Government of Kenya **Danish Ministry of Foreign Affairs**

BUSINESS SECTOR PROGRAMME SUPPORT, PHASE II

KENYA

PROGRAMME DOCUMENT

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COVER PAGE

Country	: Kenya
Programme	: Business Sector Programme Support (BSPS), phase II
National Agencies	: Business Advocacy Fund (BAF), Trademark (TMEA) Kenya, Micro Enterprise Support Programme Trust (MESPT), Climate Technology Innovation Fund (CTIF), African Enterprise Challenge Fund (AECF)
Starting date	: January 2011
Duration	: 5 years
Budget	: Total budget DKK 498 million. Contribution from Denmark DKK 320 Million

The development objective of BSPS II is to create employment in micro, small and medium sized enterprises (MSME), especially for young women and men.

The immediate objective of the business enabling environment component is to improve the business environment through the reform of policies, laws and regulations that hinder private sector development.

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

The immediate objective of the Innovation and Piloting component is that innovative entrepreneurs and firms in Kenya are incentivised and enabled to exploit the market opportunities offered by the emerging market for new climate change technologies, and catalyse investments in new companies, products and services.

The total Danish contribution to the BSPS II budget is distributed among components as follows:

COMPONENT	**TOTAL**	**Danish contribution**
Improvement of the Business Environment Component		
(i) BAF II (Danida contribution to basket)	50	50
(ii)TMEA Kenya (Danida contribution to basket)	113	60
Competitiveness of MSMEs Component	125	90
Innovation and Piloting Green Energy Component		
(i) CTIF (Danida contribution to basket)	95	50
(ii) REACT Kenya (Danida contribution to basket)	95	50
Research, studies, reviews, management	20	20
TOTAL	498	320

Signatures:

Date Ministry of Finance Kenya

Date Royal Danish Embassy Kenya

EXECUTIVE SUMMARY

Development Objective

1. The development objective of the Business Sector Programme Support (BSPS) phase II is to create employment in micro, small and medium sized enterprises (MSME), especially for young women and men. This development objective derives from Vision 2030, which is setting out the long term goals for making Kenya a middle income country. Unemployment, especially among the youth, has continued to be a major challenge in Kenya. This is supported by the conclusions from the Danish initiated Africa Commission, which highlighted the importance of private sector development in order to more effectively increase economic growth and reduce youth unemployment.

2. In BSPS II there are in particular three considerations that cut across all components and sub-components:
    - Creation of internal BSPS II synergies, so that components and sub-components mutually will re-enforce each other;
    - Practically pursuing the harmonisation agenda through working directly with other development partners where possible, and
    - Focussing on integration between BSPS II and the various Danida business sector instruments.

Business enabling environment

3. The objective of the business enabling environment component is to improve the business environment through the reform of policies, laws and regulations that hinder private sector development. Two sub-components will be created to achieve the objective: (i) Support for Business Advocacy and (ii) Support for a Better Regional Business Environment. The first sub-component will provide support to Business Membership Organisations in Kenya so that they are more able to engage with the government in processes that lead to a sustainable improvement in the business environment. This will involve a continuation of the Business Advocacy Fund (BAF), which was established during BSPS I. The second sub-component will provide support to the Trademark East Africa (TMEA) Kenya programme. This multi-donor programme support Kenya's implementation of the regional economic agreements agreed upon within the East African Community (EAC).

MSME competitiveness

4. The immediate objective of the MSME competitiveness component is to increase access to markets for micro, small and medium-sized enterprises in selected value chains, thus contributing 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. The core approach is to develop market systems in selected value chains in a comprehensive manner, following the Making Markets Work for the Poor approach. The MSME competitiveness component will be implemented by the Micro Enterprise Support Programme Trust (MESPT).

Innovation and piloting green energy

5. The immediate objective of the Innovation and Piloting component is that innovative entrepreneurs and firms in Kenya are incentivised and enabled to exploit the market opportunities offered by the emerging market for new climate change technologies and catalyse investments in new companies, products and services. Two sub-components will be created to achieve the objective: (i) Support to a

Climate Technology Innovation Fund (CTIF) and (ii) Support to the Renewable Energy & Adaptation Climate Technologies (REACT) Kenya window under the African Enterprise Challenge Fund (AECF).

Cross cutting issues and priority themes

6. Mainstreaming of gender is an integrated part of all BSPS II components, but is done in different ways depending on the specific component and sub-component context. Other cross cutting issues and priority themes of environment, democratisation, human rights, youth, HIV/AIDS, trade and development, climate change, harmonisation and alignment and linkages to other Danida business sector instruments are all of relevance in BSPS II.

Budget

7. The total Danida contribution to the BSPS II budget is distributed among components as follows:

COMPONENT	DKK MILLION
Business Environment Component	
(i) BAF II (Danida contribution to basket)	50
(ii) TMEA Kenya (Danida contribution to basket)	60
MSME Competitiveness Component	90
Innovation and Piloting Component	
(i) CTIF (Danida contribution to basket)	50
(ii) REACT Kenya (Danida contribution to basket)	50
Research, studies, reviews, management	20
TOTAL	320

Management

8. The overall management of BSPS II will be carried out by the BSPS II Programme Steering Committee (PSC). The members of the PSC will be the Chairman of the Kenya Private Sector Alliance (KEPSA) (PSC Chair), the Permanent Secretary of Ministry of Finance and the Ambassador of Denmark. One representative from the management of each of the sub-components and components will be invited to attend the PSC meetings as observers in order to provide clarifications to raised questions, if requested.

9. The secretariat function to the PSC will be carried out by KEPSA. The functions will include preparation of and conducting PSC meetings, holding of four annual BSPS II component and sub-component coordination and synergy meetings (with participation of other institutions where relevant, e.g. the Ministry of Industrialisation, other donor partners) and contracting out and managing programme level Monitoring & Evaluation (M&E).

Monitoring and Evaluation

10. Programme level M&E will be undertaken by an independent and experienced contractor in order to secure a high level of datasecurity and independence in analysis. Focus will be on the degree to which the BSPS II is contributing towards reaching the development objective as well as the immediate objectives as expressed in Component Descriptions, including to which degree synergy between components are leading to programme and component objectives.

Assumptions

11. The following programme level assumptions have been made:
    - A continued macro-economic stability enabling a high level of economic growth;
    - Continued political stability;
    - Continued political support to the regional integration process, and
    - Donor harmonisation efforts within private sector development go on.

Risks

12. The following programme level risks have been identified:
    - Will the government continue to be willing and receptive to discuss and implement initiatives to improve the business climate?
    - Weak implementation capacity of EAC institutions hampering regional integration;
    - Will the composition of MESPT Board of Trustees reflect the need of the organisation to focus on providing both business development and wholesale financial services?
    - Will the MESPT capacity to effectively absorb development assistance be increased?
    - Are relevant and sufficient innovative climate change projects being submitted for funding from the CTIF and the REACT Kenya window of AECF?
    - Will the private financial sector react positively on the opportunities generated by the CTIF in terms of being willing to co-finance innovative investment projects?
    - Will the paradigmatic shift in terms of devolution of powers set in motion by the approval of the new Constitution have a negative impact on BSPS II components?

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LIST OF ABBREVIATIONS

ABD	Agri Business Development
AECF	African Enterprise Challenge Fund
AGRA	Alliance for a Green Revolution in Africa
AIDS	Acquired Immuno-Deficiency Syndrome
ASPS	Agricultural Sector Programme Support
AWP&B	Annual Work Plan and Budget
BAF	Business Advocacy Fund
BDS	Business Development Services
BMO	Business Membership Organisations
BSPS II	Business Sector Programme Support, phase II
B2B	Business to Business
CEO	Chief Executive Officer
CTIF	Climate Technology Innovation Fund
Danida	Danish International Development Assistance
DFID	Department for International Development
DKK	Danish Kroner
EAC	East African Community
EU	European Union
FM	Fund Manager
GC	Governing Council
GDP	Gross Domestic Product
HIV	Human Immuno-deficiency Virus
IC	Investment Committee
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
IFU	Industrialisation Fund for Developing Countries
ISA	International Standards of Auditing
KEPSA	Kenya Private Sector Alliance
KSH	Kenya Shillings
MESPT	Micro Enterprises Support Programme Trust
M&E	Monitoring and Evaluation
MFA	Ministry of Foreign Affairs
M4P	Making Markets Work for the Poor
MSME	Micro, Small and Medium sized Enterprises
NOC	National Oversight Committee
NRM	Natural Resource Management
PIC	Programme Investment Committee
PPD	Public Private Dialogue
SME	Small and Medium sized Enterprises
NOC	National Oversight Committee
PSC	Programme Steering Committee
PSDG	Private Sector Development Group
PSD	Private Sector Development
PSDS	Private Sector Development Strategy
RDE	Royal Danish Embassy
REACT	Renewable Energy and Adaptive Climate Technologies
TMEA	Trademark East Africa
UFT	Technical Advisory Services
USD	United States Dollars

1. DEVELOPMENT OBJECTIVE

The development objective of BSPS II is to create employment in micro, small and medium sized enterprises (MSME), especially for young women and men.

This development objective derives from Vision 2030 published by the Kenyan government in 2007, which is setting out the long term goals for making Kenya a middle income country. The assumption in Vision 2030 is that an annual GDP growth of 10% until 2030 will enable Kenya to become a middle income country. At the same time Kenya is a very unequal society in terms of income disparity. According to the World Bank[1], Kenya is among the ten most unequal countries in the world, and among the five most unequal countries in Africa. In such an unequal society, there is a need for supporting an inclusive economic growth, where strong focus is on including the micro and smaller enterprises from both the formal and informal sector, gender priorities and creating employment, particularly for the youth[2].

Unemployment, especially among the youth, has continued to be a major challenge in Kenya. In the period 1998-2005, aggregate unemployment fell from 15% to 12.5%, but the share of the youth in unemployment[3] rose from 60% to 72 %. And the rate of joblessness is almost 40% of youth, or an estimated 5.2 million young adults. This is double the adult average of 21 percent. In terms of absolute numbers, the Ministry of Youth Affairs estimates[4] that half a million youth graduates from various institutions and are ready to enter the job market every year. However, only ¼ find employment.

The above is supported by the conclusions from the Danish initiated Africa Commission, which highlighted the importance of private sector development in order to more effectively increase economic growth and reduce youth unemployment. This conclusion was made in the light of much growth not having been effective in reducing poverty. The Africa Commission also recognised that young Africans, especially girls and young women, have far fewer opportunities and resources than adults, and that there is a huge untapped potential, if the entrepreneurship of these groups could be unleashed. By focussing on growth of Small and Medium sized Enterprises (SME), the likelihood of increasing employment would be higher. Recommendations of the Commission therefore included a.o. increased access to investment finance for SMEs, promotion of young entrepreneurship and access to sustainable energy.

2. DESCRIPTION OF BSPS II COMPONENTS

The overall BSPS II strategy builds on the long term strategy of Vision 2030 of creating a high level of annual economic growth, on 4 of the 5 pillars in the Private Sector Development Strategy (PSDS) (number[5] 1, 3, 4 and 5) as well as the recommendations of the Africa Commission.

