

NTF III KENYA - ENHANCING EXPORT COMPETITIVENESS OF THE IT & ITES SECTOR IN KENYA

August 2014

The Parties understand that the present document constitutes preparatory work that reflects the Parties' intentions in relation to the Project. The present document shall not be regarded as a contractual document binding on the Parties. The Parties' intentions hereunder shall be formalized by subsequent written agreement, subject to ITC internal approval procedures.

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LIST OF ACRONYMS

BPO:	Business Process Outsourcing
CBI:	Centre for Promotion of Imports
CCK:	Communications Commission of Kenya
CSK:	Computer Society of Kenya
DANIDA:	Danish International Development Agency
DDD:	Digital Divide Data
EAC:	East African Community
EPC:	Export Promotion Council
ESCP:	Export Sector Competitive Program
ICT:	Information and Communication Technology
ICTAK:	ICT Association of Kenya
IT:	Information Technology
ITES:	Information Technology Enabled Services
ITO:	Information Technology Outsourcing
KePSA:	Kenyan Private Sector Association
KICTA:	Kenya ICT Authority
KICTANET:	Kenyan ICT Network
KITOS:	Kenyan IT & Outsourcing Society
NASSCOM:	National Association of Software and Services Companies in India
PPP:	Public Private Partnership
TSI:	Trade Support Institution
USAID:	United States Agency for International Development

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1. PROJECT BRIEF

Title	NTF III KENYA - ENHANCING EXPORT COMPETITIVENESS OF THE IT & ITES SECTOR IN KENYA
Beneficiary country(ies)	Kenya
Short description (max. 30 words)	The NTF III Kenya Information Technology (IT) and Information Technology Enabled Services (ITES) project aims to enhance the export competitiveness of the IT&ITES sector in Kenya, which will lead to increased export revenues for enterprises.
Section / Division	DMD/SC
Project duration	36 months
Project start date	September 2014
Project budget	1.26m USD
Donor(s) / Sources of funding	<p>Source: <input type="checkbox"/> W1 <input checked="" type="checkbox"/> W2 – Name of donor: Netherlands Trust Fund</p> <p>If relevant, please provide breakdown per year.</p>

2. PROJECT SUMMARY

The NTF III Kenya project is part of the Netherlands Trust Fund III /NTF III programme. NTF III is an Export Sector Competitiveness Programme based on a four-year partnership agreement signed by the Centre for the Promotion of Imports from developing countries (CBI) and the International Trade Centre (ITC) in July 2013. It aims to enhance export competitiveness of selected sectors in selected countries through an integrated approach to sector competitiveness built around one outcome, namely the increased competitiveness of the selected sector in the selected country.

The Programme will conduct activities in Bangladesh (IT/ITES sector), Kenya (IT/ITES and Avocado sectors), Myanmar (Tourism sector) and Uganda (IT/ITES and Coffee sectors). NTF III Kenya follows the same logic as the programme at impact, outcome, and output level.

The NTF III Kenya Information Technology (IT) and Information Technology Enabled Services (ITES) project aims to enhance the export competitiveness of the IT&ITES sector in Kenya, which will lead to increased export revenues for enterprises. The IT&ITES sector in Kenya has seen important improvements over the last 10 years, mostly triggered by vast internet infrastructure improvements and strong governmental vision. The IT/ITES sector in Kenya is in a unique position to export business services within East Africa and to the rest of the world. Kenya's recent "ICT revolution" epitomized by the success of Safaricom has expanded mobile phone and internet access to millions of people, and Kenya's ICT services firms such as KenCall have had substantial success in the domestic as well as the international market.

Nonetheless, the Kenyan IT & ITES sector falls short of its potential due to a series of challenges:

- Absence of IT&ITES export plan in the sector
- Limited capacities in business/management and export marketing skills at enterprise level in the IT&ITES sector and limited awareness on funding opportunities for business growth.
- Lack of understanding of potential markets and business generation services at TSI level.
- Lack of direct business linkages between sector SMEs and foreign buyers.

This project aims to enhance the export competitiveness of the IT&ITES sector by targeting 4 outputs:

Export strategy for the IT&ITES sector developed and validated

Currently, there exists no single export related plan which could guide the sector and provide a road map for the development and expansion in foreign markets. The sector is regarded as an important future growth sector, but a detailed strategic approach towards its development has not yet been elaborated. To address this need, information and data will be collected and subsequently used to develop and validate an inclusive sector strategy together with an operational implementation plan. The objective of this strategy is to provide a framework and operational guidelines for export promotion of the sector. Furthermore, a public-private platform at sector level will be established to ensure more dialogue and stronger cooperation between the government and the private sector.

Increased export capacity of selected exporting SMEs in the IT&ITES sector

Export capacities of selected SMEs will be improved in two ways: firstly through the enhancement of their business and marketing capacities and through developing export marketing plans. Secondly, access to finance for IT&ITES SMEs in Kenya will be facilitated.

Improved capacities of the major sector TSI KITOS in providing IT&ITES sector development support services to enterprises

The main beneficiary TSI of the project is the Kenyan IT & Outsourcing Society (KITOS). KITOS is Kenya's IT and Outsourcing Services body and the country's largest IT sector TSI. Its capacities will be reinforced in the fields of business planning, developing business models and market research and analysis. This involves training on RBM as well as setting up a member portfolio database documenting certifications and export experience of member SMEs. Further, KITOS will receive

assistance in its role as an IT-skills certifier.¹ This activity will contribute to setting standards and therefore branding Kenya as a recognized outsourcing destination. ITC will provide added value by assisting KITOS with technical know-how and expertise during the set-up of the certification system.

Business linkages and technical partnerships/collaborations expanded

Under this output, the project will build contacts with companies that are interested in outsourcing their services to Kenyan IT&ITES SMEs. These companies will be European and possibly emerging economy buyers, whose country of origin is determined by the sector study developed under output 1. To guarantee successful partnerships, relevant export destinations will be researched at first within the framework of elaborating the sector export strategy under output 1. Then, thirty three Kenyan SMEs with the most potential will be selected and connected to potential client companies through B2B matchmaking activities. In combination with participations in trade fairs, this will result in contracts with new clients for Kenyan SMEs.

Technical partnerships will be created and synergies explored among the three NTF III projects that focus on the IT/ITES sector, namely Bangladesh, Kenya and Uganda. This include regular meetings to exchange lessons learned and experiences made but also joint south-south cooperation activities to learn from the South Africa experience, for example. Complementary marketing activities in target markets will also be considered.

Moreover, within NTF III itself synergies will be assured among the Uganda and Kenya projects focusing on IT&ITES. This also includes the NTF III project in Bangladesh.

Notwithstanding Kenya's more advanced position in the IT/ITES domain in East Africa, cooperation activities between Uganda and Kenya will play a dominant role throughout the duration of the project. For example, trainings such as on marketing will be offered simultaneously, benefitting from economies of scale.

In addition, joint visits to trade fairs and sector events and forums will be encouraged and organized. First joint visits are already planned for the technology fair GITEX, taking place in Dubai in October 2014. This event will also serve as a platform to advance joint efforts of the "women in IT" component, which is common to all three projects. Likewise, some of the planned B2B events will be offered for Kenyan and Ugandan participants, however making sure to invite SMEs from complementing and not competing areas of expertise.

Furthermore, joint south-south cooperation activities are planned. For example, a collective visit to South Africa will play a central role during the kick-off phase of the project. In order to "learn from the champion", company tours and discussion rounds will take place for Kenyan, Ugandan as well as Bangladeshi sector representatives.

Last but not least, country marketing plans to promote each destination for outsourcing will be aligned so that no competing messages are sent out.

Table 1 below shows the final and direct beneficiaries as well as the strategic partners of the project. For a more detailed analysis and description of stakeholders, please refer to Table 4 in Annex VII: Detailed Background and Context.

¹ As KITOS is an industry body with a government mandate, they are enabled to be such a certifier.

Table 1. Main Stakeholders.

Beneficiary	Priorities	Strengths	Needs
<p><i>Final and direct beneficiaries</i></p> <p>SMEs in the IT & ITES sector</p>	<p>Increased exports, new business linkages established</p>	<p>Large pool of talent, educated and young labour force, favourable government policies in place, high potential for employment of women and entrepreneurship opportunities</p>	<p>Enhanced export competitiveness and visibility of Kenya IT & ITES sector in the world market</p>
<p><i>Strategic partners</i></p> <p>TsIs: Kenya IT & Outsourcing Society (KITOS)</p>	<p>Increased capacity in providing services to IT & ITES SMEs, cooperation in promoting the sector in foreign markets</p>	<p>Existing expertise on assisting SMEs in the sector, engagement with the industry, linkages with the government and influence on their priorities</p>	<p>Strengthened institutional capacities, market analysis and research capacities, enhanced entrepreneurship-support capacities</p>
<p>Government ministries: Ministry of Information, Communication and Technology Ministry of Foreign Affairs Ministry of Commerce</p>	<p>Increased capacity to facilitate economic development, contribute to implementation of government policies in the sector</p>	<p>Taxpayer funded, government backed, power in implementing policies in the sector</p>	<p>Enhanced expertise in IT & ITES sector support, public sector services modernized</p>

3. BACKGROUND & CONTEXT

3.1 SITUATION ANALYSIS

When breaking down Kenya's GDP into its constituents, one notices that the largest share is with the services sector, with agriculture coming only second. Within services, the Information and Communications Technology (ICT) sector contributed up to 14% of the country's GDP growth between 2000 and 2009, making an important direct contribution to economic growth. Following a decade of rapid urbanization and strong economic growth, Kenya, also nicknamed "Silicon Savannah", is home to a growing wave of innovation. As a mark of confidence in Kenya's potential, Google, Microsoft, IBM and SAP, among other international firms, now have fully fledged offices in Kenya. When considering Kenya's unique selling points and stand-out features, one has to emphasize two things: firstly, its worldwide lead in the mobile payment sector, and secondly, its existing and sophisticated IT hub structures. Kenya's "M-Pesa", the country's mobile payment system, has been a notable success story and is ubiquitous in Kenya. Today, with 14.6 million users, M-Pesa is recognised as one of the most successful financial services innovators in the world. For the first quarter of 2013, the value of M-Pesa mobile money transactions in Kenya exceeded \$5 billion. Its pioneer role in mobile payments shows how Kenya could leapfrog the developed world by using mobile technologies in new ways.

Moreover, Kenya has an impressive hub structure already in place. Nairobi is home to the first tech incubator in Africa, the iHub, which has supported and inspired a movement of young tech-savvy Africans to develop a community that is taking risks in building products, services, and platforms for local markets.

Kenya liberalized its ICT sector in 2000, leading to a technological revolution which has stimulated home-grown innovation, transforming Kenyans' lives. The country has transitioned from 2G technology to 3G, and is now finalizing the modalities of adopting the Long Term Evolution (LTE) technology (4G). ICT growth averaged 23% during 2000-2009, while ICT investment alone contributed almost a percentage point of GDP growth. Kenya is one of the leading countries in Africa for ICT innovation and services, with coverage greatly expanded, bandwidth increased, quality improved, tariffs falling, and investments and innovation up.

The IT & ITES² sector is an emerging sector in Kenya, and limited knowledge exists on its scope and capacity since there are no detailed export statistics. The Kenyan IT and Outsourcing Society KITOS estimates that currently about 2000 Kenyan IT & ITES companies (including independent freelancers) employ about 7000 people. Most of the companies are located in the capital city of Nairobi. While there do exist some IT professionals who are specialized in graphic design or applications, the bulk of companies in the domain operate in ITES such as voice based customer support, and document management which includes digitalization, transcription and archiving. The best market opportunities for Information Technology Outsourcing (ITO) providers from developing countries (DCs) can be found in the UK, the Netherlands, and Scandinavian countries, according to o'desk, the largest worldwide network of freelancers, as these markets are comparatively open to international outsourcing. Germany and France offer opportunities due to their large market size, but they generally prefer 'near-shoring'. As the EU/EFTA ITO market is very competitive, the key for Kenyan companies would be to add value, for example by specialising in a niche market³.

Kenya is a moderately sized outsourcing destination that lacks the scale of India or the Philippines for example. Nonetheless, over the past years, Kenya has emerged as a leading country in innovation and IT services within Africa. The country bears several other strengths, which are discussed in the following section.

Kenya's strengths and competitive advantages

Over the past 5 years Nairobi, or the 'Silicon Savannah,' has blossomed into a global hub and a regional role model for cultivating innovation. The following overall strengths and competitive advantages of Kenya have contributed to that development:

- Advantageous time-zone for customer support and ITES services: Kenya is practically in the same time zone than continental Europe. This is convenient especially for customer support services, since Kenya does not require expensive night shifts to satisfy client demands.
- Talented human resources in the area of IT: Kenyan Universities are centres of excellence, well known beyond the country's borders to educate capable Information technology coders and online engineers. The University of Nairobi is a top-ranked University within Africa: according to the Webometric ranking of world universities, it is ranked 2nd in East Africa and 17th in Africa.

² The term ITES stands for services that are IT-enabled. The terms BPO and ITES are often used synonymously. This project makes use of the term ITES, however, the government of Kenya developed a national BPO strategy and BPO is often used throughout reference documents.

³ Source : CBI Trend Mapping for Information Technology Outsourcing (ITO)

- Proactive and business-savvy mentality of Kenyan SMEs: during the formulation mission, it was impressive to hear that companies in the ITES sector actively reached out to export to other African countries like Nigeria or South Africa.

For more information on background and context, please refer to Annex VII: Detailed Background and Context.

3.2 LESSONS LEARNED

The NTF III Kenya IT&ITES project is the first intervention of NTF in the IT&ITES sector in Kenya, thus, the project cannot build upon previous ITC interventions in this very sector in the country. Nonetheless, important lessons can be obtained from previous NTF projects in Kenya.

The first lesson to be learned from NTF II Kenya is its success in creating a private-public partnership (PPP) to develop sector strategies. PPPs avoid the often negative effects of either exclusive public ownership and delivery of services on the one hand, or outright privatization on the other. In contrast, PPPs align advantages that can be found at both sides: the private sector with its resources, management skills and technology, and the public sector with its regulatory actions and protection of the public interest. NTF III in the IT&ITES sector will build on this positive achievement and continue public-private partnerships under output 1.

Secondly, as per the evaluation of NTF II, leadership from the main TSI in charge of implementing the Kenya project became a problem as the buy-in into the project diminished over time. This stemmed from gaps in the understanding of processes beyond the TSI. In order to circumvent similar problems in the future, it was recommended to pre-define explicit roles for TSIs to ensure the institutions are selected for the right role. The NTF III Kenya IT&ITES project has incorporated this advice by carefully selecting the beneficiary TSI in the sector. Continuous dialogue, as well as the early definition of its roles and responsibilities⁴ before the implementation process will ensure buy-in and strong leadership of the beneficiary TSI.

Thirdly, a Quality Assurance Advisor (QAA) will be contracted by ITC at programme level. S/he will play a key role in providing the programme and project management teams with an external view of progress, issues encountered, and adjustments needed to achieve the agreed outputs and outcome. S/he will provide advice on project implementation and possible corrective actions to be undertaken. The QAA will be a useful resource to the project management team for monitoring implementation progress.

With respect to TSIs, the NTF II evaluation report recommends to *“increase income generation activities geared to continued service provision”*. The project will follow this advice by working with a private TSI, KITOS, which does not receive any donor funding and is completely reliant on membership fees. Thus, the services developed within KITOS are done so with the perspective of financial-sustainability, and the ability to further develop and commercialize them.

Despite the IT&ITES sector not being targeted in Kenya under NTF II, NTF has a history of interventions in the IT&ITES sector in Bangladesh. Interventions in the latter country have been undertaken throughout phase II of the programme, and will be continued in phase III. Thus, some lessons can be learned from the Bangladesh project. For example, NTF II Bangladesh benefitted largely from its flexibility and possibility to decide on adjustments throughout implementation. This allowed for quick operational changes in activities which benefitted the project.

Furthermore, the NTF II experience from Bangladesh shows that B2B events on target markets preceded by just cold leads to potential clients, i.e. through invitation of random pool of companies involved in IT & ITES services in target markets, did not lead to acquiring new clients and contacts. In

⁴ The roles and responsibilities of KITOS, the beneficiary TSI, are described in part 4.Strategy – Exit Strategy, last paragraph on TSIs on page 31.

contrast, B2B events backed up by hot leads, i.e. through telemarketing and calls targeting specific IT companies in target markets, led to SMEs establishing strong business links with European companies. The preparation of such events requires strong matchmaking partners and a solid management of the planning phase.

Moreover, the successfully concluded ITC project “Support EAC's Regional Trade Integration” gave farmers and small traders in Kenya access to a business matching system using mobile phones. In that project, the use of technology led to economic growth and job creation, which corresponds to the objective of NTF III. One main challenge of the project was related to scarce financial resources of partners in Kenya. A key recommendation that followed was hence the “focus on income generation so as to build enough momentum to ensure sustainability”. The NTF III project will lead to direct income generation for SMEs through the focus not only on training, but on B2B activities, resulting in business partnerships beyond the lifespan of the project.

