



## Increasing Productivity and Innovation in Kenya

### Leveraging digital transformation for productivity and innovation in Kenya's private sector

The Kenya Industry and Entrepreneurship Project (KIEP) is a US\$50million lending project that aims to increase productivity and innovation in select private sector firms in Kenya. The CIIP grant has influenced the larger private sector development agenda in Kenya by leveraging this downstream financing. KIEP's activities are expected to kick-off in early 2020 and aim to benefit: 30 incubators and accelerators, 640 students, 250 MSMEs, 162 startups, 15 corporates and 7 technology Bootcamps. In addition, 33,050 individuals and 2,393 firms will be indirect beneficiaries of the project.

#### CHALLENGE

While Kenya is among the top innovation leaders in Africa, it cannot afford to rest on its laurels given the fast-paced changes in the global digital economy and the inherent challenges to more traditional aspects of its own economy. Kenya still ranks 77th out of 127 countries in the Global Innovation Index 2019, with room for improvement in human capital, research, knowledge, and technology outputs.

The current ecosystem of Incubators, Accelerators and Bootcamp providers in Kenya is large, but many remain in a nascent stage of development and are dependent on grants, which precludes them from pursuing financially viable business models and diminishes the quality and differentiation of their services. Kenyan corporates and SMEs are characterized by low or fluctuating productivity and limited incentives to innovate due to poor managerial practices and shortage of tech talent and expertise. In addition, links between different stakeholders in Kenya's innovation ecosystem are weak. This leads to capacity underutilization and a disconnect between industry and research organizations, hindering innovation for SMEs.

#### APPROACH

CIIP support was key in informing the design of KIEP activities oriented towards overcoming critical market failures that stand in the way of government priorities. The government's development goals are hampered by challenges such as low productivity of the private sector, marginalized innovation and gaps in linkages between traditional industries, startups, and SMEs.

The pilots, consultations, and analysis financed by CIIP and conducted during project preparation addressed an important gap and helped to adapt the initial design to better respond to the identified challenges. The approach, led by CIIP, focused on coordination and consultation with donors and relevant stakeholders to avoid duplication and ensure demand-driven interventions. It included the review of best practices from countries with relevant experiences and emphasized the testing of best practices in the Kenyan context to ensure context-appropriate design. Through the work funded by CIIP, the task team together with the government counterparts were also able to incorporate in the design of KIEP specific ways in which the project could better support women in technology, women founders and women-led SMEs, such as specific requirements in the terms of reference of the firms being hired to implement the project to increase the number of women beneficiaries.

#### PARTNERS

The project is implemented by the Ministry of Industry, Trade and Cooperativeness (MoITC). KIEP's implementation involves supervision by a Project Implementation Unit (PIU) within the Ministry, and implementation through external consultancies.

The Bank has used its convening power to mobilize multiple local stakeholders from the private sector, other government agencies, and donors. During the preparation phase and pilots, partnerships with stakeholders in the ecosystem helped to ensure appropriate project design. Other partners which have been consulted and have provided guidance include the Government of Finland and the EU delegation in Kenya.

## RESULTS

The results of the four pilots conducted during 2017 and 2018 helped address gaps in the project preparation and implementation and informed the design of the Terms of Reference (TORs) and the allocation of the project budget. KIEP is the first lending operation with Kenya's Ministry of Industry, Trade and Cooperatives in 14 years, and the first lending project in the African continent that is supporting the Digital Transformation Initiative. The CIIP-funded activities helped to build client capacity, knowledge and exposure, and reduce the risk of innovative approaches through piloting. In addition, CIIP-funded activities benefited implementation by helping to accelerate procurement processes through the development of TORs and enhanced stakeholder engagement.

The CIIP team designed and customized a diagnostic tool for the assessment of incubators and accelerators and synthesized the key learnings in a pioneering "Best Practices" report. The testing and validation of the diagnostic process leveraging these best practices helped to ensure that it would be useful for a diverse set of intermediaries and helped to adapt key indicators to the local ecosystem. The results of the work done will help to enhance the capacity of 30 Incubators and Accelerators in the country.

Through CIIP, the team also assessed various industry-academia platforms and was able to effectively map out existing initiatives and engage a diverse set of stakeholders to develop a design blueprint. Local tertiary academic institutions and their students will gain increased access to corporates to enhance research and development capabilities and professional and technical skills in line with market demand. The CIIP-funded analytics and piloting have contributed to increased stakeholder engagement and ownership, which will also help fast track implementation.

The consultations with private stakeholders revealed that there is a sizeable women-run SME segment in Kenya which was previously unreported. This finding has resulted in the program incorporating a minimum 20 percent participation of women-run SMEs. The pilot also identified potential roadblocks and informed the development of an implementation map, which will improve the operation of the program and ensure that 250 SMEs are better supported.

Building on the strong gender lens of the program, the work done has contributed to building TORs with stronger gender participation requirements. Findings from the gender studies will also contribute to building a better understanding of the women in business landscape in Kenya and can also act as a foundation for any gender focused interventions in the country in future.

In addition to the pilots, research and learnings, CIIP-funded activities conducted during the preparation of KIEP also helped to enhance other analytical work. These have included the preparation of the "Digital Economy for Africa" (DE4A) diagnostic report, and an upcoming analytical work focused on MSME financing in Kenya.

## MOVING FORWARD

The KIEP project is currently under procurement review to select the Consultancy firms that will implement the project starting in early 2020. Five Consultancy main firms will be hired to run the different components and the PIU will be the entity responsible for the implementation of the Project.

In addition to the direct and indirect beneficiaries identified, the project aims to support a downstream impact through the private sector by creating a demonstration effect to other firms in the ecosystem, crowding in private capital through performance improvements (i.e. Performance contracts) and strengthening linkages in the market.



## BENEFICIARY STORY

Irene Wanjiru Mwangi is the Founder and CEO of GAEA Foods, a family business that engages in potato processing in Kenya. Irene notes that trainings on soft skills, confidence building, and presentation skills would be very important for women entrepreneurs.

Thanks to the consultations with various women-led SMEs, the team was able to ascertain the key challenges women faced, such as financial mismanagement, the double burden and low self-confidence and suggested customized trainings as a potent solution that have now been incorporated in the project design.

## WBG CONTRIBUTION

KIEP IDA envelope is US\$50 million starting in 2019.

Trust funds involved during the design phase were used to run pilots and document best practices for the local market feeding directly into the design and implementation of KIEP:

- CIIP provided financing of US\$400,000 between 2016 and 2018
- InfoDev provided financing of US\$250,000 between 2016 and 2018

The KIEP team recently received a DT4D trust fund grant of \$200,000 to support Kenyan SMEs through a Kaizen 2.0 pilot between 2019 and 2020. Kaizen 2.0 aims to digitize traditional Kaizen with AI digital microlearning platforms.