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INVESTMENT PROMOTION PROGRAMME

DP/KEN/86/064

KENYA

Report of the in-depth evaluation mission[1]

Prepared in cooperation of
the Government of the Republic of Kenya
the United Nations Development Programme and
the United Nations Industrial Development Organization

[1] This document has not been edited.

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ABBREVIATIONS

APDF	African Project Development Facility
DFI	Development Finance Institutions
DI	Department of Industries, Ministry of Commerce and Industry
DIDO	District Industrial Development Officer
DIPP	Databank for Investment Promotion Programme
EPZA	Export Processing Zone Authorities
FKE	Federation of Kenyan Employers
FNF	Friedrich Naumann Foundation (German foundation)
ICDC	Industrial and Commercial Development Corporation
IDB	Industrial Development Bank
IDF	Industrial Development Fund (UNIDO)
IPC	Investment Promotion Centre
IPS	Investment Promotion Service (UNIDO)
KAM	Kenya Association of Manufacturers
KIE	Kenya Industrial Estates
KNCCI	Kenya National Chamber of Commerce and Industry
KSh	Kenyan Shilling
MCI	Ministry of Commerce and Industry
NPC	National Project Coordinator
PPER	Project Performance Evaluation Report
PROPSPIN	Project Screening Pre-appraisal Information System
RAS	Rehabilitation Advisory Services
TCDC	Technical Cooperation among Developing Countries
TF	Task Force
TPR	Tripartite Review
UNCTC	United Nations Centre on Transnational Corporations
w/m	work/month

INTRODUCTION

The project DP/KEN/86/064 Investment Promotion Programme was designed with the aim of strengthening the capacities of the Department of Industries in the Ministry of Industry in the field of investment promotion. Apart from enhancing investment promotion capacities of the Department of Industries, the project was meant to improve the coordination between the various institutions involved in the subject matter in Kenya and build up their capacities in order to fulfill this objective. The second objective was designed to contribute to a conducive investment climate.

The project under evaluation is a direct follow-up to DP/KEN/80/001 which was preceded by two earlier projects, i.e. DP/KEN/70/521 and DP/KEN/74/007. The total allotment made for the previous three projects amounts to US$ 5.9 million, resulting in the provision of external UNDP and UNIDO funds to an amount of US$ 6.9 million for all four phases combined.

During the Tripartite Review Meeting in December 1991 it was decided that an in-depth evaluation should be undertaken on the subject project. The terms of reference were forwarded to UNDP and UNIDO Headquarters in January 1993 and established that during the exercise the achievements of the project should be assessed and factors identified which influenced progress and attainments. In particular, the team was to evaluate the extent to which capacities of the counterpart and of associated public and private sector institutions have been strengthened. Moreover, the extent to which coordination and cooperation between these bodies has been instituted by the project was to be determined as well as the optimal role of each of them in the various activities. The mission took place in light of the fact that this project is one of the first of its kind in Africa and that assessed experience should render guidance for future projects, in Kenya and elsewhere.

The mission faced difficulties in commencing its work due to the sudden unavailability of the UNDP representative and requisite action to identify a suitable replacement. The evaluation finally took place from 25 March to 8 April 1993, preceded by preparatory work undertaken by the UNIDO representative during the period 17 - 24 March, and encompassed interviews with staff of the Ministry of Commerce and Industry, associated institutions, such as IPC, KAM, KNCCI, etc., development financing institutions, Kenyan project promoters, and officials from UNDP and UNIDO. The Department of Industries and the UNIDO office in Nairobi assisted the mission in preparing its schedule of meetings. The team completed its assignment with a final briefing session on 8 April where it presented its findings to all three parties concerned.

The team was comprised of the following members:

Hon. Dr. V. Omolo-Opere, on behalf of UNDP (Team Leader)
Mr. I. Chebii, on behalf of the Kenyan Government
Ms. C. Heider, on behalf of UNIDO.

I. EXECUTIVE SUMMARY

1. The overall economic and political environment prevailing in Kenya in 1992 in particular was not conducive to accelerated investment activities, hence the project was faced by external factors which impeded its implementation and effectiveness. Despite these shortcomings, the project did achieve some commendable results.

2. Project design and implementation showed shortcomings insofar as the intended capacity building objective was not fully supported by requisite activities and inputs. More importantly, the second objective which was to enable the government to take decisions on rationalizing the institutional infrastructure and policy framework for investment promotion was not pursued within the realm of the project. Rationalization of the institutional infrastructure, however, would have been a necessary pre-requisite prior to any attempts to strengthen institutions involved in investment promotion. In a comprehensive investment programme, pre-promotion and promotion activities have to be better integrated.

3. The given institutional infrastructure requires the involvement of a large number of institutions in the project which was largely done by means of a Task Force which serves more as a platform for information dissemination rather than a coordinating mechanism between the institutions. Role and involvement of these associated agencies in project activities and Task Force were indiscriminate and not based on an analysis of the type of strengthening required by these institutions.

4. During project implementation a number of activities were carried out with no or only limited involvement of counterpart staff. National and international consultants were hired in order to undertake investment project identification missions to provinces, however, counterpart staff did not participate in these exercises. As a consequence, these missions did not serve to strengthen national capacities. Efforts towards the latter end were mostly carried out by means of training courses. Institutional capacities in terms of work procedures, methodologies, work programmes, etc. have not been established by the project.

5. Project management and coordination remains a major issue for which the recommendations of the evaluation are tentative and would need to receive further special discussion among the three organizations concerned. Under the present arrangement, responsibilities for project implementation, i.e. establishing and following a considerate work plan, specifying external inputs (equipment specifications, job descriptions for national and international experts, etc.), and managing (organizing) counterpart contributions, are within the realm of project management. However, effectiveness of project management has been limited, partly due to the fact that the present NPC is not assigned full-time to this task, partly because responsibilities of project management have not been explained clearly. Previously, the UNIDO-funded project US/KEN/89/179 provided a long-term international expert who fulfilled the role of a *de facto* Chief Technical Advisor, however, since completion of the supplementary project, no long-term experts are foreseen under the ongoing UNDP-financed project. Alternatively, hiring a national consultant in order to support project management would not overcome present difficulties but in addition, the consultant would not have requisite authority. What is clear, however, is that the present management would need to be rationalized, probably strengthened.

6. The project tries to address a wide range of target groups (end users industries), comprising of small, rural entrepreneurs to large-scale operations, however, does not cater for these different groups in a differentiated fashion. Small-scale entrepreneurs, e.g., are presently not ready to enter into investment projects due to prevailing economic conditions and due to their own disposition vis-a-vis investment decisions. To undertake project identification missions under such circumstances is premature and other forms of assistance, such as entrepreneurship development (management skills, book-keeping, etc.) and awareness creation for options for expanding business, if so desired, seem more appropriate.

7. Large-scale project promoters benefitted from the project through assistance extended in undertaking pre-feasibility studies and through a co-financing scheme by which UNDP, UNIDO and other organizations, such as CDI and APDF, supported full-fledged feasibility studies. The scheme has shown positive effects, however, needs further formalization in order to define terms, conditions, etc. of its operations. In view, of the fact that it depends on the availability of external resources, a mechanism to develop it into a revolving fund would be required, if the scheme were to become self-sustaining.

8. The evaluation recommends to complete outstanding activities, such as follow-up mission to the provinces, training course on joint-venture negotiations, etc. before December 1993. A follow-up phase which seems necessary in view of the importance of investment promotion and requisite strengthening of capacities, should comprise of pre-investment promotion activities at the national level (rationalization of the institutional infrastructure, review and improvement of the incentive scheme, etc.) combined with ongoing enterprise level pre-investment assistance schemes (entrepreneurship development), and only once pre-requisites are in place, enter into a promotion phase. The institutional setting of the project should be considered against a rationalized institutional infrastructure and in light of the evolving role of governments in a liberalized economy. During the design phase of the project, strengths and weaknesses of the counterpart and associated institutions should be carefully analyzed in order to define the areas, types and magnitude of assistance required. In addition, and most importantly, client groups should be involved when determining the type of services to be rendered to them. A follow-up phase will, however, depend heavily on the commitment of the government and relevant budgetary allocations to meet counterpart contributions.

II. PROJECT CONCEPT AND DESIGN

A. Context of the project

A.1. Country context[1]

Economy and incentives

9. The growth rate of the gross domestic product (GDP) slowed down over the past few years and dropped from 5.2% in 1988 to 2.2.% in 1991. These trends are reflected in the major economic sectors. Manufacturing, accounting for roughly 12% of the GDP, grew in 1991 by 3.8% as compared to 5.2% and 5.9% registered in 1990 and 1989 respectively. The sector employs less than 200,000 people. Employment grew by 2.7% in 1990 marking an increase over the 1.4% growth recorded in 1989, however came to stagnate in 1991. With agriculture being the main sector in the economy, agro-industries constitute the largest share in the manufacturing sector, with chemicals and refined petroleum products ranking second.

10. While the country declared its intentions to attract foreign investments and instituted a number of incentive schemes, the implementation of the same has not always been consistent. Recent liberalization measures resulted in discussions about the extent to which these are conducive to local industries and the national economy. It was argued that domestic industries required some protection against international competition. The highly import dependent manufacturing sector is rendered uncompetitive whenever manufactured goods are imported tax free or at low rates, while manufacturing inputs are subject to regular or higher rates. Attempts have been made to remedy foreign exchange constraints which have hindered operations of the manufacturing sector through the introduction of *'retention accounts'* which allowed individuals and companies to hold part of foreign exchange they have earned. It was intended that account holders would sell part of their foreign currency to banks, however, experience indicated that currency deposits were kept for either speculative purposes or for the importation of goods rather than manufacturing inputs. These accounts will be discontinued once the government introduces further liberalization measures. The Kenyan Shilling (KSh) was floated in March 1993 with the result that it depreciated from KSh 35 per US$ to over KSh 60 per US$ (inter-bank rate) within a few days which led the government to re-introduce exchange rate controls. The annual average inflation rate amounted, according to official sources, in February 1993 to 42% as compared to 32% in January 1993, ano 14.5% a year ago.

11. For long the country has been economically the most advanced in Eastern Africa with a fairly developed manufacture sector, infrastructure and a comparatively stable political situation. Of late, however, neighboring countries like Tanzania and Uganda offer incentives to investors and formerly expropriated residents which make them viable competitors to Kenya. In comparison, Kenya is e.g. rated as a high cost operating environment. With an increasing number of countries improving their incentive schemes and operating at lower cost, more efforts will be required to remain or regain competitive terms. In addition, Kenya's image suffered abroad, affecting tourism and business alike, due to the political and security situation prevailing recently in the country.

12. During the Consultative Group meeting of major donors in November 1991 balance-of-payment support was suspended subject to the Kenyan government undertaking both political and economic reforms. Following the multi-party elections held in December 1992, the dialogue with the Bretton Woods institutions resumed and a structural adjustment programme is now under discussion.

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[1] This part of the report has been compiled on the basis of the following papers: Economic Survey 1991 and 1992, Central Bureau of Statistics, Ministry of Planning and National Development, Republic of Kenya; Kenya Country Profile 1992-93, The Economist Intelligence Unit; Africa South of the Sahara, Europa Publication Ltd. 1992; The Africa Review, World of Information, 1992; Kenya, Re-Investing in Stabilization and Growth Through Public Sector Adjustment, The World Bank, 9998-KE, January 1992; Address by Mr. Ita, EPZ Authority, to the IMF Convention in Osaka, 1991; Appraisal of the managerial structural functional capabilities of KNCC; and KAM, UNIDO report prepared under the project by V. Sriram.

Institutional infrastructure

13. The Ministry of Commerce and Industry (MCI), recently re-merging Commerce with Industry after years of separation, and its Department of Industries (DI) functions as the promoter of industrial development and is responsible for the implementation of national policies for industrial development, the initiation, implementation and appraisal of industrial development strategies, projects and support services, and the direction, control and coordination of the various industrial development activities of supporting staff within the department[2]. Investment promotion is considered an integral part of industrial promotion without perceiving a potential conflict between regulatory and promotional functions. The department holds the responsibility of clearing investment projects in the industrial sector which are considered by the Investment Promotion Center (IPC) prior to their approval of the venture. Appraisal criteria encompass, *inter alia*, employment creation, foreign exchange earning potential, local raw material utilization, impact on the environment, viability, etc. At the district level, the MCI is represented by some 20 District Industrial Development Officers (DIDO) who are to liaise with the local community and entrepreneurs.