Activities in the Kenya project are designed in a way to allow for sufficient flexibility in the implementation, and to adjust to changes in the dynamic IT&ITES environment.

Finally continuous learning will be encouraged and ensured among the three NTF III projects targeting the IT&ITES sector in Bangladesh, Kenya and Uganda. Regular meetings among sector stakeholders will be organised. Lessons learned exchanged and relevant documentations, such as market reports, etc. exchanged.

4. RELEVANCE

4.1 NEEDS ASSESSMENT

The needs assessment was conducted based on the following three inputs:

- NTF II Evaluation Report (2013)
- NTF III Technical Feasibility Study Kenya (March 2014), which included extensive discussions with local stakeholders, including both NTF II and non-NTF II company representatives, government ministries, TSIs and sector associations
- NTF III Formulation Mission Kenya (June 2014) which served to validate and complete the project plan with stakeholders

Based on the above and taking into account the NTF III Programme's mandate, the following challenges were identified:

1. Absence of a strategic approach to sector development

Despite visible government efforts to highlight the importance of the sector for economic development, for example shown in the national ICT strategy, or with IT being one of the main pillars of Kenya's Vision 2030, these efforts are very much focused on the domestic market. The planned governmental actions aim to undertake infrastructure improvements rather than developing a holistic sector strategy. This means that to date, the country does not have a systematic and structured approach for building up international competitiveness along the value chain of the IT sector.

Further, there is a certain inconsistency in the fact that the Kenyan government is trumpeting development of the IT and ITES sector as a cornerstone of growth and as a solution to youth unemployment, while at the same time barely engaging in outsourcing its services. As of today, there have not been significant efforts to outsource governmental processes. While governmental outsourcing per se is not an export development activity, it could have an important positive impact of the sector as a whole, including upgrading its export potential. The scale of business that could be created through government outsourcing of IT-services would allow companies to grow and develop new areas of specialisation. That, in turn, would allow companies to target larger and more

sophisticated export markets and drive development of the sector as a whole. Paving the way for a more engaged government, the project will focus on public-private partnerships and establish a platform for dialogue. For example, the private sector strongly endorses the vision of a practical and operational sector strategy, which can provide a road map for developing and expanding Kenya's IT and ITES services in foreign markets.

2. Lack of access to finance, marketing skills and certifications of SMEs

The University of Nairobi⁵ states that many SMEs in Kenya remain small due to lack of working capital and funds for expansion, hence industrialization has been slow. SMEs lack finance due to discrimination from the formal financial institutions, especially from banks. SMEs, especially in the ITES sector which does not require major investments that could be used as collateral for loans, have few alternatives of accessing finance other than relying on their retained earnings to finance their investments.

Furthermore, SMEs in Kenya stress that they are at a disadvantage in tendering processes. Tenders are often configured to require or encourage formal guarantees or large capital resources. Similarly, many companies in the sector are not aware of funding opportunities including venture capital funding and private equity. They do not have enough experience or knowledge in complying with the requirements of funding institutions, thus fail to obtain necessary funds for their business development. Therefore, financial education and sensitization on financial services emerge as a need to be tackled by the project.

At the same time, companies have to position and market themselves in order to compete on the international offshoring market. Most of Kenyan SMEs have little business and marketing skills to market their business and attract new clients. As a consequence, the project will also provide training on marketing measures.

3. Lack of internationally recognized certifications

Kenyan SMEs in the IT & ITES sector are quite developed in terms of skills, quality of work and talent. Services offered are able to fulfil Western standards. However, companies have difficulties to acquire new clients. Foreign companies outsourcing to Kenya face what in economics is known as the *lemons problem*⁶. This problem describes quality uncertainty due to asymmetric information on markets. Since most Kenyan companies do not have an established track record with renowned clients and lack internationally recognized certifications, it is difficult for foreigners to assess their true quality and advance trust by contracting them. National standards concerning skill certifications of IT and ITES companies are absent. While output four will contribute to connecting Kenyan SMEs with international buyers, thus helping them establishing a track record, output 3 will allow KITOS to certify these companies. For example, SMEs will get certified to ISO's management system standards. Implementing and obtaining certification on these standards shows that company operations comply with international standards of efficiency and effectiveness. This can reassure international clients of the quality of the company, proving it is not a *lemon* in the sense of Akerlof.

4. Weak and unequipped trade support infrastructure

Currently, there exist three main TSIs in Kenya that operate in the IT sector. The EPC is the national Trade Promotion Organisation (TPO), which however does not have a strong focus on the area of IT and specifically outsourcing of IT&ITES services. Secondly, The Kenyan ICT Authority (KICTA) is a

⁵ <http://business.uonbi.ac.ke/node/1989>

⁶ The economist George Akerlof introduced the lemons problem in a famous paper in 1970. A lemon is an American slang term for a car that is found to be defective only after it has been bought. This problem occurs because of information asymmetry, due to which buyers cannot distinguish good cars from rotten lemons.

state corporation that was formed in 2013. Its role is to implement the ICT policy developed by the Ministry as well as to develop standards and infrastructure. KITOS is Kenya's IT and Outsourcing Association. In contrast to the preceding two organisations, its mandate is to foster the outsourcing of IT and ITES services. The design team selected KITOS at the led TSI because its mandate and competence are closely aligned with the objectives of the project. The formulation mission yielded that KITOS is predominantly focused on the domestic market. It currently does not have enough knowledge and understanding of world markets, lacks insights of market developments and international trends, as well as information on sourcing markets outside Kenya.

On the whole, there is not enough export-related institutional capacity like market analysis skills, research expertise, and export-support capacities. Since the organization is young, it does not have sufficient relevant experience in these fields. Secondly, KITOS has an extremely small number of members (currently, the organisation accommodates 35 members, which is only about 1.75% of the existing IT and ITES companies in Kenya). This can be explained by the fact that membership is not free, and companies do not see sufficient added value in joining the TSI. The low number of members relates to the last point, the current weak portfolio of services the TSI is offering. By improving and expanding its service portfolio, KITOS will make it more appealing for companies to become members who will subsequently benefit to a greater extent from its services. On a related note, KITOS currently does not possess a complete database of its member companies where their competencies, certificates and clients are listed. Such a member service portfolio was strongly requested by the TSI and will be realized in the scope of this project.

In order to tackle the problem of missing certifications of SMEs, KITOS is planning to introduce a certification system. As outlined under output 3, such a certification system would likely be based on a private standard and would target the identified priority market and its requirements. As KITOS is an industry body with a government mandate, they are enabled to be such a certifier. This activity will contribute to setting standards and therefore branding Kenya as a recognized outsourcing destination. ITC will provide added value by assisting KITOS with technical know-how and expertise during the set-up of the certification system.

Lastly, KITOS does not possess a Monitoring and Evaluation mechanism, which will also be introduced in this project.

5. Insufficient direct contacts with export markets

Kenyan companies struggle to penetrate foreign markets. This is partially due to their rather limited credentials and track record in outsourcing, and partially due to low international recognition of Kenya as brand in the sourcing market. Concerning the latter, it is important to highlight that the government established the *Brand Kenya Board* as a State corporation under the Ministry of Information and Communications. The Board has the goal of establishing a brand for Kenya, which should position the country internationally. However, there are no specific efforts visible in marketing Kenya as an outsourcing destination. The NTF III Kenya project will contribute to branding Kenya as an outsourcing destination. This will be achieved through the development of a positioning strategy, including guidelines to marketing claims, positioning and communication. A set of marketing and communication tools that support the promotion of the Kenyan IT&ITES sector will be developed, including a digital communications campaign. Furthermore, Kenyan SMEs will be connected to international buyers in the context of B2B matchmaking events and will participate in trade fairs. Through these activities, they can obtain new clients, establish a track record, and hence brand their nation as an offshoring hub in Africa.

4.2 COHERENCE WITH PARTNER GOVERNMENT POLICIES AND STRATEGIES

The ITES sector has recently featured as a priority under almost all Kenyan economic policy documents. The government of Kenya has been especially instrumental in developing its domestic

ICT and BPO sector, culminating in the launch of the first National ICT Master Plan in 2012, as well as BPO being a main pillar of its development program, i.e. Kenya *Vision 2030*.

Kenya Vision 2030

Kenya Vision 2030 is the country's development programme covering the period 2008 to 2030. Its objective is to help transform Kenya into a "*newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment.*" The Vision is based around three "pillars": an economic pillar, a social pillar, and a political pillar. It is to be implemented in successive five-year medium-term plans. As depicted in Figure 4 in Annex VII, the economic pillar of the plan targets six key sectors including ICT and BPO.

Konza Technological City

Konza Technological City is an enormous city building project by the government, that is marketed as a key driver and accelerating institution for Kenya's BPO industry. The multi-billion dollar city (the Kenyan government intends to spend a reported US\$14.5 billion), will be located on a 5,000-acre plot of land some 60 kilometres southeast of the capital Nairobi. The park is set to host business process outsourcing ventures, a science park, a convention centre, shopping malls, hotels and international schools. Furthermore, it will feature a university campus, urban parks, and housing to accommodate some 185,000 people.

ICT Strategy 2017

The ICT Strategy 2017 is a 5 year plan on how Kenya can leverage ICT to its economic benefit. It was developed by the Kenyan ICT Board and foresees that by 2017, Kenya's ICT industry will be making an estimated US\$2 billion (about 25 percent of Kenya's current GDP), and that it will have created around 500 new ICT companies and over 50,000 jobs (Kenya ICT Board, 2012).

A more detailed description of these Kenyan government policies can be found in Annex VIII:

There are also several private sector projects in the IT sector in Kenya, as can be seen in the overview given by table 4 in Annex XI.

The ITC has the technical expertise and recognised knowhow to manage and implement projects dealing with sector competitiveness enhancement. Its competitive advantage, compared to other development agencies, lies in its specialisation in trade and international business development. While the national government policies do not address matters related to trade, i.e. the outsourcing of Kenyan services, the ITC will complement and expand the existing strategies by introducing a focus on the export of Kenyan IT&ITES services.

4.3 COHERENCE WITH ITC STRATEGY

One of ITC's priorities is to increase capacities of developing countries to participate in global value chains, thus solving numerous development challenges including poverty, and unemployment, particularly among young people. Activities to be undertaken during the life-span of the NTF III Kenya IT&ITES project will contribute to the objectives defined in the ITC Strategic Plan (2012-2015) particularly by:

1. Connecting to value chains: SME competitiveness, diversification and links to export markets

Potential to synergize with these projects will be re-assessed at the beginning of the implementation.

4.4 DEVELOPMENT MARKERS

	0	1	2	Comments
Gender		X		Please see section on “Gender” below
Youth		X		Please see section on “Youth” below
Environment	X			The development marker “Environment” is not relevant to this project.
Millennium Development Goals		X		Please see section on the “Millennium Development Goals” below.

Gender

Women are still underrepresented in the Kenyan IT&ITES sector, which is due to various reasons. Some are not interested in working in this industry. Young women might be oblivious about career options and opportunities, or are simply lacking necessary hard- /soft skills to set up an IT business or even work as a freelancer.

In this context, the project will put a specific emphasis on recruiting women-led enterprises to contribute to gender mainstreaming and the empowerment of women through business. The EOI, used for selecting beneficiary enterprises, contains questions on gender ownership and management of enterprises. All things being equal women-owned and/or managed enterprises will be preferred over men-owned/managed enterprises. Furthermore, all enterprise-related indicators will be disaggregated by gender wherever relevant and feasible. Reporting against these indicators allows identifying the contribution of NTF III to gender mainstreaming within the beneficiary enterprises.

In addition, the project will explore the following options:

Firstly, the project will support campus events organized for female students, which contribute to raising awareness about the IT sector and career options. Campus events will offer marketing and publicity for the IT sector, showcasing its attractiveness especially for women. Moreover, participation in online career fairs as well as summer schools will be actively promoted and facilitated.

Secondly, young women entrepreneurs will receive support in setting up or expanding their businesses. When considering support to young women entrepreneurs, there already exists a number of attractive incubation & start-up support programmes in Kenya, on which this project can build. Some of them are mentioned below:

- *88mph*⁷ links up young women entrepreneurs with local and foreign mentors.
- *Akirachix*⁸ is an association that inspires and develops women’s skills in technology through networking, training and mentoring.
- *iHub Nairobi*⁹ is an open space for technologists, investors and tech companies in the area, which received visits and attention by personalities like Yahoo’s Marissa Meyer or Google’s Erich Schmidt.
- Furthermore, the Kenyan association *GrowthHub*¹⁰ deserves to be particularly highlighted. The platform is designed to incubate and accelerate start-ups to success. Upon successful

⁷ <http://www.88mph.ac/>

⁸ <http://akirachix.com/>

⁹ <http://www.ihub.co.ke/>

¹⁰ <http://www.thegrowthhub.com/about-us/>

participation in a contest, an entrepreneurial idea is provided with small amounts of start-up funding, as well as business trainings on marketing and business plan development.

Lastly, the project will offer support to established women entrepreneurs. This support will take the form of offering participation in national and international women IT Summits, providing a platform for exchanging experiences and networking. Strong focus will be on capacity building, training, and on provision of soft- and hard-skills, and advisory provision for women.

Youth

Young people make up the greatest proportion of the population in Kenya: more than one-third of the total population is between the ages of 10 and 24. In 2025, the number of young people is expected to increase even further, which could provide a tremendous engine for economic growth and dynamism across Kenya.

Kenya stands out with a very high youth unemployment rate: unemployment in Kenya stands at 40%, and 70% of those unemployed are between the ages of 15 and 35. The World Bank estimates that approximately 800,000 Kenyans join the labour market each year, and only 50,000 succeed in getting professional jobs. Not surprisingly, the high level of unemployment has been blamed for the escalating incidents of crime and insecurity in the country.

Yet, the IT& ITES sector holds tremendous potential for wealth and employment creation for the youth. Scholars expect the sector to become the emerging sector of choice for employment among the youth and young professionals. As seen in other countries, ICT can be leveraged to create opportunities for the youth. Forbes Africa¹¹ recently released a list of Africa's 30 best entrepreneurs under 30. Notably, 7 out of the 30 entrepreneurs are Kenyan. The high number of Kenyans on the Forbes Africa list is representative of the energy, talent, and creativity that abound in the country. Given the high number of youth unemployment, this potential is not being harnessed. At the same time, there is great demand for human resources skilled in information technology.

Kindly refer to Annex IX: IT-Resource Demand in Kenya for more information on the Kenyan IT-labour market.

Millennium Development Goals

By supporting the growth of the Kenyan IT & ITES industry, the project also indirectly contributes to Target 8.F of the Millennium Development Goals: "in cooperation with the private sector, make available benefits of new technologies, especially information and communications".

5. STRATEGY

5.1 RESULTS CHAIN

The NTF III approach to sector competitiveness is built around one outcome, namely enhancing the export competitiveness of the IT&ITES sector, and four outputs:

1. Export strategy for the IT&ITES sector developed and validated
2. Export capacity of selected exporting IT&ITES SMEs increased
3. Capacity of KITOS increased in providing services to export-oriented IT&ITES SMEs
Business linkages and technical partnerships/collaborations expanded

The NTF III Kenya project integrates all four of the NTF III programme level outputs. Please refer to Annex XII for a graphical representation of the results chain.

¹¹ <http://www.forbes.com/sites/mfonobongnsehe/2013/02/23/30-under-30-africas-best-young-entrepreneurs/>

IMPACT

The project aims to contribute to the programme-level objective of job creation by supporting the IT&ITES industry in Kenya. Slow job growth and unemployment are critical constraints on economic and social progress in Kenya. Creating jobs, in turn, will create income which is one crucial element to reduce poverty. NTF III Kenya will endeavor to generate such results at the impact level. Impact measurement is undertaken at both programme and project level.

Outcome: Export competitiveness of the IT/ITES sector in Kenya enhanced

Building on Kenya's promise as Silicon Savannah, NTF III Kenya aims to increase export competitiveness of the country's IT&ITES sector. Four outputs will contribute to achieving this overarching outcome as mentioned below.

Output 1: Export strategy for the IT&ITES sector developed and validated

Under this output an export development strategy for the sector will be elaborated and validated. Despite notable governmental action concerning the IT sector, these efforts have been inward looking, and not focusing on exports. Several sector strategies and plans are in place, and all of them contain some initiatives on exports of IT&ITES services from Kenya. The Kenya Vision 2030 for example proclaims to establish Kenya as an "IT and BPO hub in the African region and beyond". However to date, there is no action plan to complement the vision with concrete initiatives. Likewise, the Kenya ICT Strategy 2017 focusses on creating an "enabling policy, legal and regulatory environment to stimulate the setup and growth of ICT-related businesses". However, its emphasis is on domestic policies (for example, the set-up of e-Government services) and not on the export of Kenyan IT&ITES services. Summing up, there is no single export related plan which could guide the sector on export development and provide a roadmap on how to develop and expand in foreign markets. To address this, existing national development strategies and regional projects and programmes implemented by the Regional Integration organisations as, The Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) I will be assessed, and export-related priorities will be identified by stakeholder consultations. Furthermore, under this output, the project will conduct an institutional mapping and assessment of trade support institutions active in the sector, including sector and professional associations, review the business services provided to support the sector and provide recommendations in order to improve the service offered in Kenya for the IT/ITES sector SMEs.

