should be explored, which use the US Government Development Credit Authority (CDA) facility to provide, manage and monitor earmarked loan guarantees with financial institutions in Kenya. This guarantee mechanism is well established in the Kenyan market, with partner FIs such as KCB, FINA, Equity, K-Rep, and others. Guarantees are activated through a risk premium of around 5% (depending on the risk assessment) of the total guarantee volume payable as a subsidy to the US Treasury. Prior to a guarantee agreement, participating banks have to undergo a due diligence by CDA. Details and cooperation arrangements would need to be worked out during the first year of component implementation.

The current credit guarantee schemes for SME lending, which was established by ABD project, will be maintained until alternative arrangements have been set up. The credit guarantee scheme should only be used to encourage financial institutions to cooperate with previously neglected clients and/or in new financing arrangements, and to better understand new markets and constraints. As such, guarantees should never exceed 60% and should be linked to capacity development programmes within the participating institutions.

Should the African Guarantee Facility under preparation be established during implementation of BSPS II, consideration will be made to establish cooperation with this facility as well.

Activities under this output will be based on value chain analyses and analyses of relevant financing needs, and partnering FIs identified on a case-to-case basis in cooperation with value chain experts in the MESPT Business Department and the Mombasa-based outreach office.

It is envisaged that once or twice during the implementation period FSDT will be contracted to conduct an impact analysis of the VC Fund's operations in order to ensure alignment of VC Fund activities with international and Kenyan best practice.

Summary of main activities:

- Capacity building with respect to value chain financing for relevant MESPT staff;
- Evaluation study to assess lessons learnt from the value chain financing experience of ABD, including the experience with SMEP on an SME lending arrangement;
- Diagnostic studies on financing needs in targeted value chains;
- Development of appropriate financing products;
- Identification of partner FI and capacity building needs;
- Conceptualisation of capacity building packages and processes and matching grants for FI capacity building;
- Supervision of capacity projects of FIs supported by matching grants;
- Management of wholesale loans to MFIs, SACCOS and other locally operating financial institutions (this includes management of current outstanding portfolio committed under BSPS I and ABD);
- Facilitation of a loan guarantee scheme to be implemented preferably in cooperation with USAID/CDA, and
- M&E of VC Fund operations.

2.5.6 Output 6: Information sharing and coordination among M4P and BDS programmes in Kenya improved and capacities for value chain facilitation increased

The multitude of existing and upcoming donor-funded programmes/projects in support of market and value chain development has created substantial challenges in terms of coordination and availability of sufficient and sufficiently competent human resources for management and implementation. Responding to the identified need for information-sharing and coordination among programmes/projects, and capacity development for M4P/BDS work within Kenya, BSPS II will support under this output the setting-up a "Market Development Resource Centre", a function to be established under the MESPT BS Department. This Resource Centre represents a continuation and strengthening of activities supported under BSPS I, which were instrumental in facilitating some coordination, but not sufficiently strong and comprehensive to help overcoming the situation of rather isolated project implementation and wasted synergies. Funds will therefore be used to improve coordination, increase capacity building and at the same time strengthen MESPT's role as a local knowledge centre in market and value chain development.

The Resource Centre will be implemented through one specially assigned programme officer under the BS Department. It will serve as the secretariat of the BDS Donor Coordination Group, facilitate information-sharing events such as the Annual BDS Conference and support the identification of opportunities for joint implementation and cooperation. It will facilitate and disseminate studies on lessons learnt and impact of initiatives, preferably assessments conducted jointly by different donors operating in same or similar value chains.

In terms of capacity building, the Resource Centre aims at increasing the number and quality of market development experts in Kenya capable of managing and driving M4P and BDS programmes and facilitating market development on the ground. Activities will build on existing initiatives

driven by the BDS Donor Coordination Group to set-up localised M4P training programmes in Kenya in cooperation with the Springfield Centre. The Resource Centre will support the development and initiation of a systematic and sustainable concept for human capacity development for market facilitation in Kenya.

Necessary staff capacity development within MESPT and its governance structure will be supported.

Summary of main activities:

- Facilitate and drive the BDS Donor Coordination Group;
- Maintain and feed the BDS resource website;
- Facilitate BDS Conferences and other information-sharing events;
- Identify needs and conduct impact assessments, and facilitate joint assessments between different programmes, disseminate results and lessons learnt;
- Facilitate joint implementation and programming;
- Develop a concept for systematic and sustainable market development training programmes in Kenya, and
- Plan and facilitate training and information events for MESPT staff and board members.

2.6 COMMUNICATION STRATEGY

Communication with the potential beneficiaries is ensured as all activities and grant-projects are designed and prepared in stakeholder consultative processes. As regards Output 1, invitations for grant-supported projects will be advertised in accordance with established procedures. Under Output 2, KAM will use its membership networks for communicating and discussing possibilities and options for interventions with relevant actors in manufacturing sub-sectors. Activities facilitated by the Outreach Office in Mombasa under Outputs 3 and 4 will be advertised and communicated through the established ABD networks, which include local authorities and communities. New opportunities under the VC Fund (Output 5) will be advertised by MESPT to relevant FIs, and linkages between farmers, MSMEs and other value chain actors with FIs will be facilitated through the market facilitation activities.

Not least through impact assessment and knowledge dissemination activities to be funded under Output 6 significant emphasis will be put on collecting and re-channelling information on results, success and impact from and to beneficiary groups and concerned stakeholders. The envisaged involvement of direct beneficiaries in the collection of impact information (see suggested monitoring methodologies in Appendix 16) will reinforced and systematise direct communication with end-beneficiaries.

3. INPUTS AND BUDGET

3.1 INPUTS

For MESPT to build up its capacity to implement BSPS II activities and other donor supported activities, as well as to reach its corporate goals, it is required that its permanent staff in all

departments is increased. To this end core funding is to be provided to MESPT. BSPS II will provide core funding in the form of a management fee that covers a proportionate share of the permanent staff and the trust's management functions. BSPS II will furthermore cover costs of those staff members that are exclusively charged with activities to implement BSPS II. Where these are expected to become core staff in the medium term (e.g. the Mombasa Office Manager), the funding is provided on a decreasing scale.

BSPS II funds will be used as follows:

- Output 1:
- Necessary research;
 - Facilitation grants;
 - Staff costs for one national value chain officer, possibly support staff;
 - Purchase of two vehicles;
 - Purchase of selected office equipment, and
 - Management fee to MESPT to cover overheads and all office and operational expenses.
- Output 2:
- Research and facilitation grants;
 - Management fee to MESPT to cover overheads and all office and operational expenses.
- Output 3:
- Necessary research about value chains and for monitoring purposes;
 - Development of technologies and market linkage systems;
 - Financing of market development activities including facilitation of farmers group, development of business services and MSMEs, facilitation of market linkages;
 - Staff costs for Mombasa-based Outreach Manager on a declining scale (100 % Year 1 and 2, 80% Year 3; 70% Year 4 and 5);
 - All other staff costs of the Mombasa Outreach Office, District and Field Offices, including support staff;
 - All operational expenses of the Mombasa Outreach Office, District and Field Offices including office rental, and
 - Management fee.
- Output 4:
- Necessary research on NRM solutions in value chains and for monitoring purposes;
 - Development of NRM technologies and market models;
 - Financing of activities to facilitate private sector provision of NRM solutions;
 - Development of policy recommendations on incentive schemes and enabling policies;
 - Staff costs for NRM officers in Mombasa Outreach Office and selected District and Field offices, and
 - Capacity building of NRM officers.
- Costs under this output are financed by Danida supported NRM Programme.
- Output 5:
- Research in value chain financing needs;
 - Development of appropriate financial products;
 - Capacity building of financing institutions;

- Funds to provide guarantee subsidies;
- Staff costs for one value chain financing officer to be placed in Mombasa Outreach Office, and
- Capacity building of MESPT staff in value chain financing.

The wholesale funding facility will be sourced by previous Danida investments and the capital of the ABD Loan Fund. Management of the VC Fund will be covered from interest income, and no additional management fee will be paid to manage activities under this output.

- Output 6:
- Costs incurred in maintaining the BDS Resource Centre webpage, facilitation of the BDS Donor Coordination Group, and other activities related to coordination and information-sharing;
 - Impact assessment studies, publications;
 - Costs incurred in developing and piloting training programmes for market facilitators in Kenya;
 - Capacity building activities of MESPT staff in market development (M4P);
 - Staff costs for one Market Development Officer, and
 - Management fee to MESPT to cover overheads and all office and operational expenses.

BSPS II will furthermore fund two International Danida Advisers:

- Business Service Adviser over the entire 5-year programme period, and
- ABD Adviser over a period of 2 years.

In addition, a contingency budget (a portion of the contingencies) is set aside for TA as required in relation to the restructuring of the MESPT Board of Trustees, due diligence of MESPT, and the needs as identified from the institutional development process of MESPT.

3.2 BUDGET

The total budget contribution is DKK 125 million including all TA. Funds for Output 4 and a part of the contingencies will be contributed by the Danida supported NRM Programme budget. Accordingly, the component budget sourced from BSPS II is DKK 90 million.

Budget for the Competitiveness of MSMEs Component

	Million DKK
Output 1 (National M4P Programme, agriculture)	23
Output 2 (National M4P Programme, manufacturing)	3
Output 3 (ABD)	39
Output 4 (NRM)	32
Output 5 (Value Chain Fund)	11
Output 6 (Market Development Resource Centre)	4
International TA	7
Sub-Total	119
Contingencies	6
Grand Total	125
<i>BSPS II budget only</i>	90

4. IMPLEMENTATION ARRANGEMENTS

4.1 MANAGEMENT AND ADMINISTRATION

MESPT will be responsible for implementation of component activities, directly reporting to the Programme Steering Committee (PSC). Component activities will be implemented by the Trust through its regular organisational set-up.

MESPT has currently three departments: Finance and Administration, the BS Department and the Credit Department. The BS Department will be managing activities under Outputs 1, 2 and 6, while the Credit Department will be responsible for the implementation of the VC Fund under Output 5. Within these departments, new professional staff will be recruited to cater for the extended capacity requirements induced by component activities.

For the implementation of Output 3 (ABD) and Output 4 (NRM), MESPT will establish a new Outreach Office in Mombassa, which organisationally will be at the level of a MESPT department, headed by an Outreach Manager and reporting to the Chief Executive Officer (CEO)⁷. Under the Mombasa Office three district offices (DO) will be operating, one each in Malindi, Taita Taveta and Machakos, as well as two smaller field offices (FO) in Kwale and Matuu. For this purpose, the office infrastructure of the former ABD will be transferred to MESPT. It is also envisaged that after the closure of ABD and transferral of ABD assets, liabilities and commitments to MESPT, the current ABD staff will be re-employed by MESPT. The MESPT and ABD managements will form a working group before the end of 2010 to plan and clarify transferral issues, in particular regarding staff package harmonisation⁸. To maintain the dynamism of the current ABD project (which has already incorporated NRM activities in its operations) under the new organisational set-up, it is

⁷ See chart in Appendix 10.

⁸ Furthermore, team building activities will be necessary to facilitate a smooth transition and uninterrupted continuation of area-based facilitation activities.

important that the Mombassa Outreach Office will implement its activities with a high level of autonomy in its day-to-day operations.

During the first year of component implementation an Integration Monitoring Committee will be formed comprising representatives of the RDE and MESPT Trustees to address potential problems arising from the integration of ABD/NRM into the MESPT set-up.

The MESPT CEO will act as a component manager.

Oversight of the component rests with the MESPT Board of Trustees. The present Board is comprised of 12 members four of whom are appointed by the RDE.

The Founders Committee of MESPT will be formalised during the late part of 2010, will get clear terms of reference and hold regular meetings. For an effective functioning of the Founders Committee, the option of a EU delegated cooperation to Danida should be explored. The Founders Committee should initiate an immediate reconstitution of the MESPT Board of Trustees, based on individual skills and merits, rather than institutional representation. Election of the new Board of Trustees should be based on merits and properly remunerated.

A due diligence of MESPT, including an in-depth valuation of its portfolio and an audit of its major investments, to objectively ascertain the strategic weaknesses and worth of MESPT, will be carried out.

Based on the findings of the due diligence, a road map for institutional development of MESPT will be prepared. This will include the establishment of performance contracts between the Founders Committee and the Board of Trustees, and between the Board of Trustees and the CEO, so that progress against set milestones will be part of the requirements for Danida continued support under BSPS II.

In its oversight function of the component the MESPT Board will approve workplans and budgets, and provide overall strategic guidance, which includes the issue of harmonising and integrating activities of the different donor programmes implemented by MESPT.

The reconstituted Business Services Committee of the Board will be in charge of approving facilitation grants under the Outputs 1 and 2, and providing day-to-day guidance to all component activities under the BS Department. It will also specifically oversee that activities are in line with best practice, and well coordinated with other market development programmes in Kenya and with the operations of the VC Fund (Output 5). The committee will be re-constituted for this purpose comprising in the future two Board members with relevant expertise and the CEO. The managers of the BS Department and Mombassa Office will be ex-officio members, and the international BS (Danida) adviser and two external technical experts will provide guidance on best practises to the committee. The committee meets once every quarter or more often upon demand.

A new ABD Committee of the new MESPT Board will be formed to operationally oversee the operations of the Mombassa Outreach Office under Outputs 3 and 4. The committee will meet at least once every quarter and will comprise one or two MESPT Board members, the international BS adviser and external experts. The latter should be drawn from the current ABD Board. The

Outreach Manager, the Credit Manager and the International ABD Adviser will be attending committee meetings ex-officio.

The Credit Committee of the new MESPT Board will be charged with operational oversight of the VC Fund. This includes particularly the approval of loans, capacity building matching grants, guarantee subsidies and research and product development contracts. The Credit Committee, which meets at least once every quarter, will also be re-constituted as part of the reconstitution of the MESPT Board of Trustees. For the purposes of implementation of the VC Fund, it will invite to its meetings the international BS (Danida) Adviser, the BS manager and at least one external technical expert in VC funding, preferably from the FSDT.

In order to ensure synergies between the MESPT activities funded by BSPS II and EU, all relevant committees of the MESPT Board may also call on one representative each of the RDE and the EU to participate in committee meetings.

Component implementation will be supported by two international Danida advisers:

- One senior business services (BS) adviser over the entire programme period. The BS Adviser will be the counterpart of the BS Manager (Head of the BS Department). This TA is necessary to assist the BS Department, which is still relatively new and responsible for an increased market development portfolio, in strategising its operations in line with international best practice, building synergetic relations with the area-based facilitation work of the Mombassa Office and the new VC financing activities, and conceptualising the new value chain development activities in the manufacturing sector.
- One Agricultural Business Development (ABD) Adviser for a period of two years. S/he will be attached to the Mombassa Outreach Manager to support the integration of the former ABD activities into MESPT and to build the necessary capacities in the new Mombassa Office to strategically manage comprehensive value chain development in the Coastal and Eastern region. The ABD Adviser will further assist the establishment of integrated implementation systems and procedures of the area-based activities with the value chain financing activities under the Credit Department.

4.2 FINANCIAL MANAGEMENT AND FLOW OF FUNDS

Funds will be disbursed by the RDE directly to MESPT with the exception of funds for the two Danida advisers who will be paid by Danida. MESPT has already established procedures for financial management and procurement under Danida funding in place, which are in line with Danida's Financial Management Guidelines. The existing Financial Management and Procurement Manual (FMPM) will be adjusted during the inception period to reflect operational changes compared to BSPS I, and approved by the RDE. Funding requests in accordance with the FMPM must be submitted separately for the funds from the BSPS II and the NRM Programme, which is funding activities under Output 4.

The budget structure differs between the six component outputs. As specified in Section 3, budgets for Outputs 1, 2 and 6 are separated into activity related costs, staff costs for those staff exclusively involved in implementation, as well as a management fee representing a specified percentage of the operational turnover and covering MESPT overheads including core staff, and all running costs. Under Output 5, Danida will not contribute a management fee as related costs are covered from the

interest income on wholesale lending. Budgets for Outputs 3 and 4 cover all activity, staff and operational costs.

For the wholesale lending activities, MESPT will not receive any additional funding from Danida⁹. The new VC-related wholesale lending facility will be sourced by the capital of the ABD Loan Fund and the BSPS I Wholesale Fund. The ABD Fund, which was previously managed by MESPT on behalf of ABD, will be handed over to MESPT as donated equity. The management of the entire VC Fund (including capacity building and credit guarantees) will be fully financed through interest accrued to the lending operations. Seed capital for the VC wholesale lending facility will be advanced from the funds earmarked for subsidising the loan guarantee scheme, which is not expected to become operational during the first year of implementation.

MESPT will hold three accounts specially earmarked for component operations:

- (1) One interest-bearing account for management and activity funding under Outputs 1 (M4P in agricultural value chains, Output 2 (M4P in manufacturing), non-lending activities under Output 5 (capacity building and subsidies to guarantees), and Output 6 (Market Development Resource Centre).
- (2) One interest-bearing account for management and activity funding under Output 3 (ABD) and Output 4 (NRM) to be implemented by the Mombasa-based Outreach Office. Funding under BSPS II and the NRM Programme must be accounted for separately, which may necessitate opening of separate accounts for the two budget lines.
- (3) One separate account for the wholesale fund under Output 5. The wholesale fund will be gradually sourced by repayment of principle from the outstanding loan portfolios from the BSPS I GOE Fund and the ABD Loan Fund.