14. The Industrial Promotion Centre (IPC) is an independent body under the Treasury which operates since 1987 under the IPC Act which was amended in 1992 in order to transform the centre into a *"one-stop-shop"* targeting to achieve a total processing time for investment applications of below four weeks. In fulfilling this *"one-stop"* approval function, the centre is meant to deal with all licensing requirements. It operates mostly as a central information point, providing details on investment opportunities, available incentives and investment climate to domestic and foreign investors. These are rendered to individual entrepreneurs or through the organization of seminars for the local private sector community during which views on policies and procedures are exchanged and industrialists' awareness of the necessity for certain formalities is heightened. These seminars are organized whenever the need arises to discuss a particular topic. At the same time, the IPC is mandated to inform the government (Treasury) about the effectiveness of investment incentives. The IPC, however, does not maintain a research department which analyzes investment laws, incentives, etc. of other countries to assess systematically own national policies, incentive schemes, infrastructural arrangements, etc. to compare these with existing facilities in competitor countries. The IPC is one of the institutions associated with the project in view of its important role in investment promotion activities.

15. The Export Promotion Zone Act of November 1990 established the Export Processing Zone Authority (EPZA) in recognition of the need to diversify and reorient the industrial sector from import-substitution to export orientation. In its two years of operation EPZA approved five private zone developers, of which three are single factories, with the largest zone being developed at the outskirts of Nairobi by the multinational company Firestone. In addition, two public zones are being developed. In the zones, entrepreneurs are granted conducive policy incentives, such as tax free import of materials, exemption of taxes for domestically purchased goods, exemption from income tax, etc., and provided with requisite land (a scarce commodity in Kenya) and infrastructure. In promoting its facilities, EPZA prepares promotional materials for distribution during country promotion tours and through channels such as commercial attaches. EPZA is presently assisted by a UNDP/UNCTAD project aimed at establishing an investment promotion department.

16. Other important actors related to investment promotion are development financing institutions (DFIs), such as the Industrial Development Bank (IDB), Small Enterprise Financing Corporation (SEFCO), Kenya Industrial Estates (KIE), and the holding-cum-financing institution Industrial and Commercial Development Corporation (ICDC). These financing institutions operate credit lines mostly funded through external sources, however, are presently facing shortage of funds and are seeking additional credit lines. They normally do not identify and formulate investment projects, nor do they carry out feasibility studies but expect such analyses from their clients. An exception to this is KIE who through its regional network identifies sponsors and states to have a rather large number of projects in its

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[2] Project Document of DP/KEN/86/064, page 11.

portfolio which cannot be financed due to a shortage of credit facilities. Experienced default rates indicate the necessity for rigorous appraisal prior to approval of loans, therefore banks tend to undertake increasingly stringent screening of proposals. Considering that the project was to develop investment projects up to their implementation stage, the collaboration of financing institutions was included in the project document.

17. Commercial banks, such as Kenya Commercial Bank (KCB), are lending at market rates without reporting shortages of credit facilities. From its perspective, the present economic situation has slowed down both investments and lending activities as the given cost structures, accessibility of foreign exchange and the prevailing high inflation rate are not conducive to expanding economic activities. In its assessment, the KCB acknowledged the entrepreneurial spirit of Kenyans, however, also expressed the need for them to develop a professional entrepreneurial attitude which is required for industrial ventures. The bank operates some schemes to combine credit facilities with training programmes under multi- and bilateral funding.

18. The private sector is represented through the Federation of Kenyan Employers (FKE), the Kenya Association of Manufacturers (KAM), and the Kenya National Chamber of Commerce and Industry (KNCCI). The Federation has collaborated over years with the International Labour Organisation (ILO) and recently became a partner of UNIDO in a total quality control project. It concentrates its efforts on services in the areas of entrepreneurship development, total quality management, productivity enhancement, etc. At times, though not often, the FKE is requested to undertake pre-feasibility analysis for some of its clients. The KAM concentrates on representing the interests of its constituency vis-à-vis the government to raise issues of concern in discussion with policy makers. It does not involve in investment promotion activities and, at present, does not maintain a regular data collection system on information related to its members, which otherwise could form the basis for identifying entrepreneurs with investment potential. The KNCCI, also not involved in investment promotion, recognizes the need for a systematic national approach for data collection as its main source of information, the National Bureau of Statistics, does not maintain detailed data on all matters required. The KNCCI itself does not maintain a periodic data collection system, but undertakes sporadic industry surveys on issues it finds important. All three institutions are selected to participate in the technical cooperation project in order to represent the private sector.

Entrepreneurship

19. Apart from a conducive environment and a supportive institutional infrastructure, investment activities, particularly foreign joint-ventures, will take place only if an adequate entrepreneurial base exists. This does not only reflect risk adverse behaviour of foreign and domestic investors but also protects entrepreneurs from endeavors which may not be profitable. While Kenyans are in general entrepreneuring, entrepreneurial attitudes and skills still need enhancement. The understanding of and interest in industrial ventures in particular is low in rural areas where businesses are mostly of trading, farming and handicraft nature and entrepreneurs are rather conservative in their willingness to take risks. These entrepreneurs often do not perceive the need to invest in new projects or expand their existing businesses. In addition, small-scale enterprises tend to have a rather short life-time, 80% of them fail within the first three years, and entrepreneurs have shown a degree of mobility which makes it difficult to locate them e.g. in case of outstanding loans. Management skills, including regular book-keeping and accounting, quality control, personnel management, etc. are being developed under various schemes with the support of multi- and bilateral agencies.

A.2. Investment promotion

20. Promotional activities are but one factor which influences the investment flow into a country. Other factors of importance to a country's ability to generate and attract domestic and foreign investment are e.g. domestic and international markets, their size, purchase power, and competition, inflation, price and wage levels, the availability of infrastructure, such as land, electricity, water, banking

and communication, etc. and political situation, investment policies and incentives, stability[3]. Apart from these country based factors, it has to be recognized that countries, developing and developed alike, are competing on an international platform for investment resources. A recent study shows e.g. that during 1981-1983 developing countries received 27.2% of total foreign investment flows, whereas this percentage shrunk to 20.1% for the period 1984-1988[4]. Promotional activities have, therefore, to be assessed against such a background. At the same time, it needs to be emphasized that any amount of promotion work will have limited effects, if any, if a requisite investment environment consisting of policies, incentives, procedures, etc. are not in place.

21. Table 1 below shows the different types of investment promotion mechanism and activities at two promotional levels. Country promotion initiatives are required whenever a country wants to publicize its investment climate and boost the country's image as a potential target for investment flows based on existing adequate investment laws, incentives, and a well functioning investment promotion and approval infrastructure. Promotional means to this effect include advertising campaigns in periodicals, preparation and dissemination of investors' guides, etc. At the level of investment projects, promotional activities (preceded by measures to develop entrepreneurial capacities, if needed) may entail image building of the entrepreneur and his/her enterprise, project identification and formulation, appraisal and screening and promotion.

Table 1: Investment Promotion Mechanism and Activities

LEVEL	OBJECTIVE	MEANS	RESPONSIBLE
COUNTRY PROMOTION	Image building	pre-investment promotion ♦ rational and functioning investment promotion infrastructure ♦ conducive investment climate, laws, infrastructure, etc. available to domestic and foreign investors	government
		investment promotion ♦ advertising in financial and other magazines ♦ preparation/distribution of investors' guide ♦ participation in industry exhibitions ♦ country promotion tours ♦ country presentations (delegates programme)	mostly government, including embassies, using private sector services to prepare eg. advertisements
PROJECT PROMOTION	generate direct national and foreign investment	pre-investment promotion ♦ entrepreneurship development in order to enable the sponsor/investor to meet entrepreneurial requirements (management, products, book-keeping, standards, etc.) ♦ image building by preparing company profiles covering reputation, product range, customers, adequate presentation of project profiles, firm specific research, eg. on markets, etc.	mostly private sector or quasi-government, with some advice by government, eg. on incentives

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3 The paper "Private industrial investment development in the under-developed countries" by F.K. Kiongo, KNCCI, provides a good overview of relevant issues (particularly page 10, item 9, onwards).

4 Foreign Direct Investment, Debt and Home Country Policies, UNCTC Current Studies, Series A No.20, July 1990

LEVEL	OBJECTIVE	MEANS	RESPONSIBLE
		investment promotion cycle ♦ project identification (based on the ideas of the project sponsor) ♦ project formulation ♦ promotion, identification of partners by means of individual identification eg. through UNIDO IPSs, delegates, project promotion tours, investment promotion meetings ♦ preparation (pre- and full feasibility study) incl. advice on available incentives and financing facilities, and appraisal ♦ implementation and operations	

22. Investment promotion activities require a transparent and lean institutional infrastructure with responsibilities allocated to an institution that combines skills from both public and private sector domains. Dealing with private entrepreneurs as the main clients for investment promotion services, requires an entrepreneurial attitude in order to meet the pace and dynamics of business. Bureaucracies tend not to operate in the same manner, and remuneration scales often do not provide sufficient incentives for doing so. In addition, a separation of regulatory and promotional functions has proven necessary since entrepreneurs do not perceive these two functions as compatible but tend to show reluctance in dealing with a regulatory body on promotion matters. At the same time, good understanding of and close cooperation with legislating and licensing authorities is required. A major study[5] concluded that semi-government offices are best in the position to combine both capacities.

A.3. History of the project[6]

23. The project under evaluation is one in a series of projects implemented in cooperation with the government directed at industrial promotion. It is a direct follow-up to DP/KEN/80/001 which was preceded by two earlier projects, i.e. DP/KEN/70/521 and DP/KEN/74/007. The total allotment made for the previous three projects amounts to US$ 5.9 million, resulting in the provision of external UNDP and UNIDO funds to an amount of US$ 6.9 million for all four phases combined. The previous project DP/KEN/80/001 was evaluated in June 1985 and resulted in the following major recommendations:

♦ Greater efforts should be made to secure progress made in institution building, hence special attention should be given to guidelines, manuals, methodology and procedures developed under the project with an effort to transform them into a policy and procedure manual for the Department of Industries.

♦ A continuous training programme of internal workshops should be undertaken in order to preserve, strengthen and maintain a continuity of skills in specific areas, such as project appraisal, evaluation, identification, and preparation of feasibility studies. For this purpose the evaluation recommended strongly the provision of a training expert who would assist in the identification of training needs of staff of the ministry and of other associated institutions.

♦ The established information system is a valuable reference unit, however, capabilities to analyze and disseminate data were found unsatisfactory.

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5 Marketing a Country, International Finance Corporation, 1990

6 A summary of previous assistance rendered to the MCI is contained in the Report of the Evaluation Mission, DP/KEN/80/001, DP/ID/SER.C/1, November 1985.

♦ Project design guidelines of UNDP/UNIDO should be adhered to, particularly for the design of institution/capacity building projects.

♦ A working group should be established or reactivated the monitoring of the investment promotion process and have a broad representation which may change in accordance with the type of investment discussed.

24. In follow-up to the previous phases, the government submitted in mid 1986 a draft project proposal (DP/KEN/84/012) with a tentative budget of US$ 5 million with two major aims, namely promotion of private industrial investment and dissemination of appropriate information, and institutional and manpower development in the MCI and its parastatals. This project apparently was never approved. The formulation of the present project was protracted due to lengthy discussions to agree on an appropriate concept and took until May 1990 when eventually the present project document was finalized and signed. This long gap between the previous and present project which was supposed to be a continuation of the earlier phase has undoubtedly compromised the orderly execution of investment promotion and institutional capacity building related thereto.