[1] World Bank: Kenya, Country Social Analysis, May 2006.
[2] Youth are defined as persons between 15 and 35 years old. Definitions vary in Kenya, and some only include people in the age group 15-29 years.
[3] World Bank, Project Appraisal Document for the Kenya Youth Empowerment Project, page 1. While the preciseness of these figures can be questioned there is a general agreement on the seriousness of youth unemployment and underemployment in Kenya.
[4] Strategic Plan 2007-2012, March 2007.
[5] 1: Business environment, 3: Trade expansion, 4: Improved productivity and 5: Entrepreneurship.

Considering that development aid provided through BSPS II is of a limited size compared to private sector investment needs in Kenya, the complementarity between aid and investment flows becomes a priority in order to optimise the use of aid resources. As an improved business climate in Kenya is a prerequisite for attracting an increased amount of both domestic and foreign direct investment, business climate improvement becomes a core theme of BSPS II.

During implementation of BSPS I support was given to an improved business climate through the Business Advocacy Fund (BAF). In the last five years there has on a number of dimensions been an absolute improvement in the business climate in Kenya. However, the country has slided in international relative comparisons of a conducive business enabling environment. The post election violence following the last general election demonstrated that there is a strong need for an inclusive growth in Kenya. A more equal growth with a high focus on creation of employment for the younger generations is a prerequisite for a socially more balanced development, in which disadvantaged parts of the population also benefit from economic growth. An inclusive growth is a necessity for both political stability, sustained and broad economic growth and a socially more equal society.

Additional dimensions to a better business climate have become more apparent during the last years. The move towards greater regional integration within the five countries of the East African Community (EAC) has highlighted that the business enabling environment in all the five member countries are of importance for increased cross country investments and trade, and hence economic growth. In addition it is increasingly being recognised that if Kenya should reach a middle income country status 20 years from now, a part of the informal sector must be formalised in order to increase tax income, improve product quality as well as improve the conditions under which labour is employed. It has become easier to establish new small formal enterprises in Kenya, but there are still many barriers to be overcome.

As a direct intervention area within BSPS II to increase the competitiveness of MSMEs, support will be provided to strengthen a number of value chains, mainly within agri-business sectors. This part of BSPS II builds on the experiences from both BSPS I and the Agri Business Development (ABD) of the Agricultural Sector Programme Support (ASPS). The selection of value chains will be done on the basis of their ability to create employment, especially for women and youth, value addition as well as the potential for the products to reach markets, both domestic and internationally. Improved productivity of labour and capital, the introduction of new products, removal of investment barriers and MSMEs reaching new markets will lead to increased competitiveness of enterprises and hence be important factors in creation of new jobs.

The low level of entrepreneurship in Kenya is among others hampered by a lack of basic research, government support to innovation (e.g. through a state innovation investment fund) and financial sector willingness to finance new innovations. Within such an environment only few really innovative projects are financed and the products or services widely marketed. That there are only few successfully new innovations developed in Kenya makes it more difficult to attract financial and other support for potential innovative projects. To break this vicious circle a third theme in BSPS II is support to innovation and piloting. This will be carried out through focussing both on small new enterprises as well as on established firms. To focus the assistance, priority will be given to green energy innovations. Green energy innovations falls within the climate change agenda, the recommendations by the Africa Commission and it is an area in which Danish enterprises and public institutions have peak competence. It is recognised that supporting innovation, especially within new small enterprises, entails a higher than normal risk. However, this higher risk is sought controlled through working closely with other major donors in this area and by using a well recognised and reputed challenge fund, the African Enterprice Challenge Fund (AECF).

In BSPS II there are in particular three considerations that cut across all components and sub-components:

- Creation of internal BSPS II synergies, so that components and sub-components mutually will re-enforce each other;
- Practically pursuing the harmonisation agenda through working directly with other development partners where possible, and
- Focussing on integration between BSPS II and the various Danida business sector instruments (a.o. B2B, the Industrialisation Fund for Developing Countries (IFU), Mixed Credit and Corporate Social Responsibility).

The following provides a brief description of each of the three BSPS II components.

2.1 IMPROVEMENT OF THE BUSINESS ENVIRONMENT COMPONENT

The objective of the improvement of the business environment component is to improve the business environment through the reform of policies, laws and regulations that hinder private sector development. This will be achieved by supporting the business community in its efforts to engage with all levels of government on these reforms and by supporting national reforms that encourage Kenya’s integration with the EAC and open up new regional market opportunities for the Kenyan private sector.

Two sub-components will be created to achieve the objective: (i) Support for Business Advocacy and (ii) Support for a Better Regional Business Environment.

The first sub-component will provide support to Business Membership Organisations (BMO) in Kenya so that they are more able to engage with the government in processes that lead to a sustainable improvement in the business environment. This will involve a continuation of the BAF, which was established during the first phase of the BSPS.

Within the second phase of the programme, the BAF will be reconfigured to address a wider range of issues than during BSPS I. The BAF will continue to provide financial support to BMOs to assist them in their efforts to prepare policy proposals, through research and consultation, which can be brought to government as a basis for dialogue leading to business environment reform. The BAF will broaden the range of clients it supports to include civil society organisations, workers’ organisations (e.g., the Central Organisation of Trade Unions in Kenya) and employers’ organisations (e.g., the Federation of Kenyan Employers). BAF II will also market its services and offer support, where relevant, to BMOs that represent businesswomen. It will also pay special attention to BMOs that represent micro and small enterprises, including those located in rural and semi-urban areas, in line with the youth and gender focus. BAF II is designed as a multi-donor basket fund into which other development partners can contribute.

The second sub-component will provide support to the Trademark East Africa (TMEA) Kenya programme. This multi-donor programme support Kenya’s implementation of the regional economic agreements agreed upon within the EAC. The TMEA East Africa programme has two dimensions: Vertical support of regional activities (e.g. support to the EAC secretariat) and horizontal support addressing national issues in relation to integrating each of the member countries. Each national programme is designed to address that specific country's need for support towards implementation of the regional protocols at national level. Danida has already committed DKK 10 million to support the vertical TMEA programme.

The overall goal the TMEA-Kenya programme contributes to is "increased growth and poverty reduction in Kenya". The purpose of the programme is to facilitate more efficient and diversified trading across borders, in regional and global markets, and deepening regional integration.

The TMEA-Kenya programme engages public, private and civil society actors in business environment reform processes. It uses a combination of technical assistance and financial aid. Key beneficiaries and implementing agencies will be the Ministry of the East African Community, Ministry of Trade, Ministry of Transport, Kenya Bureau of Standards, Kenya Revenue Authority, Kenya Ports Authority and BMOs. It has four outputs: (i) Strengthened leadership, negotiation and implementation of EAC regional integration in Kenya, (ii) Improved trade policy framework and trade facilitation processes for Kenya, (iii) Enhanced capacity and participation of Kenyan private sector and civil society in regional integration processes and (iv) Improved monitoring, evaluation and impact assessment of regional integration and trade facilitation.

This sub-component focuses on a major challenge and opportunity to the Kenyan private sector: The access to new regional markets through regional integration and an improved regional business environment. The barriers and burdens associated with cross-border trade and access to broader regional markets are among the major business environment hurdles facing the Kenyan business community. Both formal and informal Kenyan enterprises experience considerable challenges when trying to get their products and services into neighbouring countries.

Core synergies with other components and sub-components of BSPS II include that an improved business environment is an integrated part of the Making Markets Work for the Poor (M4P) approach applied in the MSME component, the close interaction of BAF II and TMEA Kenya and that there can be a need for removing specific obstacles in the business climate for successful application of new and innovative investments supported through the Climate Technology Innovation Fund (CTIF) and the Renewable Energy and Adaptive Climate Technologies (REACT) Kenya window of the AECF.

2.2 COMPETITIVENESS OF MSMEs COMPONENT

The immediate objective of the competitiveness of MSMEs component is to increase access to markets for MSMEs in selected value chains, thus contributing 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.

The core approach of the component is to develop market systems in selected value chains in a comprehensive manner. This includes 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. 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. 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 market development approach implies that Micro Enterprises Support Programme Trust (MESPT) will play a facilitating role, seeking to catalyse others in the market system. 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). Emphasis in the support to growth oriented enterprises will be on their contribution to economic growth and employment of the youth.

In its approach to facilitate markets, it combines two approaches previously supported by Danida under BSPS I and ABD/ASPS. ABD was successfully acting as a facilitator on the ground targeting selected Arid and Semi-Arid Land districts, while the Business Development Services (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).

Sub-component 3.2 of Danida's Natural Resource Management (NRM) Programme will become an integrated part of the component, thus integrating green solutions into the targeted agricultural value chains and to utilise ABD's district-level presence and its expertise in adapted market development to pilot viable models for private business service provision in NRM.

In line with emerging international best practice a complementary link between market development facilitation and value chain financing will be established. In parallel to the technical market development work, 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.

To address capacity constraints within Kenya for M4P facilitation, MESPT will pro-actively support the development of systematic market facilitation training programmes within Kenya. In view of the widening landscape of BDS/M4P programmes in Kenya, coordination and information sharing is essential and will be supported.

The MSME component will be implemented by MESPT. With its history as a financial organisation targeting the development of micro finance and its newly emerging focus on BDS, 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. With the assistance of BSPS II, MESPT will reinforce this direction thus strengthening domestic capacities. In this context, it is necessary to build substantial further capacity of MESPT's Business Service Department and to develop effective inter-linkages between its various value-chain-related activities (including programmes funded by other development partners). International Technical Assistance will support this process, and it is expected that while MESPT develops strength as a market facilitator, institutional costs will gradually be shared with other programmes that MESPT will take on in the future.

Synergies with other BSPS II components will be systematically pursued. With the business climate component, business environment issues in targeted value chains will be addressed, both in the domestic and in the EAC markets. With the Innovation and Piloting component there are close linkages between the CTIF support to development of climate change technologies and the natural resource management development activities, and the MSME component will systematically identify and refer innovative entrepreneurs to the CTIF and the AECF where relevant.

2.3 INNOVATION AND PILOTING GREEN ENERGY COMPONENT

The immediate objective of the Innovation and Piloting component is that innovative entrepreneurs and firms in Kenya are incentivised and enabled to exploit the market opportunities offered by the emerging market for new climate change technologies and to catalyse investments in new companies, products and services.

Two sub-components will be created to achieve the objective: (i) Support to a CTIF and (ii) support to the REACT Kenya window under the Africa Enterprise Challenge Fund (AECF).

Innovations by firms in the promotion of new climate technology take place in a continuum comprising the four areas of: (i) product innovation, (ii) process innovation, (iii) marketing innovation and (iv) end-user finance innovation. The CTIF will support innovations in the first three areas, and the Renewable Energy and Adaptive Climate Technologies (REACT) Kenya window accepts project proposals for the last three areas. The CTIF and the REACT Kenya window share the purpose of catalysing private sector entrepreneurs in Kenya to innovate and find profitable ways of improving market access to climate change products and services. They differ with regard to their target group of innovators, their finance instruments, their time perspective and impacts.

The aim of CTIF is to generate employment in high value added activities. The CTIF is envisaged to become a one-stop innovation centre providing mentoring and incubation services as well as risk finance for start-up SMEs with innovative ideas for the development and deployment of climate change technologies. The CTIF will manage three finance windows: An innovation grant window, a seed capital window and a technical assistance window. The CTIF will be established as a Trust Fund managed by a Board of Trustees. The subcomponent is during 2010 being developed jointly with infoDev, a global development financing programme hosted by the World Bank. DFID also supports the preparatory process and are considering to finance the CTIF. A Memorandum of Understanding is being entered into between these three partners for developing and implementing CTIF as a tripartite set-up with access to funding and expertise from all three partners.