Interest accrued from bank holdings must be returned to the RDE on an annual basis, immediately following the end of the foregoing fiscal period, for onward transfer to the Danish Ministry of Finance. This does not apply to the wholesale facility account.

MESPT will produce semi-annual work plans and budgets, as well as semi-annual progress and financial reporting.

General procurement rules are stipulated in the FMPM. Facilitation sub-projects to be grant-funded under Output 1 and Output 2 will be awarded in a transparent and competitive manner in accordance with procedures stipulated in the FMPM. MESPT will transfer funds to contracted facilitators in accordance with agreed schedules on the basis of performance contracts.

MESPT has established procedures in place for internal¹⁰ and external auditing of its accounts. BSPS II funds will be audited as part of these audit arrangements. As a member of the MESPT Board, the RDE will articulate any issues relating to the annual audit at Board meetings. Furthermore, the RDE will in the future be represented on the Audit Committee of the MESPT Board. The RDE may at any time commission additional external audits of component accounts (including value for money audits).

⁹ Under the Value Chain Fund, Danida will provide funding for capacity building and subsidies for credit guarantees, while wholesale lending will be fully financed through existing sources.

¹⁰ To reflect the increased turnover after the start of BSPS II, MESPT is considering to employ a full-time internal auditor.

5. MONITORING, REPORTING, REVIEWS AND EVALUATION

5.1 MONITORING

Monitoring is an essential tool for programme management. Monitoring will provide the component manager with information needed to measure progress and effectiveness of activities and adjust strategies, procedures, institutional arrangements and allocation of resources, if needed. Monitoring data will also be an essential basis for reporting to the MESPT Board and the PSC.

The component monitoring is part of the overall BSPS II monitoring structure. The logical framework matrix in Annex 1 presents an overview of suggested indicators and means of verification. These will be developed in further detail and quantified in terms of setting targets during the inception period and presented to the MESPT Board (as the component steering body) and the BSPS II PSC for approval.

Collection and compilation of necessary data at immediate objective (component) level will be done externally under the auspices of the PSC secretariat to ensure an independent review of component success. Indicators at this level refer to the deepening of economic participation and business transactions in the different value chains targeted by MESPT. As all value chain activities are based on prior sub-sector (value chain) analysis, these value chain studies serve as baselines on which progress can be measured. Specific sub-sector studies still to be conducted will concretely consider monitoring needs and subsequently collect necessary baseline data. In the case where studies are already available but do not present sufficiently clear and pragmatic baseline data, necessary data should be re-assessed. It may neither be necessary nor adequate to the subject to assess progress in each of the targeted value chains on an annual basis. Rather, appropriate monitoring cycles for a selection of value chains should be considered.

Data and information for monitoring at the output level will all be available from existing documents. The heads of the three departments in MESPT responsible for the implementation of activities under the six outputs are responsible for submitting relevant data to the MESPT CEO who will submit monitoring reports according to agreed schedules to the BSPS II PSC. He will be assisted in this by the MESPT M&E Officer.

An own monitoring framework will be defined for each of the facilitation sub-projects to be outsourced under Outputs 1 and 2. The sub-project holders will be responsible for providing the relevant data in these cases. While progress measurement will be different for each of the sub-projects, a small number of common impact indicators (notably on gender disaggregated employment creation and business turnover) should be developed that are applicable to all or most of the sub-projects to make impact measurement easier and comparable. Internal targets to guide activities of the Mombassa Outreach Office in more detail have been developed (and will be refined in the implementation process) for Outputs 3 and 4 in the ABD Draft Activity Plan.

Apart from the monitoring exercises in order to report progress against defined indicators, additional impact assessments on specific topics may be commissioned. These will refer, for example, to the effectiveness of specific business models or support instruments, or to secondary impact issues. Funds for such assessments, preferably conducted in cooperation with other development partners, are set aside under Output 6.

All internal monitoring processes will be using data directly collected from end-beneficiaries. Appendix 16 includes suggestions to collect such information in a pragmatic and participatory way.

5.2 REPORTING

The following reports will be produced:

- Inception report after 6 months of start of implementation. The inception report replaces the first progress report;
- Half-yearly progress reports, including rolling Annual Workplans and Budgets, monitoring results and progress on reaching synergetic effects;
- Draft Completion Report 6 months before completion of BSPS II. The final Completion Report will be uploaded in the Programme Data Base of Danida when the final BSPS II financial report has been approved.

The reports will follow the formats as described in the Danida Aid Management Guidelines. In addition, the half yearly progress reports will specifically describe progress towards implementing the suggested synergetic effects between BSPS II components and sub-components.

Separate reports will be submitted to the Danida NRM Programme Coordinator as refers to activities under Output 4 (NRM) following the standard NRM programme reporting template.

5.3 REVIEWS

An inception review will be undertaken during the first half year of 2011 in order to provide recommendations to draft inception reports. The inception report will among other things provide the following:

- Refined indicators, targets and means of verification at the development objective, immediate objective, output and activity levels;
- An annex with the required baseline studies undertaken during the inception phase, and
- Annual workplan and budget for 2011.

A mid term technical review of BSPS II will be carried out in the beginning of 2013. A joint BSPS II sector review will be undertaken in 2014, among others to assess the relevance of continued support to the sector.

One subject of the Mid-Term Review will be to explore possibilities and options to link activities of the VC Fund under Output 5, in particular the loan guarantee instrument, with the African Guarantee Fund for SMEs, which is planned to be set up.

Further technical reviews on specific issues can be initiated by the RDE or MESPT at any time, if and when deemed necessary.

5.4 EVALUATIONS

No evaluations are planned, but the following additional technical assessments are planned as part of the regular component activities:

1. An initial assessment of achievements of the ABD loan fund under ASPS, with particular emphasis on lessons learnt for VC financing;
2. An assessment of the potential impact of moving towards VC financing on MESPT management requirements and financing operations;
3. Peer reviewing of the VC Fund conducted or facilitated on behalf of MESPT by FSDT, and
4. Selected impact assessments as referred to in Section 5.1.

6. KEY ASSUMPTIONS AND RISKS

6.1 ASSUMPTIONS

Assumptions include:

- Kenya remains politically stable during the programme period and the Kenyan Government continues to provide and further promote a conducive environment for private sector development;
- The Kenyan Government will not distort private business service development by initiating subsidised service provision in the targeted value chains;
- The MESPT Board is fully supportive of the trust implementing market development facilitation projects and value chain financing initiative;
- MESPT is willing and capable to absorb international TA in its daily operations;
- KAM retains capacities to implement facilitation projects for the development of manufacturing in selected value chains, and
- The Century Bank will not be eligible for receiving loans from the VC fund.

6.2 RISKS

- MESPT will not be able to recruit and retain sufficient and appropriately qualified staff to satisfactorily implement value chain facilitation work under BPS II and other projects taken on already and in the future. This risk is considered medium to high in view of the fact that new M4P programmes are currently in preparation in Kenya. MESPT has to respond to this risk by building an attractive, conducive and dynamic working environment with sufficient capacity building opportunities. In addition, activities under Output 6 are directly aimed at deepening the Kenyan resource base in M4P/BDS facilitation, acting to reduce the risk for MESPT that competent staff is poached by other programmes;
- Facilitation sub-projects are not sufficiently coordinated with other donor-funded programmes leading to duplications and inefficiencies in the market. This risk is low and will be mitigated through coordination activities under Output 6 that are facilitated by an appointed Market Development Resource Officer;
- KAM will not have the capacities and/or the support from its governance structures to embark on market facilitation activities in the manufacturing sector in accordance with the thrust of the component description. Although this risk is considered low, the MESPT CEO assisted by the

International BS Adviser will monitor this risk and design mitigation strategies if necessary, which may include capacity building support or identification of alternative implementation partners;

- The transformation of ABD activities and approaches from the independent project set-up under ASPS into the MESPT structure is not accomplished smoothly leading to staff frustration, reduction of trust into ABD among local players and decision-makers and discontinuation of ongoing activities. To mitigate this risk, which is considered medium, clear and transparent transition procedures (regarding staff take-over, management integration, including financial and staff management, etc.) will be developed beforehand and team-building activities conducted. The International ABD Adviser will work hand-in-hand with the new Mombasa-based Outreach Manager on a smooth continuation of activities and partnerships.
- The MESPT Board will not be re-constituted ahead of the start of the new programme phase causing insufficient and not appropriately informed board guidance. This risk is rated medium. The RDE in its function as founder has to promote the Board appointment processes and needs to embark on consultation with other founders to ensure an appropriate Board composition.
- MESPT is not sufficiently staffed in its Business Services Department to absorb the level of assistance provided, a risk that is rated medium. To mitigate this risk, the RDE, through its representation on the MESPT Board, needs to observe this risk, propose necessary action to the MESPT management if necessary, and consult about the risk with potentially new funding partners of the trust that may increase the workload and responsibility of the department.

7. IMPLEMENTATION PLAN

The five-year implementation period will commence in January 2011. There will be a six months inception period, where the following preparatory activities should be completed:

- Reconstitution of the MESPT Board of Trustees;
- Due diligence of MESPT;
- Preparation of a Five Year strategy and sustainability business plan for MESPT and each of the departments (including the Mombassa outreach office);
- Roadmap for institutional development of MESPT agreed between the Founders Committee and the reconstituted MESPT Board of Trustees;
- Finalisation and signing of the MoU between the RDE and MESPT;
- Finalisation and signing of the MoU between MESPT and KAM;
- Finalisation and signing of the MoU between MESPT and FSDT;
- Recruitment of additional MESPT staff to be funded under BSPS II: Value Chain Officer Dairy, Market Development Resource Officer, Mombasa-based Outreach Manager, Value Chain Financing Officer;
- Team building exercises within MESPT;
- Re-organisation of ABD district/field office structure;
- Transferral of ABD staff, assets, liabilities and commitments to MESPT;
- Re-establishment of Business Services Committee and Credit Committee (appointment of new members) following reconstitution of the MESPT Board;
- Revision, if necessary, of Financial Management and Procurement Manual, and other routines and procedures;
- Selection of value chains for support to manufacturing (Output 2);

- Carry out a study on the introduction of new financial products for Financial Services Department and the CV Fund, including preparation of a business plan for NRM investments;
- Undertake a Human Resource consultancy to harmonise staff policy and ease integration of the current ABD staff into MESPT, and
- Recruitment of two international TA advisers.

The tentative implementation plan for the entire component is presented overleaf.

BSPS II Competitiveness of MSMEs Implementation Plan 2011 – 2015

	2011				2012				2013				2014				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Component management																				
Finalisation of MoUs																				
Finalisation of FMPM, other procedures																				
Recruitment of Staff																				
Inception Review																				
Mid-Term Review																				
Sector Review																				
Output 1 (National M4P)																				
Selection of Intervention points																				
Identification/ implementation of sub-projects																				
Output 2 (Manufacturing VC)																				
Selection of sub-sectors targeted																				
Identification/implementation of sub-projects																				
Output 3 (ABD)																				
Market development in targeted districts																				
Output 4 (NRM)																				
Staff capacity building																				
Preparatory surveys																				
Development of NRM services and markets																				
Output 5 (VC Fund)																				
Staff capacity building																				
Evaluation study ABD Loan Fund																				
Value chain financing studies																				
Product development and Capacity Building of Fis																				
Wholesale lending to FIs																				
Preparation of credit guarantee																				
Credit guarantee scheme																				
Output 6 (Info-sharing etc.)																				
Coordination activities																				
Capacity Building concept development																				
Capacity Building initiatives																				
Impact assessments																				

APPENDICES

1. LFA Matrix
2. Detailed component budget
3. Draft MoU between MESPT and Danida
4. Draft MoU between MESPT and KAM
5. Terms of reference for International BS Adviser
6. Terms of reference for International ABD Adviser
7. Job Descriptions for new MESPT staff to be funded from BSPS I
8. Chart: Component Organisation
9. Chart: MESPT Organisational Structure
10. Flow of Funds Chart
11. Expected flow back of GOE and ABD Loan Funds
12. Rationale for district and value chain selection for Output 3
13. Matrix of MSME and market development interventions in Kenya
14. List of documents consulted
15. NRM Subcomponent 3.2 Description
16. Monitoring and Evaluation Framework for the Competitiveness of MSMEs Component and Integration of NRM Activities. Final Draft Report.

Appendix 1 Logical Framework Analysis Matrix

Objective	Assumption	Objectively verifiable indicator and target	Means of verification
Immediate objective			
To increase access to markets for micro, small and medium sized enterprises in selected value chains	<ul style="list-style-type: none"> • Political stability remains • Continued conducive environment for private sector development 	<ul style="list-style-type: none"> • Increase in no of people participating in the value chains, of which % of women, % of youth • Increase in recorded sales of targeted commodities • Number of households that annually received or purchased NRM related services in the targeted districts 	<p>Sub-sector surveys</p> <p>NRM impact assessments</p>
Output 1			
Market linkages and business growth amongst players in selected agricultural value chains increased	<ul style="list-style-type: none"> • Qualified staff can be recruited and retained 	<ul style="list-style-type: none"> • Number of facilitation projects successfully completed (<i>each funded facilitation project will have its own specific indicators</i>) • Percentage increase in value of business transactions in supported value chains 	MESPT documentation; project monitoring reports
Output 2			
Manufacturing competitiveness in selected value chains improved	<ul style="list-style-type: none"> • Commitment and capacities of KAM for market facilitation 	<ul style="list-style-type: none"> • Number of pilot projects implemented (<i>each funded facilitation project will have its own specific indicators</i>) 	MESPT documentation; project monitoring reports
Output 3			
Appropriate production and marketing models for selected value chains in the targeted ASAL districts developing and increased	<ul style="list-style-type: none"> • Qualified ABD staff can be retained • Smooth transition from ABD to MESPT 	<ul style="list-style-type: none"> • Number of beneficiaries in supported facilitation projects • Number of new business models piloted 	MESPT documentation; project monitoring reports
Output 4			
Private sector service provision of appropriate natural resource management technologies in selected districts piloted and rolled out		<ul style="list-style-type: none"> • Number of appropriate business models for NRM technologies piloted • Increased number of businesses providing NRM services 	MESPT documentation; project monitoring reports

Output 5			
Access to relevant financial services and products for producers, suppliers and processors in value chains increased		<ul style="list-style-type: none"> • No of new financial products developed supporting value chain development • Volume of funds effectively directed to support value chain development • No of players accessing value chain finance in supported value chains 	MESPT documentation; impact monitoring reports; peer reviewing report
Output 6			
Information sharing and coordination among M4P and BDS programmes in Kenya improved and capacities for value chain facilitation increased		<ul style="list-style-type: none"> • Number of cooperation initiatives among M4P programmes • Number of visits on BDS homepage • Number of Kenyan facilitators trained in M4P development 	BDS Donor Coordination Group Records of MESPT Market Research & Coordination Centre MESPT documentation

Appendix 2: Detailed Component Budget

Exchange rate DKK = 13 KES

	2011		2012		2013		2014		2015		Total	
	000 KES	000 DKK	000 KES	000 DKK	000 KES	000 DKK	000 KES	000 DKK	000 KES	000 DKK	000 KES	000 DKK
OUTPUT 1	63.570	4.890	57.980	4.460	58.890	4.530	59.670	4.590	53.040	4.080	293.150	22.550
Direct staff costs	5.070	390	5.460	420	5.980	460	6.630	510	7.280	560	30.420	2.340
Activities	32.500	2.500	39.000	3.000	39.000	3.000	39.000	3.000	32.500	2.500	182.000	14.000
Operational cost (transport, rental, etc)	4.550	350	4.550	350	4.810	370	4.940	380	5.200	400	24.050	1.850
Institutional capacity building	3.250	250	0	0	0	0	0	0	0	0	3.250	250
Capital cost	9.100	700	130	10	130	10	0	0	0	0	9.360	720
Management Fee*	9.100	700	8.840	680	8.970	690	9.100	700	8.060	620	44.070	3.390
OUTPUT 2	6.110	470	9.230	710	9.230	710	9.230	710	7.670	590	41.470	3.190
Activities	5.200	400	7.800	600	7.800	600	7.800	600	6.500	500	35.100	2.700
Management Fee	910	70	1.430	110	1.430	110	1.430	110	1.170	90	6.370	490
OUTPUT 3	91.260	7.020	101.400	7.800	104.260	8.020	107.250	8.250	96.330	7.410	500.500	38.500
Staff	17.550	1.350	19.500	1.500	20.800	1.600	22.100	1.700	23.400	1.800	103.350	7.950
Office Expenses	14.040	1.080	14.690	1.130	15.470	1.190	16.250	1.250	17.030	1.310	77.480	5.960
Vehicle operations	4.420	340	4.680	360	5.070	390	5.460	420	5.850	450	25.480	1.960
travel/allocances	4.550	350	4.810	370	5.070	390	5.330	410	5.590	430	25.350	1.950
Activity budget	45.500	3.500	52.000	4.000	52.000	4.000	52.000	4.000	39.000	3.000	240.500	18.500
Management Fee	5.200	400	5.720	440	5.850	450	6.110	470	5.460	420	28.340	2.180
												0
OUTPUT 4	120.900	9.300	104.000	8.000	104.000	8.000	91.000	7.000	0	0	419.900	32.300
Total	120.900	9.300	104.000	8.000	104.000	8.000	91.000	7.000	0	0	419.900	32.300

OUTPUT 5	32.240	2.480	42.380	3.260	23.140	1.780	23.530	1.810	23.920	1.840	145.210	11.170
Staff (VC financing officer Mombasa)	2.990	230	3.380	260	3.640	280	4.030	310	4.420	340	18.460	1.420
Capacity Building	9.750	750	19.500	1.500	19.500	1.500	19.500	1.500	19.500	1.500	87.750	6.750
Guarantee Fund	19.500	1.500	19.500	1.500							39.000	3.000
Wholesale Fund												
OUTPUT 6	9.880	760	10.140	780	10.790	830	11.180	860	9.880	780	51.870	3.390
Staff	3.640	280	3.900	300	4.420	340	4.810	370	5.330	410	22.100	1.700
Activity costs	4.940	380	4.940	380	5.070	390	5.070	390	3.250	250	23.270	1.790
Management Fee	1.300	100	1.300	100	1.300	100	1.300	100	1.300	100	6.500	500
International TA		2.000		2.000		1.000		1.000		1.000		7.000
BS Adviser		1.000		1.000		1.000		1.000		1.000		5.000
ABD Adviser		1.000		1.000								2.000
Total		26.920		27.010		24.870		24.220		15.680		118.700
Contingencies Output 4 (NRM)		1.000		1.000		1.000		0		0		3.000
Contingencies other outputs ** (BSPS II)		800		800		800		800		400		3.600
Grand Total		28.720		28.810		26.670		25.020		16.080		125.300
BSPS II		17.620		19.010		16.870		17.220		15.680		86.400
Contingencies		800		800		800		800		400		3.600
Total BSPS II		18.420		19.810		17.670		18.020		16.080		90.000
NRM		9.300		8.000		8.000		7.000		0		32.300
Contingencies		1.000		1.000		1.000		0		0		3.000
Total NRM		10.300		9.000		9.000		7.000		0		35.300

Notes: * Including cost of auditing. ** Including contingency for additional TA, depending on the needs identified in the MESPT due diligence and reorganisation process.

