Kenya Country Programme 2016–2020

Thematic Programme for Green Growth and Employment

Development Engagement Document

Private Sector Green Growth Programme

(Kenya Association of Manufacturers – KAM)

<table>
<tr><th>Dev. Engagement GGE 2</th><th>Outcome</th><th>Outputs</th></tr>
<tr><td>Private Sector Green Growth Programme</td><td>Increased private sector engagement in inclusive green growth facilitated by improved business environment and the adoption of sustainable business practices</td><td rowspan="3">Enhanced private sector investment in Energy and Resource Efficiency
Policies, legislation and institutions supportive of private sector investments in renewable energy, energy and resource efficiency
Enhanced technical capacity and awareness creation on Renewable Energy, Energy and Resources Efficiency
Improved private sector awareness on UN Global Compact ethical and sustainable business practices</td></tr>
<tr><th>Budget</th><th>DE Partner</th></tr>
<tr><td>The Danish contribution is DKK 40.5 million; DKK 25.5 from the Danish Climate Envelope administered through the Royal Danish Embassy in Kenya, while the balance will be allocated from the Kenya Country Programme</td><td>Kenya Association of Manufacturers (KAM), a Business Membership Organization</td></tr>
<tr><th colspan="3">Management arrangements</th></tr>
<tr><td colspan="3">KAM will receive funds to support KAM's Business Plan (2014-2016) which identifies the strategic intervention of developing the market and financing for energy efficiency, process improvement, alternative and renewable energy in East Africa as crucial in support of private sector competitiveness. The intervention is executed by KAM's Centre for Energy Efficiency and Conservation which is headed by a Coordinator working with in-house team and complemented by a team of associates. The KAM Board will oversee programme implementation.</td></tr>
<tr><th colspan="3">Description</th></tr>
<tr><td colspan="3">This engagement will institutionalize low carbon climate resilient practices within Kenya's private sector. Core to this will be establishment of a market-driven energy and resource efficiency sector. Through this engagement the pool of competent local energy and resource auditors will be increased and special financial products to support energy & resource efficiency shall be developed and offered by various financial institutions. KAM will work both at national and sub-national levels to support counties in ensuring suitable policies in energy and resource efficiency are implemented and to sensitize and support private companies to commit to United Nations Global Compact practices.</td></tr>
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Abbreviations

AIA	Appropriation in Aid
AIDS	Acquired Immune Deficiency Syndrome
AIE	Authority to Incur Expenditure
BAF	Business Advocacy Fund
BDP	Business Development Plan
CEC	County Executive Committee
CEEC	Centre for Energy Efficiency and Conservation
CDIP	County Integrated Development Plan
CoC	Council of Governors
CS	Cabinet Secretary
CSO	Civil Society Organisation
Danida	Danish International Development Assistance
PSGGP	Private Sector Green Growth Programme
DFID	Department for International Development (UK)
DP	Development Partner
EC	European Commission
EU	European Union
GDP	Gross Domestic Product
GDP	Gross Domestic Product
GoK	Government of Kenya
MENR	Ministry of Environment and Natural Resources
MESPT	Micro Enterprises Support Programme Trust
NEMA	National Environment Management Authority
TMEA	TradeMark East Africa

Development Engagement Document: Private Sector Green Growth Programme (Kenya Association of Manufacturers)

1. Introduction

1.1 The present development engagement document details the objectives, expected results, implementation framework and management arrangements for the development cooperation concerning the Kenya Association of Manufacturers (KAM) 2016–2020 as agreed between the parties specified below. The development engagement document is annexed to the *Bilateral Agreement with Implementing Partner* and constitutes an integrated part hereof together with the documentation specified below. The Danish support is provided within the framework of the thematic programme on Green Growth and Employment, one of three thematic programmes under the Danish country programme for Kenya 2016–2020. This engagement document is also available to the External Grant Committee of Danida.

1.2 The development engagement entails Danish support in the form of funding to KAM of DKK 25.5 million from the Danish Climate Envelope and DKK 15 million from the Kenya Country Programme; for the implementation of the intervention specified in the present document. The support covers the period January 2016 to June 2020.

2. Parties

2.1 The Danish Embassy, Nairobi and the Kenya Association of Manufacturers.

2.2 Signatories will be the Danish Ambassador representing the Government of Denmark, and the Chief Executive Officer representing the Kenya Association of Manufacturers.

3. Documentation

3.1 Kenya Association of Manufacturers Business Development Plan (2014–2016)

3.2 KAM Strategy Document for Danida Climate Change Programme

Other reference documents:

3.3 Kenya National Climate Change Action Plan 2013–2017

4. Brief description of KAM

The Kenya Association of Manufacturers KAM is a Business Membership Organization that prides itself on delivering value to its members and advocating for a competitive business environment. To deliver this goal, KAM operates five units: (i) the Policy Research and Advocacy Unit (PRAU); (ii) Communications; (iii) Membership; (iv) Finance and Administration; and (v) the KAM Consulting Unit. The KAM Consulting Unit, in particular, was created to provide quality demand driven and profitable services to members and non-members including energy and resources efficiency and conservation, small and medium enterprise (SME) development and the KAM Manufacturing Academy.