The Export Strategy will simultaneously addresses supply-side capacities, quality of the business environment, and market entry, including international regulations and standards. It will mainstreams poverty-reduction, employment generation, gender equity and regional integration. The sector export plan of the project will be complemented by a Kenyan ITES sector branding and communications strategy.

Activity 1.1 Assess existing sector strategies and identify export related priorities

Activity 1.2 Develop and validate a sector export plan building on these priorities

Activity 1.3 Establish a public-private platform

Furthermore, the government was identified as a client with tremendous outsourcing potential. Presently, however, the government is not assuming its role as a potentially important contracting authority and currently does not outsource its services. Consequently, the project will also establish public-private platforms to pave the way for more cooperation between the private and the public sector. The goal of the platform is to initiate dialogue across the traditional divides between public and private thus facilitating governmental contracts to their own country.

For this activity, potential synergies can be established within ITC, whose Executive Director is currently discussing the development of a Kenyan National Export Strategy. Once sectors have been confirmed, potential synergies will be identified and implemented.

Output 2: Export capacity of selected exporting IT&ITES SMEs increased

In order to select beneficiary SMEs, an expression of interest (EOI), containing a sector-related questionnaire, will serve to assess their competencies, skills and profile. The EOI will contain specific questions to identify thirty three SMEs that either already have some export experience or are export-ready without major capacity building requirements. With a view to measure progress and impact, the project will include a basic audit of the beneficiary companies at the beginning of the project, which will be updated half-way through the project and at the end of the project.

To address the weaknesses of beneficiary SMEs in terms of export marketing and the frequent absence of structured export marketing plans, the project will build export-marketing capacities. In the early phase of this activity, ITC's e-learning facilities will be used. This e-learning module showcases export marketing as a vital component of the export development process. Small enterprises need to craft their messages appropriately, in order to be perceived in the way they want to be by their customers. This is achieved by deciding on a strategy based on the export marketing process. Customisation and development of further e-learning material in harmony with needs addressed in the NTF III Uganda project will be assured.

Additionally, SMEs will receive training on branding and marketing in form of workshops, an introduction to the newly developed Kenyan IT&ITES branding strategy and on how to develop their own branding strategies and materials. As part of this approach, the project will provide a qualitative analysis of business communications for the selected SME's. A communications' health check will look at the "Communication touchpoints", the interfaces where companies connect with their customers and target audience. It will be based on the sector branding strategy work and branding awareness workshops undertaken before this exercise. Using economies of scale, this activity will take place in Kenya as well as in Uganda, using the same trainers.

Furthermore, missing internationally recognized certifications were addressed repeatedly by SMEs met in Kenya. Globally recognized certification schemes targeting the IT & ITES industry are increasingly numerous. SMEs struggle to define the most important ones to go through. A company targeting the US corporate market, for instance, should seriously envisage a CMMI certification, whereas a company that is trying to develop its business on the SME-segment in Europe will not need this certification, as it is hardly known by their prospective clients. The advisory services provided under this output will present to the senior management of SMEs the different options available and advice the companies on ways to make the right choices in view of their individual situation (target markets, resources). The project will not pay for certification.

Lastly, selected SMEs will be offered training on access to finance. This will at first include a diagnostic of current issues and needs. Secondly, trainings will be designed accordingly and deployed. ITC's e-learning facilities on access to finance will be used for this activity.

Activity 2.1 Select beneficiary SMEs

Activity 2.2 Deliver trainings on business management and export marketing

Activity 2.3 Train senior management of SMEs on delivery improvement and certification schemes

Activity 2.4 Train SMEs on access to finance

Output 3: Capacity of KITOS increased in providing services to export-oriented IT&ITES SMEs

KITOS is organizationally young and does not yet have a strategic plan, let alone a plan focussed on exports. Hence, the first activity will be to update and develop KITOS' strategic and operational plans. The starting point would be to do an institutional assessment and match it with industry requirements as identified under the output 1, while formulating the export development strategy of the sector. Moreover, the establishment of an institutional development plan will enable KITOS to get

International business linkages with the global market to assist companies in benchmarking, and in brand development.

The project will build on the development of KITOS' service portfolio, provide training on RBM, and introduce a project and programme M&E mechanism and procedures. This system will contribute to improving the quality of IT&ITES operators, and help weed out corrupt and unethical operators, as well as ensure successful service delivery on contracts. Special focus will be directed towards developing internal capacities, enabling KITOS to offer these services at a later stage on their own. Also, KITOS will receive training on B2B matchmaking services, i.e. how to organise buyer/seller meetings through appropriate match-making and other business generation tools. The beneficiary TSIs of NTF III IT&ITES Uganda will receive the same training, which could take place during joint workshops for both countries. KITOS has also voiced the desire of establishing a member portfolio database documenting certifications and export experience of companies. This will not only allow to track and monitor the overall landscape of IT/ITES companies, but also to establish statistics and gain important insights on the structure of exports.

ITC's available e-learning facilities on trade information will be used under activity 3.1. This e-learning module showcases the principles and good practices for trade information services planning and management. It conceptualises enterprise-focused information services to enable better informed decision making by the business community.

Activity 3.1 Update the KITOS strategic and operational plan

Activity 3.2 Develop the service portfolio of KITOS with focus on the organization of participation at trade fairs and B2B events provision of advisory services in trade and information intelligence, and delivery of trainings

Activity 3.3 Train KITOS on RBM and Monitoring and Evaluation (M&E)

Activity 3.4 Set up of a member portfolio database documenting certifications and export experience

Activity 3.5 Assist KITOS in developing a certification scheme

Output 4: Business linkages and technical partnerships/collaborations expanded

KITOS already undertook first steps to facilitate Kenyan presence in foreign markets. The project will evaluate the impact of trade fair participations and concentrate efforts to achieve penetration of specific markets.

The project will organise matchmaking events to meet prospective buying companies in selected destination markets. These companies will be European, East African and possibly emerging economy buyers, whose country of origin is determined by the sector study developed under output 1 (most likely it will be companies from the UK and Scandinavian countries, and possibly SA). Inbound tours for foreign contractors moreover contribute to showcasing the quality of Kenyan IT&ITES service providers and securing new clients for SMEs. The purpose of this exercise is to develop business to business relationships, and give SMEs the change to acquire new clients and secure new contracts. Participation of SMEs in trade fairs, marketing missions, and buyer and seller events will be organized on a cost-sharing basis, and, in case of capacity constraints. Besides the Kenyan IT&ITES sectors, the Bangladeshi and Ugandan IT&ITES sectors have been selected for NTF III Programme interventions. Bangladesh has relatively dynamic IT&ITES sectors. Thus, it will be beneficial to share experience between Kenyan, Bangladeshi and Ugandan SMEs in terms of developing and expanding in foreign markets. Joint meetings and common participation in fairs/conferences will be explored and organised to bring together SMEs from these countries. Further, certain B2B meetings will be held jointly for Ugandan and Kenyan SMEs, however making sure to invite SMEs from complementing and not competing areas of expertise.

Another purpose of these meetings will be to create additional business linkages between the SMEs from neighbouring countries Uganda and Kenya, which would increase regional South-South trade. There will be a possibility to benefit from bilateral business between the participating companies in as well as from potentially providing joint offerings to other foreign clients.

Moreover, south-south cooperation activities with South Africa are envisaged so as to learn from the vast experience of South Africa to set up a similar industry. Activities include a visit to South Africa to exchange with enterprises and sector associations on how they managed to grow the sector. The gained insights will also be shared with enterprises in Bangladesh and Uganda. Over the course of the project implementation, the objective is to gradually reduce the involvement of NTF III Kenya in the direct organization and funding of the events.

Activity 4.1 Train participants in preparation skills for trade fairs and negotiating with potential buyers in target markets (as identified in market study)

Activity 4.2 Arrangement of B2B matchmaking activities

Activity 4.3 Create business linkages with potential clients through trade fairs and market orientation tours

Activity 4.4 Organise business linkages and knowledge sharing meetings between Bangladeshi Ugandan and Kenyan IT&ITES enterprises

5.2 COHERENCE WITH OTHER INTERVENTIONS

The project reflects the priorities of the NTF III programme. There are currently three other active ITC projects implemented in Kenya, with which synergies can be leveraged:

- Promoting Intra-regional trade in Eastern Africa: The project covers three beneficiary countries: Kenya, Tanzania and Zambia. It focuses on the agricultural value chains including honey and non-flower horticulture in Kenya, honey, mango, spices in Tanzania, and honey in Zambia. The project aims to address gaps that prevent SMEs from effectively participating in product and services value addition. It will contribute to regional trade integration efforts by enhancing vertical and horizontal connections between various actors in the selected agro-food sectors, and by enabling them to access new markets in Africa. Lessons learned from the project on developing business plans for SMEs will be exchanged, which will lead to mutual learning and to improvement of both projects. Close consultations have been held with the respective project management team in order to concretize synergies. Firstly, the project works with one local institution that NTF III Kenya also works with, namely EPC. This permits to collectively learn from each other. Secondly, resources will be optimized and jointly used, for example through the use of the same consultants of both projects. Lastly, tools that are already in place under the “Promoting Intra-regional trade in Eastern Africa project” will be shared. For example, the project developed a curriculum for youth, which NTF III Kenya can benefit from.
- Supporting India's Trade Preferences for Africa's Poor (SITA): The project aims to increase the value of business transactions between India and selected East African countries such as Kenya. The ultimate objective is to create jobs and income opportunities for poor people in East Africa. This will be achieved by enabling access for East Africa to India's market, by facilitating investments and transfer of Indian knowledge, expertise and technology through: i) public private dialogue, ii) improving capacity of East African companies and TSIs, and iii) creating business linkages. The beneficiary sector had not yet been chosen at the time of writing this document. However, possible synergies and possibilities for cooperation will be assessed and pursued once the sector is chosen.

- Generally, this project will use ITC's existing e-learning tools where modules are appropriate (for details see under the section "Strategy"). Customisation and development of further e-learning material in harmony with needs in the NTF III Uganda project will be explored.

Potential to synergize with these projects will be re-assessed at the beginning of and during the implementation.

This project is aligned with a number of on-going initiatives at national and regional levels, which aim to develop trade, improve the business environment, and enhance the competitiveness of SMEs. For a detailed description of the projects, beyond the description below, please see table 4 in Annex XIII: Other Competitiveness Enhancing Initiatives.

Digital Jobs Africa Project (DJAP)

The Digital Jobs Africa Project seeks to catalyse sustainable Information and Communications Technology enabled employment opportunities for African youth who would not otherwise have an opportunity for employment. That means that DJAP puts a strong emphasis on impact sourcing, which is considered the socially responsible arm of business process outsourcing. The project will take into account DJAP's extensive efforts in working with local organizations to provide skills training that prepare youth for digital jobs.

Kenya Transparency and Communications Infrastructure Project (KTCIP)

This project is targeted at the Kenyan government, which is why there will be no direct cooperation and joint use of resources. However where possible and permissible, the project should build on tools utilized or understand the lessons learned.

CBI- Centre for the promotion of imports from developing countries

CBI has several global tools and goods in place with which this project can synergize. Most of them focus on establishing connections with the European buying market.

As of the European market study performed under output 1, close cooperation with CBI's Market Intelligence Platform will provide enterprises (and TSIs) with up-to-date information, EU market insights on market trends, access requirements and EU market insights.

Furthermore, in the Export Coaching Programmes (ECPs), CBI coaches small and medium sized enterprises in different stages and brings them to several sector or product specific trade fairs in the European market. Currently, the Fresh Fruit and Vegetable Programme, running from 2008 until 2014, is being concluded. This is a global programme within which Kenya is participating with the tea sector. Despite it being targeted to a product and not a service, the programme has many similarities with some components of NTF III Kenya IT&ITES, amongst them the on-site company audits and counselling, the local in-depth training as well as the participation in leading European trade fairs. Hence, close dialogue with the involved stakeholders and the CBI responsible will be established to enable the NTF III project to successfully build upon achievements and lessons learned.

In addition, CBI is active in a regional development programme for the East African Community (Tanzania, Uganda and Kenya). The EPC is the implementing partner in Kenya. In this programme, CBI provides training for stakeholders involved in export from the East African Community. One of the results obtained was the set-up of a regional export information portal named Eacexport, which contains, inter alia, information on market trends, price levels and tips from export coaches on EU markets. This project will make use of the information portal when designing the export strategy as well as when providing training to SMEs and TSIs under output 2 and 3.

5.3 SUSTAINABILITY AND LOCAL OWNERSHIP OF THE PROJECT

All project activities are designed with the vision of sustainability of interventions, particularly in terms of job support and export competitiveness of enterprises in the sector. All proposed interventions have been developed, discussed and agreed upon with the help of private sector participants (both men and women). Counterparts have also confirmed ownership of the project through their willingness to contribute various in-kind resources, such as staff time, office space, organization of workshops, and dissemination of reports to concerned entities. At the end of the project, these counterparts will be the anchors through which the project's results can be extended in a sustainable way. Counterparts were actively involved in project planning, and will continue to be involved during project implementation as the design is tailored to meet the evolving needs of beneficiaries. Particular attention will be paid to achieving sustainable results that will be beneficial to a significant number of SMEs and TSIs beyond the duration of the project. This will be achieved through the following:

- Successive phasing in of local partners; direct interaction between the project and SMEs will be gradually reduced and substituted by local TSIs, mainly KITOS, coached by ITC.
- Two-track capacity building for TSIs: a combination of classroom training with on-the-job training of service providers will ensure the practical application of theoretical knowledge. This will help providers, mainly KITOS, to enhance and refine their skills in order to multiply the delivery of quality service relevant to SMEs in the sector on an increasingly commercial basis.
- SMEs are expected to better understand and determine their needs for advisory services and appreciate their importance and advantage
- Collective approach and showcases: through systematic dissemination of best practices, SMEs and service providers will serve as showcases for others. Experience shows that innovative business practices are copied by competitors, including the use of consulting services. These multiplier and replication effects lower intervention costs, compared with individual assistance to SMEs, and enhance the exchange of information and experiences, ultimately becoming self-replicating processes.
- Cross-learnings: three NTF III countries target the IT&ITES sector. This permits to establish sustainable linkages and partnerships beyond the duration of the project. Representatives of TSIs of all three countries will meet repeatedly in the context of events like trade fairs, thereby enlarge their network, exchange experiences and build new partnerships.
- Local initiative: the responsibility for organising capacity building events, study tours, trade fair participation and the like, will increasingly shift to local service providers and industry groups. Exporting SMEs are expected to increase exports and export revenue for improved service quality. A sustained increase in revenue is a natural incentive for SMEs to continue project activities and will incentivize others to follow. Beneficiaries will be requested to increasingly and progressively contribute to costs, particularly under output 4 in the context of marketing events. TSIs will be equipped with new tools and knowledge to provide services to members for which they will be charged. These economic gains at enterprise and TSI level are the best possible incentives for sustaining the projects activities in the future

6. ORGANIZATION & MANAGEMENT

6.1 PROJECT PARTNERS

The project will be implemented in coordination with a number of counterparts. While KITOS is the beneficiary TSI, the EPC will be a partner TSI.

Lead partners

The Kenya Information Technology and Outsourcing Society (KITOS)

KITOS is Kenya's IT and Outsourcing Services body. KITOS acts as the catalyst for the growth of the IT & Outsourcing Services Industry in Kenya by facilitating trade and business, encouraging and advancing research and innovation, and propagating education and employment. In so doing KITOS contributes to the growth of the Kenyan economy. Since May 2014, KITOS has a new management structure / composition, charged with updating their strategic and operational plan. KITOS was actively and closely involved in the design phase of the NTF III Kenya IT&ITES project and will directly benefit from project interventions through improvements of its market intelligence, research and matchmaking capacities. KITOS' mandate and competence are closely aligned with the objectives of the project. This is exemplified by KITOS main objectives which include the following:

1. Advocate for policies that support and development ITES/BPO sector
2. Create awareness of Kenya as an ITES and Outsourcing destination that will result in new venture creation and Foreign Direct Investment
3. Create linkages with international associations and accredited organizations to promote the ITES/BPO industry
4. Be a one-stop-shop for information on ITES and outsourcing opportunities growth¹²

Furthermore, KITOS might be small in members, but is young and driven and disposes of a big potential to grow. Due to this fact as well as the strong focus on outsourcing, the alignment of its objectives with the NTF III Kenya project, and the simultaneous shortage of suitable alternatives, KITOS will be the beneficiary TSI of the project.