B. Analysis of the project document

B.1. The problem and the technical approach

25. In the project document it is briefly stated that "... *the Ministry has not so far been able to exercise the required contribution and impact*" to promoting investment, hence the problem to be addressed refers to the strengthening of the DI "... *in order to execute its functions, particular with regard to facilitating for entrepreneurs the identification, formulation ...., and promotion of industrial investment projects* ...". The problem definition concentrated on difficulties experienced by the DI which resulted in a strong focus on the counterpart organization and pre-determined the project's strategy. An analysis of the ministry's strengths and weaknesses in undertaking investment promotion activities at the outset of the project is not provided in the project document, hence problem areas are not well defined. A comparison with the expected end-of-project situation as specified in Annex III of the same document is not possible. This has two negative effects: the lack of analysis resulted in a rather general understanding of inputs required to assist the counterpart to install desired capacities and capabilities, hence made project implementation and management more difficult. In addition, evaluation is difficult as the status prior to the project is not clearly defined, hence subsequent changes cannot be easily identified, quantified and assessed.

26. The afore-described problem to be addressed by the project does not indicate whether an examination of end user (industry) needs was carried out with the participation of immediate beneficiaries and target groups during the project design. Considering the prevailing entrepreneurial attitude particularly in rural areas (see para 19), the level of promotional activities seems too advanced for this target group of the project and information dissemination, awareness creation, and other activities should have been carried out prior to the identification of project profiles.

27. In addition, "*a shortage of viable investment opportunities*" was reported in the project document, however, without analyzing the reasons for this situation but assuming, as expressed in expected results of the project, that shortcomings are mostly due to a lack of experience in identification and formulation of investment projects. This contradicts the statement of several DFIs who complained about shortages of funds rather than project proposals. An analysis of factors affecting investment flows is not contained in the project document, however, would have contributed to identifying key problem areas which affect the same.

28. Existing investment policies, incentives, and related procedures were seemingly not considered when confining the project to the specified problem to be addressed, although immediate objective 2 aims at supporting the government in defining a conducive investment climate (see para 44).

B.2. Objectives, indicators and major assumptions

29. The central elements of the project design, namely the immediate objectives and related outputs are summarized in Table 2 below. The main function of the project is to strengthen the DI's investment promotion capacities and enhance private sector institutions' capabilities in selected related areas. The second immediate objective aims at enabling the government to rationalize its industrial promotion strategies and policies. It is apparent that the wide spread of immediate objectives of the project diluted its focus on one central purpose.

Table 2: Objectives and Outputs

Immediate Objectives	Outputs
1.A. To strengthen the DI in MOI in obtaining and compiling information required to upgrade assistance to potential investors in (i) identifying industrial investment projects in line with overall government policy; (ii) formulating relevant pre-investment studies and appraising projects based on established criteria; (iii) promoting projects for internal and external inputs (equity participation, loan, licensing, technology, equipment, market, managerial assistance, training) needed for its completion. (b) coordinating the afore-mentioned activities with specialized private sector institutions and organizations such as IPC, KAM, KNCCI, and the development financing institutions so that a systematic structure of cooperation and coordination with regard to industrial investment promotion is achieved.	1.1. capacities to identify, formulate, appraise, promote, and register industrial investment projects (further elaborated in paras. 30 - 38)
1.B. To strengthen the private sector institutions and organizations involved in industrial investment activities in the private sector and liaising to this end with the MOI, such as KNCCI, KAM, and IPC in a complementary manner to support the achievement of immediate objective 1.A.b.	1.2. Improved information systems and 40 staff of KAM and IPC as well as entrepreneurs from member companies trained in industrial investment project identification, formulation, screening and promotion, as well as in entrepreneurship development, and joint venture negotiation, with a view to assisting the entrepreneurs.
2. To enable the government, on the basis of accepted findings and conclusions of previous studies and of a review and assessment of the present situation, to rationalize industrial promotion strategies and policies, industrial investment encouragement rules and government laws and regulations as well as the institutional structure responsible for local industrial investment identification and promotion, thus providing the climate conducive to local and foreign private industrial investment.	2.1. A climate more conducive to private local industrial investment by (a) a review of all relevant studies recently completed (e.g. SRI and FIAS) or ongoing, and assessment of the present government industrial policies, priorities and strategies and laws and regulations related to private local and foreign industrial investment and preparation of proposals for making these more conducive to the improvement of the investment climate; (b) proposals for possible alterations of the existing institutional and procedural structures and links and functions to develop better coordination and harmonization among various institutions with regard to their industrial investment identification and promotion work. Such proposals should include specific proposals related to (a) expediting the identification and extraction of relevant sections of investment encouragement rules and laws applicable to the case of each potential investor requesting assistance; and (b) simplifying projects implementation approval requirements and procedures. (c) an assessment of existing staff structures of the DI in the MOI, possibly including proposals defining and delineating the role, tasks and decisions of the DI and other concerned institutions as well as proposals regarding relevant changes to improve the effectiveness and efficiency of the DI. (d) about 50 staff of the MCI, KNCCI, KAM, and IPC trained in industrial promotion activities, mainly through on-the-job training by working directly as counterparts to the relevant UNIDO consultants. (e) updating the Investor's Guidebook prepared by IPC including government policies and priorities, laws and regulations related to foreign, local and private industrial investment and other relevant information and preparation of additional promotional material.

Immediate Objective 1.A. and Output 1.1.

30. Objective and output statement are repetitive as both of them envisage strengthened capacities at the end of the project, whereas the immediate objective should reflect the **purpose** for which the said capacities are to be strengthened, e.g. *"in order to provide requisite services to industry (to be determined in cooperation with industry itself), to increase domestic and/or foreign investment flows, etc."*. The output statement should define institutional capacities expected at the end of the project which the given formulation, particularly read in conjunction with Annex III of the project document, does. Specifications made foresee the following:

♦ *"Generating investment related information such as markets, new materials and alternative technologies which will enable entrepreneurs to identify investment opportunities.*

♦ *Identification of potential investors through KNCCI, KAM and similar organizations.*

♦ *Assist entrepreneurs in their project formulation and appraisal activities.*

♦ *Assist entrepreneurs in promoting investment projects through international investment promotion services.*

♦ *Assist entrepreneurs in mobilizing resources for pre-investment studies and the financing of the investment projects."*

31. While this description indicates the type of services to be rendered to entrepreneurs, it does not provide a clear delineation of the responsibilities of counterpart and associated institutions and their different functions. Moreover, the link to immediate objectives and outputs is rather weak; e.g. the foreseen improved information system (output 1.2) at KAM and KNCCI is not sufficiently specified to express and meet the anticipation that these two bodies will identify possible investors as indicated above. Moreover, as described in Part II.A.1. of this evaluation, neither of these two institutions engage directly in the identification of investors and did not plan to do so for the time being which seems reasonable considering their mandate.

32. Additional information on the expected end-of-project situation is contained in the afore-mentioned annex which follows UNDP/UNIDO principles for institution (capacity) building/strengthening projects (UNDP Programme Advisory Note on Industrial Research and Services Institutions) and specifies functions, staffing, work methodologies, premises, equipment and supplies, end users, and financing and management. This specification is further analyzed hereunder and forms the basis against which to assess attainments made in regard to output 1.1. and immediate objective 1[7].

33. The specified functions indicate a strong focus on investment generating (project promotion) activities, including identification, formulation, appraisal, promotion and preparation of partial and/or full studies for the finalization of industrial investment projects. Moreover, the envisaged functions comprise registration of industrial investments and based thereon the compilation and dissemination of information to other parties, such as KAM, KNCCI, IPC and IDB. A quantification which can serve to some extent as performance indicator is provided in terms of:

♦ number of projects (50-60 small and medium-scale projects for local investment and 40-50 medium and large-scale projects for foreign investment),

♦ number of studies (10-20 studies prepared for projects in the first category and 5-10 studies prepared for projects in the second category mentioned above),

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[7] For end users which are also detailed in Annex III of the project document, please see part B.3. of the evaluation report.

♦ investment promotion fora (3 covering projects from regions within Kenya for local investors and one covering nation-wide projects for foreign investment).

34. The project document is inconsistent insofar as the described functions should be related to a time frame during which indicated number of projects, studies and fora are to be produced or by the counterpart. The formulation used, however, is ambiguous and could be interpreted to indicate the number of projects, studies, etc. to be produced by the project and not the counterpart. Assuming the latter, the project would not be a capacity building but a direct support project, hence require a different project objective and a different set of outputs and activities. The ambiguity can best be exemplified by information given regarding the organization of investment fora being tie-up to the project period hence obscuring whether it was envisaged to establish **national capacities** to organize such fora (as one promotional means) or whether the **fora themselves were to be organized** without forming sustained local capacities to do so after project completion.

35. Annex III furthermore lists the total staff of the DI and indicates the involvement of the Planning Division not directly under the department which also should receive training under the project. The Industrial Cooperation Division is mentioned in the document insofar as it is reporting directly to the director, however, its anticipated involvement in the project and relevant staffing is not provided. Based on this information one would assume that the entire staff of the DI forms the counterpart staff to the project which would ensure that the specified functions are fully absorbed and integrated in the department's regular operations and thereby may become sustainable. Information contained in **Part B.7. Counterpart support capacity** of the project document, however, indicates that the DI was to provide counterparts for a total of 20 w/m (ten staff for two w/m each), plus a National Project Coordinator (NPC), a secretary and a driver for 36 w/m each, covering the entire project duration full-time (see also Part III.A.2). The limited staff involvement denotes not only a relatively limited participation of counterpart staff in the project but, moreover, the absorption of functions summarized above into regular work programmes of the ministry becomes questionable. On such basis, the degree to which capacities may be established appears limited.

36. Apart from the number of staff in each division, no details are given on their qualifications, present tasks and areas in which their capabilities should be strengthened by the project, hence the project document is too vague in determining requirements for assistance which should have served as the basis for detailing type, quality and quantity of external inputs.

37. Under work methodologies it is stated that project identification will be undertaken either by fielding missions to the various provinces or through potential investors and entrepreneurs approaching the ministry directly. Given the fact that the project envisaged identification, formulation, appraisal, promotion and registration functions, methodologies for carrying these out should have been specified in the project document. This includes working routines, procedures, manuals, formats, means and methodologies for the identification and promotion of projects, etc. The shortfall in this aspect of the project design is further compounded by the fact that the evaluation of the previous phase identified weaknesses in this area and made specific recommendations to address them (see para 23). Some examples of observed weaknesses are the limited number of promotional means identified, namely only fora are mentioned, neglecting other options, such as promotion tours of selected industrialists to/from industrialized countries, IPS network, delegate programme for which procedures should be laid down. Moreover, provisions for overall country promotion activities detailed under activity 2.1.1 related to immediate objective 2 (see para 47) should have been integrated here as a regular promotional function of the counterpart.

38. Under premises, equipment and supplies only a limited number of equipment items were listed as required from project resources with the remainder available at and to be provided by the DI. Equally, management and financing of the counterpart is not further detailed in the project document as these two aspects are explicitly stated to fall within the counterpart's own responsibility without being of concern to the project itself.

39. Activities 1.1.1 through 1.1.10 are directed at carrying out investment identification and promotion activities which actually should form the activities of the strengthened DI and not of the project. In reflecting its capacity building function, the project document should have defined project activities relevant to strengthening capacities by e.g. staff training, institutionalization of working methodologies, etc., however, only activity 1.1.12 and 1.1.13 fulfill this purpose.

40. In addition, corresponding to the issue of cooperation and coordination, which is emphasized throughout the project document, immediate objective 1.A.b expresses the project's aim to strengthen the DI's coordination functions in regard to industrial investment promotion activities, however, without defining an output for this purpose.

Immediate Objective 1.B. and Output 1.2.

41. The second part of the first immediate objective envisaged a strengthening of "*private sector institutions and organizations ..., such as KNCCI, KAM, and IPC in a complementary manner to support the achievement of Immediate Objective 1.A.b.*" with the latter concerning the responsibilities of the DI for the overall coordination of industrial investment activities in the country. It can be noted from the objective statement (see Table 2, page 8) that the areas in which these private sector institutions needed strengthening were not analyzed and are certainly not clearly defined in the project document. Documentation and interviews revealed that attempts were made during the early implementation phase to determine their requirements which, however, means that the project had not been designed to cater for these aspects in full but that related activities would have to be confined within budget limits. The related output foresees:

- an improved information system, and

- 40 staff from KAM and IPC as well as an unspecified number of entrepreneurs from member companies of the chamber and the association trained in project identification, formulation, screening and promotion, entrepreneurship development, and joint venture negotiations.