Since 2001, KAM's work has been guided by three-year Business Development Plans (BDPs). In the first plan 2002–2004, KAM sought to strengthen its internal structures. In the 2005–2007 and 2008–2010 BDPs, KAM included strategies to consolidate and utilize the developed capacity to increase its membership and offer robust business services to the members. The previous BDP (2011 – 2013) focused more on building a sustainable organization that would still deliver relevant services to the manufacturers. The current BDP (2014–2016) focusses on strengthening KAM Consulting unit efforts to provide high quality demand driven and profitable firm level services that will generate revenue for KAM and support KAM's sustainability.

One of the specific goals to be implemented under KAM's 2014–2016 BDP is to *"continue to develop the market and financing for energy efficiency, process improvement, alternative and renewable energy in East Africa*."

The organization has been leading efforts to create an enabling environment for private sector investments in renewable energy and energy efficiency through various programs handled under the Centre for Energy Efficiency and Conservation (CEEC), which was established in 2006 as a partnership between Ministry of Energy and KAM with the key objective of "developing national focus on energy efficiency and conservation". The Centre was also mandated to create public awareness on energy efficiency, demonstrate feasibility of energy conservation and implementation of bankable projects, provide expertise for promotion and institutionalization of energy efficiency and conservation. KAM energy and other resource services are conducted at CEEC by the KAM Consulting unit. KAM is presently driving more than 70% of energy efficiency activities targeting industry and commercial enterprises.

5. Background and Theory of Change

5.1 Context

Vision 2030, the country's long-term development blueprint, aims to transform Kenya into "a newly industrializing, middle-income country providing a high quality of life to all its citizens in a clean and secure environment." Inevitably, manufacturing is a priority sector under the economic pillar of Kenya's Vision 2030. A related factor is the establishment of 47 county governments by the Constitution of Kenya 2010. Socioeconomic growth is at the centre of county development priorities for all these counties, with majority inclining towards industrialization as the means to this growth.

All these dynamics set the scene for rapid growth of the Kenyan manufacturing sector. This growth will directly impact on Kenya's energy intensity as well as on the general demand for environmental goods and services. Along with energy intensity, Kenya's energy mix is also set to change fundamentally, in view of the recent discovery of fossil fuels. Over the last 20 years, Kenya has highly depended on hydro and geothermal energy.

Although Kenya is currently greenhouse gas (GHG) emitting country, growth of the manufacturing sector, an expanding population, rapid urbanization and nationwide economic transformation will inevitably result in increased GHG emissions. There is a risk that the country will advance on a business as usual carbon emission trajectory. It is estimated that the annual GHG emissions will rise from 59 million tonnes of carbon dioxide (MtCO2e) in 2010 to 102 million in 2030 under a business as usual scenario[1].

Kenya has unique opportunities, as outlined under the Kenya National Climate Change Action Plan of 2013, to develop along a low carbon climate resilient development pathway. This Action Plan acknowledges the challenge of rapid socio-economic growth based on principles of sustainability and sets out an ambitious low carbon climate resilient development pathway. The Government of Kenya has shown its commitment to tackling climate change drivers and its impact by advancing an equivalent

[1] GoK (2013) National Climate Change Action Plan 2013-2017, Republic of Kenya, Nairobi

of USD 438 million, between 2005 and 2015,[2] to programs that have been deemed as having a significant climate change component. The government is also actively working on climate change legislation.

Denmark is one of the leading countries in embracing and promoting the green growth agenda. The country has been undergoing a green transition since 1980, guided by ambitious goals, among them to adopt a circular economy and to attain a fossil-free economy by 2050. This journey was mainly triggered by the country's experience following the mid-70s oil crisis and pollution that was rapidly growing out of control due to over reliance on fossil fuel. The positive outcome of this transition is that Denmark's private sector has established a thriving industry out of green innovations, placing the country among global leaders in green technology and solutions. Denmark's current Strategy for Development Cooperation has clearly set out its intentions to cooperate with developing countries in achieving sustainable development through supporting more sustainable and efficient management and use of energy and water. The Global Green Growth Forum (3GF) is a Danish initiative complementing the country's development cooperation efforts, which seeks to encourage bottom up global green economy transition. These initiatives place Denmark in a good position to collaborate with developing countries that are ready for green growth.

The above contextual framework establishes clear opportunities for mutually beneficial development cooperation engagement. Kenya stands to benefit from Denmark's longstanding experience in the area of green growth and the range of green products and services developed by Denmark's private sector. Kenya, a country on a rapid economic growth path and well positioned in the East Africa regional integration, presents opportunities for Danish private sector to engage in the regional market for green technologies and solutions.

Complementary to the green growth agenda, there is a need to safeguard against negative externalities such as unethical business practices, human rights violations and poor workplace practices that could be exacerbated by unsustainable private sector growth. The United Nations (UN) Global Compact principles offer businesses a framework that suffices as a safeguard against such practices. Denmark is a key player in promoting these principles and has established a Kenyan initiative, which is presently coordinated by KAM, with a network of 102 companies. Global Compact Kenya is a leading platform where the private sector comes together to learn, exchange best practices and take action in support of human rights, environmental protection, labour standards and anti-corruption, with the goal of contributing to sustainable development. This initiative places Kenya and KAM in a good position not only to champion green growth but also to build private sector led human rights based approach (HRBA).