Kenya Export Promotion Council

The Export Promotion Council (EPC) is Kenya's premier institution in the development and promotion of export trade. It is the focal point for export development and promotion of activities in the country. As the government TSI, the EPC has designated a focal point for the project. Consultations have been held with EPC representatives during the design phase of the project. While the TSI will not be a beneficiary TSI, it will be a partner TSI in implementing activities foreseen under the project. The wider-focussed TSI, the EPC, will support the sector-specific TSI KITOS with Marketing and Publicity of Events, to name one example.

Collaborating partners

Kenya ICT Authority

The Kenya ICT Authority was formed in August 2013 as a combination of the former Kenya ICT Board, the Department of e-Government and the Government Information Technology Services (GITS). The ICT Authority is a state corporation under the Ministry of ICT. Its role is to implement the ICT policy developed by the Ministry. Its mandate is to develop standards, infrastructure, and build capacity, both within government offices and outside i.e. in Kenya's IT and BPO sector. The Kenya ICT Authority will cooperate closely with KITOS in the context of the development of their certification system.

Ministry of Information, Communication and Technology

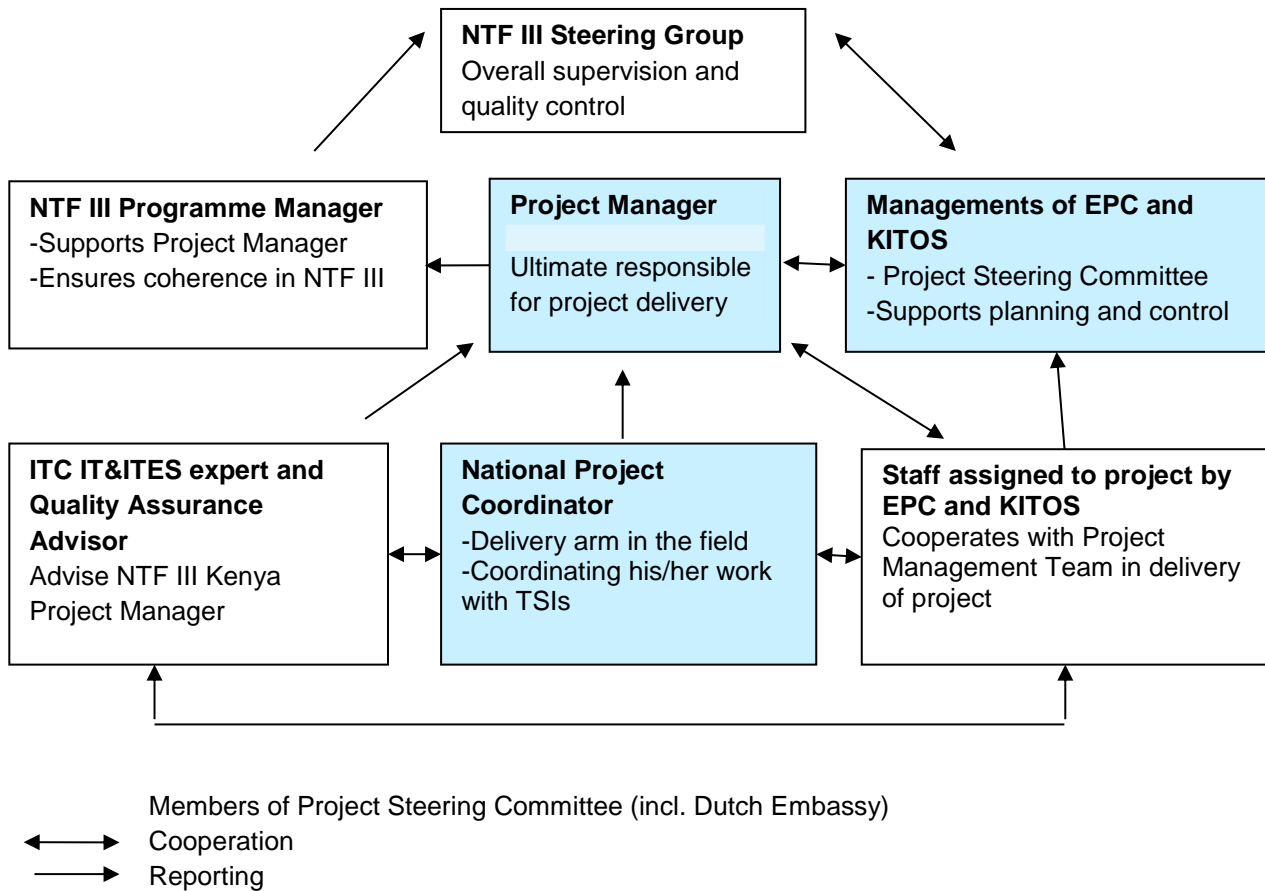
The Ministry of ICT has a vision for making Kenya a centre of world-class excellence in ICT. Its mission is to develop Kenya as a globally competitive IT market and sourcing destination. Major initiatives include the national backbone infrastructure and Konza Techno City. The Ministry of ICT will play an advisory role during the development of the National Export Strategy.

¹² <http://www.kitosafrika.org/index.php/about-kitos>

6.2 PROJECT IMPLEMENTATION STRUCTURE

Figure 1 below is a graphical representation of the project management structure, common to all NTF III projects. This structure follows the recommendation of the NTF II evaluation.

Figure 1. Project Management Structure.



The Project Management Team (PMT) directly manages the project, overseeing day to day activities, management and tracking of budget and resources, administrative oversight, including monitoring and compliance, and managing the relationship with partner organizations in Kenya. The PMT is composed of:

1. The Geneva-based NTFIII Kenya Project Manager (PM) who is responsible for implementing the project and takes responsibility for results, as well as compliance. The PM ensures the coordination of the different components of the project. In his/her technical capacity, The PM provides technical leadership, strategic vision and travels to Kenya periodically.
2. The Project Manager will be supported by ITC's expert on the IT&ITES sector. S/he will ensure that sector-specific elements are taken into account when delivering project activities. In particular, s/he will provide coaching, create links to international partners and oversee progress in project implementation.
3. The National Project Coordinator in Kenya oversees project planning, implementation and reporting with Kenyan counterparts on the ground on a day-to-day basis.

The relationship between the different project partners is shown in Table 4.

The project beneficiary TSIs work with the Project Management Team to deliver project results. Each institution will nominate its own staff to work on the project. The responsibilities for the Partner TSIs are detailed below.

Table 4. Partner TSI Responsibilities

KITOS	EPC
<ul style="list-style-type: none"> • Assign staff dedicated to the project. Their staff is supposed to undertake the functions performed through the project once it is over. • Provide in-kind contributions to the project, in terms of staff time, managerial costs, venues, etc. 	
<ul style="list-style-type: none"> • Co-Chairs the Project Steering Committee • Cooperate in the overall implementation of the project. • Assign staff dedicated to the project. Their staff is supposed to undertake the functions performed through the project once it is over. • Provide access to SMEs and entrepreneurs in the sector 	<ul style="list-style-type: none"> • Chairs the Project Steering Committee¹³ • Partner TSI but not a direct beneficiary • Co-chairs the Project Steering Committee • Collaboration in the overall branding approach for the IT/ITES sector • Partner and public sector interface for the IT&ITES export development strategy to be developed under output 1 • EPC staff will benefit from training opportunities, which is open to them; they would thus act as a multiplier of the knowledge acquired

The Geneva-based NTF III Programme Manager supervises the NTF III Programme overall, including development of the individual country projects as well as monitoring and reporting. The Programme Management Unit reports to the NTF III Steering Group, which is composed of the Director, Division of market Development of ITC and the Deputy Managing Director of CBI and provides support to the Project Management Team.

Project Steering Committee

The Project Management Team will establish the Project Steering Committee to oversee the project. The Project Steering Committee (PSC) is composed of the CEOs of two TSIs, EPC and KITOS as well as the Dutch embassy in Nairobi and ITC.

ITC will chair the PSC initially and will work with other members to determine whether that role will be rotating. The Project Steering Committee will meet twice a year and will carry out the following activities:

- Provide strategic guidance for project implementation and will ensure liaison with other development partner activities in the same sector
- Provide active input to and endorse the six month work plans prepared by the Project Management Team.
- Develop a process of information sharing and collaboration. Review performance data bi-annually and use that data as an input to work plan review and management of project

¹³ At the beginning of the project the role of the chairing organisation for the PSC will be re-discussed with all parties concerned so as to find the best possible solution for the project ensuring effective and efficient monitoring.

activities. The PSC will conduct this review on the basis of concise performance reports provided by the Project Management Team as well as the institution collecting and analysing performance against desired outputs.

- Be available to provide technical and managerial guidance as needed. In addition to the bi-annual performance reviews, the PSC members serve as ad hoc advisors to the Project Management Team as needed
- Operate as a network of sector stakeholders, including TSIs, development partners and public entities, identifying common strategic objectives, designating TSI roles and how the TSIs will cooperate by activity
- Develop a process of information sharing amongst TSIs with stakeholders and donors
- Liaise with other donor initiatives related to the IT/ITES sector and identify actions for potential synergies with donors.

The Project Management Team will work closely with the PSC on planning and implementation issues.

Local Ownership

All proposed interventions have been developed, discussed and agreed upon with the help of private sector participants (both men and women). The private sector in Kenya, though within another sector, already demonstrated its ownership of the project during NTF II, through cost-sharing activities, among others.

Counterparts have also confirmed ownership of the project through their willingness to contribute various in-kind resources, including staff time, office space, organisation of workshops, and dissemination of reports to concerned entities. At the end of the project, these counterparts will be the anchors through which the project's results can be extended in a sustainable manner.

Counterparts were actively involved in project planning, and they will continue to be involved during project implementation as the design is tailored to meet the evolving needs of beneficiaries.

6.3. MONITORING

Project monitoring is the primary responsibility of ITC as the implementing agency. The NTF III Kenya Project Manager, with the support of the National Project Coordinator, will bear the responsibility of the national project implementation and take the lead on monitoring progress in the implementation of project activities as well as monitoring progress against outputs and overall objectives.

Newly introduced is the Export Audit Questionnaire, which is used by all NTF III project countries. It is a detailed questionnaire to be filled out by all beneficiary companies in Kenya before the project, in the middle and then once again in the end. Its purpose is twofold: first, it is useful for the selection of beneficiary companies. Secondly, the audit allows establishing baseline values which then can be compared against the values obtained after the project. This before-after design offers clear evidence on the outcomes of interventions and shows the immediate impact of the project.

Monitoring at the project level will include a bi-annual project progress report, which will be produced by the NTF III Kenya project manager with the support of the National Project Coordinator shared with the Project Steering Committee (PSC). Moreover:

- i). The NTF III Kenya Project Manager, with the support of the National Project Coordinator will submit every six (6) months a Draft Project Progress Report to the NTF III Programme Manager;
- ii). The Programme Management Team (PMT) compiles from the respective Project Progress Reports a Consolidated Progress Report, to be submitted to the NTFIII Steering Group and the Programme Quality Assurance Advisor;
- iii). The Steering Group will then inform the Executive Committee, which will in turn give strategic directives on Programme implementation and achievements.

Partners and the National Project Coordinator will collect performance data and report to the PSC and the PMT every six months on the basis of the framework mentioned above.

Risk Management:

Under NTF II, the programme team put in place a process for active risk management, which then became a basis for SG discussions at programme level. This is continuing under NTF III. Rather than outside risks such as market volatility, this focuses on operational risks such as ensuring active commitment by local institutions and adequate uptake of the project advice. This is to be initiated early in the programme and generalized across projects as a basis for SG review.

A risk management plan is included in annex V to the project plan.

Project Quality Assurance

An ITC appointed Quality Assurance Adviser will be responsible for developing, implementing and reporting against a quality management approach for the NTF III programme and projects – which includes this project. The adviser will also provide inputs on risk management.

6.4. EXIT STRATEGY

SMEs

The project is organized in such a way that both SMEs and institutions will be enabled to continue progress once ITC assistance is withdrawn. The responsibility of local SMEs will be gradually increased for selecting and paying service providers for advice and training, market analyses and participation in trade fairs and missions. In the first year, the project may cover the cost of trade fair exhibition space and contribute to some travel costs for participating SMEs. In the second year, it may cover the cost of exhibition space only, and the participating firms will cover all costs during the last phase of the project. During the last year, all direct SME interaction will be with/through local service providers, with international experts providing backstopping only to those service providers. The impact on the sector as a whole, beyond the impact solely on direct beneficiaries, will be guaranteed by reaching a critical mass of exporting companies.

Institutions and Associations

Of utmost importance is the fact that local TSIs will be used to perform the majority of trainings and advisory services to SMEs, so that they may obtain on-the-job training in order to expand and improve their services, and build a network with local businesses. Service providers will gradually be required to share the costs of the individualised assistance they receive through the project. By the end of the project, it is expected that service providers will possess sufficient expertise to independently deliver high quality assistance in selected areas on a fully commercial basis. Assistance to KITOS will be reduced gradually. They will be expected to be able to organize sector specific events (for example the trade fair participation of firms, trainings, buyer/seller meetings) without assistance from ITC by the third year.

7. BUDGET

The total projected budget for the project is 1,260,000 USD. Necessary costs for project completion include personnel, travel, research (studies and surveys), advisory, trainings, and a limited amount of equipment. The budget represents the best estimate of the likely costs. It is expected that the project counterpart institutions (KITOS, EPC) will provide one person dedicated to work part-time on the

project to facilitate activities. Moreover, counterparts will provide support in the organisation of workshops and meetings and will ensure the dissemination of reports to concerned stakeholders.

8. EVALUATION

ITC will manage an external evaluation of the NTF III programme with respect to internationally-recognized norms and standards for conducting evaluations, with the support of the partner TSI. This process will be supported by the ITC Evaluation Unit at each step of the evaluation process. The purposes of the evaluation will be to:

- Play a critical and credible role in supporting accountability in the design and the implementation of the project;
- Ensure targets outlined in the project document are met;
- Contribute to building knowledge and organizational learning and
- Promote the work carried out by the NTF III project.

The terms of reference of the evaluation will be consulted with all NTF III stakeholders including the NTF III Management Team and approved by the ITC Evaluation Unit. The evaluation will be launched during the second semester of 2017.

The NTF III programme is also considering joining the “Pioneering Real-time Impact Monitoring and Evaluation” (PRIME) project that will carry out impact monitoring and evaluation under CBI and PUM (Dutch senior experts programme). As PRIME has the double objective of being a research and monitoring/evaluation methodology, it could provide NTF III (and ITC as a whole) with valuable information on what components of TRTA work those that do not. Moreover, it could provide in-depth information on impact through case studies to be carried out in all four NTFIII countries.

Lastly, timely evaluation will be done within the scope of a detailed M&E table that reflects contents of the results chain. This will allow for the monitoring of designated results accomplished within the foreseen timeframe. The M&E table will be updated bi-annually and will therefore allow for close monitoring, and timely interventions in case of problems.

9. COMMUNICATION

NTF III seeks to influence a wide number of stakeholders as well as to coordinate the inputs of a heterogeneous project team located at ITC, working with four beneficiary countries. Effective and coherent communication therefore plays a critical part in achieving the project’s objectives. In addition, a good communication strategy is essential to support the donor’s objective of visibly contributing to the development of these strategically important partner countries.

a) Communication objectives, principles and key messages:

The communication plan for Kenya pursues the following three objectives:

1. To coordinate and manage project implementation among stakeholders. This includes communications related to the operational aspects of the programme and to its day-to-day management as well as forward planning, strategic guidance and navigation.
2. To report progress on project implementation to donors and ITC management and share information and lessons learned. Continuous exchange of information will also enable the NTF III programme to react to, support, and benefit from new developments, programmes and initiatives in its target countries in a timely manner and build synergies where possible.
3. To promote project activities and results among beneficiaries, development partners and the wider audience thereby increasing impact and visibility of NTFIII.

b) Target audiences and preferred channel of communication

The table below provides information on the target audiences. They are ranked by importance in descending order. The third column describes the channel of communication.

Table 2. Target Audiences of communication.