42. Since an "*improved*" information system is envisaged by the project, it is mandatory to describe the existing system(s) and its (their) shortcomings in order to define in which areas improvements were sought to be attained by the project. Again, investigations during the mission showed that some institutions had already some facilities, whereas for others the project was providing a new system altogether, which should have been taken into account in the project design. Inconsistencies exist as to the location of the information system's focal point insofar as information under output 1.1, the defined activity related to output 1.2, and the work plan identify different institutions. No yardstick in terms of a specified information system (hardware and software configuration, data collection, analysis, compilation, retrieval and dissemination system, etc.) is provided in the document.

43. The range in which training was to be imparted is rather broad. Also, contradictory information is given on the number of staff to be trained as specified under the output statement and compared to those included in related activities. Apart from this quantification, other benchmarks, such as existing knowledge of trainable staff in the above subjects and degree to which their knowledge is to be upgraded, etc., are not provided in the project document although this information is needed for project management to design relevant and adequate training programmes and to monitor attainments made in reaching the envisaged objective. Moreover, given this ambiguity it is difficult to assess whether this objective was realistic.

Immediate Objective 2 and Output 2.1.

44. This immediate objective is, at least according to its formulation in the project document, directed at the government in general and not specifically at the MCI, leaving it uncertain which authorities are responsible for the rationalization of industrial investment policies and the related institutional structure, hence to whom relevant outputs should be delivered for decisions and action. Envisaged reforms were meant to lead to an improved investment climate for it to become conducive to local and foreign private

investments. The development objective (see Part IV.C. of the evaluation) underpins the expectation that the project will contribute to this aim.

45. The attainment of this objective is a pre-requisite for the realization of immediate objective 1.A. as the institutional infrastructure for investment promotion should be rationalized before it is strengthened and the establishment of a conducive investment climate is vital for promotional activities to be effective.

46. The formulation of the related output is misleading as the statement *"A climate more conducive to private ...."* will be the outcome of decisions taken by the government but is not an output of the project. The project may produce e.g. a study or provide training based on which the government can take decisions regarding its investment laws, regulations, incentives, institutional infrastructure, etc., however, a decision on any of these matters remains outside the sphere of the project's authority. In this respect, items a) through c) of output 2.1 (see table 2, page 8) specify issues to be analyzed, whereas staff training mentioned in (d) of this output is an activity (and not an output) related to output 1.1 and 1.2 and does not belong to this part of the project concept.

47. Activity 2.1.1 seems little related to immediate objective 2 as it is difficult to anticipate how country presentation tours abroad will lead to a more conducive investment climate within the country. The enabling environment is a result of government decisions and their implementation in the country, whereas country promotion tours can only advertise that a conducive policy environment exists. As stated above, it would appear more reasonable if these promotion tours were part of the counterpart's functions and would be related to output 1.1 and immediate objective 1. The same applies to activity 2.1.2, the updating of the Investor's Guide.

48. The project US/KEN/89/179 states to have the same objective as the UNDP financed project although its design reflects its direct support nature whereas DP/KEN/86/064 explicitly aimed at capacity building. It stipulates two outputs, i.e. *"a study on local, regional and export markets open to Kenya in the areas of fruits and vegetables, meat processing and the value enhancement of cereals"* and a not quantified number of or otherwise specified case studies and identified partners. Its relation to the main project is not determined further.

Major Assumptions

49. With its strong emphasis on project identification, formulation, etc. the project is based on the major *assumption* that a shortage of viable projects is the main hindrance to a more active domestic and foreign investment activity in the country. The requisite *"enabling environment"* is touched upon under immediate objective 2, however, outputs and activities again are intermingled with promotional activities. The second basic assumption is that the improved institutional capacity of the main counterpart will contribute to reverting the situation and contribute to enhancing local and foreign investment flows. Thirdly, it seems to be assumed in the project document that the expressed desire to coordinate and cooperate will suffice to do so. Fourthly, it is assumed that by and large local sponsors and *entrepreneurs* are ready to invest in domestic and foreign industrial ventures and merely need to be assisted in formulating project profiles, etc. Other factors which play a role in determining their interest and ability to invest are not considered in the project document although they may be of crucial importance.

B.3. Beneficiaries

Immediate beneficiaries

50. Immediate beneficiaries are defined to be the staff of the DI and other associated institutions and agencies. The project document neither contains information on their qualifications and profile nor an analysis of areas in which the project is meant to assist in developing their capabilities.

51. The evaluation of the previous project recommended that a training specialist should be called upon whose tasks would entail, *inter alia*, the identification and specification training needs of counterpart staff and others who are to receive training (see para 23). The shortfall of the present project in this area indicates that earlier recommendations were ignored and expresses an attitude that training at large is useful independently of training requirements. This approach, however, leads to vagueness in training programme definitions and implementation and impedes the effectiveness of these activities.

End users or target groups

52. The project document specifies public and private enterprises as the final beneficiaries of the project. As stated in para 33 of this report, investment promotion activities were to cover projects of all sizes with small and medium-scale investments for local investors, and medium to large-scale projects for foreign participation[8]. Considering the project's outreach to provinces and the stated government policy to promote rural industrial development to ease pressure on urban centers, it may be assumed - although the document is not explicit on this issue - that one target group are rural small-scale entrepreneurs for local investments. No gender differentiation has been made in the specification of target groups.

53. An analysis of end user (industry) needs is not reflected in the project document but it seems that project designers assumed the necessity and demand for consultancy services in the identification, formulation and appraisal of investment proposals. In addition, some general plans were made for the training of entrepreneurs without analyzing and determining their training requirements.

B.4. Work plan

54. The work plan contained in the original project document is a rather brief listing of groups of activities which do not coincide entirely with project activities specified in earlier parts of the project document. No differentiation is made between project activities related to capacity building and activities of the counterpart institution in undertaking investment promotion activities, hence the work plan underpins observations made in this part of the evaluation that institution building and direct support functions of the project are intermingled.

55. The foreseen timing of interrelated activities was inconsistent, as e.g. the identification and formulation of foreign investment projects was scheduled to commence only **after** one of the delegate programmes was planned to start ignoring the fact that such promotional means should be utilized for already identified sponsors and their projects. The development of the data bank was scheduled to start only after the identification of investment projects (for local investment) had commenced although this database should have been operational in order to input projects and sponsors as soon as they are identified to avoid an unnecessary back-log of data. The reasoning for the sequencing of in-country training events, such as workshops and seminars, is not apparent in the overall context of the project and its work plan.

56. Activities related to output 2.1, namely the rationalization of investment policies and promotion infrastructure (see para 44), are not contained at all in the work programme of the project.

57. An up-dated and more detailed work plan was prepared by the DI in December 1991 for 1992 which contains specific activities with their timing and responsible parties. This is an improvement over the version contained in the original project document, however, it shows also some shortcomings regarding the timing of project identification and promotion activities similar to those pointed out above.

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[8] A definition of project size by these three categories is not determined in the document.

III. PROJECT IMPLEMENTATION

A. Inputs

A.1. UNDP/UNIDO inputs

58. Table 3 below provides a comparison of the original project budget and the latest budget revision of November 1992 and reflects expenditure and implementation rate. Most significant changes regarding budget allocations can be observed on budget line 15-00 Project travel, 17-00 National professionals, and 49-99 Equipment which all increased. The shift of funds particular to budget line 17-00 was made in order to provide for expertise which could be hired from within the country. Increases on these budget lines were set off by decreases in the international expert component (budget line 11-50). These amendments in allocations were not further explained in the budget revision document. The total budget was increased to cover additional cost occurring for the delegate programme in Paris.

Table 3: Project Budget

Budget line	Allocations			Disburse-ments 31/3/93	Remaining Balance	Imple-menta-tion Rate
	Original	Rev. K	Changes			
11-50 Short-term consultants	$301,600	$268,879	-10.85%	$196,999	$71,880	73.27%
15-00 Project travel	$9,000	$33,368	+270.76 %	$27,613	$5,755	82.75%
16-00 Mission cost	$40,000	$46,108	+15.27%	$28,937	$17,171	62.76%
17-00 National professionals	$8,250	$57,205	+593.39 %	$29,678	$27,527	51.88%
18-00 Prior years adjustments		($6,526)		($5,312)	($1,1214)	
19-99 Total personnel	$358,850	$399,034	+11.20%	$277,185	$121,119	69.65%
39-99 Total training	$205,000	$211,332	+3.09%	$143,124	$68,208	67.72%
49-99 Total equipment	$62,400	$81,398	+30.45%	$88,526	($7,128)	108.76%
59-99 Total miscellaneous	$42,000	$46,302	+10.24%	$49,464	($3,162)	106.83%
99-99 PROJECT TOTAL	$668,250	$738,066	+10.45%	$559,029	$179,037	75.74%

59. The UNDP-funded project was supported by contributions under the UNIDO-financed IDF project US/KEN/89/179 with a total budget of US$ 80,000 at its outset which was increased to US$ 187,350 during its implementation in order to extend the long-term international expert. Resources were mostly allocated for international expertise, particularly one resident expert, and project travel. The long-term expert assigned to and financed from this project was closely associated with and involved in the implementation of the UNDP-financed project (see also para 83).

60. <u>The above table illustrates an overall implementation rate of 75.74% by March 1993 which slightly exceeds an average financial implementation target.</u> It can be observed that high expenditure rates are recorded on budget line 49-99 equipment and on budget line 59-99 sundries. The latter can be explained by the procurement of stationary and miscellaneous cost, such as for operating and maintenance of project vehicles, photocopying, etc., from UNDP rather than government resources. Both personnel and training component show lower implementation rates.

61. Problems were encountered with the procurement of a photo-copying machine (UNDP/UNIDO input). In a letter dated October 1990 the Government confirmed to UNIDO Nairobi equipment specifications which the NPC had agreed upon directly with UNIDO during her visit to Vienna. All items in that letter contained detailed specifications, except the photocopier for which only the brand name but not the model number was determined. The machine arrived damaged, and the firm's local representation was unable to do requisite repairs as the model is not sold on the Kenyan market. The issue was raised in during the Tripartite Review (TPR) meeting in December 1991, and the machine was reported not operational in the annual inventory record 1991, prepared and signed early 1992, with the request for necessary repair work. The evaluation did not find evidence of UNIDO's reaction on this issue.

A.2. Government inputs

62. The project document did not contain a budget for government inputs but specified the involvement of national staff as follows:

1 National Project Coordinator (NPC) (36 w/m)
6 counterparts (2 w/m each) for project identification and formulation
4 counterparts (2 w/m each) for project promotion
1 secretary in the MCI (36 w/m)
1 driver (36 w/m)

63. In the first Project Performance Evaluation Report (PPER) of July 1991, two part-time staff were reported to be attached to the project, whereas the second PPER dated August 1992 reports eight full-time and one part-time staff as counterparts. However, the NPC reportedly is not assigned on a full-time basis but had to cover other tasks related to his regular duties as ministry staff as well. DI staff by and large expressed concern with their non-involvement in project activities which indicates that reported numbers of full-time staff are not realistic. No specifications were made of staff to be assigned to the project from associated institutions. High staff turn-over within the counterpart as well as within associated institutions was experienced during the operational period of this project as much as it was reported under the previous phase.

64. Other government inputs were specified to be:

2 offices for UNIDO consultants with usual office equipment
1 telex machine
telephones

65. Office space was required for computers rather than for UNIDO consultants and was provided as a government input. However, renovation of one room was financed from the UNDP budget whereas painting of the second room was not approved by UNIDO Nairobi as these renovation works should be part of government inputs. Means of communication, i.e. telephone lines, were provided only later during project implementation and, following a Task Force decision, were also financed from UNDP resources. Direct lines were disconnected after the long-term international consultant under the associated project US/KEN/89/179 left the project and the Ministry of Industry rejcined the Ministry of Commerce.

B. Activities

66. Project implementation started with approximately one year delay with the arrival of the international expert under the associated project US/KEN/89/179. The NPC was appointed in June 1990, however, no project activities commenced prior to the appointment of the said international expert who arrived in January 1991.