5.2 Justification and lessons learned

Energy and other resources efficiency and conservation provide a great opportunity for the manufacturing sector and other businesses to grow along a low emission pathway. The Kenya Climate Change Action Plan estimates that up to 1.3 metric tons of carbon dioxide equivalent ($MtCO_2e$) can be abated through concerted investment in energy efficiency measures within the manufacturing sector alone. The Energy Regulatory Commission now requires[3] all industrial, commercial and domestic users of energy consuming a minimum of 180,001 kWh of electricity per year (equivalent to 648,004 MJ) to comply with the Energy Management Regulations of 2012. This is an ambitious objective whose achievement faces significant challenges, not least with respect to the required capacity and skills to deliver. A number of barriers continue to hinder private sector investments in renewable energy (RE),

[2] GoK (2013) National Climate Change Action Plan 2013-2017, Republic of Kenya, Nairobi
[3] Through Legal Notice number 102 of September 2012

energy efficiency (EE) and effective water and wastewater management. This is an emerging sector, which requires substantial investments for successful development, including in areas such as education and awareness raising, subsidy schemes targeting less established enterprises, development of financial instruments to support uptake, and expanding the pool of professionals in service provision, among others.

Additional barriers that need to be overcome include: a shortage of qualified and certified energy and resource auditors; lack of awareness by top management on the benefits of RE and EE initiatives; limited access to commercial finance both for project development and investment; limited incentives for RE and EE investments especially at the county level; high capital requirement in establishing EE audit services specifically acquiring auditing tools. These barriers are further elaborated in Annex 2.

The present collaboration between KAM and Danida has provided KAM with a number of lessons learnt. Among these are the following two:

- CEEC has better understood its role as a broker between available technologies and good practices and the demand of their members and non-members to reduce costs through efficient resource use and also become more resilient towards potential climate related risks for their production.
- The programme has also provided CEEC / KAM with additional experiences that can be used to influence new policies and regulation in particular in the energy sector but also in climate change.

Due to several years of engagement in this area, as well as the unique position KAM as a leading and established player in working with private sector on energy and resource efficiency aspects, the Embassy identified KAM as the most ideal partner for this engagement. KAM has adequate experience and competences in this area. This development engagement will place greater emphasis than the present programme on converting activities and outputs into sustainable commercial investments. These investments will then translate into the anticipated impacts, which include additional investment leveraged, GHG emissions reduced, and installed capacity from renewable energy expanded.

The engagement builds on an already existing strategic and institutional arrangement and is designed to build on and support KAM's aspirations. The activities and outputs proposed in this project are aligned with internal KAM operations and functions which will continue after the end of the program. With the promotion of RE and EE anchored in KAM's BDP, through this support, KAM will enhance its internal capacity to further sustain activities. The KAM Consulting unit, which is a semi-autonomous entity generating up to 40% of KAM's operational revenue, will continue to drive this work once the support terminates.

KAM has also designed a subsidy scheme for energy and resource audits on a diminishing scale, with the support being phased out gradually over the final years. This will ensure that the business support services are sustained at market rates when the support does terminate.

Current regulatory requirements (Energy Management Regulations 2012) impose statutory obligations for compulsory energy/resource audits on medium and large energy users, and require implementation of not less than 50% of the recommendations from such audits. The need for compliance in a manufacturing sector poised for growth will definitely sustain the demand for the energy/resource audits.

Unless extensive capacity building is undertaken, KAM's exit risks leaving a significant vacuum. KAM and Danida together will take the necessary steps to ensure that KAM achieves the required sustainability, including an appropriate exit strategy. More specifically, Danida will provide funds for KAM to build the requisite internal capacity and to establish the above mentioned subsidy scheme.

KAM aims to collaborate with Danida in addressing opportunities and challenges in the Kenyan context in relation to green growth, specifically by partnering with the private sector both in Kenya and in Denmark with the aim of realizing increased investments in energy efficiency, resource efficiency and renewable energy in Kenya.

Therefore, while this development engagement will initially be about energy and resource efficiency and audits, the partnership may gradually evolve to encompass more general issues as well. The outline of such a more strategic partnership will become clearer as the dialogue advances.

5.3 Narrative for Theory of Change

The goal of this partnership between KAM and Danida is to contribute to growth of the Kenyan manufacturing sector along a low carbon climate resilient development pathway. KAM proposes to contribute to this by facilitating measures that would promote clean, sustainable, affordable, reliable and secure energy and resources for the manufacturing sector in Kenya.

KAM will work with Ministry of Environment and Natural Resources (MENR), the National Environmental Management Authority (NEMA) and the Danida Business Advocacy Fund (BAF) to expedite adoption of the relevant policies and legislations at national and county government so as to support Kenya's transition to a climate resilient low carbon economy. KAM will mainly play the role of mobilizing its members and stakeholders to participate in various policy dialogues, while NEMA will provide the necessary capacity building to relevant county ministries and departments. The Ministry will provide overall guidance on national policy and regulations. These policies and laws will be tailored to create an enabling environment for investment in renewable energy, energy and resource efficiency. This will provide incentives for private sector to adopt green growth.

KAM will alongside this engage its members and other businesses directly by supporting RE & EE business development through awareness campaigns, training of auditors, resource audits (energy, water and waste water), feasibility studies, matchmaking, business plans and access to finance and subsidy programmes so as to support sustainable growth from investment, trade and jobs. See Annex 4 for initial structure of proposed subsidy scheme. These interventions will see significant uptake of energy and resource efficiency and conservation, increased generation of electricity from renewable sources and reduced GHG emissions.