Appendix 3:

DRAFT
MEMORANDUM OF UNDERSTANDING
Between Micro Enterprises Support Programme Trust (MESPT) and
Royal Danish Embassy (RDE)
Concerning the implementation of the Competitiveness of Micro, Small and Medium Sized
Enterprises component of Danida's Business Sector Programme Support Phase 2 (BSPS II)
and Sub-Component 3.2 (Private Sector
Participation in NRM) of Danida's Natural Resources
Management (NRM) Programme
in Kenya

I – GENERAL AGREEMENT

0. Introduction

This Memorandum of Understanding (MOU) provides the legal and institutional framework for the continuation of Danida support to MESPT through the implementation of Danida's two programmes namely (i) The Competitiveness of MSMEs Component of the Business Sector Programme Support Phase Two (BSPS II) and (ii) Sub-Component 3.2 of the Natural Resources Management (NRM) Programme.

BSPS II is a five-year (2011-2015) Danida funded programme that will be launched in January 2011 with the aim of creating employment in the MSME sector, especially for the youth, in line with Kenya's vision and long term strategy (Vision 2030) and the recommendations of the Africa Commission. BSPS II builds on and carries forward the most successful and relevant lessons of BSPS I.

The Competitiveness of MSME Component Description and the BSPS II Programme Document are an integrated part of this MoU.

The BSPS II has the following three components:

Improvement of the Business Environment component aims to improve the business environment through the reform of policies, laws and regulations that hinder private sector development.

Competitiveness of MSMEs component aims to increase the competitiveness of micro, small and medium sized enterprises.

Innovation and piloting green energy component aims to secure that innovative entrepreneurs and firms in Kenya are incentivised and enabled to exploit the market for new climate change technologies and catalyse investments in new companies, products and services.

NRM is a five-year (2010-2014) Danida funded programme whose aim is to support the realisation of Kenya's vision 2030 by helping reduce poverty through sustainable management of natural resources. The programme will be implemented through three components namely (1) Environmental Policy and Management, (2) Support to Arid Lands Resource Management, and (3) Civil Society and Private Sector Management of Natural Resources. Component 3 aims to build the capacity of the Civil Society - including local communities - and private sector service providers to support and influence natural resource management, as a contribution towards poverty alleviation. The Component 3 has the following two sub-components:

Sub-Component 3.1: Community-based environment and natural resource management. This is to be implemented through Community Development Trust Fund (CDTF)

Sub-Component 3.2: Private sector participation in natural resource management. This is to be implemented through MESPT/ABD

1. Programme Duration

The duration of the BSPS II is five years from January 2011 to December 2015. The duration of RDE collaboration with MESPT for the implementation of the Competitiveness of MSMEs component will be from the date of signing this MOU to December 2015.

The duration of NRM programme is for five years starting January 2010 to December 2014 and collaboration for its implementation has already started with the Agriculture Business Development (ABD) project hosted by MESPT under the Agriculture Sector Programme Support (ASPS) which comes to an end in December 2010. RDE collaboration for the implementation of NRM sub-component 3.2 will be taken over and continued under MESPT which will incorporate the new ABD as a department of MESPT in January 2011.

2. Programme Implementation

MESPT is responsible for the integrated implementation of both the Competitiveness of MSMEs component and sub-component 3.2 of the NRM programmes which seek to achieve the following outputs:

- (i) Market linkages and business growth amongst players in selected agricultural value chains increased*
- (ii) Manufacturing competitiveness in selected value chains improved*
- (iii) Appropriate production and marketing models for selected value chains in the targeted ASAL districts developed and increased*
- (iv) Private sector service provision of appropriate natural resource management technologies in selected districts piloted and rolled out*
- (v) Access to relevant financial services and products for producers, suppliers and processors in value chains increased*
- (vi) Information sharing and coordination among M4P and BDS programmes in Kenya improved and capacities for value chain facilitation increased*

To achieve these outputs MESPT will facilitate and manage the implementation of a range of defined market development activities in accordance with the components' work plan and which include: -

- a. *National M4P work in agricultural value chains in continuation of BSPS I*
- b. *M4P work in support of manufacturing value chains*
- c. *Area-based market facilitation in continuation of activities under the ABD project*
- d. *Support private sector-led NRM solutions in the ASAL districts targeted under area-based market facilitation.*
- e. *Facilitate value chain financing through capacity building, wholesale lending and loan guarantee to retail financial institutions in the targeted value chains*
- f. *Building a market development resource centre*

The cooperation between MESPT and Danida is based on the implementation details outlined in the Competitiveness of MSMEs Component Description and the NRM 3.2 sub-component description.

II – PROGRAMME IMPLEMENTATION

(a) BDS and M4P Work

3. National M4P Work in Agricultural Value Chains in Continuation of BSPS I

The parties agree that funds allocated by Danida under Output 1 constitute the national M4P (making markets work for the poor) Fund that will continue the market development work started under the BSPS I. The work will be implemented under MESPT's Business Services Department. Out of the M4P Fund, sub-project contracts are awarded to Kenyan consultants and organisations ("facilitators") to implement one or a range of interventions to facilitate market development in specific value chains or sub-sectors. Facilitators are competitively selected on the basis of proposals prepared upon invitation by MESPT.

Sub-project contracts are performance-based, i.e. payments are dependent on the verifiable achievement of success indicators defined in the contract.

The parties agree that an M4P tender committee will be formed for each invitation of proposals comprising the BS Department Head, the Danida BS Adviser and the responsible project officer at MESPT. The committee screens the proposals and recommends contract awards to the BS-Sub-Committee of the Board of Trustees. Recommendations will be accompanied by a brief written explanatory note also indicating any deviating opinion of any of the tender committee members.

4. Operations of the Business Services Department

The parties agree that for the implementation of output 1, the capacity of the Business Service Department (BS Department) be strengthened. The parties further agree on details of the organisational set-up of the Department as spelt out in the Competitiveness of MSMEs Component Description of October 2010.

Besides implementing the M4P work, the BS Department's main objective is to strategically develop the BS development portfolio in MESPT with a view to develop MESPT into a key player in BS development in Kenya and to attract further donor funds and investments.

5. Business Services Sub-Committee of the Board of Trustees

The parties agree that the new Board of Trustees as the governing body of MESPT will re-constitute the Business Services Sub-Committee to handle all matters related to the implementation of BDS and M4P work and any other business of the BS Department and the Mombasa-based Regional Office for area facilitation. The new Board of Trustees re-constitutes the Sub-Committee immediately after commencement of BSPS II implementation in January 201 in line with the Component Description and in consultation with the Royal Danish Embassy.

6. Management of BDS and M4P Work

The parties agree that any further re-appointments or re-organisational processes with respect to the MESPT Board of Trustees will be used to strengthen the Board's expertise in BDS and M4P development.

The parties agree that the BDS and M4P work will be managed by MESPT in consultation with the Royal Danish Embassy. During the first three months of the project implementation, MESPT will revise the current Operations Manual for the BS Department specifying functions, responsibilities and decision-making, in particular with respect to the selection and management of sub-projects.

7. Senior Danida M4P and BDS Adviser

The parties agree that a Senior Danida M4P and BDS Adviser is recruited to be counterpart of the BS Department Manager over the entire five year programme period. The Adviser will support the BS Department in its strategic development, in conceptualising the manufacturing value chains, in building synergies with the Mombasa-based area-facilitation work (ABD) and in networking with other players. The Adviser is financed directly by Danida through the BSPS II.

(b) M4P in Support of Manufacturing Value Chains

8. Collaboration with Kenya Association of Manufacturers (KAM)

The parties agree that, to realise output 2, MESPT sub-contracts to KAM the implementation of M4P in support of manufacturing value chains that will entail analytical work, stakeholder consultations and development of viable manufacturing businesses in selected value chains.

The parties agree that a separate MOU between MESPT and KAM will guide this cooperation.

(c) Building a Market Development Resource Center

9. Facilitating Information Sharing and Coordination Among M4P and BDS Programmes in Kenya

The parties agree that RDE will support the setting up of an information sharing and coordination function at MESPT in continuation and improvement of activities supported under BSPS I. To realise output 6, MESPT will set up a Market Resource Development Center and recruit a specially designated officer under the BS Department to provide services as set out in the component description.

(d) Area-Based Market Facilitation Work in Continuation of Activities Under ABD Project and Support for Private Sector Participation in Natural Resources Management

10. Establishment of Mombasa Regional Office for ASAL Area-Based Market Facilitation

The parties here agree that the RDE will support the continuation of the district-based value chain development work of the previous ABD project under the ASPS in selected ASAL districts. To realise this, the parties agree that the office structure of former ABD/ASPS project will be transferred to MESPT and will be established into a MESPT Regional Office for ASAL Area-based market development based in Mombassa. Organisationally, the Regional Office operates at the level of a Department of MESPT. The parties further agree that, MESPT, through the Regional Office will support private sector participation in natural resources management by integrating Danida's NRM sub-component 3.2 in its programme activities as per the sub-component description.

11. Transfer of ABD Assets to MESPT and Recruitment of Staff

The parties here agree that at the closure of ABD/ASPS in December 2010, all the assets of ABD project will be transferred to MESPT as donated equity. Further, all liabilities and commitments of ABD will be transferred to MESPT. The parties further agree that MESPT starts with the recruitment of the Regional Department Manager immediately after signing of this Memorandum of Understanding. The details of the organisational set-up of the Department is as spelt out in the Competitiveness of MSMEs Component Description of October 2010. The RDE can participate in the recruitment panels of newly recruited managerial/senior staff to be paid directly by the Competitiveness of MSMEs component.

12. Re-Appointment of ABD Staff

The parties here agree that at the closure of ABD/ASPS and transferral of ABD assets to MESPT, the current staff of ABD will be re-employed by MESPT. The MESPT and ABD management will form a working group before the end of 2010 to manage a smooth transfer of operations and harmonisation of staff remuneration and internal equity.

13. Brand name of the Area-Based Business Development

The parties agree that activities under the output 3 will continue to be implemented under the brand name "Agricultural Business Development" (ABD) in order to remain recognisable among farmers and stakeholders in the districts and to retain the development momentum and trust built under the project.

14. The Danida ABD Adviser

The parties agree that a Danida Agricultural Business Adviser is recruited to be counterpart of the Mombassa-based Regional Department Manager over a two year programme period. The Adviser will support the Regional Office in integrating the former ABD activities into MESPT and in capacity building. The Adviser is financed directly by Danida through the BSPS II.

15. Budget

(e) Establishment of a Value Chain Fund

16. Operations of the Value Chain Fund

The parties here agree that the Value Chain Fund will be sourced by merging funds currently committed to the wholesale fund for Growth Oriented Enterprises (GOE) under BPS I and the ABD Loan fund under the ASPS. The tentative budget for the fund is DKK 11.17 million.

The parties further agree that the Value Chain fund will mainly support value chains that are directly targeted under the component and under the MESPT value chain activities under the EU/ASMEP programme through provision of wholesale funding, capacity building and loan guarantee. Implementation will therefore be closely coordinated with activities under output 1 to 4.

(f) The Wholesale Loan Fund

17. Operation of the Wholesale Loan Fund

Since the existing funds under BPS I and ASPS are currently committed with outstanding portfolios extending beyond 2010, the parties have agreed that the implementation of the wholesale fund will be as per the plan for phasing out the previous loan portfolios and phasing-in the new value chain funding provided as appendix 12 of the component description. The parties here agree that the wholesale loan fund will be used in accordance with MESPT policies and procedures for on-lending to retail financial institutions providing loans to the targeted value chains.

18. Funds Transfer

The parties have agreed that no additional Danida funding for wholesale lending will be made. However, to smoothen transition from previous commitment to the VC lending, Danida will provide seed capital that will revert to the guarantee fund in 18 months. The entire fund will be disbursed in one tranche upon application by MESPT.

19. Management of the Loan Fund

The parties have agreed that the wholesale loan fund be managed by MESPT in accordance with existing MESPT credit and financial procedures with variations that will be incorporated to meet the specific requirements for value chain financing and the peculiarities the of component will be followed. The Danida BDS/M4P Adviser will provide advice to the Credit Committee discussing loans under the leadership of the Board of Trustees.

20. Bank Accounts

To manage the wholesale loan fund, MESPT will open a specific Kenya Shillings account in Kenya Commercial Bank (KCB) and manage the account in such a manner as to realise the objectives of the programme. The account will be used to gradually accumulate the loan fund from principle repayments of ABD and GOE loans outstanding as at December 2010.

The signatories of this account will be the Chairman, any other trustee appointed by the Board and Chief Executive Officer (CEO) of MESPT. The CEO will be a mandatory signatory to all the transactions in addition to any other one signatory. Interest accrued on any unused fund belong to Danida and will be credited back into the fund.

21. Fund Administration Procedures

The parties have agreed that the existing MESPT procedures outlined in the Credit Procedures Manual (and as will be amended to meet specific requirements of value chain financing), will apply in the administration of the Wholesale Loan Fund.

(f) Capacity Building Fund

22. Operations of the Capacity Building Fund

The parties here agree that the fund will be used exclusively for building the capacity of organisations already lending or well-positioned and desiring to provide financial services to enterprises in the targeted value chains. The parties have agreed to determine the appropriate cost-share scale using the Mix Market and Micro Banking Bulletin rating classifications for small, medium, large, with grantees from small and young, medium-sized and large bearing different burdens from at least 30%, 50%, and 70% respectively of the total value of approved requests.

The parties further agree that the fund be operated in accordance with the guidelines and procedures developed for running the fund under BPS I and which will be revised to reflect the specific requirements of the VC financing within three months of signing this MoU and approved by the Board of Trustees and the RDE.

23. Management of the Capacity Building Fund

The parties have agreed that the capacity building fund is managed by MESPT in accordance with policies and procedures developed by MESPT under BPS I and which will be revised to reflect the specific requirements of value chain financing and approved by MESPT Board and Danida.

24. Eligibility Criteria

The parties have further agreed that, to ensure the fund is applied in ways that will further the objectives of the component the most, the applying intermediaries will meet the following minimum eligibility criteria:

- Must be locally owned and incorporated in Kenya, and be in complete compliance of licensing and legal requirements of the statutes under which it is incorporated.
- Must be willing and able to cost-share the cost of sought intervention
- Provide evidence that it is reaching or is well-positioned and willing to give greater access to finance to enterprises in the targeted value chains.
- Have at least three years of uninterrupted business in the financial services sector with a focus on MSME lending.
- Minimum of 500 active members/clients/customers.
- Have an operating management and leadership structure that guarantees accountability and gives protection against potential conflicts of interest.
- Audited accounts /authenticated annual compliance returns for at least two years.
- Must demonstrate strong demand for products and services in its areas of operation and gender balance in outreach.

- Must provide evidence of the organisational vision and direction through any verifiable means such as a business or strategic plan or current actions.
- Must provide evidence or guarantee that they will use the funds for the intended purposes.

25. Uses of the Capacity Building Fund

The parties have agreed that matching capacity building grants will be available for any capacity building activity for the microfinance intermediaries already lending or well-positioned and willing to lend to enterprises in the targeted VCs at different levels of institutional growth i.e. young, intermediate and mature, but on a cost share basis. The parties further agree that MESPT will obtain support and technical assistance from Financial Sector Deepening Trust (FSDT) as will be set out in a separate MOU. The priority areas of intervention will include the following:-

- Research, product development and innovation, e.g., development of innovative savings product, development of new products to meet emerging needs of enterprises in a specified valued, individual cash flow based lending know-how, etc
- Risk management (credit, liquidity and other financial risks)
- Training and skills upgrading in all areas of microfinance operations related to individual lending to MSEs
- Selected purchase of essential equipments necessary to develop new MSE portfolios
- Development of Management Information Systems (MIS) and IT
- Business and strategic planning
- Marketing in the value chains (backward and forward integration)

The parties further agree that any other capacity building needs not listed above will be considered on merit upon request.