The immediate aim of the REACT-Kenya window is to bring the highest number of climate change products and services out to a maximum of rural people. It targets support to innovative projects demonstrating the commercial viability of new business models and technologies that are ready to be taken to the market place and which are proposed by established firms. Supported projects are to trigger wider (beyond any project specific impact) pro-poor systemic change in the way markets operate. Dealing with established firms, REACT does not provide seed-finance, but incremental cost finance to projects that without support would not have passed the risk-adjusted rate-of-return hurdle of the proposing firm. Applicant firms must themselves provide half of the cost of the investment projects.

Four outputs are to be produced by the REACT programme: (i) Increased access to low cost, clean energy for rural businesses and households, (ii) Smallholder farmers benefit from products and services that help them adapt to climate change, (iii) Financial service providers facilitate greater investment in lower cost, clean energy and climate change technologies and help the rural poor access them, and (iv) Communication helps to spread successful business models and advocacy helps to improve policies increasing the incentive to invest and innovate. REACT will define a set of parameters to select participating enterprises, including social performance benchmarks.

The Kenya window is a part of a wider East African REACT programme prepared for funding by DFID and other donors. It is hosted by AECF, a well established, experienced and with good reputation challenge fund, which is operated by a competitively international tendered Fund Manager. It is headquartered in Nairobi. There will not be made separate competitions of the multi-country REACT programme for the Kenya window, but the Danish funding will only be used to support projects in Kenya. The immediate aim of REACT Kenya window is that its products and services will reach more than 100,000 users by the end of 2015.

CTIF and REACT will during the inception period co-develop specific financial instruments with financial institutions. In addition, incentives will be put in place for participating enterprises to reach out to mainstream financial institutions as a method to co-finance innovative projects.

Considering that both the REACT Kenya window and the MSME component work with agri- and rural businesses there is a clear scope for creating synergies between the two. The natural resource management output of the MSME component is of direct relevance for both Innovation and Piloting Green Energy sub-components. Support to innovative entrepreneurs within the common area of rural energy, climate technologies and agri-business provides the opportunity for Kenyan export to other EAC member countries, provided that the regional business climate is sufficiently conducive.

3. CROSS-CUTTING ISSUES AND PRIORITY THEMES

3.1 GENDER MAINSTREAMING

Mainstreaming of gender is an integrated part of all BSPS II components, but is done in different ways depending on the specific component and sub-component context:

- Ensuring more BMOs representing businesswomen are supported by the BAF;
- Ensuring businesswomen participate in all Public Private Dialogue (PPD) processes;
- Developing and applying gender-sensitive tools of business environment analysis;
- Ensuring businesswomen participate in the dialogue associated with regional integration;
- Gender relevance and potential for women to increase employment and income has been considered in the preliminary selection of agri-business value chains;
- 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;
- A special gender window in the Value Chain Fund of MESPT may be considered;
- Gender policies of partner organisations of MESPT 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;

- The CTIF and AECF will in their advertising campaign underline the interest in receiving proposals from female entrepreneurs, and gender positive aspects will be given extra points in the application ranking system;
- Gender pointers in the Annual Work Plan and Budgets (AWP&B) will control a strong gender mainstreaming commitment and process, and
- Disaggregating, thorough tracking of development on gender and reporting Monitoring and Evaluation (M&E) indicators and data by gender, both at programme, component and sub-component levels.

3.2 ENVIRONMENT

- A viable market for private-sector led NRM services to be implemented by MESPT is expected to have an impact on the use and dissemination of green solutions in agricultural production, also beyond the scope of the immediate intervention areas;
- Where required, support to investments in value chain development will be subject to Environmental Impact Assessments;
- Environmental screening procedures will be applied by the CTIF and AECF for each candidate project to especially address environmental sensitive issues;
- Guidelines will be in place in the CTIF and AECF to ensure that support will only be given to projects that are fully compliant with environmental legal requirements and meet international sustainability standards. An Environmental Impact Assessment will be made for applicant projects, if necessary, and
- In AECF, the Investment Committee (IC) will call upon specialist environmental expertise to inform decision making.

3.3 DEMOCRATISATION

- The BAF II focuses on supporting business engagement with government in a pluralist society;
- The BAF II will support the broadening of BMOs in dialogue and advocacy processes and helps those who have previously been excluded to become more involved in these;
- The BAF II will work with democratic structures in BMOs in the window for institutional strengthening, adding to the efforts to make Kenyan politics more inclusive;
- Transparency and democratic participation will be supported through 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;
- 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, and
- The transparent, merit based procedures for project selection in the CTIF and AECF directly contribute to building a democratic society.

3.4 HUMAN RIGHTS

- The business enabling environment component contributes to the promotion of human rights in Kenya by ensuring the legal and regulatory framework for business is more responsive to the needs of businesses and their workers;

- The MSME competitiveness component addresses human rights by working towards improved livelihoods of poor producers, specifically in the rural areas. 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, and
- In the Innovation and Piloting component the rule-based procedures applied by the CTIF and the AECF support the respect for legal entitlements in the country.

3.5 YOUTH

- While not all the employment opportunities for young men and women created by BSPS II will come from enterprises that are owned and managed by young people, young women and men are the ultimate beneficiaries of the BSPS II;
- The BAF will encourage youth participation in BMOs as well as in national, local and sectoral dialogue and advocacy processes;
- Half of the awareness activity funds of the BAF II will be allocated to awareness activities towards the youth;
- 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, and
- In the CTIF it is expected that the majority of the employment generated by the supported firms will go to young people and that young innovators will make up the bulk of supported start-up entrepreneurs. The CTIF business plan should include modalities on how to attract youth to its programme. The M&E system in the CTIF and AECF will capture employment generation by age groups.

3.6 ADDRESSING HIV/AIDS

- Prevention of HIV/AIDS and decent conduct vis-à-vis people living with HIV/AIDS will be supported by integrating HIV/AIDS issues in all training activities, directly or indirectly supported through BSPS II;
- Implementing partners of BSPS II, 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, and
- The CTIF and AECF will distribute information leaflets on HIV/AIDS, which supported entrepreneurs can hand out to their workers.

3.7 TRADE AND DEVELOPMENT

- The TMEA-Kenya sub-component focuses specifically on providing a direct contribution to enhancing trade and development;
- The BAF sub-component also contributes to this issue by improving the business environment in Kenya and the opportunity for Kenyan firms to participate in regional markets;
- The M4P activities focuses on removing constraints at all levels from primary production to markets, either local, national or international markets, and

- The Innovation Grant window of the CTIF targets support to innovations that have EAC market potential.

3.8 CLIMATE CHANGE

The Innovation and Piloting Green Energy component directly addresses climate change issues through:

- supporting a low carbon development growth path in Kenya by demonstrating where clean energy access in underserved areas can compete effectively with conventional solutions that have a potential for wider roll-out;
- raising awareness about low carbon development, and
- demonstrate viable markets which could be replicated.

3.9 HARMONISATION AND ALIGNMENT

- All interventions in BSPS II are aligned with the governments PSDS and Danida is an active member of the Private Sector Development Group (PSDG);
- The BAF sub-component has been redesigned in this phase to create a greater opportunity for more development partners to participate in and coordinate with the Fund;
- The TMEA-Kenya sub-component is a multi-agency facility;
- In MESPT, direct coordination with EU interventions will be carried out especially with regard to horticulture and fisheries value chain development, and
- The CTIF and the REACT programme are both designed as basket funding mechanism.

3.10 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 APSP in this regard will be further developed during BSPS II;
- Linkages may occur between investments in micro finance institutions by IFU that are at the same time instrumental in funding value chains, and B2B supported SMEs that are key players in targeted value chains;
- Formal links between IFU activities, the B2B programme and REACT will be explored and implemented;
- The Innovative Partnerships for Development instrument activities may be instrumental in stimulating NRM investment in enterprises;
- The Corporate Social Responsibility approach will be pursued when support is being provided to enterprises in value chains, where this type of activity is relevant, and
- Considering the comparative advantage Danish companies and institutions have with green energy technologies, special efforts will be made to engage with these in the Innovation and Piloting Green Energy component. The AECF will through targeted marketing campaigns approach relevant Danish companies that together with Kenyan firms can develop and put in proposals for project funding under the REACT Kenya window of AECF.

4. BUDGET

Danida has made a total budget of DKK 320 million available for BSPS II.

This amount is distributed among components as follows:

COMPONENT	DKK MILLION
Business Environment Component	
(i) BAF II (Danida contribution to basket)	50
(ii) TMEA Kenya (Danida contribution to basket)	60
MSME Competitiveness Component*	90
Innovation and Piloting Component	
(i) CTIF (Danida contribution to basket)	50
(ii) REACT Kenya (Danida contribution to basket)	50
Research, studies, reviews, management	20
TOTAL	320

Note: * The Danida NRM Programme in addition provides DKK 35 million.

Annex 1 contains the annualised budget as well as the budgets provided by other partners.

The BSPS II programme budgetline for research, studies, reviews and management will among others be used for relevant cross-cutting component studies, research projects for addressing high level business climate issues (e.g. carried out by the National Economic and Social Council), inception, mid-term and annual reviews, relevant fellowships and for costs of the Programme Steering Committee (PSC) secretariat including programme level M&E.

5. MANAGEMENT AND ORGANISATION

5.1 PROGRAMME STEERING COMMITTEE

The overall management of BSPS II will be carried out by the BSPS II PSC.

The responsibilities of the PSC will include:

- Approval of AWP&B for each of the components and subcomponents as submitted to the PSC, with recommendations from the management of the respective sub-components and components;
- Approval of semi-annual progress reports;
- Overall monitoring of BSPS II implementation, including progress towards reaching development and immediate objectives, based on defined indicators and set targets. This will be based on aggregating component and sub-component level M&E data, thus providing a basis for strategic decision making at PSC level;
- Design and integrate key performance indicators for the BSPS II impact on market level sustainability. Key performance indicators will be developed in order to securing sustainability of the BSPS II in terms of deepening and expanding well functioning markets (capital, labour and input);
- Overseeing that the planned synergies between sub-components and components are being implemented, based on joint reporting from sub-components and components;
- Making decisions on deviations from plans and budgets, including changes in outputs and budget reallocation between sub-components and components;

- Approval of terms of reference for audits and of audit reports, and monitoring of follow-up on audit recommendations;
- Participation in tender committees for Danida managed long term technical assistance contracts;
- Approval of terms of reference for joint reviews and endorsement of review recommendations, and
- Approval of process action plan for any new programme support phase.

The members of the PSC will be the Chairman of KEPSA (Chair of the PSC), the Permanent Secretary of Ministry of Finance and the Ambassador of Denmark. One representative from the management of each of the sub-components and components will be invited to attend the PSC meetings as observers in order to provide clarifications to raised questions, if requested. Quorum requires that at least two of the members be represented, of which the Royal Danish Embassy (RDE) is one. The PSC will meet twice a year.

The secretariat function to the PSC will be carried out by KEPSA. The functions will include preparation of and conducting PSC meetings, holding of four annual BSPS II component and sub-component coordination and synergy meetings (with participation of other institutions where relevant, e.g. the Ministry of Industrialisation and other development partners) and contracting out and managing programme level M&E.

KEPSA has a business plan for the period 2010 to 2012. This business plan will at a suitable time be revised to cover a further period, and include strategies for increasing financial sustainability and their membership base. Consideration will be given to using BSPS II programme level funds for building capacity of KEPSA, such as through a BSPS II funded twinning arrangement with an international/Danish BMO.