67. <u>Contrary to the intended objectives, many of the project inputs and activities related to output 1.1, particularly experts, were not directed at or fully utilized to strengthen local capacities of the DI.</u> Missions carried out to the various provinces were undertaken by international and national consultants without the involvement of counterpart staff, hence no skills and/or knowledge could be acquired by DI staff through on the-job-experience. As a result, staff did not feel committed to the project and its activities which impacts on the sustainability of project results. <u>Job descriptions for national and international project personnel were not contained in the project document and those developed during implementation underpinned the direct support nature of assistance rendered.</u> They ignored the intended capacity building aspect of the project which should have been reflected in specifications for requested international and national expertise.

68. Project identification missions were carried out at the provincial level by teams of one international and one national consultant. The implementation of these missions varied considerably depending on their team members. In the case of one team detailed preparations were made and interviews were conducted with head offices in Nairobi of those institutions which have regional representation to solicit support for in organizing appointments in the provinces. At the other extreme, one mission faced problems as no preparations had been made to even announce their visit. As these missions were not sub-sector specific their coverage was rather wide and confined only by geographical criteria. More so, the size of projects to be identified was categorized "small to medium" without further definition in terms of available equity, financing requirements, employment, etc. which also lead to a wide spread of projects considered. The purpose of these missions as defined in the project document, namely to identify projects for domestic investment, was obviously not clearly understood as in the case of at least one study, projects were recommended for foreign participation as well.

69. Projects were identified through contacts to local personnel and institutions, such as DIDOs, KNCCI, KIE, etc., which provided a first list of projects and potential sponsors and assisted in the organization of meetings. Plenary sessions served to brief entrepreneurs about the purpose of the mission which, however, each team seems to have defined differently: in one instance, it was made clear that the mission intended to generate business opportunities, whereas in other cases the borderline between assistance in terms of granting equity funds versus assistance to develop investment projects in which entrepreneurs would invest their own equity funds was left vague. These plenary meetings were followed by individual discussions which lasted on average 30 minutes which national consultants found sufficient, although again one of the missions visited individual entrepreneurs and his/her project site. Formats for Industrial Investment Project Profiles were handed to potential entrepreneurs who, however, were not assisted in completing the same. Reports which do not follow an entirely standardized format and contain project information of different degree of detail, were submitted to the DI and discussed at TF meetings. In these reports a total of 189 projects are listed of which 57 were rated in an advance stage and worthwhile further pursuance. These 57 projects, however, refer to only two of the three provinces as the third report does not categorize identified projects according to UNIDO standards.

70. Although the project document foresaw activities for subsequent preparation of investment projects and their promotion, initially no activities were carried out to this effect. Therefore, project management took the reasonable decision to discontinue identification missions to the provinces, although only three of the eight regions had been covered, until appropriate follow-up mechanism were installed. Otherwise, these missions would not have any tangible results in terms of promoted and materialized investments. Late 1992 it was agreed that follow-up missions should be undertaken by DI staff who screened identified projects further to limit the number of projects which required additional assistance. Follow-up missions which were planned for March 1993 did not take place as the DI had not budgeted for these activities, therefore could not extend requisite allowances to its staff and negotiations on whether and how UNDP funds could be utilized to pay per diems to counterpart staff were protracted.

71. The project document specifies that promotion should have taken place through the organization of three investment fora at provincial level. In view of the fact that projects identified so far are limited in number and at a rather preliminary stage, there was no need to organize any of these fora.

72. Separate from the above missions which aimed at the identification of projects for domestic investment, the project foresaw a set of activities by which projects suitable for foreign investment should have been identified. No missions were carried out to this effect. Sponsors of large-scale foreign investment projects became aware of the project through direct contacts to the DI or to the international consultant working under US/KEN/89/179. Both projects did assist in the preparation of pre-feasibility studies, provided financial support to the undertaking of full-fledged feasibility studies (see para 81, 88), and assisted in the promotion of these investment projects through the delegate programme. It should, however, be noted that in most cases the local sponsor of these large-scale projects had already identified foreign partners through their own initiative.

73. Activities related to the delegate programme (1.1.12 under output 1.1) were implemented as follows: Korea (3 w/m), Japan (2 w/m), and Paris (12 w/m - ongoing). In the early programmes, the delegates did not receive adequate briefing and guidelines for their preparation. <u>In view of the fact that they undertook their assignment prior to the identification of investment opportunities under the project this promotional mechanism was not adequately employed in support of the overall project strategy.</u> The choice of country of assignment seems to have been determined by the availability of space in the hosting IPS office and not by the interest of that country in investing in Kenya. <u>The evaluation did not find evidence that any of the projects promoted by the early delegates materialized.</u> The third delegate presently still on his assignment is involved in the promotion of investments, among them those for which feasibility studies are being prepared under the project (see para 81, 88). However, since for almost all of these projects the foreign partner had been identified by the local sponsor already, his involvement is rather marginal.

74. Activities related to output 1.2, namely the installation of a computerized data bank, took place while the evaluation was carried out. The international consultant installed the software (Databank for Investment Promotion Programme - DIPP) in nine institutions and provided staff with a brief training on the operations and usage of the data bank. In a number of cases existing hardware facilities (computer capacities) were insufficient to load the database programme in addition to already installed software, hence some of these programmes had to be taken off from the hard disk. Difficulties were encountered in the retrieval of data from the pre-feasibility analysis programme (PROPSPIN) into the database system.

75. Two of the four planned training programmes took place for KNCCI and IPC staff. The latter, however, took up an assignment with EPZA, hence IPC felt it had not benefitted from the project. KAM was unable to release staff for an extended period, hence this training component was not implemented.

76. The project document specified under activity 1.1.13 related to output 1 that two workshops should be organized for 25 participants each on the following three themes: *"technology privatization, entrepreneurship development and joint venture negotiation."* One workshop took place on privatization issues with the IPC as the main organizer and with the involvement of a number of relevant authorities, such as those concerned with taxes, port authorities, etc., and some private sector representatives. It served the purpose of increasing the private sector's understanding of the necessity for certain rules, regulations and practices. The envisaged course on *"entrepreneurship development"* was not well defined, hence actual activities in this area are not easily assessed. Probably one may count the workshop on project identification in this area. In addition, three courses of two weeks each were given in pre-feasibility analysis (PROPSPIN) in which 23 staff of the DI and 20 staff of a number of associated institutions participated. Training in joint-venture negotiations is being planned and first preparations have been undertaken, however, as already stated earlier largely ignoring the necessity to assess and specify precisely the type of training required prior to finalizing the workshop's content.

77. Of the three country presentation tours envisaged as activity 2.1.1 under output 2.1, one took place to Japan with no measurable effect. The up-dating of the Investor's Guidebook (activity 2.1.2) did not take place in the frame of the project, but is a regular activity of the IPC. None of the activities related to the review of investment policies, existing institutional infrastructure related to investment promotion and the staff structure of the DI were carried out with involvement of project inputs or activities, however, government has taken some own initiatives in this regard.

78. Under US/KEN/89/179 four sectoral studies were carried out with the aim to analyze the present state of these sub-sectors and identify investment opportunities. Studies undertaken during the previous project (see para 101) were not taken into account during these exercises nor were they related to provincial identification missions carried out under this project. Greater harmonization of activities had been desirable. The reports are of varying quality. They were submitted to the Agro-based Industries Division of the DI for comments which, however, were not provided and had not been received by the long-term international consultant prior to completion of her assignment. Three additional sectors (engineering, chemical and metallurgy, non-food agro-industries) were identified and job descriptions prepared for which studies should be undertaken.

79. The lack of collateral as a major factor impeding increased investment activities surfaced during identification missions to the three provinces. The project reacted to this emerging requirement by expanding its scope by an additional activity. An international consultant conducted a study on the need for establishing a guarantee scheme which would be operated by a commercial bank and would support those entrepreneurs with viable projects, however, without equity and collateral. A number of financing institutions supported the idea, however, one bank and the African Project Development Facility (APDF) felt that professional entrepreneurs and industrialists have the means to implement their project concepts and that cases where promoters had no means but were reasonable sponsors were rather rare. The consultant completed his assignment just before the evaluation commenced, hence his final report was not available to the mission.

C. Project management, monitoring and backstopping

80. For the purpose of project management a Task Force (TF) was established in order to ensure the involvement of all parties associated with the project. The progress report by the NPC of December 1991 mentions a Steering Committee which had members of MCI, IPC, KNCCI and KAM, whereas the TF includes in addition representatives of Development Finance Institutions (DFIs) and the FKE. The TF was instituted to fulfil the main function, as expressed by the present NPC, of being the decision making body of the project, hence provides a platform through which participating institutions could be involved in the decision-making process for project management and implementation. Many decisions for which project management would take responsibility otherwise, are relegated to this body, hence its agenda covers a wide range of issues and topics of administrative and substantive nature.

81. Formal terms of reference which specify role, function, proceedings and responsibilities of the TF have not been adopted. It has served as a body through which all associate members are informed about project activities, including, *inter alia*, the selection of national and international consultants, the discussion of reports and surveys prepared under the project, and the approval of co-financing of feasibility studies for investment projects. For the latter, firm criteria were neither established at the outset of the project, actually this co-financing modality was not originally foreseen in the project document (see Part IV.A.), nor when the TF was instituted but were developed during various sessions. The TF was meant to assemble regularly once every month, however, meetings have been infrequent (see Annex 1 for schedule of meetings and projects approved during the sessions). Reports or projects to be discussed were often not distributed in advance, hence slowing down discussions during the meetings. Each TF is documented by minutes of the meeting.

82. Responsibilities which project management has to assume during implementation as defined in UNDP's Programme and Projects Manual (30400), such as preparation of detailed specifications for external inputs (expertise, training and equipment), timing of input delivery (work plan), review and analysis of project concept and strategy (which should have revealed shortcomings exemplified in this evaluation), reporting, financial administration, etc., were obviously not considered to be within the duties of the NPC.

83. The long-term international expert under the project US/KEN/89/179 was not formally appointed Chief Technical Advisor, however, was fulfilling similar functions in day-to-day operations of the project although without being assigned decision-making authority. The consultant was effective in her

assignment and contributed to the implementation of the project beyond expected duties contained in her job description.

84. Two PPERs were prepared in accordance with UNDP/UNIDO reporting requirements. While following the standard format for this purpose, these papers constitute mostly activity records which are very little result orientated and do not provide a detailed analysis of shortcomings arising in the course of project implementation, except for comments provided by the UNIDO office in Nairobi. In none of these reports was the project design analyzed and nor were recommendations made directed at remedying design shortcomings as described in Part II.B. of this evaluation. The first NPC prepared in addition six-monthly progress reports.

85. At the field level the project is monitored by the UNIDO Country Director and his staff who participates in the TF and is involved in day-to-day project matters, often of administrative nature. The office could have been instrumental in explaining and reminding project management of its role and responsibility in implementing and managing the project to counterbalance shortcomings described in para 82. The involvement of UNDP field office staff is so limited that the funding organization did not participate in the TPR meeting contrary to requirements specified in the UNDP Projects and Programme Manual (30600).

86. Substantive backstopping on part of UNIDO has been weak. Little guidance was provided on project strategy and management and support concentrated on administrative matters. Shortcomings of the project document which provided only parts of a coherent package of investment promotion activities and services were not remedied through requisite backstopping and monitoring. The long-term international project consultant maintained direct contacts to the UNIDO network of Investment Promotion Services (IPS), in particular to the office in Paris, in order to promote projects rather than operating through UNIDO Headquarters.

IV. PROJECT RESULTS

A. Outputs

Output 1.1. - Strengthened counterpart capacities

87. Capacities were strengthened in the area of project preparation, i.e. project screening and pre-feasibility analysis, in as much as data input into the spreadsheet application PROPSPIN is concerned. The number of studies to be undertaken indicated in the project document (10 - 20 small and medium-scale, 5 - 10 medium and large-scale) refers to the total project duration of three years (expected annual performance and type of studies are not indicated), but it can be stated that the project resulted in sufficient staff trained in PROPSPIN analysis to meet the afore-mentioned quantities per year. Demand for such analyses is, however, low and each division in the DI is preparing less than five pre-feasibility analyses per month. Increased activity in this area may be expected once follow-up is undertaken at the provincial level.