(g) Loan Guarantee Fund

26. Operations of the Loan Guarantee Fund

The parties here agree that a loan guarantee fund may be set up to enable established financial institution overcome real or perceived risks of lending to non-traditional targets and clients without sufficient collateral, and to venture into innovative loan products for SMEs along the vale chains. The parties agree that MESPT will not directly provide guarantee but will instead seek to use guarantee mechanisms available in the country through collaboration with others, in particular, USAID (in respect to the Kenya Access to Rural Finance (KARF) Project).

27. Management of the Guarantee Fund

The parties have agreed that MESPT will work out operation and collaborations mechanisms during the first year of operation guided by the details provided in the component description for approval by the Board of Trustees and the RDE.

The parties further agree that MESPT may use the guarantee funds during the first year as a seed capital for the wholesale lending in the target value chains upon application and agreement with the RDE.

I – MANAGEMENT, FINANCIAL MANAGEMENT, REPORTING, MONITORING AND OTHER PROVISIONS

28. General Rules for Management, Financial Management and Procurement

Management and monitoring of the Danida supported activities will follow the principles laid down in the Component Description. Financial management and procurement will be applied according to the Financial Management and Procurement Manual (FMPM) developed by MESPT and approved by Danida. The current FMPM will be amended to reflect the financial management requirements of BSPS II and NRM sub component 3.2. Prior to the amendment of the FMPM, the existing procedures approved by the RDE will be used in the procurement of goods and services.

(g) Market Development under Output 1 - 4

29. General Rules

The parties agree that the standard MESPT finance administration procedures will apply in combination with the provisions of the procedures manual to be developed for BSPS II.

30. Monitoring and Reporting

The parties agree that the Head of the Business Services Department will regularly monitor the performance of the sub-project contract holders (facilitators) through personal visits and by receiving written monitoring reports from the contract holders in accordance with the performance contracts.

More comprehensive evaluations and impact monitoring of sub-component activities will be conducted in accordance with the work plan for each Output. These evaluation and monitoring reports will be published.

General monitoring and reporting of activities and budgets will follow the formats, modules and procedures to be provided in the Manual for the Planning, Monitoring and Reporting System of BSPS II.

MESPT will provide separate reporting for NRM as provided for in the NRM component description.

(h) Wholesale Fund

31. General Rules

The parties agree that the standard MESPT finance administration procedures will apply. The parties further agree that MESPT will make specific financial reports covering any lending from the fund on a quarterly basis but submit them to RDE on a semi annual basis.

32. Quarterly Account Report

The quarterly account reports will include:-

- Balance of the wholesale fund at the end of the period, indicating individual balances by account and type.
- Administrative problems encountered and proposals to resolve them.

33. Quarterly Portfolio Reports

The quarterly portfolio reports will include:-

- Repayment performance by the borrowers.
- Arrears of principal and interest repayments by the borrowers, aged according to the prudential guidelines for microfinance industry.
- Specific issues and constraints encountered in the administration of the loan fund and proposals to resolve them.

The parties agree that the above reports will be presented within 15 calendar days following the last day of the semi annual period for which the report will be submitted.

34. Monitoring and Reporting

The parties agree that the General Manager Credit / Credit Officer or the Chief Executive Officer will regularly monitor the performance of the loan clients through scheduled personal field visits and by receiving written reports from the borrowers and other sources. The existing Management Information System (MIS system) for loan tracking and reporting will be utilised with modification to include an aging of arrears and provisions if any.

General monitoring and reporting of activities and budgets will follow the formats to be provided in the Manual for the Planning, Monitoring and Reporting System of BSPS II.

(i) Capacity Building Fund

35. General Rules

The parties agree that the standard MESPT finance administration procedures will apply. The parties further agree that MESPT will make specific financial reports covering any disbursements from the fund on a quarterly basis but submit them to RDE on a semi annual basis.

36. Quarterly Account Report

The quarterly account report will include:

- Balance of the fund at the end of the period, indicating individual balances by account and type.
- Administrative problems encountered and proposals to resolve them.

37. Quarterly Portfolio Reports

The quarterly portfolio report will include:

- List of grantees by number of MSEs customers reached and outstanding loan portfolio in amounts disaggregated by gender, product, and size of grant, and uses of funds disbursed.
- Specific issues and constraints encountered in the administration of the fund and proposals to resolve them.

The parties agree that the above reports will be presented within 15 calendar days following the last day of the semi annual period for which the report will be submitted.

38. Monitoring and Reporting

The parties agree that the Chief Executive Officer will regularly monitor the performance of the grantees through scheduled personal field visits and by receiving written reports from the grantees and standardised mandatory reports by consultants assigned to deliver specific outputs. A specific Management Information System (MIS system) for the fund will be developed and approved for use by the MESPT Board of Trustees before any capacity building grants are released.

The parties agree that a comprehensive final report shall be prepared at the time the fund is terminated or concluded. In addition, MESPT will provide the value of the fund at the end of the period indicating individual balances by account and type.

39. Planning of Activities

At the end of every year, a planning exercise for the next year's activities will take place (in February/March). The planning will follow the established principles of BSPS II and follow the established formats. An aim of this exercise is to coordinate MESPT activities with activities from other components of the BSPS II and capture synergy opportunities.

40. Joint Sector Reviews

As spelt out in the Component Document, the Programme Steering Committee of the BSPS II will initiate Joint Sector Reviews of the BSPS II together with its partners. The aim of the joint reviews is to assess progress and adjust the support in light of changes in programme context, sector developments and effectiveness. The output of joint reviews will be Review Aide Memoires, which will include recommendations concerning programme adjustments, work plans, and budgets for subsequent periods.

41. Audits

Annual audits: The parties agree that MESPT has well-established procedures for auditing of its accounts, and preparing management reports and financial statements using an international firm of auditors. The funds allocated under the two programmes and all operations will be audited as part of these audit arrangements already in place. As a full member of the Board of Trustees, RDE will articulate any issues relating to the annual audit at board meetings and in the Audit sub-committee.

Specific audit of the funds: The parties agree that RDE will carry out un-notified audits of the funds and accounts at its own cost with auditors of its own choice.

(e) Other Agreements

42. Confidentiality

The parties agree that each party will treat all the data and information obtained from the other for “own official use only” and will not communicate such data, reports and information to third parties. With respect to the wholesale loan fund, the parties further agree that since MESPT will have confidentiality clauses in the agreements with the wholesale fund borrowers, loan portfolio data, and audit reports in particular and other information obtained from clients by MESPT and made available to RDE will not be passed to third parties without the written consent of the specific MESPT loan client.

The parties further agree that to protect the business interests of MESPT, background information provided in discussion documents, board papers, quarterly reports, annual reports, manuals and audit reports for use by committees or the board will not be communicated to third parties without authorisation. MESPT agrees to post all the information for public consumption on the organisation's website.

However, major observations, conclusions and recommendations of progress reports and financial reports will be consolidated into a component and/or a BSPS2 report prepared by external consultants for discussions among the cooperation partners of all 3 components of the BPS2. These consolidated reports shall include so much information that it is possible to discuss fields of cooperation and capture possible synergy opportunities between MESPT activities and activities carried out by other sub-components.

43. Intellectual Property/Copyright

The parties agree that since all the funds procedures and guidelines are a variation of existing MESPT credit procedures and have been developed and revised solely by MESPT, the Trust has intellectual rights and copyright to all the forms, manuals, promotional materials, loan procedures and other documents developed by MESPT.

The parties further agree that in event of termination of this MoU, RDE will stop using the MESPT procedures and will not pass them on to any other organisation within and outside Kenya. The parties further agree that MESPT’s Credit Procedures manual fine tuned for the wholesale fund and the one to be developed for the capacity building fund will be internal documents for use by the managements of MESPT and RDE and will not be circulated to other parties.

44. Disputes

The parties agree that disputes concerning the interpretation of this Memorandum of Understanding shall be settled by negotiation between RDE and the MESPT Board. In case the dispute has not been settled within the time limit of one year, the matter may be referred to arbitration by either party under the Kenya Arbitration Act.

45. Applicable Laws

The parties agree that the agreement to manage the component between MESPT and RDE has been made in Kenya and the performance of this agreement will in all ways be governed by Laws of Kenya.

46. Amendment of the MoU

The parties agree that this Memorandum of Understanding can be amended through exchange of letters.

47. Suspension

If serious irregularities in the component are ascertained, either party may suspend component implementation, wholly or in part, until the suspending party decides to resume implementation.

The parties further agree that since the source of the funding to be managed by MESPT is the Royal Danish Embassy in Nairobi through a bilateral agreement with the Government of Kenya, the present MoU shall therefore remain subject to the good diplomatic and funding protocols between the Governments of Denmark and Kenya.

48. Termination of the MoU

The parties agree that each party has a right to terminate this MoU. But since this collaboration involves legally binding agreements with third parties, the parties further agree that the following procedures for the termination of the MoU will be followed:-

49. Issuance of Letter of Intent to Terminate the MoU

Each party will be at liberty to send a letter of intent to terminate the MoU pointing out the issues of concern and requesting that these issues be addressed within a period of three months.

50. Notice of Termination of MoU

If the issues raised in the letter of intent are not addressed to the satisfaction of the party raising them, the party will after 3 months then issue a six months notice indicating the date on which the MoU will formally be terminated.

During the notice of termination period, no new commitments will be entered into. However, disbursements of tranches of loans or capacity building and BS facilitation grants that will have been approved will proceed and modalities for handing over the loan account (principal) and the loan disbursement/holding account under the wholesale fund or grants operations account will be finalised by the middle of the fifth month.

51. Principles Applying after Termination of Danida Support

In the beginning of 2014 Danida will inform MESPT whether Danida intends to continue the support to MESPT beyond 31/12-2015. In case Danida decides not to extend the support the following principles will apply:

- It is expected that the funds of BSPS II and NRM sub-component 3.2 have been fully used. If this is not the case, the BSPS II Programme Steering Committee (the Chairperson of KEPSA (Chair), the Ambassador of Denmark and the Permanent Secretary of Finance) will decide how the remaining funds will be used.
- The wholesale fund has previously been transferred to MESPT as donated equity.

52. Entry into Force

The parties further agree that this Memorandum of Understanding will enter into force on the date which the parties sign this Memorandum of Understanding.

In witness hereof the parties hereto, acting through their representatives duly authorised for this purpose, have caused this Memorandum of Understanding to be signed in two copies in the English language.

Place and Date

Place and Date

Chairman of the Board of Trustees
MESPT

H.E. The Ambassador
Royal Danish Embassy

Appendix 4:

DRAFT

MEMORANDUM OF UNDERSTANDING

Between Kenya Association of Manufacturers (KAM)

and Micro Enterprises Support Programme Trust (MESPT)

Concerning the implementation of Output 2 (Manufacturing Competitiveness in Selected Value Chains Improved) of the Competitiveness of MSMEs Component of the Danida Supported Business Sector Programme Support Phase II (BSPS II) Kenya

I – GENERAL AGREEMENT

1. Introduction

This Memorandum of Understanding (MoU) provides the legal and institutional framework under which MESPT will partner with KAM for the implementation of Output 2 of the Competitiveness of MSMEs Component of the Danida supported Business Sector Programme Support Phase II (BSPS II).

The Competitiveness of MSMEs Component Description and the BSPS II programme Documents are an integrated part of this MoU.

MESPT, being Danida's local partner, is responsible for the implementation of the Competitiveness of MSMEs component of BSPS II which is a five-year (2011-2015) Danida funded programme that will be launched in January 2011 with the aim of creating employment in the MSME sector, especially for the youth, in line with Kenya's vision and long term strategy (Vision 2030) and the recommendations of the Africa Commission.

In order to achieve output 2 specified under component 2 of the BSPS II, MESPT has identified KAM as its partner for the implementation of activities designed to realise the output.

2. Obligations

The parties agree that MESPT will sub-contract to KAM the implementation of M4P in support of manufacturing value chains that will entail analytical work, stakeholder consultations and development of viable manufacturing businesses in selected value chains

The parties also agree that MESPT will oversee and monitor the interventions by KAM and exercise authority over the selection of participating value chains.

The parties have further agreed that this MoU is not mutually exclusive. MESPT, in pursuit of its responsibilities to develop manufacturing value chains, may partner with other parties with no prejudice to its partnership with KAM. Similarly, KAM may partner with, and/or attract funding from other parties without prejudice to its partnership with MESPT. Provided, in either case, the party involved protects the interests of the other party, honours its obligations under this MoU and keeps the other party informed through open, timely and transparent communication.

3. Programmes Duration

The duration of the BSPS II is five years from January 2011 to December 2015. The duration of MESPT's partnership with KAM for the implementation of Output 2 will be from the date of signing this MoU to December 2015.

II – IMPLEMENTATION

4. Implementation Arrangement

The parties agree that, KAM is responsible for the implementation of output 3 of the component, which seeks to improve manufacturing competitiveness in selected value chains.

To realise this, KAM will:

- (vii) Develop an implementation strategy and detailed plans and budget (proposal) for approval by MESPT through MESPT's standard procurement procedures for BDS*
- (viii) Set up the organisational and reporting structure for its implementation and develop an operations Manual for the VC specifying functions, responsibilities and decision-making, in particular with respect to the selection and management of sub-contracts for service provision and facilitation of business development*
- (ix) Seek MESPT's concurrence on the selection of value chains and service providers*
- (x) Monitor and report progress to MESPT on an agreed period*

The cooperation between KAM and MESPT is based on the implementation details outlined in the Competitiveness of MSMEs Component Description.

5. Management

The parties have agreed that the manufacturing VC activities will be managed by KAM in accordance with policies and procedures that will be developed KAM to reflect the specific requirements of the value chain and approved by MESPT.

6. Senior Danida M4P and BDS Adviser

The parties agree that the Senior Danida M4P and BDS Adviser in MESPT will support KAM in its strategic development, in conceptualising the manufacturing value chains, in building synergies with MESPT and in networking with other players.

7. Management of the Loan Fund

The parties have agreed that the wholesale loan fund be managed by MESPT in accordance with existing MESPT credit and financial procedures with variations that will be incorporated to meet the specific requirements for value chain financing and the peculiarities of component will be followed. The Danida BDS/M4P Adviser will be advising the Credit Committee discussing loans under the leadership of the Board of Trustees.

8. Bank Accounts

To manage the fund, KAM will open a specific Kenya Shillings account in ... Bank and manage the account in such a manner as to realise the objectives of the programme.

The signatories of this account will be the Chairman, any other appointed by the Board and the Chief Executive Officer (CEO) of KAM. The CEO will be a mandatory signatory to all the transactions in addition to any other one signatory. Interest accrued on any unused fund belong to MESPT and will be credited back into the fund.

9. Fund Administration Procedures

The parties have agreed that the existing KAM procedures as developed under BSPS I (and as will be amended to meet specific requirements of the value chain development and other requirements of Danida funding), will apply in the administration of the manufacturing VC Fund.

III – MANAGEMENT, FINANCIAL MANAGEMENT, REPORTING, MONITORING AND OTHER PROVISIONS

10. General Rules for Management, Financial Management and Procurement

Management and monitoring of the Danida supported activities will follow the principles laid down in the Component Description. Financial management and procurement will be applied according to the Financial Management and Procurement Manual (FMPM) developed by MESPT and approved by the RDE. The current FMPM will be amended to reflect the financial management requirements of BPS II. Prior to the amendment of the FMPM, the existing procedures approved by the RDE will be used in the procurement of goods and services.

11. Monitoring and Reporting

The parties agree that a manager designated to head the manufacturing VC development at KAM will regularly monitor the performance of the sub-project contract holders (facilitators) through personal visits and by receiving written monitoring reports from the contract holders in accordance with the performance contracts.

More comprehensive evaluations and impact monitoring of sub-component activities will be conducted in accordance with the work plan for the Output. These evaluation and monitoring reports will be published.

12. Monitoring and Reporting

General monitoring and reporting of activities and budgets will follow the formats to be provided in the Manual for the Planning, Monitoring and Reporting System of BSPS II.

13. Planning of Activities

At the end of every year, a planning exercise for the next year's activities will take place (in February/March). The planning will follow the established principles of BSPS II and follow the established formats. An aim of this exercise is to coordinate KAM's activities with other MESPT activities from other outputs of the BSPS II and capture synergy opportunities. (Please see the Manual for the Planning, Monitoring and Reporting System of BSPS II).

14. Joint Sector Reviews

The parties agree that KAM will cooperate with MESPT to facilitate Joint Sector Reviews of the BSPS II and its components that will be carried out jointly by KEPSA, and the governments of Kenya and Denmark. The aim of the joint reviews is for the parties to assess progress and adjust the support in light of changes in programme context, sector developments and effectiveness.

15. Audits

Annual audits: The parties agree that KAM has well-established procedures for auditing of its accounts, and preparing management reports and financial statements using an international firm of auditors. The funds allocated for them VC development and all operations will be audited as part of these audit arrangements already in place. MESPT will further communicate to KAM any issues relating to the annual.

Specific audit of the funds: The parties agree that MESPT may carry out un-notified audits of the funds and accounts at its own cost with auditors of its own choice.

(e) Other Agreements

16. Confidentiality

The parties agree that each party will treat all the data and information obtained from the other for "own official use only" and will not communicate such data, reports and information to third parties.

