



BUSINESS SECTOR PROGRAMME SUPPORT



Flower farms are leading employers in Kenya and contribute to Kenya's economic growth through exports. Photo: Danida

BOOSTING BUSINESS AND EMPLOYMENT IN KENYA

Danida's Business Sector Programme Support (BSPS) phase II began in January 2011 and will end in December 2015. The programme aims to create employment, especially for young women and men, and focuses on micro, small and medium sized enterprises.

BSPS II CONSISTS OF THREE COMPONENTS:

- Improve the business environment. The objective is to improve the business environment through the reform of policies, laws and regulations that hinder private sector

development. To achieve this Danida is supporting the business community to establish a more effective and fact-based engagement with all levels of government to promote reform.

- Increase competitiveness of micro, small, and medium-scale enterprises (MSMEs). This component aims to increase growth and market access for MSMEs in selected value chains - the core approach being to accelerate development of the market systems in those chains.
- Provide incentives for innovation and piloting green energy. This component aims to ensure incentives for innovative entrepreneurs in Kenya, enabling them to exploit market opportunities offered by the emerging market of climate change technology. At the same time its purpose is to catalyse investments in new companies, products and services.

A VIBRANT PRIVATE SECTOR

Kenya's private sector is historically strong and vibrant. With high poverty, the private sector is the crucial engine of economic growth, employment creation and income and tax generation.

The private sector accounts for approximately 80% of Kenya's GDP and provides over 50% of waged employment. Formal sector enterprises operate primarily out of the country's largest cities, Nairobi, Mombasa, Nakuru, Eldoret and Kisumu, while the informal sector is more widely distributed in rural areas. In the formal sector, the approximately 40,000 MSMEs account for about 60% of GDP, while more than 1.7 million small and medium enterprises, mainly in the informal sector, account for 20% of GDP. MSMEs show tremendous potential: of the new jobs created in 2006, 87% were in the MSME sector. Today it provides 78% of the total employment in Kenya.

REGIONAL INTEGRATION

A regional integration process in East Africa is taking shape through the East African Community (EAC). The EAC customs union was established in January 2010 and the common market opened in July 2010. Kenya stands to gain significantly from the common market as its private sector is already strong and relatively well developed and its GDP per capita is close to double the size of the surrounding countries. It has many advantages over its neighbours, including access to sea transport, a comparatively well-educated workforce, a relatively well-developed financial sector and a large manufacturing sector.

CHALLENGES FOR THE PRIVATE SECTOR

Despite a number of improvements, the position of Kenya's business environment has dropped on the World Bank's Ease of Doing Business Index 2010, from 84 in 2009 to 109 in 2012, illustrating the difficulty of doing business in Kenya. Businesses of all

sizes are challenged by issues ranging from arduous licensing, an unfriendly tax regime and corruption, to lengthy inspection processes and lack of enforcement of business rules and regulations. In addition, infrastructure constraints hinder the activity of growth-oriented businesses, while small enterprises experience a lack of credit facilities and limited access to markets and market information.

Notwithstanding the many challenges, as stated earlier, Kenya's private sector is vibrant and shows great initiative and resilience. Danida, through its various private sector development instruments, supports the pursuit of economic growth and an equal society.

YOUTH UNEMPLOYMENT

As illustrated by the post-election violence in 2008, youth unemployment must be addressed to ensure the long-term stability of the country and to counteract social unrest. Young people account for 38% of the total population and with a rapidly growing population, the formal economy is not generating sufficient jobs each year to employ the growing young potential workforce. This situation accelerates income disparity and frustration amongst the youth. Major obstacles to youth empowerment in the private sector are; a difficult business environment, corruption, lack of credit facilities for small enterprises, poor access to markets and market information, and production and marketing bottlenecks.

FUTURE POSSIBILITIES

The steady GDP growth to 7.1% in 2007 was interrupted by post-election violence following the general election

of that year. Instability was compounded by a severe drought and the global financial crisis, resulting in a drop in GDP growth to 1.7% in 2008. However, the private sector demonstrated great political leverage after the elections and played an important role in resolving the political crisis.

The Kenyan economy has made an impressive recovery with GDP growth of 2.6% in 2009 and 5.6% in 2010. Drought, higher food prices and electricity shortages are expected to reduce the 2011 growth rate by 1%. It is anticipated that the GDP growth will rebound to just below 6% in 2012. However, the threat of recession in Europe and the US, combined with the possibility of election-related instability in 2012, poses a risk to the Kenyan economy. Nonetheless, lessons were learned during the last election crisis and the outlook for the 2012 elections is brighter.

NEW WEALTH AND NEW MARKETS

Danish support to the Kenyan private sector provides new market opportunities for Danish companies and consumers from both Denmark and Kenya. Several Danish companies are already present in Kenya and many more have shown a keen interest in Kenya's business environment - a development enhanced by the Embassy's other business support instrument, Danida Business Partnerships, and the recent opening of a Trade Council office within the Embassy.

FUNDING STATUS

The Danish contribution to BSPS II is 320 Danish Kroner (DKK) million over a period of five years:

Budget	DKK Million
1. Improved business environment	110
2. Competitiveness of MSMEs	90
3. Innovation and piloting green energy	100
4. Research, studies, reviews, management	20
Total	320