88. Not foreseen in the project document but instituted during project implementation is a co-financing scheme for the preparation of feasibility studies for large-scale projects with foreign participation. Criteria for approving funds under this scheme were not developed at the outset of the scheme but agreed upon during TF meetings which resulted in the beginning in lengthy discussions about funds to be allocated to each proposal. No criteria have been developed to define the type of projects which qualify for the scheme. Since funds are used for foreign consultants to undertake feasibility or market studies without the involvement of counterpart staff of the DI or an associated institutions, no capacity building effects can be expected from this part of the project.

89. A limited number of counterpart staff participated in a workshop given on project identification (representing each division of the DI). The extent to which acquired knowledge was passed on to their colleagues in the same divisions was reported to be limited. Nonetheless, DI staff emphasized that a new approach has been adopted insofar as investment projects are not developed without an identified project sponsor. While this method is applied to investment opportunities identified under DP/KEN/86/064, other operations of the DI follow its previous system of identifying broad areas in which investment opportunities may exist without recognized sponsor. Following this initial training course, actual identification missions were undertaken by national and international consultants without the involvement of counterpart staff. Considering their varied execution, lessons should be drawn and guidelines prepared for the implementation of future identification missions which, so far, has not been undertaken. In view of these factors, the extent to which national capacities have been strengthened in this field is limited.

90. No activities were undertaken to develop promotional skills of counterpart staff, hence it is highly unlikely that capacities have been built in this area. Promotional activities were carried out by delegates assigned to three IPSs, however, with limited effect and investment promotion meetings (fora) were not organized in view of the limited number of bankable projects identified up to March 1993 (see para.71).

Output 1.2. - Information system and 40 trained staff

91. Improvements of the information system were under implementation when the evaluation took place, hence an assessment of attainments can be preliminary only. While software requirements were put into place in nine institutions and staff was briefly trained on the utilization of the programme, no provisions were made in the project document or during implementation to ensure the establishment of an adequate system for data collection, appraisal, compilation, analysis, retrieval and dissemination, which is an essential part of a functioning and meaningful information system.

92. According to the report of the consultant who conducted training courses on project appraisal, a total of 18 staff of twelve associated institutions participated in these training activities (a figure that does not coincide with those provided to the evaluation team by various other sources, see para. 76).

The number of participants in the workshop on project identification, and seminars on privatization and investment facilitation could not be established by the evaluation team.

93. In addition to these in-country training courses, two of the planned four fellowships were awarded and training took place in Malaysia and Pakistan respectively. The report prepared by the IPC staff trained in Malaysia contained recommendations as to according a central role in investment promotion to IPC and, furthermore, suggested the preparation of an industrial master plan which had been undertaken in Malaysia with assistance of UNIDO. These proposals are still under consideration and discussion by the members of the TF. One staff of KNCCI was attached to the chamber of commerce and industry in Pakistan and has presently still to prepare a consolidation of his report on structural and operational improvements of KNCCI with recommendations made in a study prepared under German financing on the same subject (see also para 104), and with the report of a UNIDO consultant working on the same issue.

Output 2.1. - A more conducive climate to investment

94. As stated in Part II.B. Analysis of the project document, the declared output is beyond the realm of the project, hence has not been attained. The output defines further under (a) - (c) several analyses and studies to be undertaken under the project, however, these have not been produced within the frame of the project. The evaluation team was informed that certain activities in this regard were being carried out by the DI and IPC. Staff training listed again under this output (d) is accounted for under the previous two outputs. An up-date of the Investor's Guidebook has not been undertaken under the project as this is part of IPC's regular activities and is done whenever policy changes require to do so.

B. Immediate objectives

Immediate objective 1.A. - Strengthened counterpart capacities

95. In view of the repetitive nature of the output and objective statements regarding the capacity building aspect of the project, the assessment made in paras 87 - 90 apply here as well. Only limited capacities were strengthened.

96. The secondary objective under immediate objective 1.A., namely the coordination of investment promotion activities among specialized organizations and institutions concerned, was not associated with any of the outputs. The TF provides a platform for exchange of information and can, at least potentially, serve as a coordination mechanism. Coordination, however, requires that agreements are reached as to the delineation of responsibilities and tasks of the various institutions and the areas and types of cooperation to be implemented. The minutes of the TF meetings do not reflect that any such issues were discussed or that any agreements were reached in this respect. Deliberations do not cover or affect the operations of participating institutions, hence it is more appropriate to value the TF as an information dissemination and project management tool. Moreover, at least some members in the TF indicated that they thought to be participating in their personal capacity without authority to commit their respective organizations.

Immediate objective 1.B. - Strengthened capacities of associated institutions

97. Since no information on existing capacities of associated institutions was contained in the project document and since only a limited amount of assistance has been extended to them, it appears somewhat exaggerated to speak of strengthened capacities. The extent to which the installation of software facilities of an information system resulted in strengthened capacities can be assessed only once this system has become fully operational.

Immediate objective 2. - Government enabled to rationalize industrial promotion strategies

98. Since requisite analyses were not undertaken, this immediate objective was not attained under the project. In view of the fact that government is undertaking some of the envisaged activities on its own initiative, results related to this objective remain to be seen.

C. Development objective

99. The development objective of the project corresponds to national industrial development objectives contained in Sessional Paper No. 1 of 1986 on Economic Management and Renewed Growth which entails five basic goals: expansion and diversification of the export base; job creation at a rate exceeding 4 per cent p.a.; high and rising productivity; attraction and generation of indigenous Kenyan entrepreneurs and managers in industry; and complementary impact of industrial growth on agricultural production. The 6th National Development Plan 1989-1993 sets a target growth for the industry sector of 6.4% p.a. and an employment growth rate in industry of 4.6% p.a. The project is expected to indirectly contribute to the achievement of the afore-mentioned national objectives in industrial development up to the year 2000 by facilitating and improving investment projects identification and promotion by entrepreneurs and by improving the investment climate through recommending improvements in the policy framework[9].

100. The development objective is rather broad and influenced by a number of factors outside the scope of the project. For this reason alone is it difficult to measure the contributions and attainments of the project to national development aims. Moreover, it needs to be taken into account that the period during which the project was operational was not conducive to accelerated investment activities due to economic and political factors which made it even more difficult for the project to attain its goals. The above analysis has shown that results related to investment promotion are in a rather preliminary stage, and the planned analyses in connection with the conducive investment climate are being produced by the government and not under the project. Hence, the project has had only limited impact and has not yet made noticeable contributions to attaining the stated development objective.

D. Relation to other projects

101. In Part IV.A. and B. shortcomings in establishing desired capacities and capabilities are analyzed which occurred within the context of DP/KEN/86/064. The evaluation of the previous phase (DP/KEN/80/001) noted the limited extent to which manuals and guidelines prepared under the project were adopted and utilized by the DI. These manuals cover subjects, such as promotion of foreign direct investment, industrial information management, etc., to which no reference has been made throughout DP/KEN/86/064, from project design to implementation. These manuals could form the basis for a operating policies and procedures, as recommended in the previous evaluation, and should be part of a project which aims at strengthening institutional capacities. Under the same project (DP/KEN/80/001) a large number of sectoral reports, market reviews, and project proposals were prepared, however, none of them seem to have been taken into account when undertaking studies under the ongoing project.

102. UNIDO undertook various activities under its global investment promotion programme which are related to the project under evaluation. In 1990, a PTA investors forum took place in Nairobi where, among others, investment opportunities in Kenya were presented. While DP/KEN/86/064 had not started operations at that time, investment projects identified and prepared for the forum could have been followed-up through project activities. Not only has this not been done, investment profiles seem to have disappeared. Another such PTA forum is planned for November 1993 in Zambia for which one of the counterpart staff was hired by UNIDO to identify projects to be presented in Lusaka. One should think that DP/KEN/86/064 should have generated a sufficient number of investment projects already

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[9] See project document, page 15.

so that the PTA forum can be used as an additional promotion means without requiring additional identification activities as these appear to be duplicative.

103. In September 1992 UNIDO organized a Round-table of African Investment Promotion Centres in Zimbabwe to which the Kenyan IPC was invited. One of the aims was to discuss the harmonization of investment promotion methodologies and the establishment of a network of investment promotion centres throughout Africa. Such a network would link up those national institutions which have the principal responsibility for investment promotion activities in a given country. A linkage to the national project DP/KEN/86/064 was not established although one should think that this type of project would result in a strengthened institution which becomes part of the mentioned network. One reason for the lack of connection between these two initiatives may be the association of the central role in investment promotion with the IPC.

104. The German Friedrich Naumann Foundation (FNF) cooperates with the KNCCI in the organization of training for its members. FNF commissioned an analysis of the chamber's strengths and weaknesses which was undertaken by Rehabilitation Advisory Services (RAS) who issued its report in February 1993. This is an apparent overlap with activities carried out under DP/KEN/86/064. KNCCI neither coordinated efforts of FNF and UNDP/UNIDO in this respect nor put these institutions into contact with each other in order for them to agree on a coordinated approach.

105. The UNDP/UNCTAD project DP/KEN/91/009 which is implemented in cooperation with the EPZA plans, according to the project management, to establish an investment promotion department within the EPZA as it was felt that this function could not be entrusted to any other institution. It is apparent that this will result in further expansion of the already broad number of institutions dealing with the subject in Kenya.

106. The UNIDO executed project DP/KEN/90/014 Sub-contracting and Partnership Exchange may have the potential for being linked to the investment promotion programme, if the sub-contracting exchange identifies areas in which new investments can be made.

107. Good, though limited cooperation was exercised between UNIDO, APDF and the World Bank in co-financing a feasibility study on fishery industries. APDF was reluctant to finance the requisite study in view of the limited experience of the sponsors in the area of envisaged business, although APDF was convinced of their competence and commitment otherwise. It agreed to become a partner in financing the study once UNIDO provided additional resources. The World Bank scheme was used to fund a tour of the sponsors to various countries for discussions with potential partners.

108. In view of the observations made, particularly by international and national consultants during their identification missions to the provinces, regarding the need for developing entrepreneurial skills and capabilities, a mechanism needs to be found in order to relate the investment promotion programme to existing entrepreneurship development schemes. It is important that entrepreneurial capabilities are developed and in existence prior to promoting investments, in particular if these are of larger scale or aim at foreign participation.

E. Sustainability

109. In view of the fact that counterpart staff involvement in the project and attained results are limited the sustainability of the project's activities is not likely. In addition, the counterpart's financial capacity to participate in and continue with activities commenced under the project is restricted, hence will further impede its ability to sustain whatever has been implemented under the project up till now. The latter concerns not only work programmes but even the maintenance of computer equipment delivered to the counterpart, of which already half has been re-assigned to other parts of the government.

V. CONCLUSIONS

110. The project design is ambiguous in that it does not differentiate clearly between capacity building and direct support functions which is a shortcoming already observed by the evaluation of the previous project DP/KEN/80/001[10]. The actual involvement of the counterpart and subsequent assimilation of envisaged investment promotion functions was not built into the project concept in its present form. The project was subject to appraisal by UNDP Nairobi and UNIDO. Many of the shortcomings detailed in Part II.B. of this report were observed by UNIDO's Appraisal Section and Evaluation Staff, however, requisite improvements to the project document were obviously not undertaken, although the design process was rather protracted, hence time should have been sufficient. Relevant changes would have helped avoiding those factors which could be expected to impede project performance, attainments and sustainability.

111. The project set out to meet a rather wide range of objectives which made it ambitious from the beginning although targets related to associated institutions were set so loosely that already modest attainments could almost be considered positive. Immediate objective 2 which aimed at enabling the government to rationalize, *inter alia*, the institutional structure responsible for local industrial investment promotion should have been prioritized since its rationalization is a pre-requisite to any measures of strengthening relevant institutions. Instead, this objective and relevant outputs and activities were not carried out within the frame of the project but are being undertaken directly by government without external inputs.

112. The considerable number of institutions involved in investment promotion activities in Kenya necessitated their involvement in project activities. This has been done through their association with the Task Force, by means of training and by installation of an information database without, however, analyzing their actual and potential functions in the area of investment promotion but covering them e.g. with training in pre-feasibility analysis irrespective of their regular portfolio of activities. This has not contributed to delineating roles and tasks of the various national institutions in investment promotion activities as endeavoured under output 2.1(c), but to the contrary added to a further spread of responsibilities. Significant capacities have not been built within associated institutions through these endeavours.