However, major observations, conclusions and recommendations of progress reports and financial reports will be consolidated into a component and/or a BSPS II report prepared by external consultants for discussions among the cooperation partners of all three components of the BSPS II. These consolidated reports shall include so much information that it is possible to discuss fields of cooperation and capture possible synergy opportunities between MESPT (and KAM) activities and activities carried out by other sub-components.

17. Disputes

The parties agree that disputes concerning the interpretation of this Memorandum of Understanding shall be settled by negotiation between KAM and MESPT Boards. In case the dispute has not been settled within the time limit of one year, the matter may be referred to arbitration by either party under the Kenya Arbitration Act.

18. Applicable Laws

The parties agree that the agreement to manage the component between KAM and MESPT has been made in Kenya and the performance of this agreement will in all ways be governed by Laws of Kenya.

19. Amendment of the MoU

The parties agree that this Memorandum of Understanding can be amended through exchange of letters.

20. Suspension

If serious irregularities in the component are ascertained, either party may suspend component implementation, wholly or in part, until the suspending party decides to resume implementation.

The parties further agree that since the source of the funding to be managed by KAM is the Royal Danish Embassy in Nairobi through a bilateral agreement with the Government of Kenya, the present MoU shall therefore remain subject to the good diplomatic and funding protocols between the Governments of Denmark and Kenya.

21. Termination of the MoU

The parties agree that each party has a right to terminate this MoU. But since this collaboration involves legally binding agreements with third parties, the parties further agree that the following procedures for the termination of the MoU will be followed:

22. Issuance of Letter of Intent to Terminate the MoU

Each party will be at liberty to send a letter of intent to terminate the MoU pointing out the issues of concern and requesting that these issues be addressed within a period of three months.

23. Notice of Termination of MoU

If the issues raised in the letter of intent are not addressed to the satisfaction of the party raising them, the party will after 3 months then issue a six months notice indicating the date on which the MoU will formally be terminated.

During the notice of termination period, no new commitments will be entered into. However, disbursements of tranches of BS facilitation grants that will have been approved will proceed.

24. Effective Date

The parties further agree that this Memorandum of Understanding will become effective on the date which the parties sign this Memorandum of Understanding.

In witness hereof the parties hereto, acting through their representatives duly authorised for this purpose, have caused this Memorandum of Understanding to be signed in two copies in the English language.

Place and Date

Place and Date

Chairman of the Board of Directors
KAM

Chairman of the Board of Trustees
MESPT

Appendix 5:

Business Sector Programme Support, Phase II (BSPS II) Competitiveness of MSMEs Component

Draft Terms of Reference International Business Services Adviser

Context

Kenya faces increasing poverty and unemployment challenges, and private sector growth is considered the engine of employment-intensive economic growth and development. It is generally assumed that Kenya still has a significant potential in increasing the competitiveness of its business sector and to exploit the new opportunities arising from the formation of the new East African Community, especially if the costs of doing business could be significantly reduced. Among the major factors negatively affecting competitiveness are high cost of finance (or non-availability), substantial costs related to transport and logistics, costs and reliability of energy supply as well as costs related to crime, security and corruption. Specifically for female-owned enterprises, access to investment and working capital is still considered a key constraint. The Government of Kenya is acknowledging the importance of further strengthening the micro, small and medium enterprise (MSME) sector in its *Vision 2030* and other relevant policies documents and strategies.

Kenya has over the last three decades received considerable donor support for developing MSMEs with a clear focus on strengthening the private sector-led business support environment. The more inclusive M4P (making markets work for the poor) concept has now evolved as best practice. In support of access to finance, value chain (VC) financing has emerged as a new paradigm.

Arrays of public and private Kenyan stakeholders are involved in MSME development. Furthermore, a substantial and still increasing number of donor programmes in support of MSMEs through value-chain-oriented BDS and M4P programmes are active, loosely coordinated by the BDS Donor Coordination Group. More systematic cooperation or joint implementation has not been achieved yet.

A number of cross-cutting issues are pertinent and are addressed by the component: gender related discrimination in the business sector, environmental and energy challenges, the substantial HIV/AIDS prevalence rate and its impact as well as risks induced by ethnic conflicts and lack of political participation.

Danida's contribution to strengthen competitiveness of MSMEs

Danida has in the past supported the development of the Kenyan business sector through systematic sector programme support. The second five-year phase of the Danida Business Sector Programme Support (BSPS II) to Kenya is scheduled to commence in January 2011. BSPS II has three components:

- Improvement of the Business Environment
- Competitiveness of MSMEs
- Innovation and Piloting Green Energy

The Competitiveness of MSMEs Component is designed to address competitiveness constraints of MSMEs in selected value chains in order to increase market access for Kenyan producers and enterprises, with particular emphasis on rural producers, women and youth. The component follows a comprehensive approach to strengthen selected agricultural and manufacturing value chains. Its particular features include a complementarity of area-based facilitation work and comprehensive value chain development at a national scale and an interlinkage between market facilitation and value chain financing. The component will be implemented by the Micro Enterprises Support Programme Trust (MESPT), an independent development organisation founded in 2001 by the European Union and the Government of Kenya. By choosing MESPT as the implementing agency, Danida interventions will at the same time support the strengthening of Kenyan institutional capacities in systematic value chain development.

The objective of the component is to increase access to markets for micro, small and medium-sized enterprises in selected value chains. This fits with the objectives and priorities of Kenya's Vision 2030 and the Private Sector Development Strategy, and supports the recommendations of the Report of the Africa Commission of 2009.

The component is based on the following strategic considerations:

- Developing markets and strengthening competitiveness in order to create employment
- Targeting MSMEs that operate in the selected value chains, are growth-oriented, have a growth potential and are willing to innovate
- Combining M4P work with district-based market facilitation
- Integrating natural resource management into district-level value chain development
- Promoting value chain financing
- Addressing capacities for market facilitation in Kenya, particularly building capacities in MESPT
- Improving coordination and information sharing among market development programmes
- Facilitating strong linkages with other programmes.

The component will address through various means gender issues, environment and climate change, democratisation, human rights, youth and HIV/AIDS. Partner structure and component design follow the alignment and harmonisation principles. Linkages to other Danida business sector instruments will be pursued.

The component is designed to have six distinct pillars translated into six outputs:

Output 1: Market linkages and business growth amongst players in selected agricultural value chains increased. This comprises comprehensive M4P work in continuation of BSPS I. Value chains to be initially targeted include dairy, horticulture and fisheries. Facilitation work will be contracted out to local facilitators/consultancies through grant funds for facilitation sub-projects.

Output 2: Manufacturing competitiveness in selected value chains improved – M4P work in support of manufacturing. Value chains to be targeted are still to be identified during the inception period. Actual facilitation work will be out-contracted to the Kenyan Association of Manufacturers.

Output 3: Appropriate production and marketing models for selected value chains in the targeted arid and semi-arid lands (ASAL) districts developed and increased – Area-based market facilitation work in continuation of activities under the Agricultural Business Development (ABD) project of

Danida's Agriculture Sector Programme Support (ASPS). Under this output, activities will focus on selected districts in the country's ASAL in the Coastal and Eastern regions. Activities will be coordinated from an Outreach Office in Mombassa and supported over a period of two years by one international ABD Adviser. A variety of agricultural commodity value chains are targeted depending on the specific economic environment of each district/area.

Output 4: Private sector service provision of appropriate natural resource management technologies in selected districts piloted and rolled out – a subcomponent of Danida's Natural Resource Management (NRM) programme, supporting private sector-led NRM solutions mainly in the ASAL districts targeted under the previous output. Activities will be implemented from the Mombasa Office in an integrated manner with ABD activities (Output 3).

Output 5: Access to relevant financial services and products for producers, suppliers and processors in value chains increased. Under this output a Value Chain Fund (VC Fund) will be set-up to develop and facilitate value chain financing through the development of innovative financing products, capacity building of financing institutions, bulk lending and loan guarantees. Activities will be implemented by the MESPT Credit Department. Cooperation is agreed with the Financial Sector Deepening Trust (FSDT) Kenya in terms of diagnostic and analytical work on financing needs in selected value chains, products development and capacity building, and with USAID in the implementation of credit guarantees.

Output 6: Information sharing and coordination among M4P and BDS programmes in Kenya improved and capacities for value chain facilitation increased. Activities to be funded under this output aim at building a "Market Development Resource Centre". Main activities include facilitation of the BDS donor coordination groups and of cooperative implementation, information-sharing activities, initiating capacity building activities of Kenyan BDS/M4P facilitators, and others.

MESPT will implement the component through the trust's regular organisational set-up. The Business Services Department will manage activities under Output 1, 2, and 6, while the Credit Department will be responsible for the implementation of the VC Fund under Output 5. New technical staff will be recruited to cater for the extended capacity requirements. For the implementation of Outputs 3 and 4, MESPT will establish a new Outreach Office in Mombassa, organisationally at the level of a MESPT department. Under the Outreach Office district and field offices will be operating to ensure close interaction with target groups and value chain players. The office infrastructure of the former ABD/ASPS project will be transferred to MESPT, and staff re-employed by MESPT.

Oversight of the component rests with the MESPT Board of Trustees. The Business Services Committee will be in charge of approving facilitation grants under the Outputs 1 and 2, and providing day-to-day guidance to all component activities under the BS Department and the Outreach Office in Mombassa. The Credit Committee will be charged with operational oversight of the VC Fund. This includes particularly the approval of loans, capacity building matching grants, guarantee subsidies and research and product development contracts.

Two international Danida advisers will support implementation: one Business Services Adviser for the entire programme period, and one Agricultural Business Development Adviser, mainly

responsible for coaching the integration of the former ABD project, which was managed as an independent project, into the MESPT structures.

Responsibilities

The International Business Services Adviser will assist MESPT in the implementation of the Competitiveness of MSMEs Component. Located in MESPT's Business Services (BS) Department with the BS Manager as direct counterpart, responsibilities comprise:-

- Advise the BS Manager in facilitating activities under Output 1, specifically in
 - Initiating, facilitating and supervising necessary value chain studies
 - Facilitating stakeholder consultation on value chain specific problems and intervention points
 - Facilitating the conceptualisation of facilitation sub-projects
 - Supervising implementation of sub-projects including monitoring
 - Closely liaising with the Mombassa-based Outreach Office in order to identify and realise synergies
- Advise the BS Manager in facilitating activities under Output 2, specifically in
 - Identifying sub-sectors for interventions
 - Designing and facilitating, where necessary, additional analytical work
 - Closely cooperating with KAM in the design of facilitation projects
 - Render capacity building to KAM in market development if necessary
 - Conclude and supervise facilitation projects implemented by KAM
 - Supporting KAM in any other aspect related to the implementation of component activities as may occur
- Advise the BS Manager and the Market Development Research Officer in facilitating activities under Output 6, specifically in
 - pro-actively playing the role of a secretary of the BDS Donor Coordination Group
 - organising information exchange among the various market development programmes operating in Kenya
 - actively facilitating cooperation among various programmes
 - Initiating joint impact assessment and other research with other donor-funded projects
 - Undertaking a capacity development needs assessment for market development facilitators in Kenya, jointly with other stakeholders
 - Facilitating a discussion and process to develop systematic capacity building structures for M4P and BDS development in Kenya
 - Conceptualising of a "Market Development Resource Centre" within MESPT, which is self-sustaining in the long run.
- Render capacity development in M4P and market development to the BS Manager, the MESPT Board, the value chain officers, the value chain financing officer, the market development research officer, and all other relevant MESPT staff
- Support component monitoring
- Support the BS Committee of MESPT Board
- Support the three MESPT Departments involved in the implementation of component activities (BS, Credit Departments and Mombassa Office) in coordinating their activities and

work towards close synergies; these may involve developing coordination and communication routines

- Assist the BS Manager to ensure synergetic implementation of component activities with activities funded through other programmes, in particular the EU ASMEP, the Agricultural Innovation Fund and others
- Advise MESPT to achieve synergies with other programme components and other Danida instruments to strengthen business sector development
- Advise MESPT in addressing cross-cutting issues in the component implementation
- Assist MESPT to further develop strategies for long-term sustainability of market development activities
- Undertake all other activities that may help MESPT to further improve its performance as a market development implementation agency in Kenya.

Qualification Profile

- Minimum Masters Degree or equivalent in relevant field of studies
- At least ten years of relevant professional experience in an development context
- Several years previous experience as international adviser in market development according to value chain, BDS/M4P approaches
- Profound knowledge about M4P approaches and relevant current debates
- Experience in working in Africa added advantage
- Very good inter-personal and communication skills
- Fluency in English

Duration: The post will be filled for a 5 years period.

Appendix 6:

Business Sector Programme Support, Phase II (BSPS II) Competitiveness of MSMEs Component

Draft Terms of Reference
International ABD Adviser

Context

Kenya faces increasing poverty and unemployment challenges, and private sector growth is considered the engine of employment-intensive economic growth and development. It is generally assumed that Kenya still has a significant potential in increasing the competitiveness of its business sector and to exploit the new opportunities arising from the formation of the new East African Community, especially if the costs of doing business could be significantly reduced. Among the major factors negatively affecting competitiveness are high cost of finance (or non-availability), substantial costs related to transport and logistics, costs and reliability of energy supply as well as costs related to crime, security and corruption. Specifically for female-owned enterprises, access to investment and working capital is still considered a key constraint. The Government of Kenya is acknowledging the importance of further strengthening the micro, small and medium enterprise (MSME) sector in its *Vision 2030* and other relevant policies documents and strategies.

Kenya has over the last three decades received considerable donor support for developing MSMEs with a clear focus on strengthening the private sector-led business support environment. The more inclusive M4P (making markets work for the poor) concept has now evolved as best practice. In support of access to finance, value chain (VC) financing has emerged as a new paradigm.

Arrays of public and private Kenyan stakeholders are involved in MSME development. Furthermore, a substantial and still increasing number of donor programmes in support of MSMEs through value-chain-oriented BDS and M4P programmes are active, loosely coordinated by the BDS Donor Coordination Group. More systematic cooperation or joint implementation has not been achieved yet.

A number of cross-cutting issues are pertinent and need to be addressed in the component design: gender related discrimination in the business sector, environmental and energy challenges, the substantial HIV/AIDS prevalence rate and its impact as well as risks induced by ethnic conflicts and lack of political participation.

Danida's contribution to strengthen competitiveness of MSMEs

Danida has in the past supported the development of the Kenyan business sector through systematic sector programme support. The second five-year phase of the Danida Business Sector Programme Support (BSPS II) to Kenya is scheduled to commence in January 2011. BSPS II has three components:

1. Improvement of the Business Environment
2. Competitiveness of MSMEs

3. Innovation and Piloting Green Energy

The Competitiveness of MSMEs Component is designed to address competitiveness constraints of MSMEs in selected value chains in order to increase market access for Kenyan producers and enterprises, with particular emphasis on rural producers, women and youth. The component follows a comprehensive approach to strengthen selected agricultural and manufacturing value chains. Its particular features include a complementarity of area-based facilitation work and comprehensive value chain development at a national scale and an inter-linkage between market facilitation and value chain financing. The component will be implemented by the Micro Enterprises Support Programme Trust (MESPT), which is an independent development trust founded by the European Union and the Government of Kenya. By choosing MESPT as the implementing agency, Danida interventions will at the same time support the strengthening of Kenyan institutional capacities in systematic value chain development.

The objective of the component is to increase access to markets for micro, small and medium-sized enterprises in selected value chains. This fits with the objectives and priorities of Kenya's Vision 2030 and the Private Sector Development Strategy, and supports the recommendations of the Report of the Africa Commission of 2009.

The component is based on the following strategic considerations:

- Developing markets and strengthening competitiveness in order to create employment
- Targeting MSMEs that operate in the selected value chains, are growth-oriented, have a growth potential and are willing to innovate
- Combining M4P work with district-based market facilitation
- Integrating natural resource management into district-level value chain development
- Promoting value chain financing
- Addressing capacities for market facilitation in Kenya, particularly building capacities in MESPT
- Improving coordination and information sharing among market development programmes
- Facilitating strong linkages with other programmes.

The component will address through various means gender issues, environment and climate change, democratisation, human rights, youth and HIV/AIDS. Partner structure and component design follow the alignment and harmonisation principles. Linkages to other Danida business sector instruments will be pursued.

The component is designed to have six distinct pillars translated into six outputs:

Output 1: Market linkages and business growth amongst players in selected agricultural value chains increased. This comprises comprehensive M4P work in continuation of BPS I. Value chains to be initially targeted include dairy, horticulture and fisheries. Facilitation work will be contracted out to local facilitators/consultancies through grant funds for facilitation sub-projects.

Output 2: Manufacturing competitiveness in selected value chains improved – M4P work in support of manufacturing. Value chains to be targeted are still to be identified during the inception period. Actual facilitation work will be contracted out to the Kenyan Association of Manufacturers.

Output 3: Appropriate production and marketing models for selected value chains in the targeted arid and semi-arid lands (ASAL) districts developed and increased – Area-based market facilitation work in continuation of activities under the Agricultural Business Development (ABD) project of Danida’s Agriculture Sector Programme Support (ASPS). Under this output, activities will focus on selected districts in the country’s ASAL in the Coastal and Eastern regions. Activities will be coordinated from an Outreach Office in Mombassa and supported over a period of two years by one international ABD Adviser. A variety of agricultural commodity value chains are targeted depending on the specific economic environment of each district/area.