Target audience	Description	Communication tool
ITC and CBI staff and management involved in NTF III	The NTF III Programme Manager The NTF III Programme Officer The Geneva-based Project Managers (ITC) ITC Senior Management Committee (SMC) and CBI Senior Management ITC and CBI relevant country managers and technical sections ITC and CBI communication department NTF III Executive Committee (EC): Joint body of ITC and CBI which consists of Managing Director CBI, Executive Director ITC and SG members NTF III Steering Group (SG)	<i>Website</i> <i>Email alerts</i> <i>Newsletters</i> <i>Press releases</i> <i>Promotional materials</i> <i>Reports</i>
Stakeholders in the field	SMEs TSIs Government officials Policy makers The Netherlands Embassy in each partner country Development partners for each partner country UN system organisations in each partner country.	<i>Website</i> <i>Email alerts</i> <i>Newsletters</i> <i>Press releases</i> <i>Promotional materials</i> <i>Social Media like facebook and linkedin</i>
Stakeholders in the Netherlands and Switzerland	Policy makers in the Netherlands Embassies of each selected country in the Netherlands, Permanent mission of Kenya in Geneva The Netherlands Embassy in Switzerland	<i>Website</i> <i>Email alerts</i> <i>Newsletters</i> <i>Promotional materials</i> <i>Press Releases if relevant</i>
Representatives of Export target markets	Selected sector associations and potential buyers	<i>Website</i> <i>Email alerts</i> <i>Newsletters</i> <i>Promotional materials</i> <i>Press Releases if relevant</i> <i>Social media</i>

CBI's European partner organizations	Trade support institutions, selected sector associations, and potential buyers	<i>Website</i> <i>Email alerts</i> <i>Newsletters</i> <i>Promotional materials</i> <i>Press Releases if relevant</i> <i>Social media</i>
Wider audience	All interested parties besides the ones mentioned above.	<i>Press releases</i> <i>ITC Forum Magazine</i> <i>Other relevant magazines</i> <i>Social Media</i> <i>Newspapers</i>

c) Preferred and appropriate channel of communication

The following channels of communication will be used. For a more detailed description of each medium, please see Annex VI: Communication Plan.

- NTF III Kenya Website
- Newsletters
- Articles in ITC and CBI magazines and blogs
- Press Releases
- Social media

c) Evaluating success

The success of the communication objectives can be evaluated by the presence of an NTF III Kenya website, containing success stories and regularly updated information on the project and events taking place. Further, high quality newsletters as well as press releases distributed to the public are a sign of evidence of success of the communication strategy. Lastly, well-frequented social media pages like facebook are signs of the interest of the public in the project.

For more details on the communication, please see Annex VI.

ANNEX I: LOGICAL FRAMEWORK

Objectives	Indicators*	Baseline	Targets	Means of Verification	Risks/Assumptions
IMPACT: Jobs created and/or supported in the IT&ITES sector in Kenya	Percentage of jobs created and jobs maintained in the IT&ITES sector in Kenya	2014 baseline**	5% in 20 beneficiary enterprises ¹⁴	Surveys of beneficiary enterprises conducted by ITC and partner TSIs to assess employment	<p>Assumptions: Increased competitiveness creates jobs and this in turn leads to better income for the people engaged in the IT&ITES sector, particularly youth.</p> <p>Risks:</p> <ul style="list-style-type: none"> • Need for human resources in the IT/ITES sector decreases due to rapid automation and creation of new technologies
OUTCOME: Export competitiveness of the IT/ITES sector in Kenya enhanced	1. Percentage increase in the value of IT&ITES exports by beneficiary enterprises directly related to NTF III interventions	2014 baseline**	8%	<p>For indicator 1.: trade statistics.</p> <p>For indicators 2, 3 ,and 4: survey of beneficiary enterprises conducted by ITC and partner TSIs</p>	<p>Assumptions:</p> <ul style="list-style-type: none"> • TSIs and enterprises possess sufficient capacities to absorb the NTF III interventions and remain committed partners <p>Risks:</p> <ul style="list-style-type: none"> • High attrition rate of assisted enterprises • Poor follow up by partner TSIs and beneficiary enterprises
	2.				
	3. Number of new export markets entered by beneficiary enterprises directly related to NTF III interventions	2014 baseline**	3 new export markets		
	4. Overall number of new clients acquired (1 client =1 company with which a Kenyan beneficiary signed a contract) directly related to NTF III interventions	2014 Baseline**	15		

Output 1: Export strategy for the IT&ITES sector developed and validated	1. Number of export strategies for the IT&ITES sector developed	0	1	Evidence of plan formally adopted by stakeholders such as a signed statement and official launch and the services that lead to the strategy	<p>Assumptions:</p> <ul style="list-style-type: none"> Political will is strong enough between public and private sector to own the plan nationally <p>Risks:</p> <ul style="list-style-type: none"> Internal political tensions btw. Stakeholders make national ownership difficult.
	2. Number of private-public sector platforms established	0	1	Feedback and testimonials of private and public sector stakeholders; any written agreement between stakeholders	<p>Assumption:</p> <ul style="list-style-type: none"> Both private and public sector stakeholders are willing to collaborate Willingness from the government to outsource ICT services to the private sector <p>Risks:</p> <ul style="list-style-type: none"> Public and private sector stakeholders cannot find a common ground for outsourcing IT services to the private sector
Output 2: Export capacity of selected exporting IT&ITES SMEs increased	1. Number of enterprises reporting improvement in marketing skills directly related to NTF III interventions	0	33	Surveys of beneficiary enterprises conducted by TSIs and ITC	<p>Assumptions:</p> <p>TSIs are able to identify beneficiary enterprises with export potential</p> <p>Risks:</p> <ul style="list-style-type: none"> Insufficient engagement of selected beneficiary enterprises in export marketing and business training No critical mass of enterprises having capacities to access the relevant funding institution
	2. Number of enterprises enabled to become export ready through ITC training activities	0	33		
Output 3: Capacity of TSI increased in providing services to export-oriented IT&ITES SMEs	1. Number of TSIs trained on B2B matchmaking methodology to provide B2B services and/or on monitoring and evaluation	0	1	TSI surveys conducted by ITC and mid-term review assessment Surveys of members of the	<p>Assumptions:</p> <p>TSIs work as a sustainable multiplier of knowledge from which a significant number of enterprises take advantage</p>

	2. Number of technical backstopping advisory services produced to develop and upgrade TSI service portfolio to meet client needs	0		TSIs conducted by TSIs and ITC	Risks: <ul style="list-style-type: none"> Insufficient experience of staff members Staff attrition, in particular among the qualified staff
	3. Number of TSIs reporting improvements managerial performance and/or services to SMEs directly related to NTF III interventions	0	2		
Output 4: Business linkages and technical partnerships/collaborations expanded	1. Number of enterprises having met and followed up on potential buyers	0	33	Reports of having met potential buyers, reports from partner TSIs, business contact sheets filled-in, reports on business generation events, inward buyer visits and other events.	Assumptions: <ul style="list-style-type: none"> Beneficiary enterprises are responsive and follow up on buyers solicitations. Beneficiary enterprises of NTF III interventions in the same sector in Kenya, Uganda and Bangladesh are willing to cooperate and share experiences and lessons learned. Risks: <ul style="list-style-type: none"> Technical collaborations are not followed up by partners with concrete actions and remain declarations of intentions only
	2. Number of total potential buyers met through the project	0	55	Reports documenting B2B meetings with potential buyers (matchmaker reports, company surveys, NPC reports, etc.)	Assumption <ul style="list-style-type: none"> Enterprises are professional in following up on buyer solicitations Risks: <ul style="list-style-type: none"> Lack of follow-up by companies

*Wherever relevant and feasible enterprise-related indicators will be disaggregated by gender

** Baseline data to be collected during early stage of the project with an adapted simplified version of CBI's "Export Audit Questionnaire"

ANNEX II: WORK PLAN

Outputs & Activities	Responsibility	2014		2015				2016				2017		
		Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	
Export competitiveness of the IT&ITES sector in Kenya enhanced														
Output 1: Export strategy for the IT&ITES sector developed and validated														
<i>Activity 1.1 Assess existing sector strategies and identify export related priorities</i>	ES													
<i>Activity 1.2. Develop and validate a sector export plan building on these priorities</i>	ES													
<i>Activity 1.3. Establish a public-private platform</i>	ES													
Output 2: Export capacity of selected exporting IT & ITES enterprises increased														
<i>Activity 2.1. Select beneficiary SMEs</i>	EC													
<i>Activity 2.2 Deliver trainings on business management and export marketing</i>	EC													
<i>Activity 2.3 Train senior management of SMEs on delivery improvement and certification schemes</i>	EC													
<i>Activity 2.4 Train SMEs on access to finance</i>	EC													
Output 3: Capacity of KITOS improved in providing support services to export oriented IT & ITES SMEs														
<i>Activity 3.1 Update the KITOS strategic and operational plan</i>	TS													
<i>Activity 3.2 Develop the service portfolio of KITOS with focus on the organization of participation at trade fairs and B2B events provision of advisory services in trade and information intelligence, and delivery of</i>	TS													

<i>trainings</i>														
<i>Activity 3.3 Train KITOS on RBM and Monitoring and Evaluation (M&E)</i>	TS													
<i>Activity 3.4 Set up of a member portfolio database documenting certifications and export experience</i>	TS													
<i>Activity 3.5 Assist KITOS in developing a certification scheme</i>	TS													
Output 4: Business linkages and technical partnerships/collaborations expanded														
<i>Activity 4.1 Train participants in preparation skills for trade fairs and negotiating with potential buyers in target markets (as identified in market study)</i>	SC													
<i>Activity 4.2 Arrangement of B2B matchmaking activities</i>	SC													
<i>Activity 4.3: Create business linkages with potential clients through trade fairs and market orientation tours</i>	SC													
<i>Activity 4.4. Organise business linkages and knowledge sharing meetings between Bangladeshi Ugandan and Kenyan IT&ITES enterprises</i>	SC													
Progress Reports	SC													
Final Report	SC													
Final Evaluation	SC													

ANNEX III: WORK PLAN

Outputs / budget components	2014	2015	2016	2017	Total per output
Output 1	86,850.00	149,525.00	66,000.00	10,500.00	293,000.00
Output 2	11,550.00	112,625.00	53,000.00	6,400.00	163,700.00
Output 3	34,350.00	115,725.00	61,000.00	-	172,800.00
Output 4	-	90,050.00	237,621.09	77,400.00	386,796.09
Miscellaneous	2,557.50	11,335.00	9,858.70	3,445.00	27,196.20
Subtotal	104,857.50	464,735.00	404,206.75	141,245.00	1,115,044.25
Support costs	13,631.48	60,415.55	52,546.88	18,361.85	144,955.75
Total	121,046.48	536,485.55	466,612.33	163,051.85	1,260,000.00

ANNEX IV: MONITORING PLAN

<i>What?</i>	<i>How?</i>	<i>Who?</i>		Frequency during project			
Indicator	Data collection methods and sources	Responsibility	Before project (baseline)	2014	2015	2016	2017
Impact indicators: Jobs created and/ or supported in the IT&ITES sector in Kenya	Survey of beneficiary SMEs conducted by ITC and partner TSIs	ITC and partner TSIs	2014 baseline				
Outcome Indicators: 1. Percentage increase in the value of IT&ITES exports by beneficiary enterprises (direct and indirect) 2. Specific percentage increase in the value of IT&ITES exports by beneficiary enterprises directly related to NTF III interventions 3. Number of new export markets entered by beneficiary enterprises 4. Overall number of new clients acquired (1 client =1 company with which a Kenyan beneficiary signed a contract)	Survey of beneficiary SMEs conducted by ITC and partner TSIs	ITC and partner TSIs	2014 baseline	Not measured	Once at end of year	Once at end of year	Once at end of year
Outputs Indicators: <u>Output 1:</u> 1) Number of advisory services provided in elaborating the export strategy 2) Number of private-public sector platforms established	Evidence of private-public sector platform formally adopted by stakeholders such as a signed statement for official launch	ITC	0	Bi-annually	Bi-annually	Bi-annually	Bi-annually
<u>Output 2:</u> 1) Number of enterprises reporting improvement in marketing skills 2) Number of enterprises enabled to become export ready through ITC training activities	Surveys of beneficiary SMEs conducted by TSIs and ITC	ITC and partner TSIs	0				

<p><u>Output 3:</u></p> <ol style="list-style-type: none"> 1) Number of TSIs trained on B2B matchmaking methodology to provide B2B services and/or on monitoring and evaluation 2) Number of advisory services provided to Kenyan ITES TSIs 3) Number of TSIs reporting improvements managerial performance and/or services to SMEs 	<p>TSI surveys conducted by ITC</p>	<p>ITC and partner TSIs</p>	<p>0</p>				
<p><u>Output 4:</u></p> <ol style="list-style-type: none"> 1. Number of enterprises having met and followed up on potential buyers 2. Number of potential buyers met through the project 	<p>ITC and TSI surveys of SMEs and international buyers, business contact sheets filled-in</p>	<p>ITC and partner TSIs</p>	<p>0</p>				

ANNEX V: RISK MANAGEMENT PLAN

Identified risk	Probability of occurring (H/M/L)	Impact on project results (H/M/L)	Risk reduction/mitigation
Need in human resources decreases due to rapid automation and creation of new technologies	L	H	Project will select those segments of the sector with the highest rate of and potential to increase employment a
High attrition rate of assisted enterprises	L	H	Careful selection of beneficiaries based on commitments, capacities and interest, use of early success stories. Selection of enterprises through an Expression of Interest (EOI), evaluation of the enterprises that applied and yearly evaluation of progress and commitment of the selected enterprises
Poor follow up of partner TSIs and beneficiary SMEs	L	H	PSC meetings to ensure proper follow up, documented in PSC minutes; continue monitoring progress with TSIs who have been trained to ensure their promised follow up to provide good services to SMEs. Close dialogue and collaborative approach with the selected TSIs
Internal political tensions between stakeholders make national ownership difficult.	L	H	Ensure close dialogue between stakeholders and especially with the private sector. Address any aspects in this regard during the PSC.
Public and private sector stakeholders cannot find a common ground for outsourcing IT services to the private sector	M	M	Cross-learnings with NTF III projects in Bangladesh and Uganda. Also learnings from other south-south cooperation partners highlighting how public-privates sector partnerships have brought forward the sector.
Insufficient engagement of selected beneficiary SMEs in export marketing and business training	L	H	Ensure full commitment and interest of the selected enterprises for the work in the project, constant monitoring of their activities in terms of progress in export marketing and business training. Yearly assessment of the progress and commitment of enterprises and change of selected beneficiary enterprises if needed.
No critical mass of SMEs having capacities to access the relevant funding institutions	L	H	When selecting beneficiary enterprises include basic requirements of funding institutions in the selection criteria
Insufficient experience of TSI staff members given the young age of TSIs in IT&ITES sector	M	M	Provide professional and qualified trainings in accordance with the NTF III Kenya project outputs and activities to make sure staff gains qualified trainings
Technical collaborations are not followed up by partners with concrete actions and remain declarations of intent only	L	H	NTF III Kenya team monitors the follow-up process after technical collaborations were confirmed by parties and if necessary advises on follow-up techniques

Identified risk	Probability of occurring (H/M/L)	Impact on project results (H/M/L)	Risk reduction/mitigation
Lack of follow-up by companies	M	H	Careful selection (through the EOI) of beneficiary companies based on transparent and jointly agreed upon selection criteria. The project will review every year the performance of selected companies. In case the performance is below expectations, including on follow-up, companies will be replaced by other companies that could not be selected due to limitations on numbers.

ANNEX VI: COMMUNICATION PLAN

Activity	Message	Purpose	Audience	Responsibility
Corporate website; NTF III Kenya page	Purpose of the project, its development and results achieved	Share experience, show progress, build credibility with a wider audience	All	Project manager with CE
Contribution to NTF III newsletter	Contribution of the project to the programme, results achieved, activities undertaken, upcoming events, new videos	Share experience on a regular basis at the activity level, drive interest in the site	Registered users Programme stakeholders	Project manager
Social media	Inform audience on progress of the project, main activities and events	Streamline communication, add value and ensure continuous promotion	All	ITC project manager and National Project Coordinator
Press release	Specific activities contributing to the progress of the project	Create awareness, build interest and demand for NTF III. Increase visibility of ITC and CBI	ITC CBI Partner TSIs	Programme Management at ITC, Project Managers, Beneficiaries, national coordinators ITC Communication team
Brochure and leaflets	Existence, purpose and progress of the project, as well as work of ITC and CBI	Create awareness, build interest and demand for NTF III. Strengthen brand and increase visibility of ITC and CBI	All	Programme Management at ITC ITC Communication team
Articles in magazines	Existence and progress of the project, as well as work of ITC and CBI	Disseminate results and build project visibility, Strengthen ITC and CBI Brand	Wide audience	Programme officer (programme consultant)

NTF III Kenya Website

To ensure wide visibility for the NTF III Kenya project, a new website was developed for all four NTF III projects to contain information regarding the programme and each individual project. The website provides information on the outcomes, outputs and activities of the projects, and results achieved based on the progress report submitted to CBI every six months.

The NTF III Kenya will highlight success stories, the latest trends in the sector, the technical contribution of the project to strengthen export competitiveness of the sector and the challenges the sector faces. The content of the Newsletter (see description below) will also be directly linked to the content on the website. In addition to written information, the website will be made livelier with videos, photos and other animations taken in the field during the action.

The URL is <http://www.intracen.org/itc/projects/ntf-3/>

Newsletters

A newsletter will be disseminated by the programme on a regular basis (every quarter) to encourage information sharing and transfer of knowledge. The newsletter is a key tool for NTF III Kenya to inform relevant audiences about the activities undertaken and how they are contributing to achieve the project goals.

The newsletter will include short articles about specific events that have taken place during the previous two months. It will refer the reader to the website to get more information on the subject matter. The newsletter will also be made available on the NTF III website.