The quarterly coordination and synergy meetings will have different agendas, and can e.g. include presentation and discussions on thematic issues of relevance across components, providing relevant information on content and progress of sub-components and components with a view of discussing progress on reaching planned synergetic effects, identifying new synergetic effects as well as progress on harmonisation with other development partners within the framework of BSPS II.

The costs of the secretariat function including programme level M&E will be covered from BSPS II programme level funds.

Coordination with ministries will take place at different levels. At the PSC level, the Ministry of Finance will be a member of the BSPS II PSC. Especially in the TMEA Kenya sub-component, a long range of ministries and government departments will be involved, spearheaded by the Ministry of East African Community. In other components and sub-components, there will be a role to play for the government at Board/Founding Committee levels.

The detailed component and sub-component management structure is also described in each of the three component descriptions. The guiding principle is to embed component and sub-component management into existing structures where possible.

5.2 COMPONENT AND SUB-COMPONENT MANAGEMENT

5.2.1 BAF II

The BAF II sub-component will be managed by a Board consisting four prominent business leaders from the private sector with the chairperson appointed from this group, a representative from the Ministry of Industrialisation, a representative from the TMEA-Kenya Programme, a representative from the RDE and a representative of the PSDG. Half of the BAF II Board members will be appointed in their individual capacities. This professionalisation of the BAF II Board entails the need for remuneration of Board members, where relevant.

The responsibilities of the BAF Board will include participation in the selection of the Fund Manager, providing the strategic direction of BAF II, discussing the AWP&B prepared by the Fund Manager and forwarding it to the PSC for approval, monitoring performance of the Fund Manager and of BAF II, as well as approval of support to BMOs. The Board of BAF II will meet as and when required, however at least four times a year. The Fund Manager will act as the secretariat to the Board, and maintain records of the discussions and decisions taken.

The Fund Manager will be responsible for day-to-day management of BAF II. The Fund Manager will be selected though an international tender. Danida will administer the tender process on behalf of the donor group. Representatives from the PSC will participate in the tender committee.

5.2.2 TMEA Kenya

The TMEA-Kenya programme is managed as a part of the broader TMEA regional programme. The Programme Investment Committee (PIC) is responsible for providing high level supervision of TMEA activities. This includes providing strategic direction and fiduciary oversight of TMEA in order for TMEA to reach its development goals, approval of AWP&B and overseeing the Custodians contract and TMEA directors. Members of the PIC are participating donors (Danida is vice chair), external stakeholders and technical advisers.

The Danida support to TMEA Kenya will be managed within the TMEA Kenya management structure.

National participation and ownership is pursued through the National Oversight Committee (NOC), a committee that is established for each of the five EAC member states.

The NOC Kenya is among others responsible for:

- Regular oversight and review of progress and performance of TMEA activities and programmes in Kenya;
- Reviewing national funding requests, AWP&B, reports, and may make recommendations to the PIC regarding these, and
- It has the authority to reallocate among budget lines up to 20% of the budget allocated with the approval of the PIC for the year to Kenya.

The NOC is composed of key partner institutions implementing TMEA Kenya, private sector and civil society organisations, a member of the PIC and representatives for the donors having provided funding for TMEA Kenya. The NOC is meeting quarterly.

TMEA East Africa is established as a not-for-profit company (company limited by guarantee) in Kenya. A contract has been entered into with a Custodian providing fiduciary, financial management and procurement services to TMEA. The Custodian provides a nominee Board of Directors, which ensures financial due-diligence, but delegates responsibility to the TMEA Chief Executive Officer (CEO). The responsibilities of the Custodian cover TMEA activities in all five member countries. Day-to-day management of TMEA Kenya is the responsibility of the Kenya Country Director, answerable to the TMEA CEO.

In order to avoid duplication of responsibilities between the BSPS II PSC and the TMEA governing structure, in which it is the PIC that is responsible for approval of AWP&B, the AWP&B of TMEA Kenya will be forwarded to the BSPS II PSC for information only. However, it will be within the responsibility of the BSPS II PSC to decide on the overall level of annual funding to TMEA Kenya. In practise it is envisaged that there will not be a risk of duplication of responsibilities, as both government representatives, KEPSA and the RDE are members of the PSC as well as of the TMEA governance structure.

Both BAF II and TMEA Kenya will work with BMOs. The working relationships between the two will be jointly defined in order to avoid overlapping activities.

5.2.3 Competitiveness of MSMEs

The support being provided through the MSME competitiveness component will be managed within the MESPT organisational and managerial structure.

The MESPT Board of Trustees is the body being responsible for overseeing and directing activities of MESPT. This includes responsibility for overall oversight of donor supported activities being implemented by MESPT. The present Board of MESPT consists of 12 members, of which 4 is nominated by the government, 4 by the EU Delegation and 4 by the RDE. A process will be initiated by the MESPT Founders Committee in which there will be an immediate reconstitution of the MESPT Board, based on individual skills and merits, rather than institutional representation. This professionalisation of the Board will entail that Board members will be remunerated. This process will be spearheaded by the RDE, possibly with further support and credibility from EC's delegated cooperation to Danida.

The day-to-day management responsibility of the MSME component will rest with the CEO of MESPT, being exercised via the MESPT management group.

The existing Business Services Subcommittee of the Board of Trustees will be in charge of approving facilitation grants provided under the component, and providing day-to-day guidance to all component activities under the Business Services Department and the Regional Mombassa Office of MESPT. The existing Credit Subcommittee of the MESPT Board will be charged with operational oversight of the Value Chain Fund. This includes particularly the approval of loans, capacity building matching grants, guarantee subsidies and research and product development contracts.

5.2.4 CTIF

The CTIF is proposed established as a Trust, with KEPSA and two development partners (DFID and the RDE) as founders. The founders will nominate a number of Trustees, so that the Board of Trustees will cover relevant areas of expertise. It is envisaged that there will be representation from a.o. the private financial sector, a university and the Ministry of Industrialisation. However, it is essential that the CTIF Board members should be appointed on the basis of individual skills and merits, rather than institutional representation. This professionalisation of the Board will entail that Board members will be remunerated where relevant.

The CTIF will contract a Fund Manager through an international competitive tender to provide the day-to-day management of the CTIF. It is envisaged that Danida, on behalf of the Board of Trustees, will administer the tender process.

5.2.5 REACT

REACT will be managed within the AECF organisational framework similar to other funding windows of AECF.

AECF is housed within the legal structures of the Alliance for a Green Revolution in Africa (AGRA), and benefit from the management processes and systems of AGRA. However, the AECF has its own governance structure as well as branding, as follows:

The role of the Governing Council (GC) of AECF is to govern the AECF according to the principles set-out for its operation, and is the highest decision making body of the AECF. Danida will be entitled, together with other donors providing more than USD 5 million to AECF, to a seat in the GC. Present members of the GC are the President of AGRA (Chair), DFID, AusAid, IFAD and the Ministry of Foreign Affairs of the Netherlands. The Secretary to the GC is the Executive Manager for AECF. The Executive Manager for AECF is the Managing Director for AGRA. The CEO of the Fund Manager attends the meetings of the GC, and is charged with reporting to the GC. The GC meets normally every 6 months.

The IC consists of 5 independent persons appointed by the GC, and they have the responsibility to review and decide which of the projects recommended by the Fund Manager should be funded by the AECF. In the case of REACT, the IC will appoint a sub-committee consisting of three persons from the IC and two appointed specialists (by the GC) within the areas covered by REACT, in order to secure that it has the necessary expertise within clean energy and climate change adaptation. The sub-committee will exercise the delegated authority of the IC and report to the IC. The Fund Manager is the secretary to the IC, and the Fund Manager is charged with reporting to the IC to their quarterly meetings.

A Fund Manager has been appointed for a six years period on the basis of an international competitive tender. The office of the Fund Manager is in Nairobi. The responsibilities of the Fund Manager include managing the day-to-day operations of the challenge fund, including:

- Coordinating the activities of the IC;
- Development of AECF mechanisms and procedures;
- Operational management;
- Marketing and pipeline development;
- Application and grant allocation management;
- Contracting and management of grants;
- M&E of project implementation, and
- Distillation and dissemination of learning.

In order to avoid duplication of responsibilities between the BSPS II PSC and the AECF governing structure, the AWP&B of REACT will be forwarded to the BSPS II PSC for information only. However, it will be within the responsibility of the BSPS II PSC to decide on the overall level of annual funding to REACT Kenya.

6. FINANCIAL MANAGEMENT AND PROCUREMENT

6.1 BUDGETING AND FLOW OF FUNDS

The general principles for planning, budgeting, accounting, auditing and procurement in BSPS II are that these activities will be aligned with and fully integrated with the partner institutions procedures where possible in order to avoid parallel processes. In practise this means that the processes and procedures of TMEA Kenya, MESPT, the CTIF and AGRA/AECF will be used. In the case of BAF II and the CTIF, a contract will be entered into with a Fund Manager, which will establish these procedures for endorsement by the respective Boards and approval by the RDE.

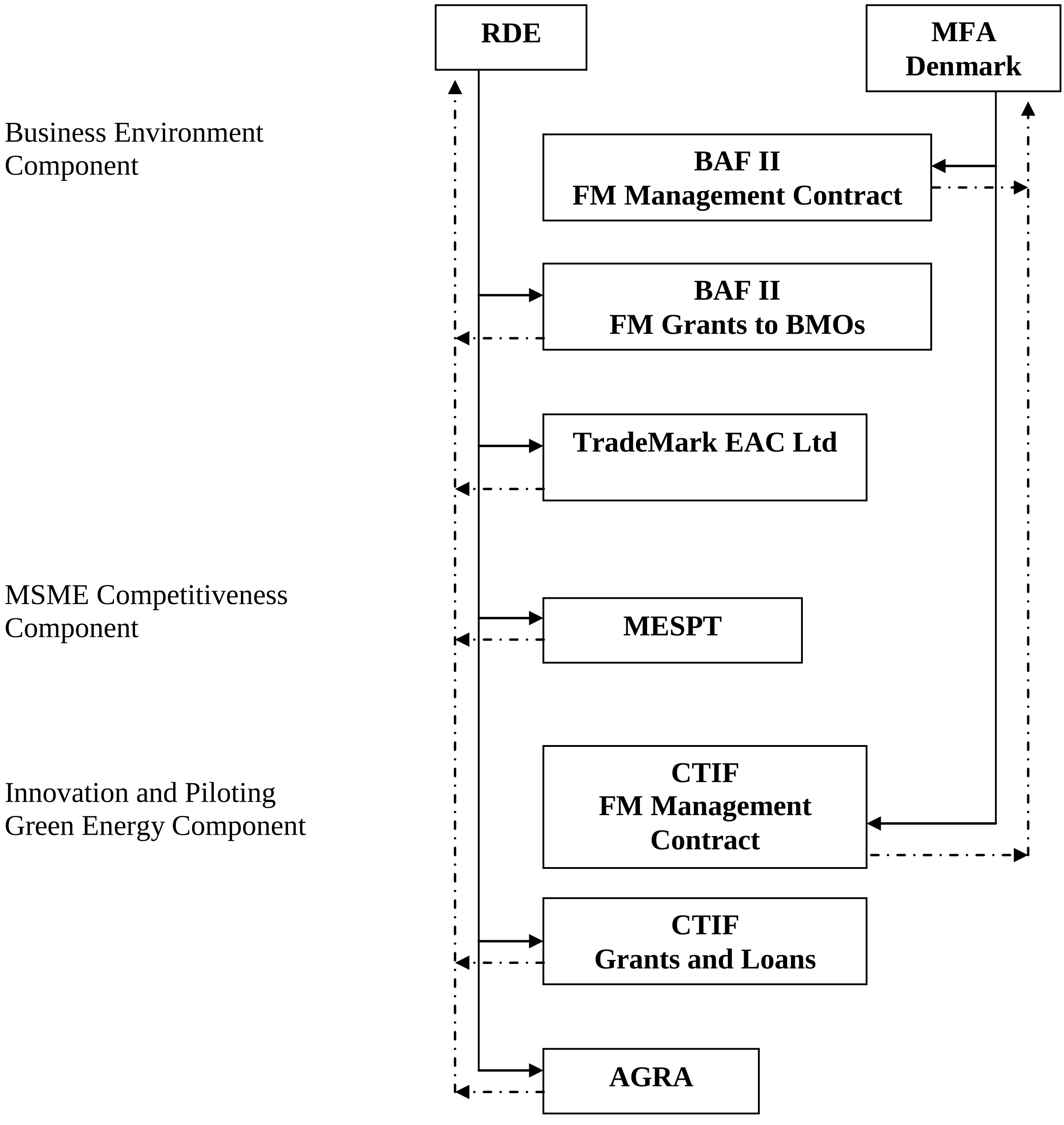
The RDE reserve the right to examine and assess the procedures of any partner institution at any time in order to secure that these are acceptable. The procedures in place for the BSPS II partner institutions are found acceptable.