Output 4: Private sector service provision of appropriate natural resource management technologies in selected districts piloted and rolled out – a subcomponent of Danida’s Natural Resource Management (NRM) programme, supporting private sector-led NRM solutions mainly in the ASAL districts targeted under the previous output. Activities will be implemented from the Mombasa Office in an integrated manner with ABD activities (Output 3).

Output 5: Access to relevant financial services and products for producers, suppliers and processors in value chains increased. Under this output a Value Chain Fund (VC Fund) will be set-up to develop and facilitate value chain financing through the development of innovative financing products, capacity building of financing institutions, bulk lending and loan guarantees. Activities will be implemented by the MESPT Credit Department. Cooperation is agreed with the Financial Sector Deepening Trust (FSDT) Kenya in terms of diagnostic and analytical work on financing needs in selected value chains, products development and capacity building, and with USAID in the implementation of credit guarantees.

Output 6: Information sharing and coordination among M4P and BDS programmes in Kenya improved and capacities for value chain facilitation increased. Activities to be funded under this output aim at building a “Market Development Resource Centre”. Main activities include facilitation of the BDS donor coordination groups and of cooperative implementation, information-sharing activities, initiating capacity building activities of Kenyan BDS/M4P facilitators, and others.

MESPT will implement the component through the trust’s regular organisational set-up. The Business Services Department will manage activities under Output 1, 2, and 6, while the Credit Department will be responsible for the implementation of the VC Fund under Output 5. New technical staff will be recruited to cater for the extended capacity requirements. For the implementation of Outputs 3 and 4, MESPT will establish a new Outreach Office in Mombassa, organisationally at the level of a MESPT department. Under the Outreach Office district and field offices will be operating to ensure close interaction with target groups and value chain players. The office infrastructure of the former ABD/ASPS project will be transferred to MESPT, and staff re-employed by MESPT.

Oversight of the component rests with the MESPT Board of Trustees. The Business Services Committee will be in charge of approving facilitation grants under the Outputs 1 and 2, and providing day-to-day guidance to all component activities under the BS Department and the Outreach Office in Mombassa. The Credit Committee will be charged with operational oversight of the VC Fund. This includes particularly the approval of loans, capacity building matching grants, guarantee subsidies and research and product development contracts.

Two international Danida advisers will support implementation: one Business Services Adviser for the entire programme period, and one Agricultural Business Development Adviser, mainly responsible for coaching the integration of the former ABD project, which was managed as an independent project, into the MESPT structures.

Responsibilities

The International ABD Adviser will assist MESPT in the implementation of the Competitiveness of MSMEs Component, in particular with respect to activities under Output 3 (ABD) and 4 (NRM) implemented from the newly created MESPT Mombassa-based Outreach Office, and to cooperation issues between ABD/NRM with the national M4P activities and the VC Fund. The International ABD Adviser will be stationed in Mombassa in the Outreach Office with the Outreach Manager as direct counterpart. His/her specific responsibilities comprise:

- Render capacity development to the Outreach Manager, the managers of the district and field offices and all other staff of the Outreach Department in market development facilitation as necessary
- Support the Outreach Manager in his task to integrate the ongoing ABD activities into the BSPS II Component 2 structure
- Support the Outreach Manager and the MESPT Management in organising a smooth transfer of ABD assets, facilities and projects into MESPT structures
- Advise the MESPT Management in organisational issues related to the integration area-based market development facilitation activities into the MESPT organisation
- Advise the Outreach Manager in facilitating activities under Output 3, specifically in
 - Selecting intervention points in targeted value chains
 - Facilitating further value chains where necessary
 - Continuing, scaling up and rolling out successful business models
 - Facilitating stakeholder consultative processes
 - Facilitating of group formation, capacity building and coaching of farmers
 - Facilitating capacity development, development of products, business and linkage models for MSMEs in the value chains
 - Linking value chain actors with financial services, in cooperation with the VC Fund (Output 5)
 - Linking local MFIs with assistance provided under the VC Fund
- Advise the Outreach Manager in facilitating activities under Output 4, specifically in
 - Conducting/facilitating surveys
 - Developing appropriate technology packages and business models to disseminate the technologies
 - Facilitating the identification and capacity building of private service providers
 - Facilitating NRM initiatives, for examples as regards integrated pest management, certification of farmers, tree planning, water harvesting, water saving, renewable energies, energy efficiency, waste management, etc)
 - Conducting impact assessments
 - Identifying incentive structures for private-sector-led NRM initiatives and necessary advocacy activities.
- Support the establishment of monitoring procedures for outputs 3 and 4

- Advise on how best to achieve highly synergetic implementation between activities under the Outreach Office in Mombassa and activities under Output 1 and 2 (national M4P facilitation), Output 5 (Value Chain Fund) and Output 6 (Market Development Resource Centre)
- Advise on how to set up routine cooperation and communication structures between the Mombassa Outreach Office and the Credit Fund in its function to implement the VC Fund
- Advise on how to optimise synergies with other programme components and other Danida instruments to strengthen business sector development
- Advise the Outreach Office in Mombassa in addressing cross-cutting issues in the component implementation
- Undertake all other activities that may help a smooth integration of successful ABD activities, including the newly started NRM sub-component, into the component and the MESPT institutional set-up.

Qualification Profile

- Minimum Masters Degree or equivalent in relevant field of studies
- At least ten years of relevant professional experience in an development context
- Previous experience as international adviser in market development in agricultural value chains
- Profound knowledge about M4P approaches and relevant current debates
- Experience in working in Africa
- Knowledge about development context in Kenyan ASAL districts
- Knowledge about ABD project and approach would be an added advantage
- Knowledge and experience in natural resource management
- Very good inter-personal and communication skills
- Fluency in English

Schedule

The position is limited to two years starting January 2011. Recruitment will be done directly by Danida.

Appendix 7:

Draft Job Description MESPT Mombassa Outreach Manager

Introduction

The Micro Enterprises Support Programme Trust (MESPT) will implement the Competitiveness of MSME Component of the Business Sector Programme Support phase II (BSPS II). The development objective of the BSPS II is to create employment in micro, small and medium sized enterprises (MSME), especially for young women and men. The programme has three components:

1. Improvement of the Business Environment
2. Competitiveness of MSMEs
3. Innovation and Piloting Green Energy

The Competitiveness of MSMEs Component is designed to address competitiveness constraints of MSMEs in selected value chains in order to increase market access for Kenyan producers and enterprises, with particular emphasis on rural producers, women and youth. The component follows a comprehensive approach to strengthen selected agricultural and manufacturing value chains. Its particular features include a complementarity of area-based facilitation work and comprehensive value chain development at a national scale and an interlinkage between market facilitation and value chain financing. In the new component, BDS development work under BSPS I and the agricultural business development (ABD) work under the Danida Agricultural Sector Programme Support (ASPS) are merged.

The objective of the component is to increase access to markets for micro, small and medium-sized enterprises in selected value chains. Activities to achieve two of the six outputs of the component will be implemented by a newly created Mombassa Outreach Office of MESPT. The relevant outputs are:

Output 3: Appropriate production and marketing models for selected value chains in the targeted arid and semi-arid lands (ASAL) districts developed and increased – This comprises area-based market facilitation work in continuation of activities under the Agricultural Business Development (ABD) project of Danida's Agriculture Sector Programme Support (ASPS).

and

Output 4: Private sector service provision of appropriate natural resource management technologies in selected districts piloted and rolled out – comprising subcomponent 3.2 of Danida's Natural Resource Management (NRM) programme, which is aimed at supporting private sector-led NRM solutions mainly in the ASAL districts targeted under the previous output. Activities will be implemented from the Mombassa Office in an integrated manner with ABD activities (Output 3).

MESPT now seeks to recruit a manager of the Mombassa-based Outreach Office. The manager to be recruited will be at the level of a head of department in MESPT reporting directly to the MESPT CEO.

Responsibilities

The Outreach Manager will be heading the new Outreach Office in Mombassa, to which district and field offices are attached. Initially, the main function of the Outreach Office will be to implement Outputs 3 and 4 of the BSPS II Component 2. Gradually, other functions will be added.

Duty station of the Outreach Manager will be Mombassa. Tasks and responsibilities specifically comprise, -

- Oversee and facilitate the implementation of activities under Output 3 and 4 of the Competitiveness of MSMEs Component of Danida BPS II, referring to market development in selected agricultural value chains in targeted Coastal and Eastern ASAL district, and to the development of private-sector-led NRM services in the same districts. Details are included in the relevant component document.
- Facilitate the integration of previous ABD project activities into the MESPT organisational and conceptual set-up
- Organise the transfer of ABD assets, facilities and projects into MESPT structures
- Supervise the work of the district offices in Malindi, Machakos and Taita Taveta, and the field offices in Matuu and Kwale
- Develop relevant capacities of the staff in the Outreach Office, and its attached district and field offices according to needs
- Collect relevant monitoring data for outputs 3 and 4 and submit these to MESPT Head Office
- Compile and submit financial and progress reports to MESPT Head Office in accordance with standard formats, schedules and procedures
- Liaise on a regular basis with the BS and Credit Managers and relevant staff to ensure a synergetic implementation of all activities under the Competitiveness of MSMEs Component
- Oversee the implementation of other MESPT activities to be implemented through the Mombassa Office
- In accordance with the CEO and other MESPT management staff, develop a sustainability strategy for the new Mombassa Outreach Office
- Participate in the MESPT management team
- Report on activities under the Outreach office to the new MESPT Board of Trustees
- Undertake all other activities assigned by the MESPT CEO in order to strengthen the trust and in particular the Outreach office.

Qualification Profile

- Degree in agricultural development, business development, business administration, or similar relevant field of studies
- Several years experience in a managerial position

- Previous work experience in donor-supported agricultural business sector development programme
- Good knowledge of (and preferable working experience in the field of) value chain and BDS development
- Kenyan national
- Very good inter-personal and communication skills, team leading experience
- Comprehensive computer literacy

Draft Job Description
Business Service Resource Officer in the MESPT Business Services Department

Introduction

The Micro Enterprises Support Programme Trust (MESPT) will implement the Competitiveness of MSMEs Component of the second phase of the Business Sector Programme Support (BSPS II). The development objective of the BSPS II is to create employment in micro, small and medium sized enterprises (MSME), especially for young women and men. The programme has three components:

1. Improvement of the Business Environment
2. Competitiveness of MSMEs
3. Innovation and Piloting Green Energy

The Competitiveness of MSMEs Component is designed to address competitiveness constraints of MSMEs in selected value chains in order to increase market access for Kenyan producers and enterprises, with particular emphasis on rural producers, women and youth. The component follows a comprehensive approach to strengthen selected agricultural and manufacturing value chains. Its particular features include a complementarity of area-based facilitation work and comprehensive value chain development at a national scale and an interlinkage between market facilitation and value chain financing. Furthermore, considerable emphasis is put on strengthening coordination, cooperation and information-sharing among the different BDS/M4P/market development programmes in Kenya, as well as capacity development of local experts and consultants in BDS and market development.

The objective of the component is to increase access to markets for micro, small and medium-sized enterprises in selected value chains. Activities to achieve this objective are clustered into six outputs. Output 6 is: *Information sharing and coordination among M4P and BDS programmes in Kenya improved and capacities for value chain facilitation increased.* In this context, MESPT will have a “market development resource centre” function within its Business Services Department, for which MESPT now seeks to recruit a Market Development Resource Officer.

Responsibilities

The Market Development Resource Officer to be recruited will be part of the Business Service Department reporting to the Business Service Manager. Duty station is Nairobi, but frequent travelling is envisaged. The International Business Service Adviser who is placed in the BS Department will advise the Market Development Resource Officer in the fulfilment of his/her duties.

Tasks and responsibilities include,-

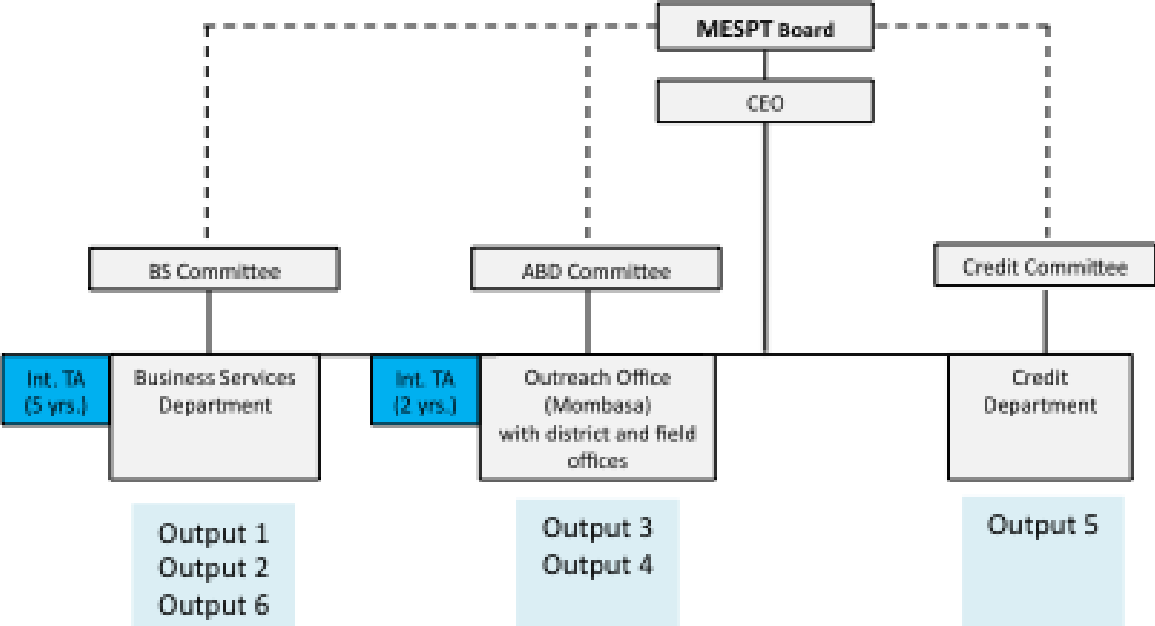
- Act as the secretary to and facilitator of the BDS Donor Coordination group
- Maintain and develop the BDS resource website
- Facilitate the annual BDS conferences and other information-sharing events
- Maintain close contact with all BDS/M4P programmes in Kenya, and work towards joint implementation and programming

- Serve as a focal point for donors seeking to engage in market development support in Kenya
- Identify research needs, and facilitate necessary research and impact assessments, preferably joint assessments between different programmes,
- Develop and implement dissemination strategies for research results and lessons learnt
- Develop, in conjunction with members of the BDS Donor Coordination Groups, concepts for systematic and sustainable market development training programmes in Kenya
- Plan and facilitate training and information sharing events for MESPT staff and board members
- Assist the BS Manager in his reporting and monitoring functions
- Conduct any other activities to foster information-sharing, cooperation among programmes and capacity development.

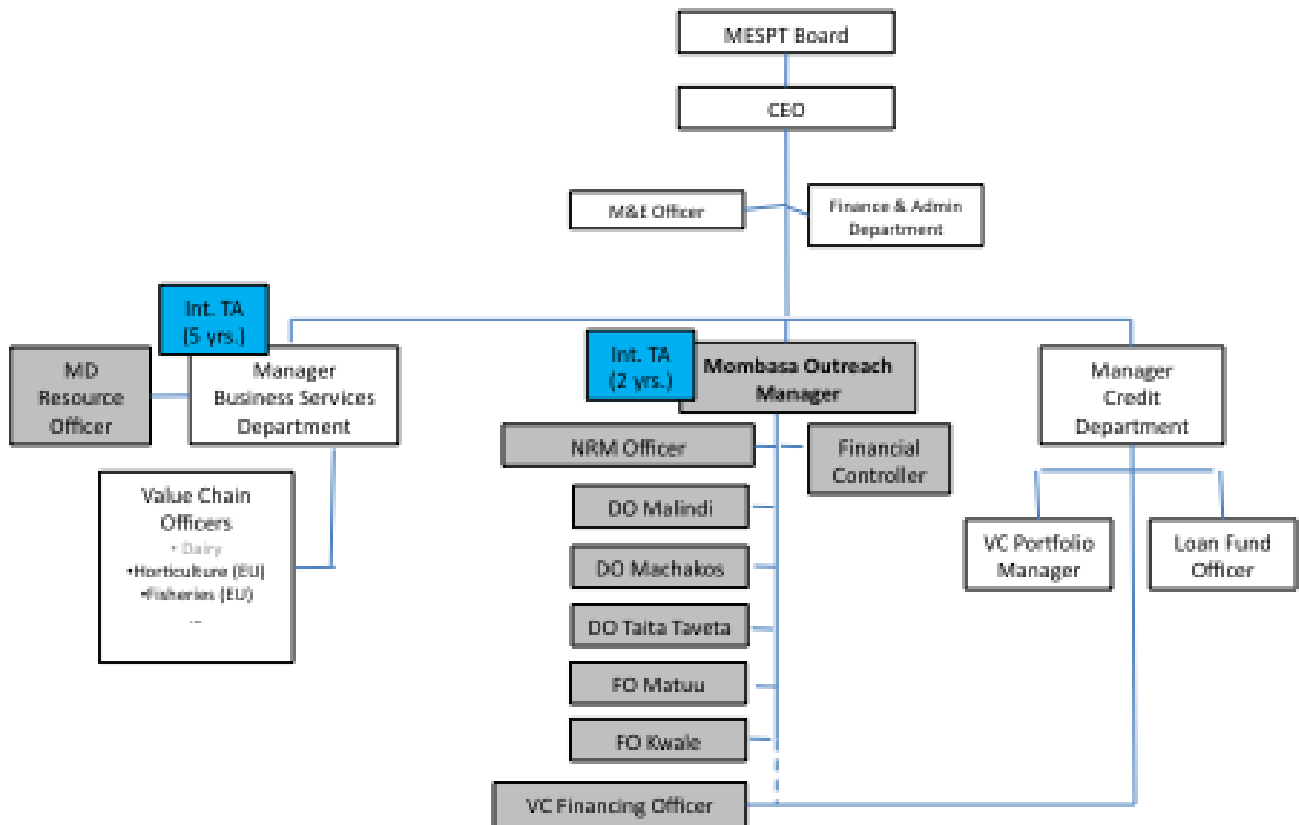
Qualification Profile

- Degree in relevant field of studies, preferably business administration, development economics, communication, and similar
- Several years working experience in a professional position
- Previous work experience with donor-supported development programme, preferably in business sector support
- Good knowledge of (and preferable working experience in the field of) value chain and BDS development
- Good overview of stakeholder and donor environment in Kenya
- High English communication and writing skills, report writing skills
- Exceptionally high inter-personal communication skills
- Comprehensive computer literacy, in particular expertise in webpage and database maintenance