KAM will work closely with TradeMark East Africa (TMEA) in the implementation of the Mombasa Green Port Policy to help deliver on the planned outcome and impact. KAM will also work with the Micro Enterprises Support Programme Trust (MESPT) to provide energy and resource efficiency services to micro and small enterprises in their value chain development work. KAM will work with the Kenya Climate Innovation Centre (KCIC) to support the growth and development of innovative "clean-tech" business models and technologies through provision of RE and EE services.

KAM assumes the present relative national political, social and economic stability will continue and that there will not be any major incidences that could disrupt the pace and processes of policy formulation, legislation and implementation. The pace of policy formulation and legislation process is out of KAM's control. It is also assumed that the firms targeted under this programme and the financial markets shall be responsive to recommended efficiency investments. Annex 1 illustrates the above narrative diagrammatically.

6. Development Engagement Objectives

6.1 The overall vision for the partnership is to support the Government and people of Kenya in implementing their Vision 2030 to create '**a globally competitive and prosperous country with a high quality of life by 2030**'.

6.2 The Green Growth and Employment thematic programme objective is to contribute to the '**inclusive greener growth with higher employment'** in Kenya.

6.3 The vision of the Danida–KAM partnership is to contribute to a competitive and sustainable private sector through facilitating the creation of a vibrant market for energy and resource efficiency services and facilitating a business environment that spurs sustainable business practices.

This development engagement expected outcome is **'Increased private sector engagement in inclusive green growth facilitated by improved business environment and the adoption of sustainable business practices'**

6.4 Outputs:

- Enhanced private sector investment in energy and resource efficiency
- Policies, legislation and institutions supportive of private sector investments in renewable energy, energy and resource efficiency
- Enhanced technical capacity and awareness creation on renewable energy, energy and resource efficiency
- Improved private sector awareness on UN Global Compact ethical and sustainable business practices

7. Results Framework

7.1 KAM is responsible for monitoring and reporting on the progress and achievements of the development engagement using its own results framework and M&E system as detailed in Section 12 below. The parties have however agreed that the Danish Embassy will use the following results framework with a limited number of outcome and output indicators for the purpose of reporting back to the Danish constituency. Data to inform the reporting will be supplied by KAM as part of the ordinary monitoring of the engagement.

7.2 The parties have agreed to measure progress and performance by the following key outcome and output indicators. Within the first ½ year of implementation KAM will establish annual targets for the indicators in the Results framework overleaf.

Outcome		Increased private sector engagement in inclusive green growth facilitated by improved business environment and the adoption of sustainable business practices
Outcome indicator		% of private sector players undertaking/implementing green growth measures
Baseline	2014	15% of private sector engaged in green growth measures
Target	2020	30% of private sector engaged in green growth measures
Output 1		Enhanced private sector investment in energy and resource efficiency
Output indicator 1.1		Number of energy and resource audits carried out disaggregated by type (i.e. energy, water, waste water etc.)
Baseline	2014	354 Audits (350 energy audits; 4 water and waste water)
Target	2020	700 Additional Audits (650 energy audits; 50 water and waste water)
Output indicator 1.2		Number of feasibility studies carried out for Energy and Resource Efficiency
Baseline	2014	5 feasibility studies
Target	2020	25 feasibility studies
Output indicator 1.3		Number of affordable and earmarked Energy and Resource Efficiency credit facilities accessible by private sector companies
Baseline	2014	1 Credit Facility (AfD) with 99Million Euros
Target	2020	3 Additional Credit Facilities, with additional 300Million Euros
Output 2		Policies, legislation and institutions supportive of private sector investments in renewable energy, energy and resource efficiency
Output indicator 2.1		Number of contributions made towards policies, regulations and legislation to advance renewable energy, energy and resource efficiency***
Baseline	2014	16 contributions made to 4 policies and regulations
Target	2020	25 additional contributions made to 9 policies and regulations
Output indicator 2.2		*Number of decision makers from county governments trained and sensitized on policies, regulations and legislation supportive of renewable energy, energy and resource efficiency, disaggregated by counties.
Baseline	2014	30 decision makers in 7 Counties
Target	2020	140 decision makers in 20 additional Counties
Output 3		Enhanced technical capacity and awareness creation on renewable energy, energy and resource efficiency
Output indicator 3.1		Number of individuals trained for CEM and CMVP certifications
Baseline	2014	105 CEMs and 10 CMVPs
Target	2020	Additional 205 CEMs and 25 CMVPs
Output indicator 3.2		Number of individuals from financial institutions trained and sensitized on renewable energy, energy and resource efficiency projects financing
Baseline	2014	70 individuals from 2 financial institutions sensitized on EE/RE financing
Target	2020	350 individuals from 10 financial institutions sensitized on EE/RE financing
Output indicator 3.3		Number of energy and resource auditors able to access audit tool leasing service
Baseline	2014	0

Target	2020	50 Auditors
Output 4		Improved private sector awareness on UN Global Compact ethical and sustainable business practices.
Output indicator 4.1		Number of individuals from private sector reached through training and awareness on UN Global Compact ethical and sustainable business practices.
Baseline	2014	200 individuals
Target	2020	800 individuals
Output indicator 4.2		Number of private sector companies signing up to the UN Global Compact Principles as a result of awareness carried out.
Baseline	2014	102 Companies
Target	2020	75 additional companies

*KAM, NEMA and MEWNR will collaborate in the activities contributing to this specific result, as indicated in Section 5.3 of this DED as well as the NEMA and MEWNR DEDs. Hence the results shall be attributable to these three engagements.