113. The project lacks a consistent approach by which institutional capacities are developed. Capacity building activities are in some areas subdued by direct support type of activities, in particular in the field of project identification, to the effect that not only the opportunity to build capacities is lost, but also that, due to non-involvement, DI staff distanced itself from project activities. This disengagement is partly the fault of the project design, partly caused by an attitude that desires incentives to be awarded by the project rather than recognizing the opportunity to acquire new knowledge and skills from participating in the project. Assessing attainments made against plans described and analyzed in para 30 - 38 of this report, it has to be concluded that these targets have not been met in full as strengthened capacities concentrate in the area of pre-feasibility analysis but do not cover other aspects of the investment promotion cycle.

114. Moreover, the project did not succeed to institute an understanding of the range of promotional endeavors reaching from country promotion to investment generating activities (see Part II.A.2) which constitute a coherent and comprehensive strategy for promoting investment. This is partly due to shortcomings in the project concept, partly due to weaknesses in the implementation. As stated above, pre-requisite activities related to the institutional infrastructure and to the incentive system were built into the project, however, their implementation was not a transparent part of the UNDP/UNIDO project but are being undertaken by government directly. Country promotion activities, i.e. up-dating of an investor's guide and country promotion tours, were not phased to complement investment generating activities. At the conceptual stage, no consideration was given to other means, such as participation in fairs or advertising campaigns in relevant magazines.

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10 Assistance to the Ministry of Industry, Report of the Evaluation Mission, DP/ID/SER.C/1, November 1985, page 27.

115. The identification of project proposals was undertaken by means of consultant missions which concentrated mostly on gathering information already available at the provincial level. This should have been collected through other established channels, such as the DIDOs and provincial representations of KIE and KNCCI as the source of this information. The geographic approach chosen in this exercise necessitated that generalists (financial or industrial economists) had to be engaged rather than involving technical specialists which could have undertaken more meaningful assessments of presented project concepts. Activities further described in the project document foresaw coverage of the entire investment project cycle, however, implementation of activities related to building national capacities to deal with the phases after identification and pre-feasibility analysis was weak or non-existent. Promotion activities in the narrow sense concentrated on the delegate programme and investment promotion meetings which did not take place due to a lack of viable projects. This non-implementation should be considered positive as investment promotion meetings tend to be little effective[11]. At the provincial level it appears more reasonable to advise local promoters directly on financing possibilities and to use the existing local network of contacts for the identification of business partners, if so desired.

116. Demand for investment promotion services was up to now limited which was accorded to the lack of announcing their availability. The main motivation for entrepreneurs to request assistance from the DI is that services are provided free of charge. In addition, the presence of UNIDO was seen as an opportunity to access international assistance. Target groups range from promoters of large-scale projects of whom some are well versed in international business affairs to promoters of small-scale investment projects or institutions/individuals requesting technical assistance unrelated to investment promotion. This means that a rather wide ranging group of entrepreneurs is covered by the project which requires the ability to deal with a diverse clientele. In view of the fact that the project is dealing with investment promotion, those individuals and institutions seeking donations and technical assistance not related to investment promotion should be screened out and dealt with under different arrangements. In this respect a clear distinction needs to be made between investment, i.e. business between two partners in terms of sharing equity and risks, and assistance, i.e. donation to a so-called venture, which apparently has not been clearly understood.

117. The majority of local promoters listed in provincial reports are male, however, businesses are often registered and appear in public under the husband's name, whereas the actual entrepreneur in charge of the venture is often a woman. Therefore, the evaluation cannot establish in how far assistance has been rendered in gender-differentiated manner. It certainly did not have a gender-differentiated approach, or assess whether the latter had been necessary.

118. Project implementation was affected by factors external to the project, such as the overall economic situation and political circumstances during the time of elections, and by project-internal elements, such as the availability of inputs and adopted management structures. The counterpart's capacity to provide government contributions, already observed to be weak during the evaluation of the previous phase, has further weakened in light of requested reductions in public expenditures. This further compounds the situation that the present location of the project is not entirely adequate as e.g. the supposedly central role of the IPC in these matters is not taken into account.

119. Inputs provided from project funds were not entirely adequate insofar as e.g. international and national experts were not fully utilized to strengthen national capacities. In addition, more use could have been made from the provided expertise if it had been requested in specialized technical areas. One piece of equipment procured from project funds is inadequate to local conditions which should have been avoided by supplying detailed specifications in the purchase request.

120. The Task Force, while being a means of information dissemination, was assigned to tasks which normally are within the responsibility of project management. This served the purpose of transparent decision-making and project implementation as well as relieving the NPC of her/his sole accountability

[11] See In-depth Evaluation of UNIDO's Investment Promotion Activities, ODG.12 (SPEC.), January 1991, for more details.

for decisions made. In view of the rather infrequent schedule of meetings (see Annex 2) the relegation of the decision-making authority to the Task Force seems to have curbed the speed of implementation.

121. Assessing the project's overall performance it has to be stated that the project achieved some success, which, however, has been limited due reasons indicated above. Moreover, for investments to materialize more time is required as a number of feasibility studies were undertaken only shortly before the evaluation took place.

VI. RECOMMENDATIONS

122. The evaluation of the previous phase (DP/KEN/80/001) had no or only limited impact on the design and implementation of the present project, hence valuable observations and recommendations made during that evaluation were hence wasted. It is suggested that the observations and recommendations of this evaluation exercise are considered with adequate attention and that follow-up action is taken as required in order to avoid that a costly and time-consuming in-depth evaluation is rendered meaningless. Shortcomings addressed in previous parts of this report should be remedied.

A. Short-term prior to December 1993

123. The evaluation recommends to continue with the project implementation until December 1993, in its present location, in order to undertake follow-up activities to those investment proposals already identified during provincial missions and undertake the pending workshop on joint-venture negotiations.

124. One issue of major importance is that of continuous project management and coordination. The evaluation was not able to come to a final conclusion and subsequent recommendation. The following scenarios prevail:

- ♦ The implementation of the project benefitted from the presence of the international consultant hired under the UNIDO-funded project, which however has been completed. The appointment of an international expert to manage and supervise project implementation and contribute substantive expertise is a rather costly solution, hence not acceptable to the counterpart.

- ♦ The present arrangement suffers from the fact that the NPC is not assigned on a full-time basis to this task. Moreover, certain shortcomings in project implementation (delay in start-up, specification of equipment, etc.) have been observed during the evaluation which fall within the responsibility of project management.

- ♦ Strengthening project management by assigning a national consultant under the project will release project management of its responsibilities and may result in discouragement of the NPC. Moreover, a national consultant will not be able to assume responsibilities and authority required for project implementation while not being part of the counterpart hierarchy.

125. <u>Accordingly, it is recommended that the three parties involved in the project, namely the Government, UNDP and UNIDO, should discuss further and put into effect the most appropriate project management system.</u>

126. <u>Knowledge acquired by DI staff or associated agencies during training rendered under the project should be passed on by them to other colleagues and/or senior staff dealing with the subject matter.</u> This will ensure a desired multiplier effect from project activities which is necessary in view of limited international resources which cannot afford training of every individual but has to rely on its catalytic role. The awareness of staff participating in training courses and/or workshops of their responsibility to share acquired knowledge and skills needs to be heightened, maybe through an adequate introduction to the training course. This dissemination of knowledge should take place as internal activities of institutions concerned without external inputs.

127. <u>A differentiated approach to end users has to be developed in order to meet requirements of different client groups.</u> Sponsors of small- and medium-scale projects in rural areas require primarily seminars which aim at increasing their awareness of opportunities to expand or invest in new ventures, banking facilities, viability assessment, etc., prior to assistance in developing and analyzing investment project proposals. Since these sponsors are mostly located in the provinces, activities in these areas should be adapted to the afore-mentioned needs. Sponsors of large-scale projects should be supported

through preparation of pre-feasibility studies, co-financing of full feasibility studies and match-making with foreign partners, as required.

128. Further project identification activities should follow a different approach insofar as existing data should be collected from institutions and individuals at the provincial level for preliminary analysis in Nairobi prior to carrying out targeted follow-up missions to the various regions, promoters and project sites. Preliminary analyses should indicate the need for and the purpose of visits to the regions. Visits should be preceded by preparatory arrangements to announce the mission and its purpose, set-up a schedule, and request promoters to prepare requisite information. During missions, project proposals should be discussed with their promoters in detail and, if possible, project sites should be visited.

129. Moreover, the counterpart should adopt a sectoral approach to project identification rather than follow a geographical strategy, particularly when external expertise is required. This will ensure that technical specialists can be assigned to identification activities who are able to deal with project proposals in greater technical profundity. The geographical distribution of identified projects should be monitored and analyzed in order to recognize and rectify, if necessary, shortcomings in provincial coverage of these activities. The selected sub-sectors for which some preparations were made (i.e. job descriptions for consultants) should be reviewed by counterpart staff in order to define the purpose and expected outcome of these studies as well as to determine counterpart contributions to these studies and define which,if any, external (national and/or international expertise) inputs are required.

130. Feasibility studies should be undertaken in cooperation with those associated institutions and agencies which are qualified to do so, such as DFIs, and should not be undertaken solely by the DI. An early involvement of financing institutions may increase their interest in and commitment to financing the investment project itself. Even without involving DFIs in the undertaking of feasibility studies, investment projects should be brought to their attention once an advanced stage has been reached and financial resources (investment capital) are required.

131. Alternative promotional means, such as visits organized for selected project promoters to meet with selected partners, as implemented in one case in cooperation with the World Bank, should be built into the project and, wherever feasible, combined with the delegate programme. These visits should be organized for Kenyan entrepreneurs to meet potential partners abroad. This modality, however, requires stringent application of selection criteria, such as degree of project maturity reached, and should be tied to the availability of a feasibility study prepared under the project. Moreover, potential partners (not just equipment suppliers) should be identified by the promoter, delegates and/or IPSs prior to embarking on the mission. At the same time, visits of foreign partners to Kenya should be foreseen and implemented, possibly organized by delegates during their assignment.

132. The TF requires formalization, in terms of proceeding, role and responsibilities. Meetings should be organized more frequently, once every quarter, with the option of calling *ad hoc* meetings whenever substantive issues require consideration and discussion by the TF. The TF should, however, be confined to substantive matters and not cover administrative or regular management issues on which the NPC should report. The list of potentially participating organizations should be widened to include e.g. SEFCO and KIE, however, institutions actually to be invited to meetings should depend on the items included in the agenda (not standardized but adjusted to the business at hand) of respective gatherings. This will increase the effectiveness of the TF and prevent participants from engaging themselves in meetings of little concern to their affairs. Minutes of the meetings should, nonetheless, continue to be prepared and disseminated to all of the associated agencies and institutions, and reports to be discussed during the meeting should be circulated in advance to enable participants to make meaningful contributions.

133. In summary, the following activities should be carried out:

- Follow-up missions to the provinces to be undertaken by DI staff. Considering the present financial constraints facing the Government, UNDP/UNIDO should consider financing local transport and an appropriate per diem to support these follow-up missions.

♦ The training course on joint-venture negotiations should be undertaken. However, the NPC should discuss and identify exact training needs of participants and possibly screen participating institutions in order to include those concerned. His findings should be communicated to UNIDO in order that the programme can be adjusted to local needs.

♦ In case viable large-scale projects are identified, co-financing of their feasibility study should continue to be considered.

♦ Criteria and guidelines should be prepared for the financing of promotion tours by investors to meet potential partners as described above. Subsequently, resources should be allocated for this purpose.

♦ The DI's capacities for preparing pre-feasibility analyses should be better publicized in order to increase actual demand for these services.

♦ Cooperation with e.g. APDF, World Bank, and other organizations should continue.

B. After December 1993

134. Investment promotion remains one of the important issues on the government's agenda, particularly in light of its Policy Paper on Public Enterprise Reform and Privatization. It also meets UNDP targets expressed in the Advisory Note on the Fifth Country Programme, particularly in the area of employment creation. The above analysis, however, has shown that national capacities in the area of investment promotion have not been sufficiently strengthened, therefore, the evaluation recommends a new project in this field.