The overall flow of funds and financial reporting lines within BSPS II are shown in the chart overleaf. Component Descriptions provide more detailed descriptions of funds flow and financial reporting lines.

The Danish supported activities will be integrated into plans of the partner institutions and incorporated into the partner institution's budget. In the case of support to TMEA Kenya and the CTIF there will be no earmarking of funds. As far as MESPT and AGRA/AECF is concerned, there will be earmarking of Danish funds (in MESPT for Danish supported activities of MESPT and in AGRA/AECF for the Kenya window[6] of REACT). Danish funding of the REACT programme will only be used to support Kenyan projects.

[6] If DFID also decides to provide funding for the Kenya window of REACT, the Danish funding will not be earmarked within the Kenyan window.

BSPS II FLOW OF FUNDS DIAGRAMME



Flow of funds:
Financial reporting:

Assumptions:
Danida is administering the basket fund for the CTIF, including holding the FM contract.
TradeMark EAC Ltd. receives funds from Danida. The funds can only be used for activities under the TMEA Kenya programme.
Note: MFA: Ministry of Finance, Denmark

A single work plan and budget for the entire partner organisation, encompassing all external funding sources and own contributions, will be made for TMEA Kenya, MESPT and the CTIF. The same will apply to BAF II, established as a basket fund. In the case of AGRA/AECF, the work plan and budget will cover the REACT programme including its Kenya window.

Work planning and budgeting in all components and sub-components must be consistent with the budget items of the Danish appropriation.

Work planning and budgeting at activity level is the task of component and sub-component management responsible for day-to-day implementation. The RDE in its capacity of overseer of Danish funds in the PSC, will focus on outputs and outcomes in both planning and reporting, as work plans, budgets and progress reports at output level is being submitted for approval in the PSC, following the agreed terms of reference for the PSC.

All components and sub-components will produce semi annual workplans and budgets, as well as semi-annual progress and financial reporting.

6.2 ACCOUNTING

The partner's procedures for financial management are used insofar as they comply with International Financial Reporting Standards. In cases of shortcomings, the partner's procedures must be strengthened as needed to ensure acceptable fiduciary standards.

This implies that accounts must be kept in accordance with international standards, ensuring that:

- The Danish grant is entered into the accounts as income;
- Reporting on expenditures is of at least the same level of detail as in the grant budget;
- All expenditures are documented by vouchers, original invoices and original, signed receipts;
- A register is maintained of equipment and other assets financed from the grant;
- Acceptable control procedures are put in place, and accounts are signed by the responsible component or sub-component management, and
- The administration adheres to established written procedures.

The implementing partner's accounting period (the calendar year for all partners) will be followed for financial reporting.

Accounting as well as financial reporting will be conducted in KSH. Any payments made in other currencies will be converted into KSH in the accounts at the time of transaction. As the Danish appropriation is in DKK, the RDE will monitor currency fluctuations' influence on commitments and disbursements insofar these are made in other currencies.

In the case of pooled funding (the BAF II basket, TMEA Kenya and the CTIF) Danish funds are not kept separate from other donor funds, and hence there is no requirement of separate bank accounts. In the case of MESPT and the Kenyan window[7] of REACT implemented by AGRA/AECF, Danish funds will be kept in a separate bank account.

[7] See also footnote 6.

In the case of pooled funding, the Memorandum of Understanding between the partner and donors will specify the conditions under which funds will be transferred.

For earmarked funding, the conditions for transfer are:
- Satisfactory financial reporting has been submitted on previous periods;
- No other accounts are unsettled with the same partner, and
- There is an approved work plan and budget for the period to be financed.

The transfer of funds to the components and sub-components will be carried out on the basis of a written request from the relevant component and sub-component management to the RDE. The transfer can cover foreseen expenditures for up to six months. The transfer request must include information on the amount and the bank account into which the money is to be deposited. A copy of the bank statement with a reconciliation of the bank account must be attached to the request. A receipt should be submitted by the implementing partner to the RDE as soon as the funds have been received.

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.

The accounting documents and records must be kept for five years after the completion of BSPS II. The documents and records shall be made available for control purposes to the Danish Auditor General and/or to the Ministry of Foreign Affairs (MFA) or their representatives, upon request.

6.3 AUDITING

The accounts must be audited annually in accordance with International Standards of Auditing. The final annual audit report, including a financial statement for the period audited and a memorandum of examination must be forwarded by the implementing partner to the RDE and the PSC no later than six months following the end of the accounting period. An external private sector auditor must be selected for this purpose by the RDE in consultation with the PSC. Terms of reference for the audit, including the audit report must be approved by the PSC.

The annual audit must encompass – but not be limited to – inspection of accounting records, including examination of supporting documentation of the transactions, confirmation of cash and bank holdings, checking of bank reconciliation, direct confirmation of accounts receivables, and verification of physical inventories and fixed assets. The audit will also test compliance with the accounting manual and examine the procurement function.

The Danish Auditor General reserves the right to audit the programme or any part of it at any time up to five years after completion of BSPS II.

6.4 PROCUREMENT

Procurement in BSPS II will as a principle be carried out through the use of partner procurement systems. TMEA Kenya, MESPT and AGRA/AECF systems for procurement are in place and are of an acceptable standard. A procurement (as well as financial management) system in the BAF II and CTIF is to be established by the contracted Fund Managers.

Contracting of the Fund Managers for BAF II and for the CTIF will on behalf of participating development partners be administered by the Danish MFA on the basis of international tenders, following EU tender procedures.

7. MONITORING, REPORTING, REVIEWS AND EVALUATIONS

7.1 MONITORING

One of the lessons learned from BSPS I is that it is required from the outset of programme implementation to get established a strong monitoring framework.

Programme level M&E will be undertaken by an independent and experienced contractor in order to secure a high level of data security and independence in analysis. Focus will be on the degree to which the BSPS II is contributing towards reaching the development objective as well as the immediate objectives as expressed in component descriptions, including to which degree synergy between components are leading to programme and component objectives. The M&E will a.o. be carried out using information available within BSPS II components, surveys to be undertaken and third party data sources. The M&E activities will be directly used as a basis for decisions to be made by the PSC and the various component and sub-component Boards. KEPSA will be responsible for aggregating the sub-component and component data on a regular basis enabling the PSC, being responsible for programme level M&E, to make informed decisions. During the inception period of BSPS II relevant baseline data will be gathered for all components and sub-components. Draft terms of reference for an independent contractor to carry out the programme M&E function of BSPS II is attached as annex 5.

M&E at output level will be carried out by the respective component implementing partners as described in the Component Descriptions.

TMEA and the AECF have their own monitoring framework and set-up. The BSPS II will benefit directly from the reporting on monitoring results from these systems.

7.2 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 AWP&B, monitoring results and progress on reaching synergetic effects;
- Draft Programme Completion Report 6 months before completion of BSPS II. The final Programme 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.

7.3 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
- AWP&B for 2011.

A mid term technical review of BSPS II will be carried out in the beginning of 2013. The mid-term technical review will assess the situation after the next presidential and parliamentary elections in 2012, and assess the relevance of the programme and component level risks, and propose mitigation measures as relevant. A joint BSPS II sector review will be undertaken in 2014, among others to assess the relevance of continued support to the sector.

Should it be decided by the participants in basket funding or other joint financing arrangements under BSPS II that there is a need for further reviews, Danida may decide to directly participate in carrying out these or rely on review reports prepared by other participating institutions.

7.4 EVALUATIONS

During 2010, TMEA will develop its own detailed evaluation strategy for consideration by the PIC, including proposed processes and structures (what partners, roles, structures and decision-making mechanisms, what level of government capacity, which institutional home, information flows etc.) and the key foci beyond the results framework (performance against objectives, institutional effectiveness, harmonisation gains, Value for Money, government capacity, political engagement etc.). Subject to the agreement of the TMEA evaluation strategy by the PIC, it is provisionally proposed that in 2013 and 2015, external consultants will be commissioned to conduct independent, external evaluation of the TMEA progress and impact.

There is at present not planned to be other evaluations carried out of the BSPS II or its (sub-) components.

8. ASSUMPTIONS AND RISKS

8.1 ASSUMPTIONS

- A continued macro-economic stability enabling a high level of economic growth. Vision 2030 assumes that the annual GDP growth rate will be 10%. Recent years growth rate in Kenya has been significantly below this rate, in particular due to the international financial crises followed by a worldwide recession. This has demonstrated that Kenya still remains very dependent on international economic conditions.

- Continued political stability. To induce trust in domestic and foreign investors and secure a continued stable investment climate, a condition for reaching the high level of economic growth assumed in Vision 2030, political stability is a prerequisite. The political violence experienced during the post election crisis in 2008 demonstrated the necessity of political stability for growth and prosperity. The constitutional referendum held in August 2010 has been a step towards avoiding a repetition of the violent outburst in beginning of 2008.

- Continued political support to the regional integration process. There is at present a keen interest especially in Kenya for the regional integration process to be successful. Being the largest and most developed market economy within the EAC, Kenya from the outset stands to be the country that will benefit most from a fully functioning EAC. Experience from past efforts to create an East African Community as well as the experience from other regional integration processes suggest that despite the political will towards integration, not all countries have the same interests and that there will be numerous obstacles to be overcome in order to reach the goals set out for the regional integration process.

- Donor harmonisation efforts within private sector development go on. A feature of BSPS II is that it involves close cooperation with other development partners in all components. This cooperation takes different forms, from coordination, opening for participation during the period of BSPS II implementation for participation by other donors in basket funding arrangements, to direct BSPS II participation in basket funding. The foundation for this has among others been made during the period in which BSPS I have been implemented through a well functioning PSDG. However, the road towards harmonisation of donor efforts within private sector development in Kenya might be bumpy, as there might be new domestic pressures on donors to delivering documentable results, thereby limiting the keenness of traditional likeminded donors to join BSPS II initiatives. In case of other donors not coming forward as expected, the BSPS II is designed so that activities can be implemented with Danida funding only, although at a lower level.