8. Risk Management

Risk Factor	Likelihood	Background to assessment of likelihood	Impact	Background to assessment of potential impact	Risk response	Residual risk
Programmatic Risk:						
Duplication of efforts by implementing partners	Likely	Donor coordination remains a significant challenge involving duplication of effort and transaction costs. Coordination between implementing partners is also found to have potential for improvements.	Medium	Poor coordination means less promotion of inclusive green growth for beneficiaries. Competition for resources and narrow agendas risk standing in the way of achieving programme results and optimising synergies amongst partners.	Active participation by KAM in encouraging donor coordination groups and integrated approach to synergies.	Medium
Failure of project developers to transform business plans into projects	Likely	RE & EE are relatively new concepts in the market and hence project implementation is faced by a myriad of obstacles despite the intense capacity building support for the sector.	Medium	Over the last few years, RE & EE has received a lot of technical and financial support to facilitate the implementation of projects. Development partners have stepped in to facilitate knowledge transfer and funding that has created awareness among project developers and investors who are now more confident in appraising and implementing these projects.	Targeting feasibility support to high potential business ideas using the developer's willingness to invest as an indicator and initial analysis by review team of technical viability of the project prior to feasibility. Capacity building of financial institutions to better appraise these projects will be carried out.	Major
Institutional Risk:						
Resource constraints may negatively affect the rollout of programme-supported initiatives and activities in the counties	Likely	County Governments are struggling to meet their financial commitments due to inadequate funding from the National Government. Skills gaps in project implementation and governance challenges may affect performance.	Medium	Financial resource allocation to counties is limited by competing demands at National Government level. It is unlikely that, in the medium term, counties will be in a position to mobilize substantial funds from internally generated revenue and other sources. Overall, the impact on the present programme will however not be affected in a major way.	Engage counties that demonstrate readiness to support private sector investment e.g. those with investment prospectus and those with robust systems of revenue collection. Create awareness of climate change policies and bills. Training of personnel to help them understand how to operationalise the policies in order to benefit from the resources available.	Medium

9. Inputs

The development engagement budget is 40.5 million DKK and is allocated between the four key outputs as illustrated below.

Outputs	Budget in DKK					
	2016	2017	2018	2019	2020	Total
Output 1: Supported RE & EE business development (Energy & resource audits on Water & Waste water, RE feasibility studies)	5,600,000	5,600,000	5,600,000	5,600,000	5,600,000	28,000,000
Output 2: Enabling Environment for investment in RE & EE created (Policies, regulations and legislation to advance Renewable Energy, Energy and Resource Efficiency Created)	200,675	280,750	325,560	375,875	150,474	1,333,334
Output 3: Enhanced Technical Capacity and awareness creation (Engineers certified as CEMs and CMVPs and financial institutions sensitized on EE/RE financing)	723,333	723,333	723,333	723,333	723,333	3,616,665
Output 4: Private sector supported in adopting ethical and sustainable business practices (private sector companies sign up to the UN Global Compact Principles)	304,372	304,372	304,372	304,372	304,372	1,521,860
Contingencies (normally not exceeding 5 % of the above)	162,150	162,150	162,150	162,150	162,150	810,750
Subtotal development engagement A.1	**6,990,530**	**7,070,605**	**7,115,415**	**7,165,730**	**6,940,329**	**35,282,609**
Project Management Fee@15%	**1,043,478**	**1,043,478**	**1,043,478**	**1,043,478**	**1,043,478**	**5,217,391**
Total	**8,034,008**	**8,114,083**	**8,158,893**	**8,209,208**	**7,983,807**	**40,500,000**

In addition to the Danida Fast Start Climate Change Programme (2011-2015), KAM has been receiving and continues to receive support from Ministry of Energy and Petroleum (MOEP), *Agence Française de Development* (AfD) and UK Department for International Development (DFID).

The next table provides an indication on contributions from these three partners and the match with anticipated Danida funds.

Thematic Programme: Green Growth and Employment	Budget in DKK	Danida Contribution	MoEP next phase effective July 2015 still under discussion therefore the figures are projections over the next 4 years pending program approval	AfD, this project started in May 2014 and anticipated to close (2nd Phase) in April 2016. Figures taken per approved 2014 budget	DfID, the project started in March 2014 anticipated to close in March 2016. The budget has been taken as approved in 2014 for 2 years
Development engagement A.1					
Engagement objective : Objective is to promote clean, sustainable, affordable, reliable and secure energy and water resources for the manufacturing & commercial sector in Kenya					
Output 1: Supported RE & EE business development (Energy & resource audits, feasibility studies, matchmaking,business plans,access to finance)	39,600,984.00	28,000,000.00	4,000,000.00	2,990,000.00	4,610,984.00
Output 2: An Enabling Environment for investment in RE & EE created	3,128,933.33	833,333.33	1,333,333.33	322,000.00	640,266.67
Output 3: Enhanced Technical Capacity and awareness creation	16,318,130.00	3,616,666.67	666,666.67	9,981,463.33	2,053,333.33
Output 4: Private sector supported in adopting ethical and sustainable business practices through UN Global Compact initiative.	4,692,236.03	1,521,858.70	1,333,333.33	1,208,266.67	628,777.33
Contingencies (normally not exceeding 5 % of the above)	2,242,353.33	810,750.00	600,000.00	831,603.33	
Subtotal Development engagement A.1	58,049,275.36	34,782,608.70	7,933,333.33	15,333,333.33	
Project Mngnt Fee@15%	8,784,057.97	5,217,391.30	1,400,000.00	766,666.67	1,400,000.00
Grand total	74,766,694.67	40,000,000.00	9,333,333.33	16,100,000.00	9,333,361.33

10. Management Arrangements

10.1 The overall principles for management of the present development engagement are described in the implementing Partner Agreement to which this development engagement document is annexed.