Articles in ITC and CBI magazines and blogs

To promote NTF III Kenya and to share information on the substantive content of the programme, the NTF III Kenya project management team will publish on a regular basis articles on the ITC and CBI corporate magazine. The two magazines are disseminated to a large audience, which will provide the programme with a higher visibility. Newspapers and development cooperation relevant magazine could also be used in this context to give exposure to the wider audience. Articles published on the magazines will also be available on the NTF III website.

Press Releases

The press release is one of the most important forms of written information that is provided to journalist and published on the Internet. Press releases will be issued for every major event or activity (signing ceremony, workshops, etc.) for each individual project or at programme level.

The content of the press releases will be coordinated with the ITC communication unit as well as with CBI. It will also involve partner TSIs for activities in the field. The press release should include elements such as the purpose of the project, the partnership between ITC, CBI and other institutions, and the results achieved so far. Press releases will always be published on the NTF III website. Whenever relevant, NTF III press releases will be published on the ITC corporate website, and on CBI corporate website.

Social media

NTF III Kenya will use social media to encourage wider communication and sharing of experience, whenever it is relevant and it adds value to the project and the programme. ITC and CBI staff, partner institutions, consultants and other participants in project activities will help by contributing multimedia contents (video, podcasts) and by actively being involved in social media networks. For instance, NTF III Kenya will create its own facebook page to ensure immediate dissemination of information to the entire group and promote NTF III events and activities.

ANNEX VII. DETAILED BACKGROUND AND CONTEXT

Economic Overview

The Republic of Kenya is classified as a low-income country. The government is however aiming to transform the country into an industrializing middle income country by promoting domestic and international trade and regional integration. Kenya has a population of about 44 million people. Its GDP is currently at \$41.1 billion (2013 est.), while the country's unemployment rate is relatively high at around 40%.

Since its independence in 1963, Kenya has enjoyed rapid economic growth. For example, the World Bank report of December 2013 on Kenya points to positive developments, especially on the economic front: gross domestic product (GDP) per capita increased eightfold and Kenya's financial sector is now the third largest in Sub-Saharan Africa (after South Africa and Nigeria)¹⁵ and among the most sophisticated on the African continent. Reforms have further improved the resilience of the banking sector to domestic and international shocks.

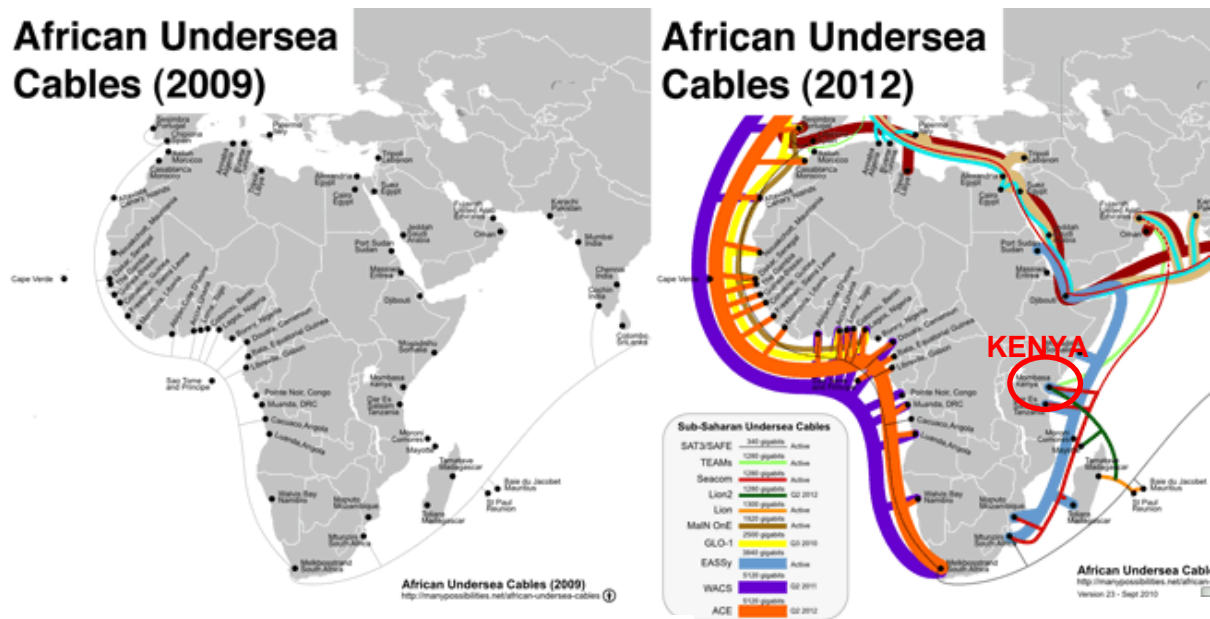
When breaking down Kenya's GDP into its constituents, one notices that the largest share is with the services sector, with agriculture coming only second. Within services, the Internet and Communications Technology (ICT) sector contributed up to 14% of the country's GDP growth between 2000 and 2009, making an important direct contribution to economic growth. Following a decade of rapid urbanization and strong economic growth, Kenya, also nicknamed "Silicon Savannah", is home to a growing wave of innovation. As a mark of confidence in Kenya's potential, Google, Microsoft, IBM and SAP, among other international firms, now have fully fledged offices in Kenya.

Tremendous technology investments and novelties are the enabler for IT & ITES exports

Politicians and commentators from around the world have hailed the potential of the Internet to spark economic development and growth. Hence, the fact that East Africa used to be the last major region on the planet without fibre-optic broadband Internet access is startling. Until the summer of 2009, Kenya had been forced to rely on slow and extremely costly satellite connections for internet access and data transmission. As Figure 1 shows, Kenya was not connected to any undersea cables at that moment in time. However, after an investment of more than a billion USD in construction, the region connected via submarine fibre optic broadband cables, thus allowing much greater speeds at much lower prices. The country now has four links to undersea fiber-optic cables with a fifth one under way, which will provide a constant and reliable internet connection to Kenya.

¹⁵ Reinvigorating Growth with a Dynamic Banking Sector; Working paper 83267; World Bank, December 12, 2013.

Figure 1. African Undersea Cables.



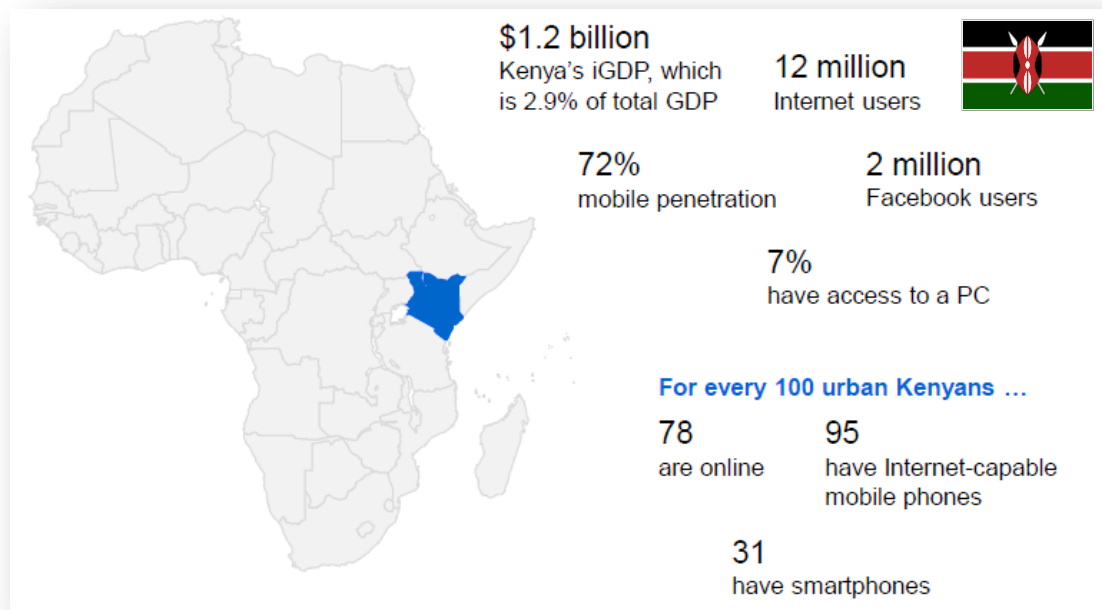
Source: Oxford Internet Institute: Development and Broadband Internet Access in East Africa

Beyond greatly expanding its internet coverage, Kenya has seen additional technological advancements in recent years. It has transited from 2G technology to 3G, and is now finalizing the modalities of adopting the Long Term Evolution (LTE) technology (4G). This has further contributed to the “technological revolution”, stimulating home-grown innovation and thereby transforming Kenya’s economy.

Significant other infrastructure improvements include increased access to mobile broadband, fibre-optic cable connections to households, and power-supply expansion. Combining this with the rapid spread of low-cost smartphones and tablets, millions of Kenyans are now able to connect to the World Wide Web. This recent technological modernization allowed East African businesses and entrepreneurs to thrive on the wave of technology, unhindered by many of the previous limiting effects of distance.

The infrastructure that was built is widely adopted and used today: there are 12 million internet users in Kenya, urban internet penetration stands at 78 %, and mobile penetration at 72 %. Almost all urban phones are Internet-enabled. Among these 31 % are smartphones, positioning mobile as the preferred platform for Internet access. Figure 2 below graphically illustrates these key figures for the internet penetration of Kenya in 2012.

Figure 2. Kenya's internet penetration in 2012.



Sources: World Economic Forum; McKinsey Africa Consumer Insights Center survey, 2012; Internet World Stats; McKinsey Global Institute analysis

Another indicator for Kenya's role as a frontrunner within Africa is the iGDP¹⁶. This indicator measures the Internet's contribution to overall GDP. Kenya, even though not Africa's largest economy, has, together with Senegal, emerged as the continent's leader in terms of the relative economic contribution of the Internet to GDP (the internet in Kenya contributed US\$1.2 billion to its GDP in 2012, as shown in Figure 3). This level is comparable to those of France and Canada. By contrast, the continent's largest economies, South Africa, and Nigeria, have iGDPs of 1.4 percent and 0.8 percent, respectively. McKinsey Global Institute¹⁷ predicts that by 2025, Africa's iGDP should grow to at least 5 to 6 percent, matching that of leading economies such as Sweden, Taiwan, and the United Kingdom. Kenya, as the leading Eastern and Southern African country in terms of iGDP, will particularly benefit from this development

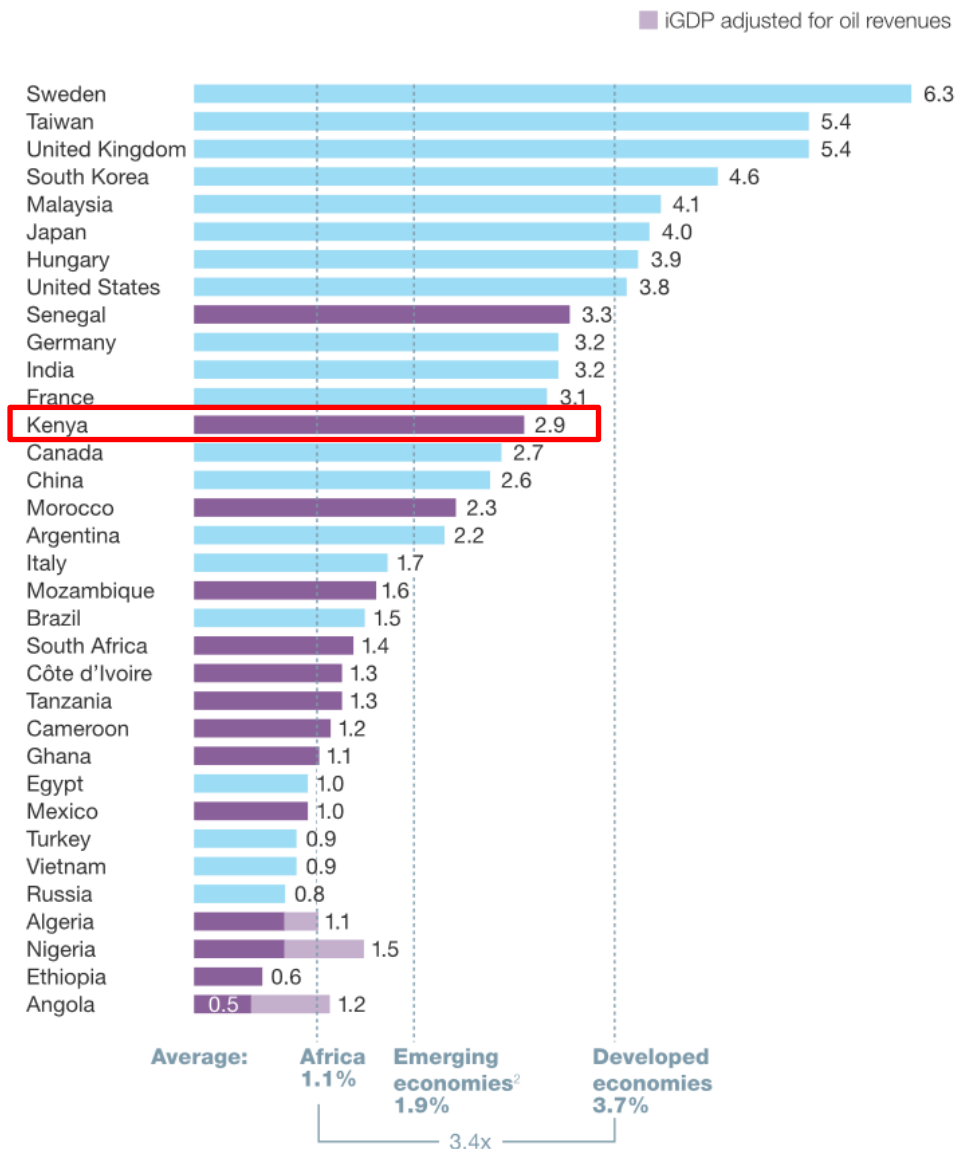
Kenya is a world pioneer in mobile payments and has impressive hub structures

When considering Kenya's unique selling points and stand-out features, one has to emphasize two things: firstly, its worldwide lead in the mobile payment sector, and secondly, its existing and sophisticated IT hub structures. Kenya's "M-Pesa", the country's mobile payment system, has been a notable success story and is ubiquitous in Kenya. It started in 2007 as a simple P2P (person-to-person) platform for customers of Safaricom, Kenya's largest mobile network. It gradually added a range of other services, including airtime and electricity purchases, bill and salary payments, online shopping, remittances, and salary disbursements. In its first 18 months of existence, M-Pesa gained four million users, many of whom rely on a network of agents they can visit for deposits and withdrawals. Today, with 14.6 million users, M-Pesa is recognised as one of the most successful financial services innovators in the world. For the first quarter of 2013, the value of M-Pesa mobile money transactions in Kenya exceeded \$5 billion. Its pioneer role in mobile payments shows how Kenya could leapfrog the developed world by using mobile technologies in new ways.

¹⁶ The iGDP describes the percentage of the Internet's contribution to the GDP

¹⁷ McKinsey Global Institute (Nov. 2013): Lions go digital: The Internet's transformative potential in Africa.

Figure 3. iGDP - Internet's contribution to GDP by country in 2012, % of GDP.



Source: McKinsey Global Institute: Lions go digital: The Internet's transformative potential in Africa

Moreover, Kenya has an impressive hub structure already in place. Nairobi is home to the first tech incubator in Africa, the iHub, which has supported and inspired a movement of young tech-savvy Africans to develop a community that is taking risks in building products, services, and platforms for local markets. The iHub is an innovation hub for the technology community in Nairobi that started in March 2010, providing a space where young entrepreneurs can receive mentorship, internet connectivity, and the possibility of venture funding through connections with the international venture capital community. This "unofficial headquarters of Kenya's tech movement" has led to the development of more than 150 businesses, such as Kopo Kopo (which develops mobile payment systems for SMEs) and eLimu (which is producing low-cost tablets for primary schools). Success stories like the latter are attracting global investors and spurring the formation of local angel investor and venture capital networks.

The IT&ITES sector in Kenya is promising and ready to export

The IT & ITES¹⁸ sector is an emerging sector in Kenya, and limited knowledge exists on its scope and capacity since there are no detailed export statistics. The Kenyan IT and Outsourcing Society KITOS estimates that currently about 2000 Kenyan IT & ITES companies (including independent freelancers) employ about 7000 people. Most of the companies are located in the capital city of Nairobi. While there do exist some IT professionals who are specialized in graphic design or applications, the bulk of companies in the domain operate in ITES such as voice based customer support, and document management which includes digitalization, transcription and archiving.

Table 3 gives an overview of services currently offered in the IT as well as the ITES sector in Kenya. These services offered do not need major modifications like, for example, additional language or software trainings, as Kenyan companies are known for their accuracy and quality of work delivered, as well as their qualified talent pool.

Table 3. Services offered of IT & ITES firms in Kenya.