8.2 RISKS

- Will the government continue to be willing and receptive to discuss and implement initiatives to improve the business climate? The dialogue between the Kenyan government and the private sector has in recent years been comprehensive, among others through a constructive discussion of the 12 point National Business Agenda prepared by members of KEPSA. This discussion has been spearheaded by the Prime Ministers Office and is taking place regularly, and improvements in the business climate have been noticed. This risk is regarded as low. This risk will be mitigated through increased emphasis on dialogue and advocacy at other levels of government, possibly also at lower levels of government, depending on the pace of devolution.

- Weak implementation capacity of EAC institutions hampering regional integration. Some new institutions are being created within the EAC for implementation of the various EAC protocols. However, these institutions are new and it will take time before they are well established and integrated into the existing institutional structures. In addition, it will be the responsibility of the ministries, departments and other government institutions in the five member countries to implement the many elements of the EAC. To increase their capacity to effectively implement all the agreed elements of the EAC will require a concerted effort by the national governments and is likely to take time. This risk is regarded as medium. A risk mitigation measure is increased emphasis on capacity building initiatives in order to support implementation of EAC protocols.

- Will the composition of MESPT Board of Trustees reflect the need of the Trust to focus on providing both BDS and wholesale financial services? A significant part of BSPS II funds is allocated to directly improve the competitiveness of MSMEs. This is primarily to be carried out through MESPT. A condition for MESPT to effectively undertake this task is that it has a strong Board of Trustees with the practical knowledge and expertise from all its main business areas. With BDS being a major new and long term task for MESPT, there is a need for the MESPT Board of Trustees to also have this type of expertise. This risk is regarded as medium. To mitigate against this the Founders Committee will need to appoint a new professional Board of Trustees of MESPT, which will have the required expertise to carry MESPT forward into a new area, in which it can effectively implement BSPS II activities as well as create the foundation for making MESPT a sustainable institution, that does not depend on the same level of donor funding as of now.

- Will the MESPT capacity to effectively absorb development assistance be increased? Within the area of wholesale finance MESPT has a demonstrated long term experience of effectively providing this service to micro finance institutions. The area of BDS provision is much newer for MESPT that in practise only has obtained some experience from a few years implementation of ABD and some BDS activities under BSPS I. The Business Services Department needs to be much stronger manned with capable and experienced management and staff in order to effectively absorb the level of assistance from Danida as well as from other development partners. Considering the different approaches for provision of BDS in ABD and BSPS I, special efforts will need to be made to secure an effective integration of the ABD activities into mainstream MESPT activities. This risk is regarded as medium. Mitigation measures against this risk include also having this in mind when appointing the new MESPT Board, ensuring that the composition of the Board is sufficiently broad, and ensuring that the Board oversees these processes.

- Are relevant and sufficient innovative green energy projects being submitted for funding from the CTIF and the REACT window of AECF? There is some indication from the joint infoDev/Danida feasibility study that there will be a demand for the type of services to be provided by the CTIF, especially from new start-up companies. Through the synergy with the REACT window of AECF there will be possibility of referral of innovative ideas from existing enterprises having unsuccessfully participated in the AECF competitions. As for the REACT window of the AECF the indications from the first studies carried out by DFID as well as from projects not funded under other windows are that there is a high demand in Kenya for support to renewable energy projects. This risk is regarded as low. To mitigate against this risk increased efforts will be made on marketing the two funds and revising eligibility criteria if some of these are found to be too prohibitive.

- Will the private financial sector react positively on the opportunities generated by the CTIF in terms of being willing to co-finance innovative investment projects? The CTIF will provide a menu of financial options to support innovative investment projects in order to break the vicious circle in which real innovative ideas are not able to get support from financial institutions due to the higher risk involved. As another institution (the CTIF) is taking a part of the risk, it is expected that the private banking and financial sector also will come forward and provide the remaining part of the required investment finance. This risk is regarded as medium. Mitigation measures include revising the loan-grant ratios as well as identifying and developing more appropriate financial packages.

- Will the paradigmatic shift in terms of devolution of powers set in motion by the approval of the new constitution have a negative impact on BSPS II components? The new Constitution does include a degree of shift in the paradigm of power by devolution. At the present time, i.e. whilst BSPS II is being developed, there is not yet a clear picture on what the actual timeframe for the implementation of devolution will be, and a substantial number of uncertainties, unknowns and pending decisions exist. It is expected that the current structure of objectives and activities of BSPS II are and will remain valid under the new paradigm. This risk is regarded as medium. However, the inception review, and especially the mid-term review in 2013 – which should take place only after the next general elections have taken place – will be formatted in such a way that special attention is given to review and address the continued appropriateness of the BSPS II structure, objectives and partners' work plans.

ANNEX 1

DETAILED BSPS II BUDGETS

OUTPUT BASED BUDGETS	
Improvement of the Business Environment Component	DKK million
BAF II	
Output 1.1	24
Output 1.2	4
Output 1.3	8
Output 1.4	4
Technical Assistance	10
Sub-total BAF II	50
TMEA Kenya	
Output 2.1	35
Output 2.2	44
Output 2.3	23
Output 2.4	6
Programme management	7
Sub-total TMEA	113
Competitiveness of MSMEs Component	DKK million
Output 1	23
Output 2	3
Output 3	39
Output 4 (NRM sub 3.2, ex. Contingency)	32
Output 5	11
Output 6	4
International Technical Assistance	7
Contingencies (BSPS II + NRM sub 3.2)	6
Total MSME	125
Innovation and Piloting Green Energy Component	
	DKK million
CTIF	
Output 1.1	10
Output 1.2	1
Output 1.3	1
Output 1.4	1
Output 1.5	62
Technical Assistance (FM)	15
Contingencies	5
Sub-total CTIF	95
REACT Kenya	
Output 2.1	30
Output 2.2	30
Output 2.3	13
Output 2.4	1
International Technical Assistance	16
Contingencies	5
Sub-total REACT	95
BSPS II Programme Level Activities Budget	DKK Million
BSPS II studies and research	12
Reviews and formulation	4
KEPSA Management and contracting out M&E	4
Sub-total	20
	DKK million
TOTAL BUDGET	**498**

ANNUAL, DANIDA, OTHER PARTNERS AND DONORS BUDGET

Improvement of the Business Environment Component						DKK million
BAF II	2011	2012	2013	2014	2015	TOTAL
Denmark	10,0	10,0	10,0	10,0	10,0	50,0
Partners	0,0	0,0	0,0	0,0	0,0	0,0
Other donors	0,0	0,0	0,0	0,0	0,0	0,0
Sub-total BAF II	10,0	10,0	10,0	10,0	10,0	50,0
TMEA Kenya	2011	2012	2013	2014	2015	TOTAL
Denmark	12,0	12,0	12,0	12,0	12,0	60,0
Partners	0,0	0,0	0,0	0,0	0,0	0,0
Other donors (DFID)	10,6	10,6	10,6	10,6	10,6	53,0
Sub-total TMEA Kenya	22,6	22,6	22,6	22,6	22,6	113,0
Competitiveness of MSMEs Component						DKK million
	2011	2012	2013	2014	2015	TOTAL
Denmark	18,0	18,0	18,0	18,0	18,0	90,0
Partners	0,0	0,0	0,0	0,0	0,0	0,0
Other donors (Danida NRM 3.2)	10,0	9,0	9,0	7,0	0,0	35,0
Total MSME	28,0	27,0	27,0	25,0	18,0	125,0
Innovation and Piloting Green Energy Component						DKK million
CTIF	2011	2012	2013	2014	2015	TOTAL
Denmark	12,5	12,5	12,5	7,5	5,0	50,0
Partners	0,0	0,0	0,0	0,0	0,0	0,0
Other donors (DFID)	12,5	12,5	10,0	7,5	2,5	45,0
Total CTIF	25,0	25,0	22,5	15,0	7,5	95,0
REACT Kenya	2011	2012	2013	2014	2015	TOTAL
Denmark	12,5	12,5	12,5	7,5	5,0	50,0
Partners	0,0	0,0	0,0	0,0	0,0	0,0
Other donors (DFID)	12,5	12,5	10,0	7,5	2,5	45,0
Total REACT	25,0	25,0	22,5	15,0	7,5	95,0
	2011	2012	2013	2014	2015	DKK million
BSPS II programme level activities	4,0	4,0	4,0	4,0	4,0	20,0
TOTAL BSPS II	2011	2012	2013	2014	2015	TOTAL
Denmark	69,0	69,0	69,0	59,0	54,0	320,0
Partners	0,0	0,0	0,0	0,0	0,0	0,0
Other donors	45,6	44,6	39,6	32,6	15,6	178,0
TOTAL BSPS II	114,6	113,6	108,6	91,6	69,6	498,0

ANNEX 2

IMPROVEMENT OF THE BUSINESS ENVIRONMENT COMPONENT DESCRIPTION

(See separate file)

ANNEX 3

COMPETITIVENESS OF MSMSs COMPONENT DESCRIPTION

(See separate file)

ANNEX 4

INNOVATION AND PILOTING GREEN ENERGY COMPONENT DESCRIPTION

(see separate file)

ANNEX 5

DRAFT TERMS OF REFERENCE
BSPS II MONITORING AND EVALUATION

1 Background

A Danida supported 5 years Business Sector Programme Support (BSPS) has been ongoing in Kenya since 2006. A second phase of BSPS has been prepared during 2010 for implementation during the period 2011-2015. A total budget of DKK 320 million has been set aside for BSPS II. It has three components: (i) Improvement of the business environment, (ii) Increased competitiveness of Micro, Small and Medium sized Enterprises (MSME), and (iii) Innovation and Piloting Green Energy.

1.1 National context

Formulation of BSPS II has been made within the context of the goals of Vision 2030, the objectives of the Private Sector Development Strategy 2006-2010, the challenges facing Kenya as a result of the international economic crisis, the regional integration agenda, the Kenya Joint Assistance Strategy as well as the recommendations of the Africa Commission. Further, the lessons learned from BSPS I did guide the formulation process of the new phase. Some of the major lessons learned from BSPS I were the need to reduce the number subcomponents and direct partners in order to increase focus as well as impact, the need to avoid building components for private sector development on assumptions of government delivery of services and allocation of resources and the need for a high focus on Monitoring and Evaluation (M&E).

The Kenyan government in 2007 issued its Vision 2030. The assumption in Vision 2030 is that an annual GDP growth of 10% until 2030 will enable Kenya to become a middle income country. There are three “pillars” of Vision 2030, the economic, the social and the political. In the economic pillar of Vision 2030 a number of economic subsectors have been selected as high priority areas, as these in particular is regarded as being able to generate growth. These subsectors are: Tourism, agriculture, manufacturing, wholesale and retail sale, business process off shoring and financial services. As part of the vision, it will be required to support the informal sector in order to increase productivity, jobs, income and public revenue. Also the county will aim at doubling its share of the regional market to 15% by means of increasing efficiency and competitiveness at the firm level.