10.2 The daily management of the present engagement is undertaken by KAM.

10.3 KAM will be responsible for the implementation of the activities, directly reporting to RDE. The coordination of the implementation activities of the programme will be based in Nairobi. The activities will be implemented by the organization through its regular organizational set-up in order to facilitate continuity of the activities that were initiated under other partnerships. The oversight role of the programme will rest with the KAM Board. In its oversight function of the programme the KAM Board will approve work plans and budgets, and provide overall strategic guidance, which includes the issue of harmonizing and integrating activities of the different donor programmes implemented by KAM in accordance with board charter, clearly outlining due process, policies and structures, performance expectations and measurement. The CEEC Coordinator will undertake the day-to-day management of this programme while reporting to the Head of KAM Consulting who reports to the CEO of KAM. The CEEC Coordinator will have a team of four energy engineers supporting in execution of the various RE/EE services and ensuring clients are served as per the expectations and services meet quality. CEEC also has a marketer and communications personnel. The former will promote the services via various avenues and the latter will support in executing key communications emanating from the unit. KAM accounts will be involved in all the financial activities of the project.

Annex 3 provides an outline of the KAM management structure. CEEC will competitively hire competent and licensed short-term consultants to execute various services including energy audits, resources efficiency work, training, in addition to experts who will conduct feasibility studies from time to time. The CEEC coordinator will ensure smooth process and work hand in hand with the four engineers to ensure quality services on timely basis.

KAM and RDE will hold one technical meeting annually, to review implementation progress and to approve work plans and budget for the subsequent implementation period. The outcome of this meeting will feed into the overall management structure for the Kenya Country Programme. KAM will submit programmatic and financial reports bi-annually. KAM will participate in an annual green growth partners learning forum organized by RDE as well as in the annual presentation of KCP programme results.

11. Financial Management and Audit

11.1 Both parties will strive for full alignment of the Danish support to the implementing partner rules and procedures.

11.2 Accounting and auditing of the Danish funds will be undertaken by KAM in accordance with "General Guidelines for Accounting and Auditing".http://amg.um.dk/en/technical-guidelines/financial-management/accounting and auditing/

11.3 Accounting records shall be available for control by the Embassy of Denmark, by a representative appointed by the Embassy, or by the Danish Auditor General.

11.4 KAM will prepare an annual work plan and budget for the activities for approval by the KAM Board before forwarding to Embassy of Denmark for final approval. Transfer of funds to KAM is on basis of a written request to the embassy with information on the amount and the bank account.

11.5 The accounting will follow the KAM Finance and Procurement Manual. This implies that accounts are kept in accordance with international standards. Financial reporting will be made by KAM to the Embassy as part of the semi-annual progress reporting.

11.6 The annual audit report, including a financial statement for the period audited and a memorandum of examination must be forwarded to RDE not later than six months following the end of the accounting period. KAM overall accounts are audited annually in accordance with international standards of auditing. The Embassy will not disburse any funds if the audit report is not submitted within this timeframe.

11.7 Procurement will be applied according to the KAM Finance and Procurement Manual. KAM can decide on the contracting of possible technical support as required. The requirement is that KAM ensures value for money and use appropriate and transparent procurement of equipment and services.

12. Monitoring and Evaluation

12.1 KAM is responsible for monitoring and reporting on the progress and achievements of the development engagement using its own results framework and M&E system

12.2 KAM will enhance its internal monitoring structure to enable the continuous tracking of deliverables. Lessons from the previous FSCCP emphasize the need for such as system. This may include tracking of total number of energy and resource audits, total number of recommendations made, potential savings in KSH, kWh and GHG among others.

The performance reporting will follow the same format as the reporting by the KAM Executive Management to the KAM Board. Danida will require at least semi-annual reporting on progress and financial balance. There should be one annual progress report for the entire KAM financial year (equal to the calendar year) and one annual mid-term progress report include main activities carried out, progress and delays on performance indicators, emerging and actual risks, and the financial balance.

Performance targets will be distinguished from general indicators and indicators that will be realized within the project life will be distinguished from those that will be realized post-project.

12.3 The Danish Embassy shall have the right to carry out any technical or financial review mission that is considered necessary to monitor the implementation of the programme.

12.4 The Danish Embassy will contract a strategic monitoring support for the entire country programme and all DED partners including KAM will provide data needed to measure progress.

12.5 Danida Copenhagen will carry out Real Time Evaluation during the implementation period covered by this agreement and Danida will also, after the termination of the programme support, reserve the right to carry out additional evaluation in accordance with this article.