Appendix 8: Component Organisation Chart

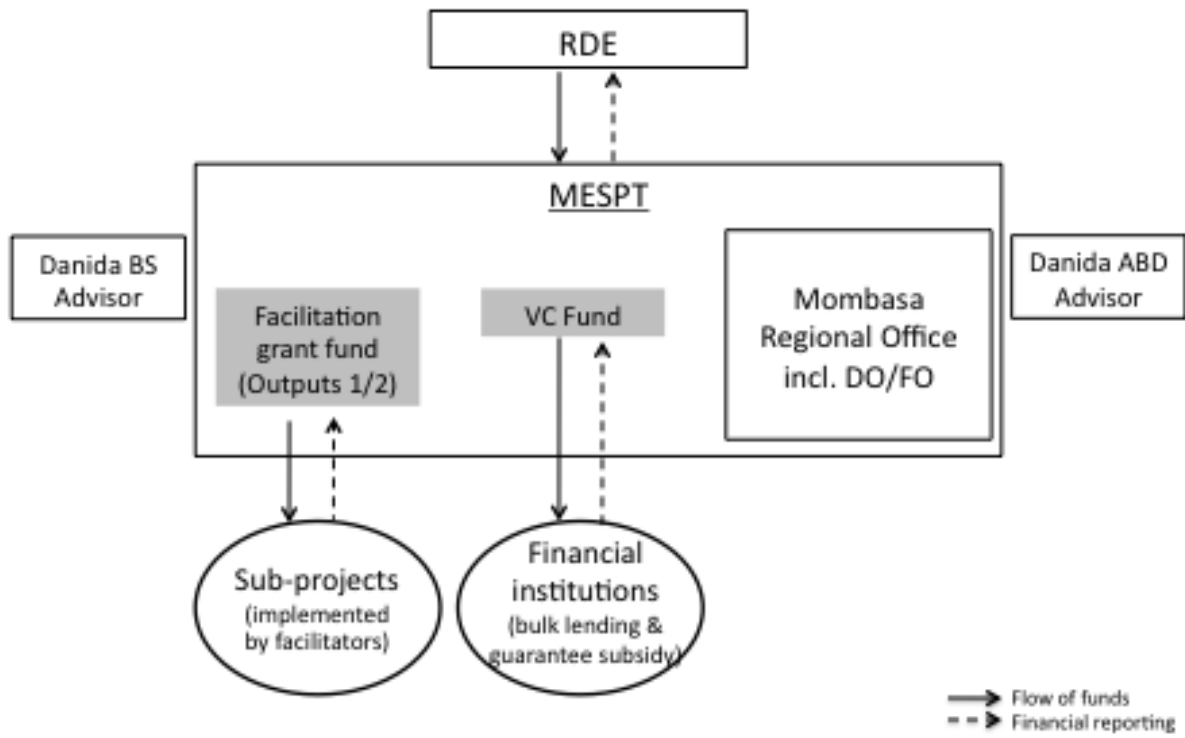


Appendix 9: Suggested Revised MESPT Organisational Structure¹¹



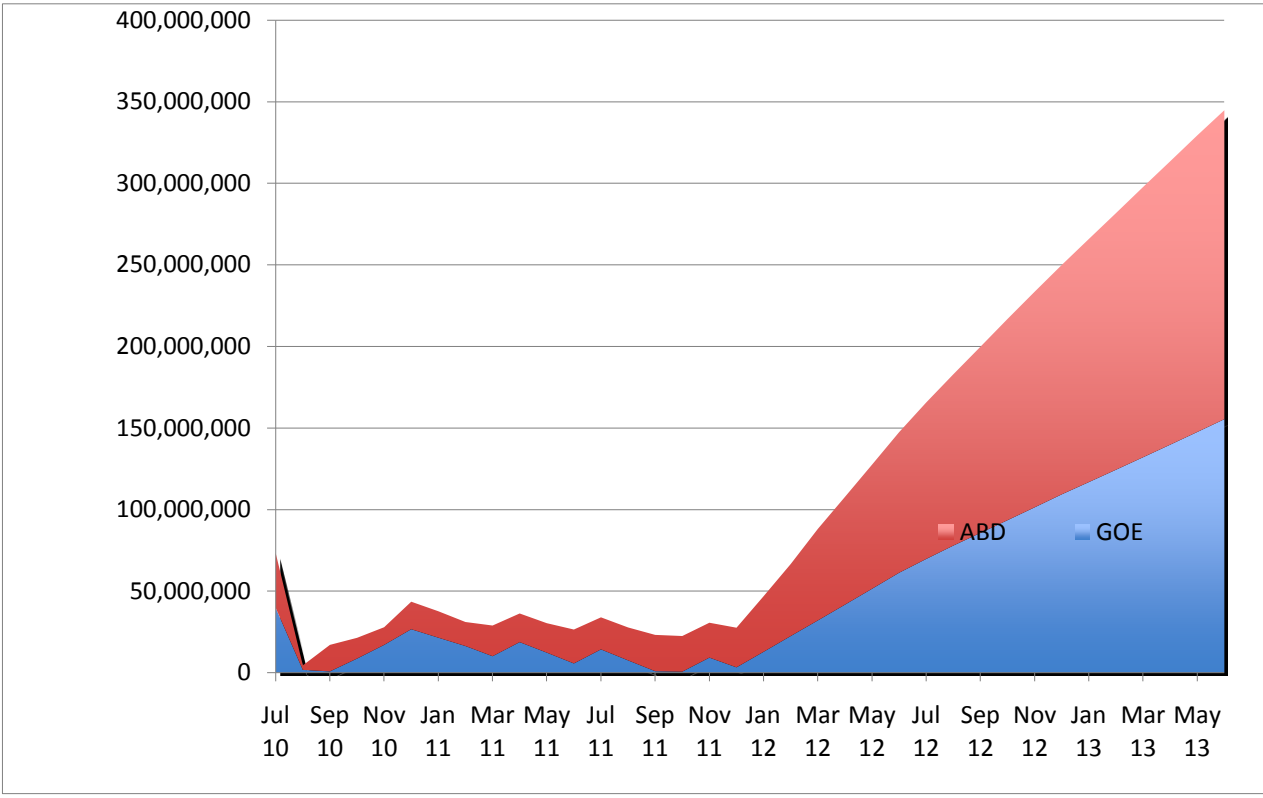
¹¹ Shaded fields depict posts to be directly funded from the component budget

Appendix 10: Competitiveness of MSME Component: Flow of Funds and Financial Reporting



Appendix 11: Flow back of GOE and ABD Loan Funds

	GOE Fund (BSPS I)	ABD Loan Fund	Total
Jul 10	39.665.079	33.546.389	73.211.468
Aug 10	1.700.567	2.760.782	4.461.349
Sep 10	786.788	16.241.364	17.028.152
Okt 10	8.625.133	12.720.748	21.345.881
Nov 10	17.024.049	10.819.844	27.843.893
Dez 10	26.633.769	16.850.629	43.484.398
Jan 11	21.447.572	16.189.757	37.637.329
Feb 11	16.328.779	14.710.714	31.039.493
Mrz 11	10.076.362	18.815.602	28.891.964
Apr 11	18.711.508	17.569.778	36.281.286
Mai 11	12.296.898	18.023.476	30.320.374
Jun 11	5.644.467	20.796.403	26.440.870
Jul 11	14.276.009	19.637.055	33.913.064
Aug 11	7.535.400	20.179.421	27.714.821
Sep 11	906.879	22.239.831	23.146.710
Okt 11	613.694	21.840.186	22.453.880
Nov 11	9.212.495	21.393.711	30.606.206
Dez 11	3.270.951	24.280.910	27.551.861
Jan 12	12.792.925	34.090.281	46.883.206
Feb 12	22.439.111	44.134.475	66.573.586
Mrz 12	32.004.953	56.089.147	88.094.100
Apr 12	41.677.724	66.022.653	107.700.377
Mai 12	51.423.206	76.047.645	127.470.851
Jun 12	61.242.045	86.164.942	147.406.987
Jul 12	69.706.323	95.902.730	165.609.053
Aug 12	77.897.412	104.972.726	182.870.138
Sep 12	85.646.128	114.126.903	199.773.031
Dez 12	109.310.093	140.593.196	249.903.289
Okt 12	93.464.064	123.366.019	216.830.083
Nov 12	101.351.843	132.158.448	233.510.291
Jan 13	116.817.665	149.015.881	265.833.546
Feb 13	124.392.634	157.289.412	281.682.046
Mrz 13	132.035.610	165.640.340	297.675.950
Apr 13	139.747.211	173.688.558	313.435.769
Mai 13	147.528.057	181.809.711	329.337.768
Jun 13	155.378.774	189.389.305	344.768.079



Appendix 12: Rationale for the selection of districts and value chains/commodities to be targeted under Output 3 (ABD) and Output 4 (NMR)

Introduction

The rationale for retaining the ABD component of the closing ASPS programme in Kenya is based on their very real and demonstrated success in working with communities, groups, local entrepreneurs and SMEs in their project area. The work on the ground has already tested and developed a number of useful approaches and initiatives which have had considerable impact on the lives and more importantly livelihood opportunities for the people resident in those project areas. Over the last couple of years they have moved towards a more systematic approach to area development in terms of identifying, carrying out research and working with focus in specific commodity value chains. The project design of ABD, with a linkage to financial resources, has meant that they have been able to test value chain finance more so than most area based agribusiness programmes – some of these financial interventions have been very successful in opening up the value chain and creating considerable benefits for the various players especially the smallholders involved.

The decision to continue with the project as an area based component of BSPS II – the Competitiveness of MSMEs Component is also related to the understanding that Subcomponent 3.2 of the newly started Natural Resource Management Programme would ideally fit with an area-based approach where the background relationships with communities, local government and operating SMEs are already established. Establishing new and previously unexplored options in energy savings, improved water and waste management requires a level of trust and contact with potential participants, which already exists in the ABD project areas.

Geographic spread of the ABD project area

Initially the ABD project had a very broad area covering the whole of Coastal Province as well as a sizeable portion of Eastern Province. During the course of the project, work has often tended to concentrate in certain areas because of various economic opportunities and linkages to interesting potential projects rather than a systematic series of interventions based on a planned and targeted approach. Another driving force in this “selection” of specific areas was transport and logistical constraints and the poor condition of the road infrastructure especially at the inception of the programme¹².

In order to maintain a tight and practical focus for the area-based activities under BSPS II the intervention area was re-visited and the selection of districts reviewed to ensure that the area is coherent and fits with the move of the operational headquarters to Mombasa. On this basis, the following districts were selected:

Coast	Mombasa
	Kwale
	Kilifi
	Malindi
	Tana River

¹² The later factor has significantly changed with the massive investment in road reconstruction and rehabilitation.

	Lamu
	Taita Taveta
Eastern	Machakos
	Kitui
	Makueni
	Yatta
Rift Valley	Loitokitok (to be accessed by Taita Taveta)

The selection and re-focus of programme districts also provides an opportunity to:

- Cover the large and important coastal area in a coherent way covering all the main population centres and major areas of economic activity. Very few donor programmes operate in this region where family poverty profiles indicate problems and high levels of youth unemployment prevail. Furthermore, current cultural attitudes influence the economic position and opportunities for women.
- Work in the important southern half of Eastern Province in climatic zones and conditions which are representative of other parts of the country. Accordingly, if activities of the component develop useful and important intervention strategies they can be rolled out and replicated elsewhere. For example: the higher altitude parts of Taita Taveta and Machakos are similar to the districts of Embu and Meru as well as many parts of Central and Rift Valley Provinces; the dry district of Kitui and parts of Tana River are very similar to large parts of the arid areas found in Eastern (Mwingi, Tharaka,) North-Eastern Provinces and the north; parts of southern Machakos and Makueni are similar to many parts of the Rift Valley and Western Province.
- The selected project area presents a full range of communities and opportunities to explore potential for NRM activities. This is also the rationale for adding the district Loitokitok. The area, traditionally accessed from Taita Taveta, is fed by a series of streams and minor rivers which originate from the glaciers on Mount Kilimanjaro and as such represent a good example of the impact of global climate change. The district is home of a series of communities (settled agrarian and pastoralists) struggling to cope with rapidly changing level of reliable water supply.

Selection of Value Chains

Over the years the ABD project has worked on a very wide range of agricultural crops and agribusiness activities and a regular feature of a number of reviews has been the strong recommendation to cut down the number of value chains included and the need to focus on only a few selected commodities / agro-processing activities.

The project undertook two exercises to select the most appropriate value chains using a variety of criteria to score the importance of each VC. Criteria used for the mid-term evaluation included:

- Potential for substantial growth – contribution to economic growth, diversification and exports (foreign exchange earner)
- Employment generation – especially for women.
- Potential to improve efficiencies in the value chain, then replicate and roll out.

- Potential to develop and test innovations which may otherwise not be undertaken by the value chain itself
- Non-duplication with other donor programmes
- Complimentary and synergy with past and other programmes

More recently the project conducted another scoring using a structured approach based on the planned incorporation of the NRM component. Criteria included:

- Potential for Economic growth (including increase in income, employment and forward and backward linkages)
- Potential to create Social Impact (involvement of youth and women, geographic coverage)
- Climate change, environment and natural resources
- Development partners experience and possibility of duplication and synergy.

The results of two such scoring exercises are presented in the Table below.

Two different rankings of the most appropriate commodity value chains for the ABD project based on selected criteria.

Value Chain	Mid-term Evaluation Score and Position / ranking	ABD Staff Assessment – 2010
Coconuts	33 - #1	73.5 - #8
Cashew Nuts	31 - #2=	76.5 - #4
Macadamia Nuts	31 - #2=	70.5 - #11
Cotton	27 - #4=	44.0 - #19
Mango	27 - #4=	72.5 - #10
Meat Goat	25 - #6	Not included
Poultry	23 - #7	64.5 - #14
Herbal	22 - #8	56.5 - #16
Honey	21 - #9	54.1 - #18
Beef	Not included	67.0 - #12
Horticulture	“	89.5 - #1
Legumes	“	62.0 - #15
Sunflower	“	76.0 - #5
Dairy at Coast	“	77.0 - #3
Fish	“	75.5 - #6
Pineapples	“	73.5 - #8
Cassava	“	54,6 - #17
Passion	“	74.0 - #7
Avocado	“	86.0 - #2
Coffee	“	69.5 – #13=
Sugar Cane - Kwale	“	71.5 – #13=

One of the deficiencies of these selection exercises were that they did not take into consideration the very diverse agro-ecological areas which make up the intervention area. The range from coastal areas to dry hinterland, to areas of higher rainfall resulting from orthographic effects and then

severely arid areas does not lend itself to a single set of value chains pursued across the whole project area. The best examples being the coconut and cashew value chains, which are only relevant in the coastal area and nowhere else.

There are a number of agro-ecological regions in Kenya (7 in some of the designations and 9 in the more complex interpretation) and each has a specific water availability profile based on humidity and total rainfall, which is (along with the variation in soil type) the determining factors for the possibility to effectively grow certain crops, hence the relevance of specific commodity value chains. The consequences of this for the new area focus made is briefly described below – again to highlight the possibility of eventually rolling proven products out in other parts of the country areas with similar agro-ecological potential are also highlighted.

Coastal area – this is comprised of two distinct agro-ecological regions: –

1. the hot and humid coastal strip is approximately sixteen km wide and runs parallel to the coast from the south of Kwale to Malindi. Annual rainfall is between 750-1250 mm falling in two seasons a year. Further to the north-east, the strip is slightly drier. The Shimba Hills in Kwale district are the only high elevation land rising to 150 m.
2. the hot dry coastal hinterland which extends inland from the hot humid coastal strip on the southern half, while in the northern section of the region (Tana River and parts of Lamu) it includes the coastline. In the south-west, the region extends further inland in a belt around Taita Taveta. This portion is slightly modified due to distance from the sea. The region's mean annual rainfall is between 500 - 750 mm and altitude ranges from sea level to 1000 m. Though some crop cultivation occurs, the area is too dry for high yields to be obtained.