Unemployment has continued to be a major challenge in Kenya. Kenya’s youth unemployment situation is particularly serious. Also income disparity is a serious challenge. Kenya is a very unequal society, with the 10% richest controlling more that 1/3 of the national wealth and the 10% poorest controlling less that 2%. This inequality also pertains to gender and regional disparities. Kenya is ranked as one of the ten most unequal countries in the world, and among the five most unequal countries in Africa. This has underlined the need for supporting an inclusive economic growth, where strong focus will be on including the micro and smaller enterprises from the formal and informal sector, gender priorities and addressing regional disparities.

1.2 Lessons learned from BSPS I

It has been a challenge to receive timely and accurate M&E information during implementation of BSPS I, both at programme and component level, as M&E has not been effectively integrated into

BSPS I processes and procedures. At component level, management attempted to provide monitoring data, but it remained difficult to obtain precise information on the outcome and impact of BSPS I. A need has therefore been realised for a different approach to M&E during BSPS II.

A criterion for success is that the M&E system is kept simple, with as few indicators as possible, and that it will be possible to regularly obtain monitoring data.

In the Trademark (TMEA) Kenya programme the consequence of the general difficulties in carrying out effective M&E activities has been taken in the form of contracting an M&E Manager, who will be overall responsible for monitoring activities. The programme will also rely on monitoring data from respective implementing ministries and organisations. The African Enterprise Challenge Fund (AECF) has also established its own M&E system in order to obtain better M&E data.

The Client for this consultancy is the Kenya Private Sector Alliance (KEPSA), which act as the secretariat to the BSPS II Programme Steering Committee (PSC).

2. Objective

The objective of the consultancy is to carry out independent M&E activities for BSPS II at the programme and component immediate objective levels, enabling BSPS II management to receive timely and accurate management information in relation to outcome and impact of the BSPS II supported interventions. M&E activities at component output levels will be carried out by the respective component and sub-component management teams or otherwise within their respective monitoring structures.

The consultancy covers the BSPS II implementation phase, and should be undertaken by an independent and experienced contractor in order to secure a high level of data security and independence in analysis.

3. Outputs

The outputs will be:

- A short report describing the baseline for programme and component immediate objectives, verifiable indicators and means of verification, one month before the end of the BSPS II inception period;
- Impact survey reports at the end of 2012 and 2014, and
- Sub-sector impact and other reports as needed to support the BSPS II programme level M&E activities of the PSC.

4. Scope of work

The scope of work will include – but not necessarily be limited to – the following:

- During the BSPS II inception period, refine indicators and their means of verification at BSPS II programme, component and sub-component objective levels, including securing that indicators are gender disaggregated where possible;

- Assess the need for carrying out baseline studies and undertake these where required during the inception period, based on discussions with the Client;

- Analyse the degree to which assumed synergy between components are being implemented and are leading to BSPS II reaching its programme and component objectives;

- Carry out impact and outcome assessments of BSPS II at the end of 2012 and 2014 and provide recommendations to the PSC for changes to BSPS II implementation strategies, if required for the programme to reach its objectives;

- Undertake sector and sub-sector assessments as required in order to assess BSPS II impact, based on discussions with the Client,

- Assist KEPSA in aggregating sub-component and component level data to relevant programme level information that can be used by the PSC for informed decision making, and

- Provide information to the PSC on indicators, impact studies and data from other relevant national programmes and donor initiatives within private sector development in Kenya in order to learn and benefit from their M&E efforts.

5. Method of work

The M&E will a.o. be carried out using information available within BSPS II components, surveys to be undertaken and third party data sources. During the inception period of BSPS II relevant baseline data will be gathered for all components and sub-components.

Contacts will be made to the TMEA Kenya programme and the AECF in order to make optimal use of information generated by their M&E systems.

6. Timing

The consultancy will be carried out at different intervention points during the five years implementation period of BSPS II. The first intervention point will be during the BSPS II inception phase, when a baseline will be established where required, and indicators and their means of verification be discussed with the Client. At the end of 2012 and 2014 sub-sector and impact studies will be carried out. The terms of reference for these studies will be developed and agreed upon in 2012 and 2014.

7. Input

The consultant/institution should have extensive experience in assessing private sector programme impact and outcome, be independent from all implementing partners in BSPS II and have experience from East Africa. The experience should include thorough knowledge on the MSME sector in Kenya including business environment and green energy issues.

ANNEX 6

GENDER EQUALITY ROLLING PLAN FOR DANISH BILATERAL PROGRAMME SUPPORT

Basic Information	
Programme title:	**Business Sector Programme Support, Phase II**
Sector:	Business
Country:	Kenya
Budget: (Danida contribution):	DKK 320 million
Starting date and duration:	January 2011, programme running for 5 years

Identification:

An assessment of opportunities and constraints for improving the gender equality situation

In the preparatory phase of Business Sector Support, Phase II, a Gender Equality Rolling Plan (GERP) has been prepared. This annex presents an extract of the full report, which was also submitted to the Programme Committee for its information. The full GERP report addresses:

- International and regional commitments on gender equality;
- National policies, strategies, legislation and structures set-up and capacity;
- Main non-governmental stakeholders promoting gender;
- Relevant sector policy, strategies, structures and capacity;
- Donor harmonisation and alignment in the area of gender;
- Availability of sex- disaggregated data;
- Assessment of major gender issues at national and sector levels;
- Opportunities and constraints for addressing gender equality issues
- Proposed gender equality objectives and outputs to be addressed by the BSPS, phase II.

The National Framework

The National Policy on Gender and Development (2002) is consistent with the Government's commitment to implementing the National Plan of Action based on the Beijing Platform for Action. The policy proposes concrete steps including putting in place institutional mechanisms for the implementation, monitoring and evaluation of the Policy. Its overall objective is to facilitate the mainstreaming of the needs and concerns of men and women in all areas of the Economy. The policy sets structures for implementation of the policy and gender mainstreaming: Parliamentary Committee on Gender and Development (PCGD); National Gender and Development Commission (NGDC); National Gender and Development Secretariat (NGDS); Units of Gender Issues (UGIs) responsible for overseeing the effective mainstreaming of gender in all sectors.

Main Non- Governmental Organizations Promoting Gender Equality

Kenya Women's Finance Trust (KWFT): A microfinance institution that provides financial and non-financial services to low-income women entrepreneurs; Kenya Women Entrepreneurs Board: A business association that aims to provide advice to women entrepreneurs and play an advocacy role on the issues that are inhibiting the development of their business; International Federation of

Women Lawyers (FIDA) Kenya: provides legal aid services, women's rights monitoring and advocacy, gender and legal rights awareness, and public relations and fundraising; The Centre for Land, Economy and Rights of Women (CLEAR): Advocates on women's land, property and economic rights. . The Caucus for Women Leadership (the Caucus): To facilitate and enhance the attainment of gender equity and equality in decision-making structures and elective leadership at all levels. Kenya Association of Women Business Owners; All Africa Business Women Association; Kenya Law Reform Commission (KLRC); This is a primary agency to spearhead law reform and review processes in the country; African Women's Development and Communication Network (FEMNET): Support efforts to promote gender-sensitive development, plans, policies and programmes; National Council of Women of Kenya (NCWK): Coordinates women's organizations, and provide a forum where women can meet and take action on matters of concern;

Gender and Private Sector Development Strategy
Gender and Economic Growth in Kenya: Unleashing the Power of Women study was carried out at the request of Kenya's Ministry of Trade and Marketing, as the government was concerned that the challenges facing women entrepreneurs had not been reflected in existing work on Kenya's investment climate. Building on the 2004 Foreign Investment and Advisory Service (FIAS) report, 'Improving the Commercial Legal Framework and Removing Administrative and Regulatory Barriers to Investment,' Gender and Economic Growth in Kenya looks at the bureaucratic barriers facing women in Kenya through a gender lens. Specific recommendations are made to address gender related barriers in the context of ongoing government and donor initiatives to encourage private sector development as the key driver of the poverty reduction and economic growth, in line with Recovery Strategy for Wealth and Employment Creation 2003-2007 (ERS).

The Kenya Vision 2030, established in 2007, is anchored on the following foundations: economic stability; continuity in governance reforms; enhanced equity and wealth creation opportunities for the poor; infrastructure; energy; science, technology and innovations (STI); land reform; human resource development; security and public sector reform. Vision 2030 mainstreams gender equality in all aspects of society aims to address gender equity by making fundamental changes in four key areas, namely opportunity; empowerment; capabilities; and vulnerabilities. Under this Vision, specific policy measures are to be taken to correct the glaring gender gaps in access to and control of resources, economic opportunities, and in power and political voice. In order to reduce gender disparities, a number of strategies will be implemented under the Vision: Financial support to women to raise their incomes and reduce the gap in estimated earned incomes between women and men; Increasing the number of women in parliament; Giving priority to female employees in the public sector in order to attain at least 30 percent representation in recruitment, promotion and appointment of women to all decision – making levels; Increasing adult literacy rates of men and women from 64 percent and 59 percent respectively to 70 percent; Reducing gender-based violence; Reducing female and male population below the poverty line to 25 percent. The flagship projects are: Increase funds and training available to women entrepreneurs; and women's representation at the executive level in all branches of government and the private sector close to that of the best practices in the middle income countries. In order to support the implementation of the above-mentioned flagship projects, the Government will pursue the following initiatives: Gender mainstreaming in government policies, plans, budgets and programmes; and Affirmative Action for 30 percent representation of women at all decision-making levels.

The Kenya Economic Report analyses Kenya's recent economic performance, prospects for the medium-term period 2008/2011, and national competitiveness. Except for the mention of gender equity in school enrolment and disparities by region, the whole report lacks gender disaggregated data and gender analysis. However, opportunities exist in integrating gender under selected sector performance and policy issues: agriculture, manufacturing, micro and small enterprises, trade, tourism, financial services, and environmental and natural resources.

Private Sector Development Strategy takes note that the enterprise sector in Kenya does not offer equal opportunities for men and women. For reasons related to their multiple roles, the mobility of women is constrained, forcing them to engage only in those enterprises that they can combine with other tasks, usually close to their homes. Women owned enterprises also suffer from a lack of access to capital, since most women entrepreneurs do not possess the preferred collateral to guarantee borrowing. Moreover, appropriate credit mechanisms have not yet been developed. On the whole, there is a need for enterprise-related information that is gender disaggregated which would inform policy formulation and programme design, in favour of women entrepreneurs. The strategy is to facilitate the effective participation of women in the Private Sector.

Kenya Joint Assistance Strategy (KJAS) presents a core strategy of 17 development partners (including Denmark) for 2007 - 2012. It is recognized that Kenya remains a highly unequal society by income, by gender, and by geographical location and therefore the KJAS partners intend to promote gender equality through all their interventions. They will also support initiatives that promote women's equal access to employment and to economic resources, such as land and microfinance, which are critical for women and household survival, progress and well-being, and for increased national output and development. Gender Sector Coordination Group is the main forum for policy dialogue on Gender Equality in national development and promotes coordinated technical support on gender issues with the government and non-state actors.

Major Gender Issues at National and Sector Level

The Legal Framework: Need to review laws, regulations, practices, customs and policies that impose constraints on equal enjoyment of rights by women in civil, political, social cultural life or related matters with a view to preparing legislation designed to remove or limit gender inequalities.

Education and Training: Education plays a key role in the empowerment of an individual; and their ability to effectively and successfully participate in a country's development processes. Women's access to education and training opportunities both increases their participation in the labour force, and expands the range of occupational options available in the market. Yet in Kenya, adult literacy and attainment levels for women continue to lag behind that of men. At primary level, enrolment of females reached near gender parity, but the rate of transition (from primary to secondary school) of the girls still remains below that of boys. Within the publicly-owned Tertiary Industrial, Vocational and Entrepreneurship Education (TIVET) institutions, female enrolment rates were estimated to be at 49.2 percent, with the biggest gap to be found in national-level polytechnics and technical training institutions.