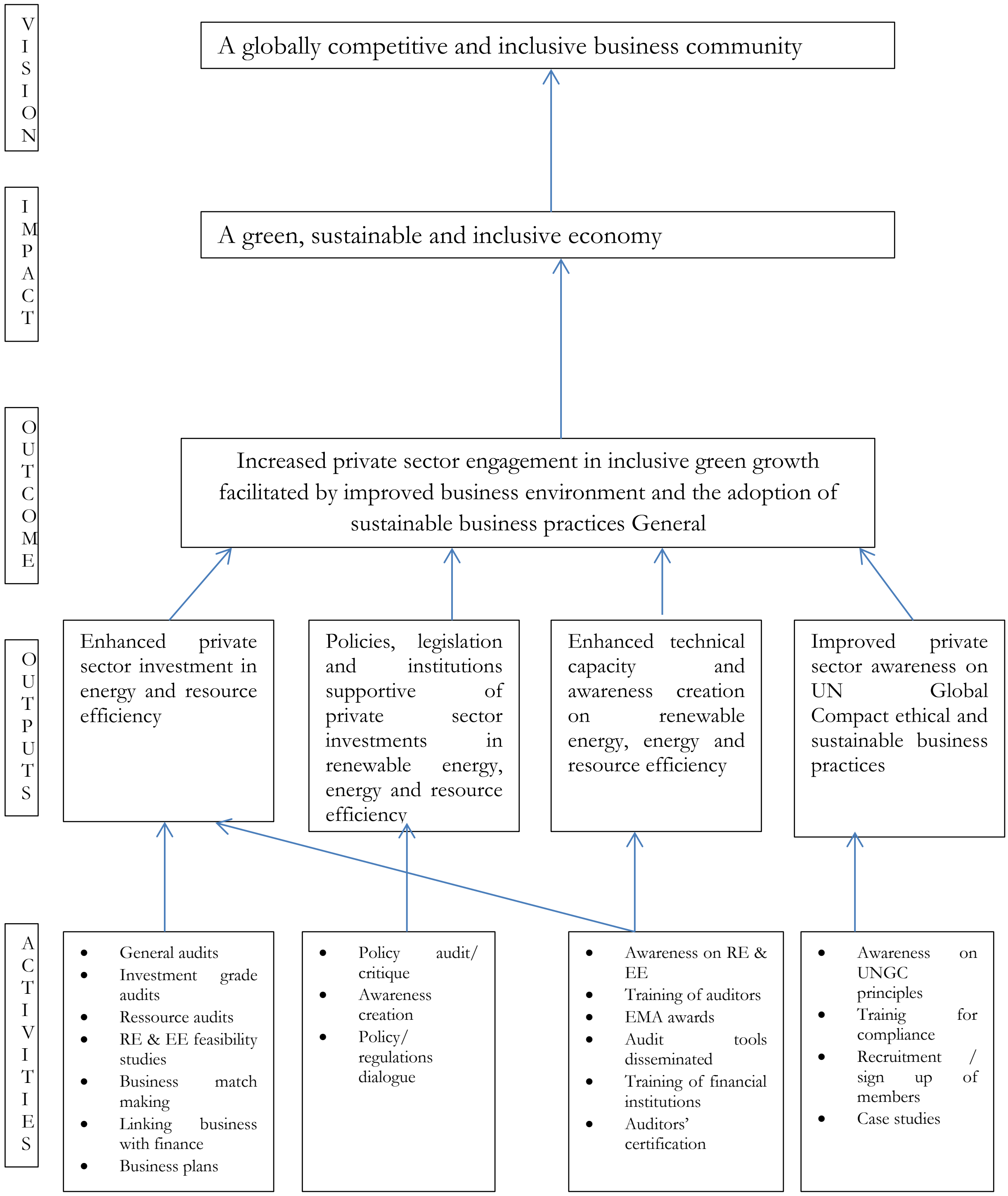
13. Prerequisites

N/A.

14. Signatures

On behalf of	On behalf of
KAM	The Danish Embassy, Nairobi
Signature	Signature
[Title]	Ambassador
Date	Date

Annex 1: Theory of Change Diagram



Annex 2: Barriers in Renewable Energy and Energy Efficiency sector

Justification and lessons learned

Specific barriers that need to be overcome are:

1: Shortage of qualified and certified energy and resource auditors
Overall, the capacity and portfolio of qualified energy auditors remain low compared to the number of facilities that need to be audited. As at September 2014, only 35 energy auditors and 24 energy audit firms had been licensed by the Energy Regulatory Commission (ERC). This should be compared against an estimated three thousand (3,000) entities that will require an energy audit by September 2015. Gaps exist in terms of the numbers of energy auditors as well as the depth of experience in implementing the audits. There is a clearly critical need to need to expand the portfolio and experience of energy auditors in Kenya.