Sub-Sector	Domestic services	Modifications to domestic services to make them exportable
IT	<ul style="list-style-type: none"> Web and mobile development Data management Data storage and back-up Software development Web and mobile advertising and related content 	<p>All services could be exported; delivery of exported services can be fully conducted online. Employees must be able to communicate effectively with email. However, employee training must be up to international standards, which includes developing strong customer service skills.</p>
ITES	<ul style="list-style-type: none"> Technology support Voice and email based customer service Back office support Database management Transcription 	

Source: ITC, 2014

One additional reason for why the IT& ITES industry in Kenya was chosen as a target sector under NTF III is its important impact on employment. By increasing the competitiveness of this sector, jobs will be created more easily than in other sectors. However, in addition to directly employed workers, the IT&ITES sector creates indirect employment opportunities in industries such as construction, retail, transport and telecommunications, as well as induced employment due to higher spending on goods and services such as food, transport, entertainment, health and medical services. To take the example of India, McKinsey estimates that each new job in IT&ITES services in India has led to the creation of between three to four new jobs in other sectors. The IT&ITES sector in Kenya has, therefore, potential to contribute to employment creation, the envisaged impact of the NTF III programme.

¹⁸ The term ITES stands for services that are IT-enabled. Since the majority of outsourced business processes make use of IT, the two terms BPO and ITES are often used synonymously. In this project, we focus on the ITES sector, i.e.; that means business processes that are information-technology-based. This project consistently makes use of the term ITES, however, some confusion of the terms might arise since for example the government of Kenya developed a national BPO strategy.

Stakeholder Analysis

Table 4. Detailed Stakeholder Analysis.

Direct Beneficiaries

Beneficiary	Priorities	Strengths	Needs
SMEs in IT & ITES sector	Increased exports (in value and in number of contracts obtained)	Large pool of talent, educated and young labour force, favourable government policies in place, high potential for women employment and entrepreneurship	Increased export capacities, export marketing knowledge, increased managerial capacities, improved business project management quality

Strategic partners

Partners	Priorities	Strengths	Needs
Government ministries: Ministry of Information, Communication and Technology Ministry of Foreign Affairs Ministry of Commerce	Increased capacity to facilitate economic development, contribute to implementation of government policies in the sector	Taxpayer funded, government backed, power in implementing policies in the sector	Enhanced expertise in IT & ITES sector support, public sector services modernized
TSIs: Kenyan IT & Outsourcing Society (KITOS) Kenyan Export Promotion Council (EPC) Kenyan ICT Authority (KICTA) Computer Society of Kenya (CSK) Information Communication Technology Association of Kenya (ICTAK) Trademark East Africa	Increased capacity in providing services to IT & ITES SMEs, cooperation in promoting the sector in foreign markets	Existing expertise on assisting SMEs in the sector, engagement with the industry, linkages with the government and influence on their priorities	Strengthened institutional capacities, market analysis and research capacities, enhanced entrepreneurship-support capacities

<p>(TMEA)</p> <p>Communications Commission of Kenya (CCK)</p> <p>The Kenya ITES & Contact Centre Society (KITESCCS)</p>			
<p>Other Donor Organizations:</p> <p>World Bank, JICA, Dutch Embassy, UNDP, USAID</p>	<p>Implementation of aid strategies and programmes with benefits for the IT & ITES industry</p>	<p>Country presence and intelligence. Local human resources, access to funding</p>	<p>Effective coordination of activities with other programmes and donors</p>

ANNEX VIII. DETAILED PARTNER GOVERNMENT POLICIES AND STRATEGIES

The ITES sector has recently featured as a priority under almost all Kenyan economic policy documents. The government of Kenya has been especially instrumental in developing its domestic ICT and BPO sector, culminating in the launch of the first National ICT Master plan in 2012, as well as BPO being a main pillar of its development program, i.e. Kenya *Vision 2030*.

Kenya Vision 2030

Kenya Vision 2030 is the country's development programme covering the period 2008 to 2030. The programme was launched by President Mwai Kibaki in June 2008. Its objective is to help transform Kenya into a "*newly industrializing, middle-income country providing a high quality of life to all its citizens by 2030 in a clean and secure environment.*"

The Vision is based around three "pillars": an economic pillar, a social pillar, and a political pillar. It is to be implemented in successive five-year medium-term plans. As depicted in Figure 4, the economic pillar of the plan targets six key sectors with investment in numerous flagship projects. These key sectors are tourism, agriculture, trade, manufacturing, ICT and BPO, as well as financial services.

ICT and BPO are, thus, singled out as one of the six key sectors of the government vision. Within this key sector, several activities are emphasized in order to achieve the goal of establishing Kenya as a hub for the East-African region and beyond. Some of these activities are briefly outlined below:







- Creation of institutions including:
 - The Kenya ICT Board with a mandate to market Kenya's ICT work, under the Ministry of Communication
 - The IT&BPO working committee/group under the office of the Prime Minister with the responsibility, among others, of guiding and facilitating an effective working system among various government ministries and agencies in order to develop a strong BPO sector in Kenya
- Improvements of the IT&BPO business environment by introducing corporate tax reliefs and training subsidies
- Development of a BPO business park: Konza Technological City

The ultimate objective of these activities is job creation. The Kenyan government set an ambitious target of "creation of no less than 7500 direct BPO jobs" until 2017.

Figure 4. Kenya Vision 2030.



Visions

	1. Tourism	2. Agriculture	3. Trade	4. Manufacturing	5. ICT and BPO	6. Financial Services
						
	Be a top 10 long haul tourist destination	Be innovative, commercially oriented and modern	Move towards greater efficiency and at least a 30% formal market share	Improve competitiveness to revolutionize sector	transform Kenya into IT/ITES hub for East-Africa region and beyond	Be efficient and globally competitive, driving high savings and financing
Goals for 2013-2017	<ul style="list-style-type: none"> Increase tourism earnings from KSh 96 bn (2012) to KSh 200 bn Increase visitors from 1.8 mio (2012) to 3 mio 	<ul style="list-style-type: none"> Raise yields of key crops by ~3x Make 600K-1M new hectares available 	<ul style="list-style-type: none"> Establish and operationalize an Export Development Fund and a Credit Guarantee Scheme Create 10 hubs and 1000-1500 Producer Business Groups 	<ul style="list-style-type: none"> Development of SME- and Industrial Parks Establishment of Special Economic Zones (SEZ) 	<ul style="list-style-type: none"> Create 7500 direct ITES jobs, 5000 of which are in Konza technological City Capacity and skills development Local digital content development IBM Research Laboratory 	<ul style="list-style-type: none"> Establish Nairobi International Financial Centre Raise savings and investment to 25-30% of GDP

Source: ITC 2014

Konza Technological City

Konza Technological City is an enormous city building project by the government, that is marketed as a key driver and accelerating institution for Kenya's BPO industry. The construction of this flagship mega project has however not yet started.

The multi-billion dollar city (the Kenyan government intends to spend a reported US\$14.5 billion), will be located on a 5,000-acre plot of land some 60 kilometres southeast of the capital Nairobi. The park is set to host business process outsourcing ventures, a science park, a convention centre, shopping malls, hotels and international schools. Furthermore, it will feature a university campus, urban parks, and housing to accommodate some 185,000 people.

ICT Strategy 2017

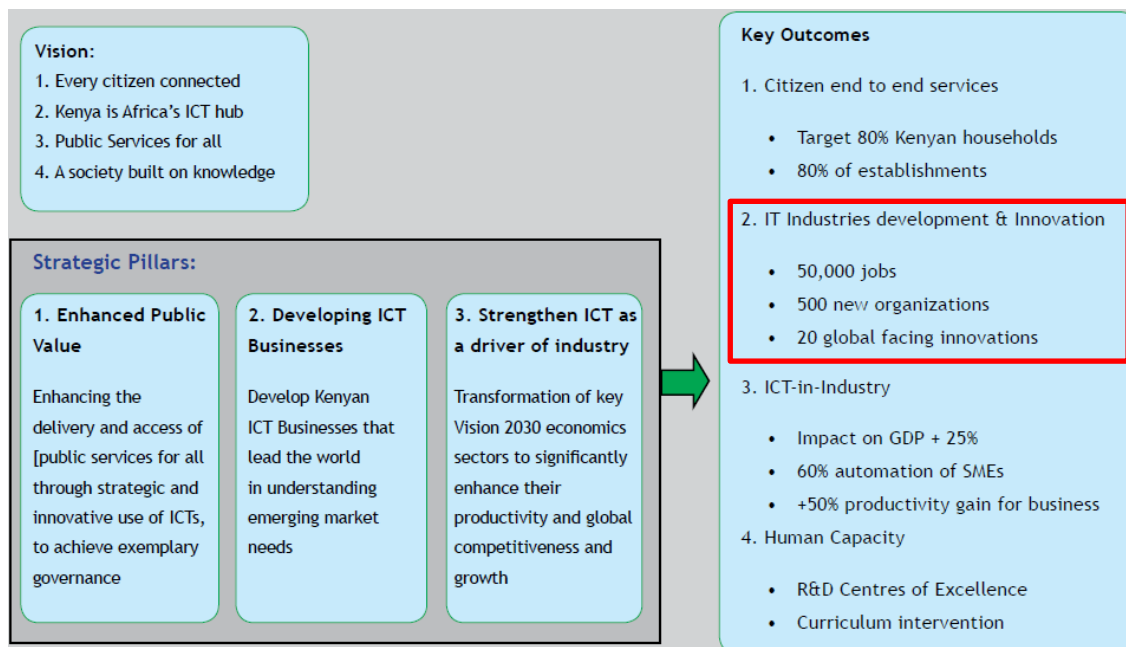
The ICT Strategy 2017 is a 5 year plan on how Kenya can leverage ICT to its economic benefit. It was developed by the Kenyan ICT Board and foresees that by 2017, Kenya's ICT industry will be making an estimated US\$2 billion (about 25 percent of Kenya's current GDP), and that it will have created around 500 new ICT companies and over 50,000 jobs (Kenya ICT Board, 2012).

This conceptual framework is particularly focused on stimulating the growth of ICT based businesses as a way of enabling positive economic and social development.

The overarching goal of the strategy is to develop Kenya as Africa's ICT hub (i.e. point two of the vision). The strategic pillars 2 and 3 especially correspond to the mandate of the NTF III project:

- Developing ICT businesses that lead the world in understanding emerging market needs
- Strengthen ICT, a key Vision 2030 sector, as a driver of the industry

Figure 5. The ICT Strategy 2017.



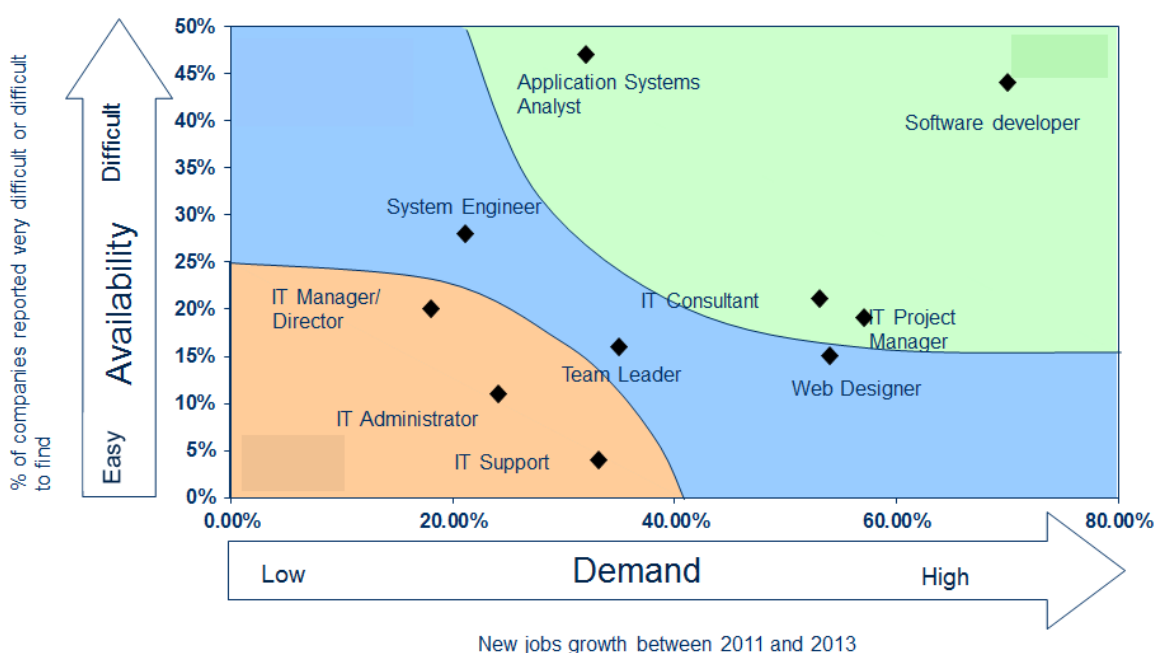
Source: KICTB: Connected Kenya 2017 – Master plan

ANNEX IX. IT RESOURCE DEMAND IN KENYA

According to the Kenyan ICT board and as depicted in Figure 6, the greatest current demand is for IT-software developers, followed by project managers, web designers, and IT consultants. The growth rates in the IT sector reflect the fast development of IT adoption and the current IT infrastructure expansion taking place, for which ICT-qualified users are needed. The IT skills pool is expected to grow further over the next couple of years, with more emphasis being placed on areas like ICT consulting and administration.

In order to meet the market demand, both domestic and export-oriented, Kenya needs to focus on training IT project managers, consultants, application system analysts, and software developers, as these are the professions in highest demand.

Figure 6. IT resource demand in Kenya.









Source: Kenya ICT Board: ICT Monitoring & Evaluation Indicator Survey, Kenya, IDC, 2011

This project will tackle this imbalance and specifically target young people, providing them with skills and promoting the attractiveness of an occupation in the technological sector.

ANNEX X: SWOT: IT/BPO INDUSTRY IN KENYA

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • English abilities are very good: High school grad on par with average university grad in India • Reputation for working hard • Kenyan professionals are exported across Africa due to their skills • A lot of talent and ability in Kenya • History of embracing capitalism (delayed in Uganda and Tanzania) • Kenyan business people are typically well-informed about trends, events at home and abroad • Nairobi is multi-cultural; multi-national with many regional HQs • Large (relative) pool of talent • Kenyans have adapted to entrepreneurial opportunities • Good will and support from government for IT/BPO sectors: one of the six key pillars • Undersea, fiber cables—internet infrastructure is best in region. Brought costs down and is more reliable • Time zone amenable to clients 	<ul style="list-style-type: none"> • Internet connectivity in provinces • Not adequate number of wifi hotspots • Price for internet is still not as low as it should be and needs to be • Last mile connectivity is problematic • Infrastructure to support 24 hour service isn't there: transport, safety, food • Access to finance is problematic • Proper training is hard to find • Challenging to convince Kenyan companies and Kenyan government to outsource • Legal infrastructure for enforcing contracts is not good enough (although laws themselves appear to be on the books) •
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Devolution is a big opportunity: Nairobi is expensive; More talent and affordable resources in provinces. • If facilities (security, food, transport) were there, there would be big opportunities for expanding to 24 hour work. • If Kenyan government made a decision to digitize and to outsource, could lead by example (e.g. police incident reports and Kenyan Revenue Authority),big opportunities. • It is comparatively much more expensive in South Africa. Kenya could be the value-priced African destination. 	<ul style="list-style-type: none"> • Appropriate action/support might not happen: Government seems disengaged • South Africa, Egypt, Ghana, Mauritius, Rwanda and Uganda are not standing still • It is costly to do business in Kenya. This could stifle opportunities from the beginning

ANNEX XI: KENYA'S POSITIONING ON CRITERIA FOR SELECTING AN OUTSOURCING PARTNER

Criteria	Performance	Comment
Regulations and Government		
Legal Framework		<ul style="list-style-type: none"> • Good will and support from government for IT/BPO sectors: one of the six key pillars
Legal framework		<ul style="list-style-type: none"> • Legal infrastructure for enforcing contracts is not good enough (although laws themselves appear to be on the books) • Challenging to convince Kenyan companies and Kenyan government to outsource
Infrastructure		
Efficient Internet (bandwidth and cost)		<ul style="list-style-type: none"> • Undersea fiber cables—internet infrastructure is best in region. Brought costs down and is more reliable
Efficient Internet (bandwidth and cost)		<ul style="list-style-type: none"> • Not adequate number of wifi hotspots • Price for internet is still not as low as it should be and needs to be • Internet connectivity in provinces is intermittent
24 hour service support		<ul style="list-style-type: none"> • Infrastructure to support 24 hour service isn't there: transport, safety, food
Industry conditions		
Availability of skilled resources (talent pool)		<ul style="list-style-type: none"> • Kenyan professionals are exported across Africa due to their skills • A large pool of talent and ability in Kenya
Language skills		English is Kenya's official national language.
Low cost		<p>Cost of labour is rather low. It is comparatively much more expensive in South Africa. Kenya could be the value-priced African destination. Word of caution: a number of factors are playing against the labour advantage:</p> <ul style="list-style-type: none"> • The cost of internet bandwidth, which is high, is negatively impacting the labour cost advantage that exists, driving up operational costs, and ultimately the sales price for the services. • Additionally, the fragmented nature of the SME market may result in inefficiencies, which in turn will lead to higher costs.
Positive reference from peers or a successful pilot project		Kenyan companies do not have today a portfolio of references. Kenya's IT&ITES industry has to be put on the map.
Geographical proximity		<ul style="list-style-type: none"> • Better than India or the Philippines. The time zone is also amenable to European business. It is however more remote, both geographically and institutionally, than