Political Participation and Decision making: In the political environment in Kenya women are still underrepresented in public political power positions. Issues affecting women's participation in decision-making begin at the household level where patriarchy still dominates. Negative stereotypes and socio-cultural attitudes (reinforced with strong patriarchal family systems) work against women who wish to pursue their political ambitions.

Health: For women the challenge is on health is related to maternal mortality and related morbidity. In terms of the relationship between HIV/AIDS and an individual's abilities to participate in the economy, it is clear that, the impact and consequences of the HIV/AIDS epidemic differ markedly between men and women, due to their different roles and responsibilities within and outside the household. The high female-to male ratio is attributed to a number of factors: lower literacy rates; poverty; powerlessness i.e. lack of decision-making power at both household and national levels; gender-based violence; and the inability to negotiate or demand that their partners practice safer sex etc.

Economic Power, Opportunities, and Sex Disaggregated Data

Income Differentials in the Public Sector in Kenya: Statistics on wages disaggregated by sex are rarely available. Part of the challenge of collecting such data for comparative purposes is that within the informal and agricultural sectors, many women and men participate as self-employed or unpaid family workers, and therefore they are not dependent on wages. Rather they rely on what they earn from their activities.

Employment: is commonly understood as a means of harnessing one's economic productivity, and earning an income, and consequently improving one's economic well-being. However, the definition of 'employment' is wide, essentially covering not only work done for wages/salaries, but also for profit or family gain (including own consumption). The term 'employment' refers to those who are engaged as: paid employees, employers, own-account workers (self-employed), unpaid workers, and apprentices. Gender differences in the ownership of Micro, Small and Medium Size enterprises (MSMEs). Data from the Kenya Integrated Household Baseline Survey 2005/2006 showed that women owned more than half of the enterprises (55 percent) of the 2.3 million MSMEs that exist in Kenya. However, women only dominated in: the wholesale/retail trade (61 percent), manufacturing (51 percent), and 'unclassified' (55 percent) sectors. Women were found to lag behind in relatively more specialised and lucrative sectors i.e. mining and quarrying (20 percent), construction (46 percent), transport, storage and communication (28 percent), finance/insurance services (20 percent), and community/social services (31 percent).

Gender differences in the Modern (Formal) Sector: The female share of employment in the more lucrative modern sector was comparatively found to be lower than that in the informal and agricultural-based sectors, where incomes are more precarious, and working conditions more difficult with statutory protections harder to enforce. The overall share of female employment in this sector remained at about 30 percent. Female share of employment was lowest in the finance, insurance, real estate and business services industries, the building and construction industries, electricity and water, and mining and quarrying in 2007. It was highest in the: community, social and personal services industry (which industry accounted for 55.6 percent of the total female employment in 2007), trades, restaurants and hotels industries, and the agricultural industry.

Gender differences in Managerial Positions: Distribution of managerial positions is another indicator of equity and progress and improved well-being. Based on the data that is available on the public sector, Kenyan women are still grossly underrepresented in senior management decision-making positions. The effect upon women is that they have limited control of productive resources, and are limited in their participation in and influence over political and economic institutions, leading to gender inequalities in access to and distribution of employment opportunities, income and power.

Participation in the Informal Sector: The informal sector where women were seen to be more successful is commonly referred to as the jua kali (meaning 'hot sun') sector. It continues to play an important role in the labour market, creating jobs for persons in the labour force that are not able to enter into the modern sector. The sector is characterized by: ease of entry, reliance on indigenous resources, family ownership and small-scale operations. It is also labour intensive, uses adaptive technology, acquires skills outside formal sector, is exploited, largely unsupported, and it operates in unregulated and competitive markets. Because of all of the above, in most cases the earnings are uncertain, the job opportunities within this sector are exploitative, lowly paid and lacking security. Participation in the Agricultural Sector: has been the mainstay of the economy, accounting for 24 percent of Kenya's GDP, and more than 50 percent of total export revenues, and 62 percent of overall employment. Women are said to constitute more than 70 percent of the agricultural labour-force. They are estimated to provide above 80 percent of labour in food production; and up to 50 percent of the labour in cash crop production (cultivation, marketing, and agro-processing). With respect to the latter (i.e. cash crop production), women are said to be a major force in the production and processing of the following: floriculture, tea, coffee, vegetables, cereals, poultry, mangos, and oranges. Women are also increasingly becoming farm managers and heads of farm households; recent studies show that women manage more than 40 percent of all smallholder farms in Kenya .

Access to Resources

Land and Home Ownership, by Gender: The data on the both of these issues remains problematic and not easily accessible. Home ownership is closely related to land ownership, except that homeowners need not be dependent on their land for a livelihood. On the issue of land, women hold about 1 percent of registered land titles in Kenya only (5-6 percent of registered titles are held in joint names. For many women, poverty and discriminatory cultural practices have both served to limit access to owning land.

Access to Credit: Credit is one important resource in harnessing one's productivity and/or growing an enterprise. Well-delivered micro-finance has been proven to be a very effective poverty reduction tool. There are more than 5,000 microfinance institutions (MFIs) in the country, which are the biggest providers of microfinance to MSMEs but it is difficult to determine the levels of success of such wide availability of MFIs, on the poverty levels. The vast majority of lenders require collateral, usually in the form of land that has a registered title; something which only a few women have access to. Women entrepreneurs consistently rated the requirement for collateral as the single biggest constraint to growing their business. Less than 10 percent of women entrepreneurs were said to succeed in accessing the available credit from MFIs. A significant portion of women instead access credit through informal savings mechanisms, as well as MFIs specifically oriented towards women entrepreneurs' needs.

Access to Markets: Until recently, economic analysis of agricultural markets and marketing, paid limited attention to gender issues. Gender-aware economic analysis, at macro-, meso- and micro-levels, is a valuable tool to identifying ways in which women and men are affected differently by processes of economic change and ways in which gender biases in institutions, including agricultural marketing systems, affect the implementation and outcomes of reform policies.

The 'gendered' nature of marketing systems is pervasive; manifesting in different ways according to the specific agro-ecological, historical, social and political context. Women and men are differently located in marketing systems by commodity, by position in the marketing chain and organisational form, by motivation, as well as by spatial mobility and season. In East Africa (Kenya, Uganda, Tanzania, Rwanda and Burundi), women are highly visible and dominate food trading, but they remain in the minority amongst the region's wholesalers. Women will be found in the low profit, small-scale retail marketing of fresh food, produce and processing, while men will tend towards the wholesale business, and will trade also in processed foods in urban markets for sale elsewhere, often with large profit margins.

Regional and National Trade on Gender Equality in Kenya: On the whole, international trade has had a positive impact, not only on Kenya's economy, but also on the goal of gender equality, particularly for export industries where the majority of employees are women. For example, women make up between 65-75 percent of workers in the cut flowers industry, they constitute more than three-quarters of workers in the textile sector, and about one-third of the estimated workforce in the tourism sector. International trade liberalization has therefore opened up new opportunities for Kenya's women in the formal labour force in such export sectors such as coffee, cut flowers, and textiles and this has had an impact in their earnings, leading to their improved status, and increased bargaining power within the household. Others have specialized in trading in handicrafts and/or curios with the support of organizations like the National Handloom Weavers Association, so as to supply large orders to foreign markets.

Opportunities and Constraints for Addressing Gender Issues

Opportunities

• Follow-up on international and regional commitments
• Government Strategies in Private Sector Development
• The Role of Civil Society
• Women Entrepreneurs and their networks
• Donor Harmonisation and Alignment in Gender- The Kenya Joint Assistance Sector Groups (KJASG) and Kenya Joint Assistant Strategy (KJAS) Gender Sector Coordination Group (GSCG)

Constraints:

• Limited women's access and opportunity to exert power over economic policies and programmes
• Disparities in asset ownership
• Legal Framework
• Labour market imbalances
• Access to financial services

• Access to markets
• Business enabling environment
• Retrogressive Social, Cultural and Traditional Values
• Women's limited Access to Post Primary Education
• Women time constraint- Balancing Productive, Household and Reproductive Responsibilities
• Insufficient Gender Analysis and Sex Disaggregated Data

Gender Profiles and Data
There is need to compile the following Country Gender Analysis
• Updated Gender Analysis Profile
• Private Sector Gender Analysis

Proposed Gender Equality Objectives/Outputs for BSPS II
Gender aspects has been taken into consideration in all phases of preparing BSPS II. Specific gender indicators have been developed for monitoring and evaluation; and special women's projects will be supported in components as a principle of working towards gender equality.

The development objective of BSPS II has emphasised gender aspects.

Mainstreaming of gender is an integrated part of all BSPS II components, but is done in different ways depending on the specific component and sub-component context:

- Ensuring more Business Membership Organisations representing businesswomen are supported by the Business Advocacy Fund;
- Ensuring businesswomen participate in all Public Private Dialogue processes;
- Developing and applying gender-sensitive tools of business environment analysis;
- Ensuring businesswomen participate in the dialogue associated with regional integration;
- Gender relevance and potential for women to increase employment and income has been considered in the preliminary selection of agri-business value chains;
- 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;
- A special gender window in the Value Chain Fund of the Micro Enterprise Support Programme Trust (MESPT) may be considered;
- Gender policies of partner organisations of MESPT 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;
- The Climate Technology Innovation Trust and African Enterprise Challenge Fund will in their advertising campaign underline the interest in receiving proposals from female entrepreneurs, and gender positive aspects will be given extra points in the application ranking system;
- Gender pointers in the Annual Workplans & Budgets will control a strong gender mainstreaming commitment and process, and
- Disaggregating, thorough tracking of development on gender and reporting Monitoring

&Evaluation indicators and data by gender, both at programme, component and sub-component levels.

Programme Committee:

Gender issues to be mainstreamed into the three BSPS II components.

Are the suggested interventions for supporting gender quality and promoting women empowerment appropriate?

Formulation:

The gender analysis (GERP) has been rolled over from identification to formulation and addressing gender equality has been an important part of the process of formulating precise and measurable objectives and designing relevant interventions under each component to address the identified constraints.

References:

References and background documents used are all listed in the full GERP report:

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ANNEX 7

ENVIRONMENTAL MANAGEMENT PLAN

(See separate file)

ANNEX 8

PROCESS ACTION PLAN

Activity	Output	Timing	Responsible
Appraisal stage			
Appraisal mission to Kenya	Debriefing note	16 – 28 September	UFT
Drafting appraisal report	Draft report	5 October	UFT
Finalising appraisal report	Final appraisal report with recommendations	15 October 2010	UFT
Consultations with stakeholders	Recommendations	October 2010	Embassy/Stakeholders
Finalise Programme Document - Kenya	Final BSPS II Programme Document	29 October 2010	Process Consultant
Preparation and submission of Board Presentation Note	Board Presentation Note	12 November 2010	Embassy
Board Meeting	Minutes of Board Meeting	December 2010	Ministry of Foreign Affairs
Formal Agreements with Partners	Agreements	December 2010	Embassy/Partners
Implementation Stage			
Start of implementation		January 2011	Partners/Embassy
Inception phase	Approved inception report	January – June 2011	Partners/Embassy