The remaining of the area is extensively influenced by the impact of orographic rainfall where areas of high ground facing the prevailing rain bearing winds receiving high rainfall. Good examples are the Taita Hills and patches in the Machakos Hills. These fall under: -

3. the warm and wet medium altitude region which has reasonable to very good potential as it is characterized by annual rainfall of over 1,000 mm in 4 out of every 5 years, and can be as high as 2500 mm. The rainfall comes in 2 seasons in eastern and central Kenya. The region includes the most densely populated Taita Hills, parts of Machakos, Meru, Embu, Kirinyaga, Muranga, Kiambu and Nyeri districts in eastern and central Kenya and in western Kenya, the region covers Bungoma, Kakamega, Busia, Siaya, Kisumu, Kisii and South Nyanza districts.

Another part of the area clearly falls into:

4. the warm and dry medium altitude region. This zone has the same rainfall probability (500 - 760 mm) as the hot and dry coastal hinterland, but the climate is modified by distance from the sea and altitudes ranging from 1000 to 1800 m. The region includes the arable parts of Kitui and Machakos districts, the dry lower parts of Meru, Embu, Kirinyaga and Isiolo in central Kenya and two small dry pockets of arable land in Western Kenya (Homabay areas in South Nyanza and Uyoma in Siaya District).

The most arid parts of the project area including parts of Kitui and Makueni fall into:

5. the semi-arid and arid rangelands – this category, very broad and general covers about 80% of the land surface of the nation occupied by about 20% of Kenya's population. The agro-climatic zones have an average rainfall ranging from 300-800 mm per year. The area in the selected project zone are at the top end of these agro-ecological regions. Rangelands are also characterized by poor vegetation cover, fragile soils, high temperatures and frequent wind storms. Crop production is very limited but the rangeland supports cattle, sheep, goats and camels.

Given the extreme variation in the agro-ecological zones the selection of value chains must be based on areas of similar potential and where the climate restricts other activities this needs to be taken into consideration.

Summary selection of value chains based on agro-ecological blocks in the focused intervention area

Intervention Area	Suggested Commodity Value Chains	Rational
Coastal (Area 1 and 2)	Coconut Cashew nut Mango Horticulture (incl. passion fruit) Dairy in areas close to urban population concentrations.)Both major coastal crops – good)interventions possible)Good prospect to link to new)national program -CocaCola/ Gates Linkage to national BS program
Medium rainfall areas – parts of Taita Taveta, Machakos, Loitokitok (Area 3)	Horticulture (incl. passion fruit) Macadamia nuts Dairy Sunflower	Linkage with USAID and EU Linkage to CocaCola / Gates Possible extension to other areas Linkage to national BS program Targets women and has youth employment potential
Lower rainfall areas – parts of TT, Machakos, Makueni, small areas in Kitui	Mangoes Horticulture (on irrigation) Sunflower Small stock / poultry	Linkage to CocaCola / Gates Linkage with USAID and EU Major cash crop – good prospects Targets Women and has youth employment potential
Dryer / semi arid areas – parts of Makueni and most of Kitui	Mangoes (where they exist) Small stock / poultry	Only crop with some potential Targets Women and has youth employment potential

The suggested selections is self explanatory. Suggestions should be re-discussed and adjusted, if necessary, by the ABD field staff according to for practicality. A tight concentrated focus must be maintained to ensure impact. The proposed selected already covers 9 commodity value chains, but this range appears realistic given the very diverse nature of the area.

The selection overlaps with focus of other donor-supported programmes, but good synergy can be achieved if programmes are appropriately linked. For example, mangoes and passion fruit were part of the USAID funded Kenya BDS programme, and very good progress was made on business support services like seedling production, grafting, pruning and spraying. Subsequent work by the national horticulture programme (assisted by USAID) on variety selection, production technologies

and efficient pest control has also assisted. The new initiative involving the Coca Cola Corporation and the Bill and Melinda Gates Foundation will focus on juice and concentrate production and offers a good potential to make these commodities major income earners in the rural economy.

Poultry and small stock – (meat goats, sheep) are included because of the opportunity they offer for women and potential youth employment. Poultry clearly offers the best access to small scale enterprise for women because of cultural restriction on land ownership (and consequential tree crops and main crop production) and large stock ownership like cattle.

The drier areas of the project area in Machakos and Makueni are major producers of sunflower, an important small cash crop, also produced on a small scale in family homestead gardens, which are often controlled by women. Some women groups produce cooking oil from the crop and use the residue as an ingredient in poultry feed.

Appendix 13: Matrix of MSME and market development interventions in Kenya

Name of programme/ project	Funding Source/ Duration / Status	Implementing agency	Focus	Approach	Lessons learnt
KenyaBDS	USAID 2002 to 2008 Initial 5 years extended to almost 6 with residual funds. Terminated. Some project were given implementation funding from KARF.	Contracted out administered by Emerging Markets and managed by David Knopp	Tree Fruit – Mango, Avocado and Passion fruit Fisheries – Lake Victoria based	Classic BDS approach based on the development of a wide range of service providers which support the industry in selected constraints. Support provided via grants and matching grants. Did not undertaken full Value Chain analysis at the start. Initially developed a large portfolio of service providers and the carried out detailed research on potential market failures which were issued via a “treatment” and then proposals requested from the SPs. Approach was considered so successful all subsequent USAID projects in Kenya were ordered to have a BDS orientation	Very targeted approach which quickly identified issues and generated potential intervention points. Programme with small staff but had regular peer review support via project funds. Plus partial linkage to funds via USAID’s KARF. Made substantial progress - leveraged establishment of beachside banks, fishing equipment loans, ice plant and distribution system, fish skin tanning, tree fruit nursery, grafting, spraying and pruning services. Plus developed useful commercial linkages to juice extractors and manufactures of avocado oil. Lack of local partner resulted in loss of institutional memory when project shut down. No formal depository of project info.
Kenya Horticultural Development Programme (KHDP)	USAID 2004 to 2010 – Phase I . Recently started Phase II 2010 - 2015	Contracted out administered by FinTrac.	All Horticultural crops especially those that can be exported to the US. Worked extensively on the issue of Standards. Also worked on research and development of new crops eg vanilla	Very technical focus but programme has played a critical role in maintaining an excellent data and document base. Many of the activities in Phase I were run by staff in partnership with New extension has been instructed to take more BDS approach where they act more as a facilitator disbursing grants to other service providers rather than doing it themselves.	Programme has become the hub of the Donor Co-ordination Committee on Horticulture and maintained excellent linkage between the numerous donor programmes (eg EU – PIP and BSMDP / DFID HQ), the industry (FPEAK), and GoK (KARI, HCDA and MoA) . VIP role making major contribution. Produces authoritative quarterly bulletin detailing price trends and forecasting.
MSME Competiveness Programme	World Bank Started 2003 and has been extended due to slow spend and start-up	Contracted out administered by Deloitte and Touche.	Selected Value Chains included Cotton, Coffee, Pyrethrum and later Hides /	Did some excellent and very detailed Value Chain Studies in 2003 that are quality bench marks. Worked at an industry level establishing a comprehensive	The Value Chain analysis clearly indicated the major constraints most of which are national problems – cost of power (almost the highest in the world), import costs – excessive duty and rent

	delays. Terminates in 2012		Leather	stakeholders fora / Apex Committees in each industry. Provided Matching grant scheme for value chain actors to improve individual firm competitiveness.	seeking by GoK officials, high internal transport costs, excessive control by parastatal marketing Boards especially in Coffee and Pyrethrum. Given the above working with Industry level pressure group to push changes was effective mechanism but actually had marginal impact in some VCs (especially Pyrethrum) – good progress in Coffee with partial market liberalization. But major problems remain – high cost of Power due to GoK policy of using fuel based power generation. Lack of local partner organization means no repository of project information at shut down other than the local Apex Committees.
Various programmes. East African Dairy Development Programme (EADDP)	TechnoServe a not-for-profit entity which is a world leader in private sector growth programmes which target smallholders.	Funding from USAID, Bill and Melinda Gates Foundation, and numerous other donors and Foundations.	Current portfolio of funded initiatives includes dairy, coffee, banana, horticulture, sub-tropical fruit		Competent and respected organization with its own resources easily generates a constant stream of additional donor funds and projects. But this is based on extremely high standards of delivery.
The Innovation Fund for Agriculture and Agri-Business (IFAAB)	Agricultural Sector Co-ordination Unit (ASCU) an inter-ministerial Unit support by basket donor funding which includes Danida as a major contributor.	MESPT under contract to ASCU.	The Grant fund supports innovative initiatives in livestock, crops, fisheries, co-operatives, irrigation, agro-forestry and value addition activities. Agricultural commercialization in general	The Fund issues a call for Concept Notes and Proposals for innovative project with a budget of between KSh1 to 10 million - these are assessed by a Committee and awarded as Grants. The fund is meant to focus on projects: requiring production and technology improvements which enhances efficiency in a value chain, pilots and/or up-scaling of public private partnerships, applied research projects, development and up-scaling of value addition and	Process and call for proposals were not well handled in that the project objectives were not adequately explained. This resulted in a very large number of submissions which were off target. Evaluation procedures got overwhelmed and a large amount of effort wasted. Two stage proposal process should be used an expression of interest with brief concept note and then projects passing initial screening are asked to prepare formal and detailed submission.

				processing activities in Kenya, and Marketing (inc. Research, distribution strategies, branding etc.)	
Various	African Development Bank	Various Ministries		<p>USD11.6m <i>Growth Orientated Women Enterprise (GOWE) Development</i> inc. partial Guarantee Facility for banks to lend to women clients, training, mentoring and Capacity Building.</p> <p>UAC17m <i>Smallholder Horticulture Development Project</i> inc. horticultural marketing systems +Financial incentives for smallholders and SMEs in hort. production and marketing.</p> <p><i>ASAL-Based Livestock and Rural Livelihoods Support Project (ALLPRO)</i>. 4 technical components including Training and support to breeders + Livestock Marketing Improvement providing market information system, training for traders and stakeholders, support to traders and trader groups + linkage to finance)</p>	<p>Again working embedded in GoK Ministries has resulted in slow and delayed implementation.</p> <p>The GOWE project focusing on women should be reviewed by BSPS II to extract specific lessons in targeting female entrepreneurs.</p>
PRIME	DFID Planned 5 year programme with strong possibility of extension as most donors realize need for realistic time horizon.	Due to be let out to International tender in mid 2010.	Currently not specified but design highlighted agric VCs in previously neglected areas eg Cotton in Western and Nyanza and livestock in the ASAL region.	A detailed M4P approached which will be based on best practice and foundation work done internationally by DFID and Swiss Development Co-operation (SDC). M4P also works exceptionally well in Service and public Utility markets and therefore DFID also wants programme to tackle an area like water supply or health service provision.	Not yet started. Very big interest in the programme by a large number of International Consulting Companies as the M4P approach has rapidly become the most consistent donor approach to development issues and there are numerous projects in the pipeline to be let out and few firms with a competitive edge as a major / expert supplier of M4P.
Food for Progress programme	United States Department of Agriculture	Implementation contracted to World	Worked in Western Province on appropriate	Working with Rural SACCOs in order to develop an appropriate agricultural loan product for value	A key lesson was introduction of risk-averting strategies via diversification: Creating linkages to buyers to determine

	(USDA) Recent completed in 2010.	Organization of Credit Co- operative Unions (WOCCU)	crops up-land rice and beans. Also had component introducing people affected by HIV/AIDS to low-labour crops, such as green- grams.	chain financing which manages risk at all levels. SACCOs were supported to develop a methodology which provides farmers voucher based financing for inputs and, in addition, facilitates reliable market linkages. The programme also provided farmer training in improved agricultural practices using existing Farmer Field schools.	market demand before decided on crops. SACCOs were only allowed to have a maximum of 30 per cent of their total loan portfolio in agriculture and they must fund a variety of crops. Farmers are also encouraged (and trained) to have a diverse production base which does not rely on a single crop. In addition to the main food crops, they also grow some crops for sale and cash income, Hiring loan officers with agricultural expertise and making them responsible for negotiating markets before the planting season.
?	USDA funds plus other donors.	Care Kenya	ASAL region. Focussed on livestock marketing in the Garrisa region of North Eastern Province	Started with extensive research of the marketing systems. Cattle moved from ASAL to ranches in Coast and Eastern before sale on Mombasa market. Project attempted to assist by purchasing live animals on district markets, meeting quarantine regulations, shipping them to hired ranch in the Voi, finishing and then selling. It achieved 8% margin but was not sustainable.	
Private Sector and Inclusive Market Development for Poverty Reduction in Africa	UNDP In preparation	UNDP	General value chains	Facilitation of market linkages, coordination of different players	
Value Chain Fund	German Cooperation In preparation				
	Netherlands Trust Fund	Fresh Produce Exporters	Fruit trees, horticulture	Value chain development with focus on export growth	

	In preparation	Association of Kenya			
--	----------------	-------------------------	--	--	--

Appendix 14: List of documents consulted

- Africa Commission 2009, Realising the Potential of Africa's Youth. Report of the Africa Commission.
- Assistance to Micro and Small Enterprises Programme (ASMEP). A Republic of Kenya (Ministry of Trade) Initiative funded by the European Union. Short programme description.
- Danida 2005. Agricultural Sector Programme Support 2005 – 10. Agricultural Business Development (ABD) Component Description. Kenya. Final. J.nr.104.Kenya.805.
- Danida 2010, Gender and Value Chain Development. Evaluation Study. May 2010.
- Danida 2008. Kenya. Business Sector Programme Support and Agricultural Sector Programme Support. Agricultural Business Development. "Strategy 2010 and Beyond". Draft, April 2008. File.nr.104.Kenya.809.
- Danida 2010, Programme Concept Paper. Business Sector Programme Support in Kenya. Phase II, 2011 – 2015. Final Draft.
- Danida, Integration and Commercialisation of The Business Development Services (BDS) of MESPT and Agricultural Business Development Component of ASPS and Business Planning for Private Sector Development Services (PSDS). April 2010.
- Danida/TAS 2009. Kenya. Agricultural Sector Programme Support (ASPS). Review Report. Ref.nr.104.Kenya.805. May 2009.
- FinAccess National Survey Report 2006 and 2009. Financial Sector Deepening Trust, Kenya.
- Fineline 2009. MSPT/ABD. An Assessment of MESPT as the Loan Fund Manager and Institutional Host for ABD Component of ASPS. Nairobi, January 2009.
- Gender Equality Rolling Plan for Danish Bilateral Programme Support. BSPS Phase II. Nairobi.
- Government of Kenya 2007. Kenya Vision 2030. The Popular Version.
- Government of Kenya, Ministry of Industrialization, The 4K MSE Initiative (2007-2012).
- Government of Kenya, Ministry of Industrialization, The Master Plan for Kenyan Industrial Development. September 2008.
- Government of Kenya, Ministry of Trade and Industry, Private Sector Development Strategy 2006-2010.
- Government of Kenya/Danida 2006, Component Description. Component Two. Enhanced Competitiveness of Micro, Small and Medium Enterprises. BSPS. Business Sector Programme Support. File. Nr. 104. Kenya.809. December 2006.
- Government of Kenya/Danida 2008. Component Description. Component Two. Enhanced Competitiveness of Micro, Small and Medium Enterprises. BSPS. Supplement March 2008: Second phase of Sub-component 2.1 (May 2008 – December 2010). File.nr.104.Kenya.809.
- Government of Kenya/Danida 2009, Natural Resource Management Programme (2010-2014). Sub-component 3.2: Private Sector Participation in NRM. Kenya. Final. J.nr.104.Kenya.806-20.

- Government of Kenya/Danida 2010, Formulation of Business Sector Programme Support, Phase II. Kenya. Draft Identification Report. Ref. No. 104.Kenya.809.20.NBO
- IFAD, Rural Poverty in Kenya. www.ruralpovertyportal.org
- Institution Development & Management Services 2010, Cononut Value Chain Analysis Report. Final Report. ABD/ASPS/KCDA, April 2010.
- Kenya BSPS II. Component 2: Competitiveness of MSMEs. Feasibility and Formulation Mission. Debriefing Note of First Mission (May 2010).
- Kenya BSPS II. Component 2: Competitiveness of MSMEs. Report of the Feasibility Study. Final Draft, 24. June 2010.
- Kenya Joint Assistance Strategy 2007 – 2012.
- McCormick, Dorothy, et al. 2010, Growth-oriented Small Enterprises in Kenya. Lessons from Selected Case Studies. Concept Paper. Institute for Development Studies, University of Nairobi.
- MESPT 2008, Monitoring and Evaluation System for BPS Programme. March 2008.
- Musinga, Muli (Alternative Finance Technologies Limited) 2008, MESPT. BPS Programme. Analysis on Utilization of Loans and Capacity Building Matching Grants. Nairobi.
- Omolo, Jacob 2010, Youth Unemployment in Kenya.
- RDE/Natural Resource Management Programme 2010, Presentation of Danida NRM Programme (Private Sector Engagement) 2010-2014, to the ABD Advisory Board Meeting, 23rd April 2010.
- Report on Consultancy to Re-Design the Innovation Fund for Agriculture and Agribusiness. A Joint Effort between the Micro-Enterprise Support Programme Trust – MESPT and The Agricultural Sector Coordination Unit (ASCU). Final Report; March 10th 2010.
- United Nations Development Programme (UNDP), Human Development Report 2009. Kenya. http://hdrstats.undp.org/en/countries/country_fact_sheets/cty_fs_KEN.html
- World Bank 2007, Kenya. Unleashing the Potential for Trade and Growth. Washington, DC
- World Bank 2008. Kenya. Accelerating and Sustaining Inclusive Growth. Washington, DC.
- World Council of Credit Unions (WOCCU) 2009. Technical Guide. Integrated Financing for Value Chains.