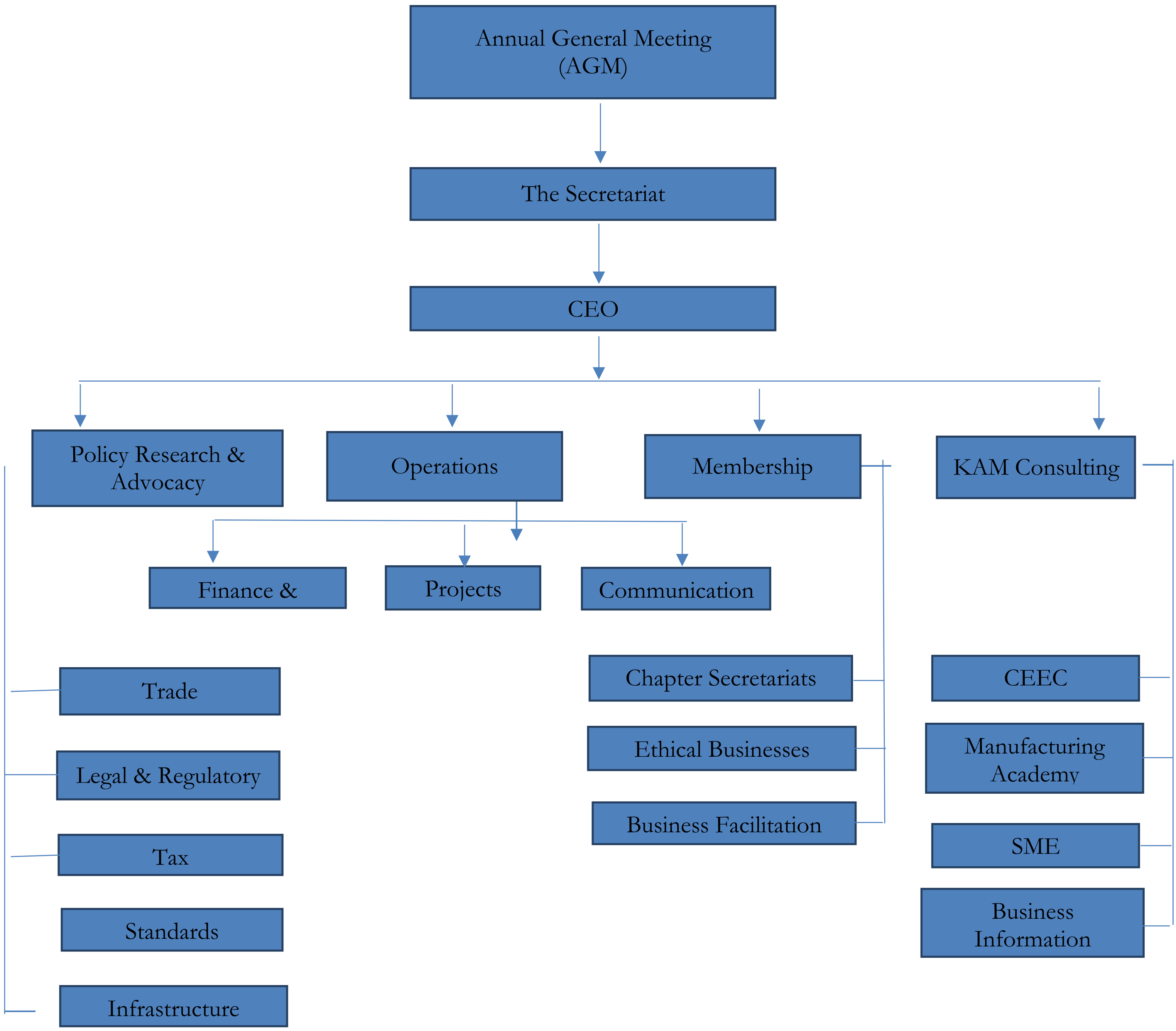
2: Lack of awareness by top management on the benefits of Resource Efficiency and Energy Efficiency (RE/EE) initiatives
Generally awareness activities are targeted at technical personnel including Engineers, Plant Managers and Maintenance team and many a times, the top management led by CEOs and Directors don't have enough opportunities to understand the benefits of undertaking Resource Efficiency and Energy Efficiency (RE/EE) activities. This results in a major barrier in lack of support, budgetary allocation and dedicated time on these initiatives.

3: Limited access to commercial finance both for project development and investment
There is a lack of experience among local commercial institutions in providing project finance for energy efficiency and renewable energy. Most institutions will only lend against strong balance sheets which puts the early stage developers at a disadvantage. In addition, there is a lack of internal capacity within the financial institutions to evaluate renewable energy and energy efficiency project proposals.

4: Limited incentives for RE & EE investments especially at the county level
County governments have a mandate to create incentives for investments within their jurisdictions. Local tax waivers, access to county government land, priority access to investment enablers, public private partnerships among others are some options that would attract investors. There is a need to create awareness of such opportunities among county governments and facilitate the enactment of regulations that support renewable energy and energy efficiency investments.

5: Lack of Energy & Resource auditing tools
Energy audits tools including power analysers, combustion analysers, tachometers, flue gas analysers, infrared thermometers, water flow meters among others are expensive to procure and are not readily available to energy auditors in Kenya. This is especially constraining for the new auditors who may not have the resources to secure these tools immediately.

Annex 3: KAM Organogram



Annex 4: Subsidy Programme

Presently, KAM subsidy offered to clients' stands at 60%, providing for clients to cater for only 40% of the service cost. The clients range from KAM members to non-members, medium to large industries. The subsidy scheme has played a key role in stimulating demand for the energy and resource efficiency services. With the new Energy Sector legislation now making energy audits and their implementation a compliance issue, there is need for KAM to review especially the subsidy for energy services to well-established firms. KAM will review these subsidies with a view to have them stand at 10% by 2019, meaning firms will pay 90% cost of the services. However, a special envelop shall be created to support upcoming SMEs and public institutions that are non-profit making. SMEs paying monthly electricity bill of KShs 500,000 and below per month shall qualify for this envelop as shall public institutions with high energy intensity. This can be reviewed mid-term.

Regarding non-energy resource audits, KAM will establish a subsidy programme which will launch with a 75% subsidy in year one and decline at a rate of 25% down to 0% by 2020. These services are underdeveloped and presently require international experts whose costs are prohibitive to most industry players. This will require that clients are cushioned as a means to encourage uptake of the services to the extent that they can prove the utility of the same. This subsidy programme shall be made available to all categories of firms but smaller firms shall be considered for higher subsidies.