Criteria	Performance	Comment
		Romania or Poland, for example
Cultural proximity	👍	<ul style="list-style-type: none"> Given the British/Anglo-Saxon tradition and good level of English, it can be an advantage History of embracing capitalism (delayed in Uganda and Tanzania)
Business mentality	👍	<ul style="list-style-type: none"> Kenyan business people are typically well-informed about trends, events at home and abroad Nairobi is multi-cultural; multi-national and with many regional HQs Kenyans have adapted to entrepreneurial opportunities

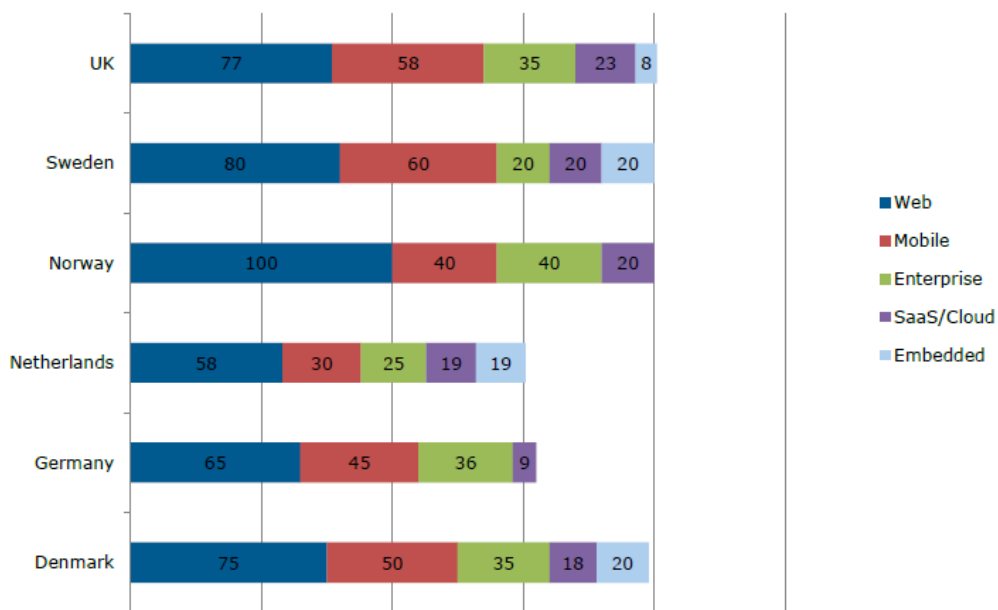
Market Potential

As competition amongst IT&ITES outsourcing service providers intensifies, understanding applications for which IT&ITES services are to be provided becomes ever more important. As this trend continues, IT&ITES outsourcing service providers will need to select the application areas where they wish to offer their services, in order to ramp up their expertise, and appear as credible partners. They will have to show and actually understand the problem their clients are facing.

As per Figure 7, Web and mobile applications development are the most sought after IT outsourcing areas (CBI Tradewatch for Information Technology Outsourcing (ITO), 2013, p. 9).

Figure 7. IT expertise in demand - EU-EFTA 2012

Figure 8: ITO demand by area of expertise, per outsourced software development project, in 2012 (data Netherlands 2011)



Source: IT Sourcing Europe research

Moreover, web programming, web design, other web developments, mobile apps as well as other software developments are the most demanded services, according to the free-lancing platforms “www.odesk.com”. For more details please refer to Figure 8.

In terms of ITES applications most of the demand can be found for data entry, web research, administrative support and other business support services as shown in Figure 9.

Figure 8. IT application areas in demand.

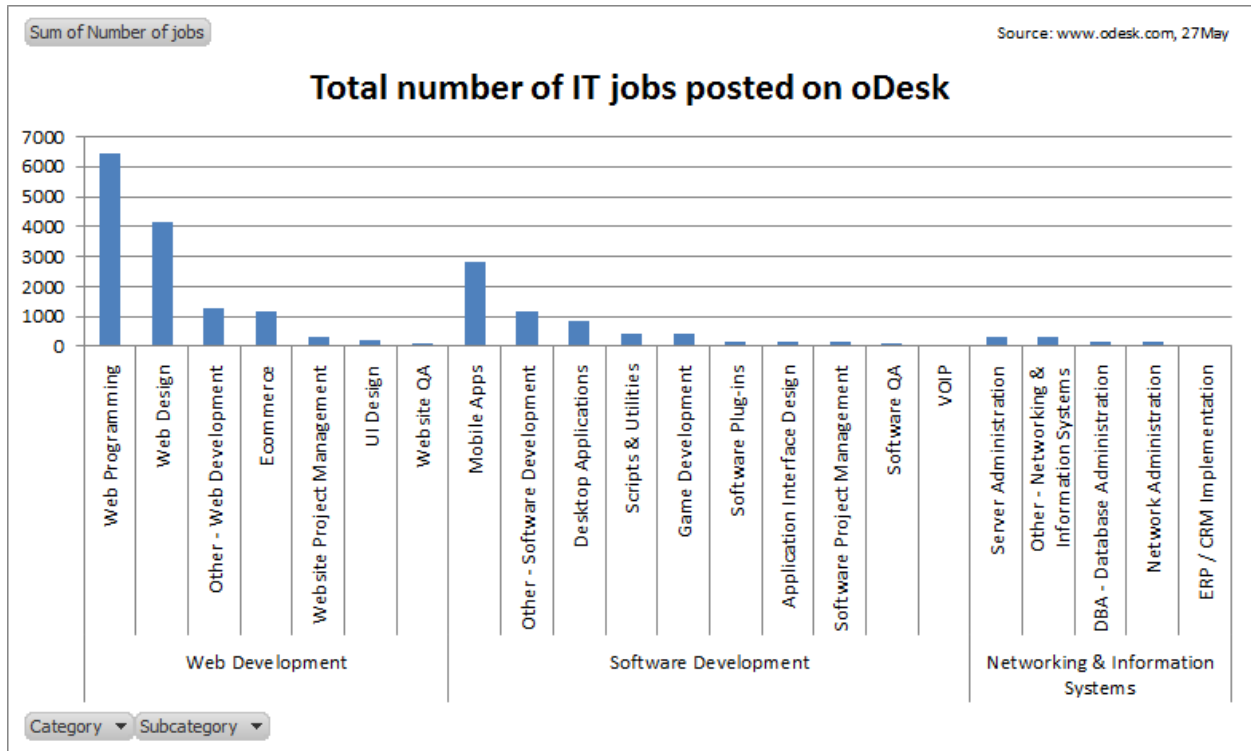
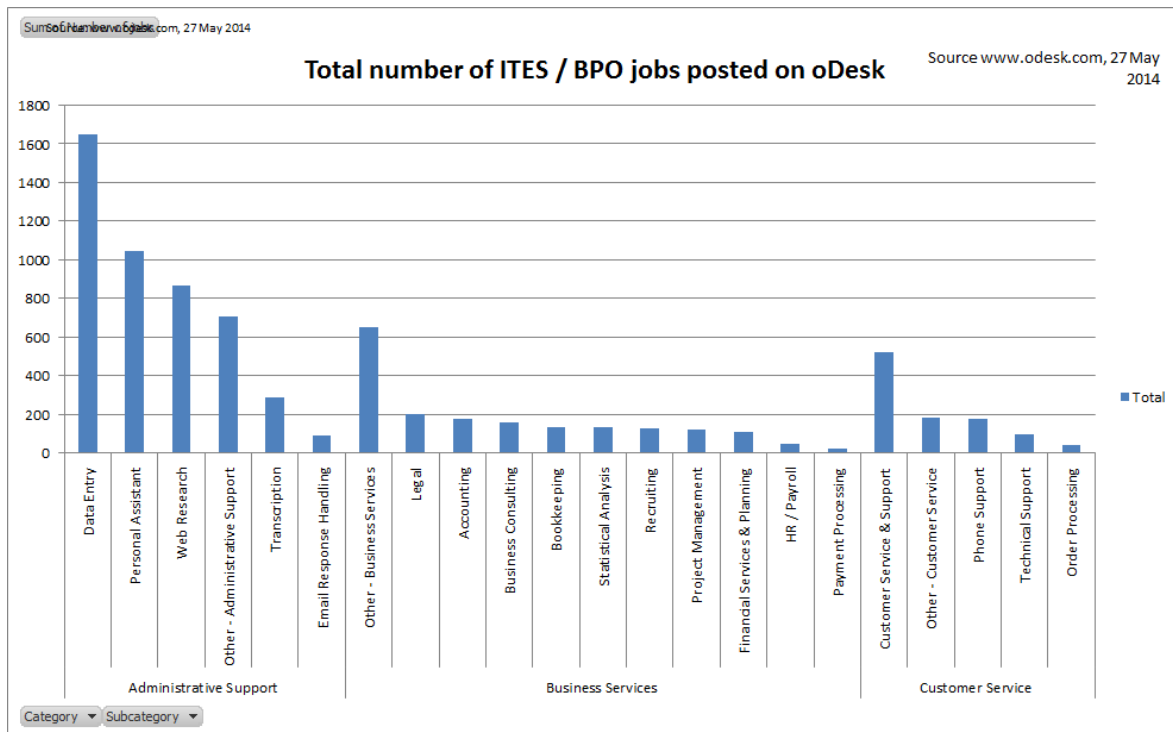
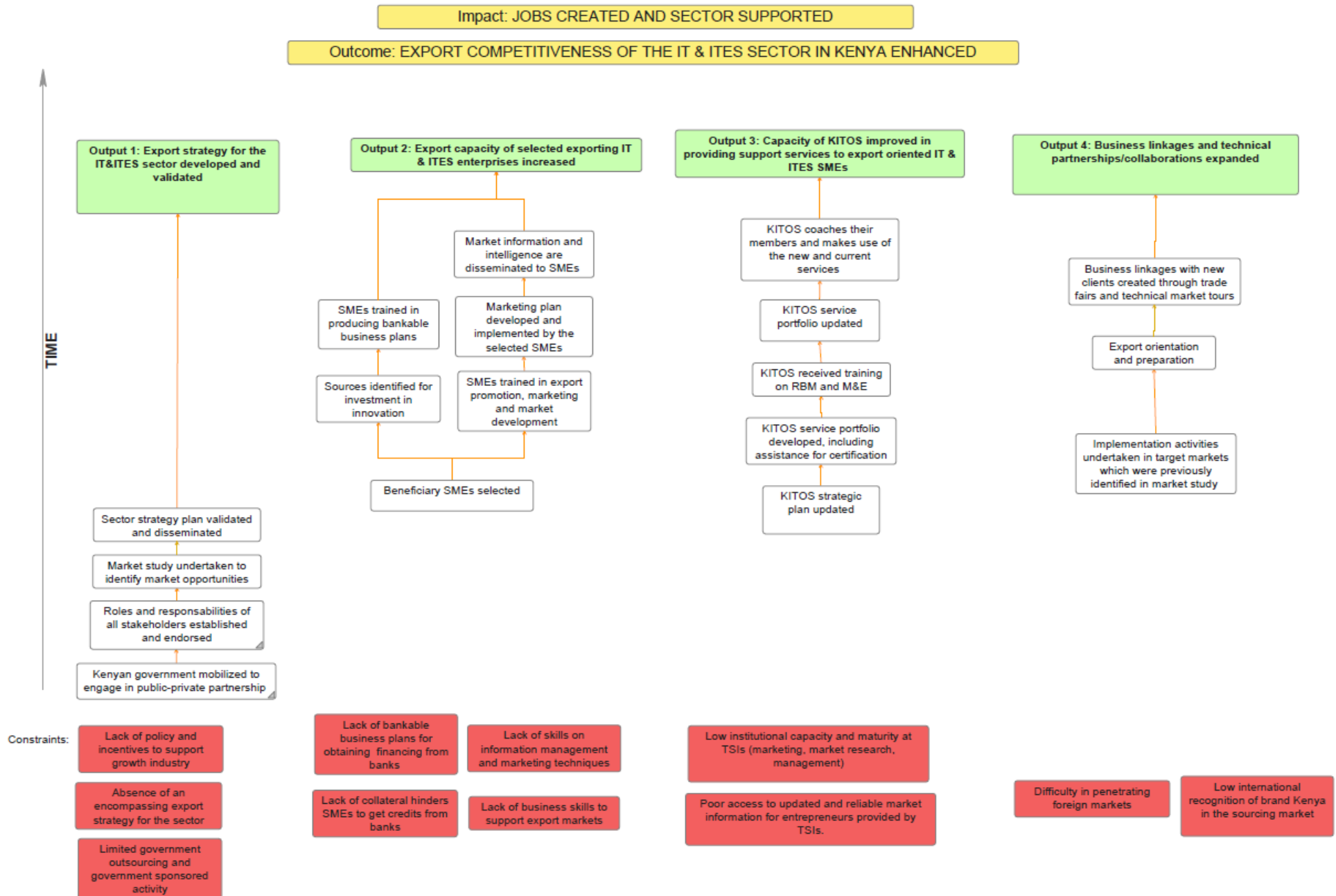


Figure 9. ITES application areas in demand.



Moreover, in the ITES/BPO segment, an important demand potential exists from large organisations and impact sourcing companies to outsource relatively light skill jobs (e.g. libraries, municipalities, stock exchanges), which could be critical in creating a high volume of jobs in Kenya.

ANNEX XII. GRAPHICAL REPRESENTATION OF THE RESULTS CHAIN.



ANNEX XIII. OTHER COMPETITIVENESS ENHANCING INITIATIVES.

Project Name	Development Partner	Project Duration	Budget	Project Facts/ Plan	Project Objectives
Kenya Transparency and Communications Infrastructure Project (KTCIP)	Funded by the World Bank, implemented by the Kenya ICT Board	2012-unknown	\$30 million	County governments will benefit from transformational use of innovative technologies to improve their efficiency and effectiveness in public service delivery	Supply, Installation & Commissioning of <ul style="list-style-type: none"> • Hardware • Software • Documents Management Systems • Scanning and Digitization of Documents • Training
Microsoft 4 Africa	Funded by Microsoft	ongoing	\$75 billion for 7 African countries (amongst them Kenya)	The project has been going on for over 20 years, focussing on three focus areas: training, SME development and innovation	<ul style="list-style-type: none"> • Training: governments, individuals, private organizations and NGOs • SME support focusses on linkages (e.g. to win government tenders), opening up markets and technology assistance • Innovation initiatives focus on locally developed solutions, i.e. getting Africans to build technology, applications, systems and products
Project Lucy/ IBM Watson	Funded by IBM	2013-2023	\$100 million	IBM's project focuses on starting a new era of a cognitive computing centre in Africa, supported by big data analytics	<ul style="list-style-type: none"> • IBM established its first African research facility in Nairobi • IBM Watson, the first cognitive computing system, is coming to Africa to address the fast-growing continent's greatest business and societal challenges

Digital Jobs Africa Project	Funded by the Rockefeller Foundation	2013-2020	Nearly US\$100 million	Digital Jobs Africa seeks to impact the lives of 1 million people in Africa in 6 countries, of which Kenya, through jobs and skills for youth in the ICT sector. The Kenya country strategy focuses on deepening our support for Impact Sourcing, catalyzing the online work opportunity and exploring the potential for IT innovations to spur large scale job creation	Digital Jobs Africa will seize the opportunity presented by the youth bulge in Africa and the phenomenal rise of ICT sector to bring about sustainable impact, through job creation There will be three targeted interventions: <ul style="list-style-type: none"> • Grow the Impact Sourcing sector • Skills development and training • Support an enabling environment for digital jobs
Trade Mark East Africa (TMEA)	Funded by a range of development agencies, e.g. African Development Bank,	Ongoing	unknown	TMEA has the aim of growing prosperity in East Africa through trade. TMEA Economic Corridors projects aim to increase East Africa's trade competitiveness by reducing transit time along the EAC transport corridors. Private sector projects support research and advocacy to facilitate the ease of doing business in East Africa.	Some of the Economic corridor projects as well as the private sector projects are named hereafter: <ul style="list-style-type: none"> • Technical Assistance to Revenue Authorities • Single Window Information for Trade • Non-tariff Barriers • Leverage substantial private sector investment into cutting-edge freight and other logistics technologies and business processes into East Africa; • Increasing corporate engagement with very high level regional policy makers