135. In case a follow-up project is decided, the location of the project should be reconsidered taking into account the changed role of governments in a more liberalized economy and the potentially central role of the IPC. In doing so, the chosen counterpart's and any associated institution's abilities and capacities to support, effectively implement and sustain the project should be assessed prior to finalizing the project document. More so, actual requirements of each institution should be determined in detail at the outset of the project.

136. During the design stage potential end users of the project, i.e. entrepreneurs in urban and rural areas, should be involved to assess their needs and requirements in order to reflect these in the project design. This will ensure that the project meets actual demand for this type of services and responds to the necessity for a differentiated approach to its clientele.

137. Observations made throughout this report, in particular related to institution building aspects and a package of investment promotion activities, should be taken into account in designing a new project.

VII. LESSONS LEARNED

138. This evaluation has shown once more how essential it is to undertake a detailed analysis of the needs of immediate beneficiaries and end users as well as an assessment of the counterpart's existing capacities and capabilities at the outset of the project, including an appraisal of the counterpart's ability to provide its contributions to the project. Only a well defined project concept can lead to smooth and effective implementation and subsequent results.

139. A comprehensive investment promotion programme should incorporate activities addressed at the policy level and a set of promotional measures at the various levels. The project made moves in this direction, however, needs to consider additional aspects as discussed throughout this report, including a co-financing scheme, if necessary, and cooperation with other financing institutions, such as APDF, World Bank, and CDI. Moreover, careful phasing of activities and action to be taken in case of non-implementation of crucial elements of the project is required.

140. Whenever a coordinating committee similar to the Task Force established under this project is required, its terms of reference, responsibilities, policies and procedures should be defined at the outset of the project or latest once the committee is established.

ANNEXES

Annex 1

Structure of the Ministry of Commerce and Industry

STRUCTURE OF MINISTRY OF COMMERCE AND INDUSTRY (1993)

- MINISTER
  - ASSISTANT MINISTER
  - PERMANENT SECRETARY
    - TECHNICAL SECTIONS
      - DEPARTMENT OF INTERNAL TRADE
      - DEPARTMENT OF INDUSTRIES (Beneficiary of Project)
      - DEPARTMENT OF EXTERNAL TRADE
      - TRAINING INTITUTIONS
      - DEPARTMENT OF WEIGHTS AND MEASURES
    - ADMINISTRATION
      - DEPUTY SECRETARY (PARASTATALS)
      - DEPUTY SECRETARY (INDUSTRIES)
      - DEPUTY SECRETARY (ADMINISTRATION)
      - DEPUTY SECRETARY (COMMERCE)
  - ASSISTANT MINISTER

Annex 2

Task Force Meetings

Frequency of meetings

	planned	actual
TF1		August 1991
TF2		October 1991
TF3	before end 1991	December 1991
TF4	January 1992	January 1992
TF5	February 1992	February 1992
TF6	March 1992	April 1992
TF7	May 1992	September 1992
TF8		October 1992
TF9	December 1992	December 1992
TF10	January 1993	March 1993

Approval of investment projects for co-financing

	Date	Projects approved	Studies undertaken/completed
TF4	January 1992	Papain[12]	
		Fish processing	feasibility study, Oct. 1992[13]
		Dairy products	
TF7	May 1992	Soya beverages	market study, March 1993[14]
		Essential oils	
		Papain[12]	
TF8	October 1992	Gherkins and Beans	
TF9	December 1992	Fruit Canning	
		Marble quarrying	

[12] The same project. TF4 approved the project in principle, TF7 approved actual allocations.

[13] The mission for the preparation of the feasibility study took place in June, the full study is dated October 1992.

[14] The report was not yet available while the evaluation was undertaken which is understandable as the market study was carried out in the week before the evaluation started.

Annex 3

List of People met

Ministry of Commerce and Industry (MCI)

Mr. D. Makhanu, Deputy Secretary of Industry
Mr. G. Olum, Director, Department of Industries
Ms. S. Alambo, Registrar of Industries
Mr. S. Mwanaongoro, Senior Assistant Director and National Project Coordinator
Ms. M. Nyandong, Assistant Secretary of Industry

Agro-based Industries Division
Mr. K. Bikwetti
Mr. L. Ngari
Mr. J. Munguti

Chemical and Minerals Division
Mr. M. Ogutu
Mr. J. Kirima

Engineering Industries Division
Mr. W. Anyika
Mr. J. Muchiri

Industrial Cooperation Division
Ms. C. Marwa
Ms. B. Muchai
Mr. F. Wemali

Small and Medium Scale Industries Division
Mr. B. Mutula

Investment Promotion Centre (IPC)

Mr. A. Kandie, Executive Chairman
Mr. F. Oyugi, Finance and Administration Manager
Mr. J. Ogola, One-Stop Manager
Mr. G. Kibuka, Projects Department

Industrial & Commercial Development Corporation (ICDC)

Mr. J. Osunga, Manager, Project Research & Development
Mr. R. Masinde, Senior Projects Officer

Kenya Industrial Estates (KIE) Ltd.

Mr. B. Kikuvi, Managing Director

Industrial Development Bank (IDB)

Mr. Y. Nzibo, Managing Director
Mr. J. Chege, Assistant Chief of Operations
Mr. P. Gichuri, Financial Controller
Mr. F. Maina, Portfolio Manager
Mr. T. Tiampati, Project Officer

Small Enterprise Finance Company Ltd. (SEFCO)

Mr. W. Kiiru, Operations Manager

Kenya Commercial Bank (KCB)

Mr. E. Arap-Bii, General Manager
Mr. A. Hamilton, Special Advisor to the Chairman

Export Processing Zone Authority (EPZA)

Mr. S. Ita, Chief Executive
Mr. R. Kigunda, Manager Management Services
Mr. H. Pohoresky, National Policy Advisor (UNDP/UNCTAD project)

Rehabilitation Advisory Services (RAS)

Ms. I. Henin-Spindler, former principle expert on the project US/KEN/89/179

Kenya National Chamber of Commerce and Industry (KNCCI)

Mr. C. Anyama, Chief Executive
Mr. F. Kiongo, Membership Officer

Kenya Association of Manufacturers (KAM)

Mr. K. Kamanu, Senior Executive Officer
Mr. S. Ihiga, Executive Officer
Mr. I. Kimaro, Executive Officer

Federation of Kenya Employers Association (FKE)

Mr. A. Sing'ora, Centre Coordinator, Centre of Excellence

Project promoters

Mr. S. Esmail, Managing Director, Aluru Farm Ltd.
Mr. H. Jibril, Managing Director, East African Coast Fisheries
Mr. S. Ng'ang'a, Director, Kenya National Library Services
Mr. J. Ngusi, Fruit Canning Kakamega (consultant of the sponsor)
Mr. Mayya, Papain project
Mr. Osano, Director, Institute for Rural Development
Mr. J. Rashid, Managing Director, Jama & Sons Enterprises Ltd.
Mr. R. Savji, Managing Director, Unitrade (Africa) Ltd.

Consultants

Ms. C. Chevauche, ACTIMONDE, market study on soya bean beverages
Mr. W. Miller, information system (DIPP)
Mr. Mugambi, Eastern Province Identification Mission
Mr. W. Mutsune, Western Province Identification Mission
Mr. O. Okelo, Nyanza Province Identification Mission
Mr. R. Wiessing, consultant on guarantee scheme

African Project Development Facility (APDF)

Mr. K. Chungu, Investment Officer

UNDP

Mr. D. Whaley, Resident Representative
Prof. A. Thomas, Deputy Resident Representative

UNIDO

Mr. S. Bologna, UNIDO Country Director, Nairobi
Mr. S. Koivula, UNIDO Junior Professional Officer, Nairobi
Mr. M. Abdelmoneim, Industrial Investment Division
Mr. J. Hebga, Industrial Investment Division, Africa
Mr. Y. Okello, Industrial Investment Division, Africa
Mr. C. Martin, Area Programmes Divison, Africa

Annex 4

Terms of Reference

IN-DEPTH EVALUATION OF DP/KEN/86/064 INDUSTRIAL INVESTMENT PROGRAMME

I. Background

The objectives of this project, which is executed by UNIDO, are to strengthen the Department of Industry in the Ministry of Industry in obtaining and compiling the information required to upgrade assistance to potential investors in identifying proper industrial investment projects, formulating the relevant pre-investment studies and appraising the projects based on established criteria, and promoting the projects for internal and external inputs needed for its completion; to strengthen the private sector institutions and organizations involved in industrial investment activities in the private sector, such as Kenya National Chamber of Commerce and Industry, Kenya Association of Manufacturers and Investment Promotion Center and liaising to this end with the Ministry of Industry; and to enable the Government, on the basis of accepted findings and conclusions of previous studies and of a review and assessment of the present situation, to rationalize industrial promotion strategies and policies, industrial investment encouragement rules and government laws and regulations for local industrial investment identification and promotion, thus improving the climate conducive to local and foreign private industrial investment.

A complementary funding is provided by the French government - this part of the programme will make a study of the local, regional and export markets open to Kenya in the areas of fruits and vegetables, meat processing and the value enhancement of cereals. Furthermore, case studies regarding industrial investment projects and involving the identification, formulation and initial evaluation of these projects will be carried out.

The current policy of the Government is the mobilization of domestic resources for the acceleration of the pace of overall development. In the manufacturing sector, this implies encouragement by market-based incentives of export-oriented manufacturing, efficient import substitution and small-scale, employment-intensive industry. It is the Government policy to reduce the emphasis on highly protected, import-substituting industries in favour of those capable of exporting. The incentive structure now in place - based on realistic exchange rates, moderate protection, reduced taxes on industrial inputs, and special export incentives - should over time begin to induce manufacturers to build capacity with export markets primarily in mind.

The IPF budget of the project is 738,000 dollars, and is composed of a personnel component of 45 %, a training component of 39 %, an equipment component of 11 % and miscellaneous component of 5 %. The project is complemented by a contribution from the French government of 179150 dollars. The project activities commenced in January 1991. The duration of the IPF component is three years. The French component expires in January 1993.

II. Purpose of the in-depth evaluation

In view of the slow implementation of the project activities, the recommendations in the Project Performance Evaluation Report and from the Tripartite Review Meeting held in December 1991, as well as following the recommendation from the evaluation of the fourth UNDP Country Programme to undertake in-depth mid-term evaluations, supported by the Project Document, part H, (c), an in-depth evaluation of the project should take place as soon as possible.

The purpose of the in-depth evaluation is to:

1) Assess the achievements of the project against the set objectives and expected outputs as mentioned above. This will include a re-examination of the project design. Identify and assess the factors which have facilitated the achievements of the project's objectives, as well as those factors that impeded the fulfillment of those objectives.

2) Examine the userfriendliness in relation to the target groups and the extent to which the results/outputs produced by the project have contributed towards the strengthening of the Department of Industry and the private sector institutions and organizations involved in industrial investment activities in the private sector. It will be examined to what degree relations have been build up with the target beneficiaries as shown in the project document.

3) Review to what extent the planned relations with and involvement of the Investment Promotion Center, Kenya Association of Manufacturers, Kenya National Chamber of Commerce and Industry and Development Financing Institutions, have been realized and how this could be improved.

4) Assess the capacity of the involved institutions to carry out the various activities, with a view to determine the optimal role of the respective institutions and organizations. This will include the provision of the necessary national inputs as well as the composition of the UNDP/UNIDO inputs.

5) On the background of the findings in 1) to 4) above, the evaluation is expected to also lead to detailed suggestions and recommendations to be implemented.

III. Composition of the Mission

The mission will be composed of the following:

One representative of UNDP (Team leader)
One representative of the Government of Kenya
One representative of UNIDO

These representatives should not have been directly involved in the design, appraisal or implementation of the project. It is essential that the evaluators apart from experience in working with promotion of private investment, all have a background in evaluating projects executed by a United Nations organization, in their social and economic context.

IV. Consultations in the Field

The mission will maintain close liaison with the UNDP Resident Representative in Kenya, the local UNIDO office, the direct and indirect recipients and the project's staff.

Although the mission should feel free to discuss with the authorities concerned all matters relevant to its assignment, it is not authorized to make any commitments on behalf of UNDP or UNIDO.

V. Timetable and Report of the Mission

Insofar as required, the UNDP and UNIDO representatives will receive briefings at their respective headquarters. Upon arrival in Nairobi, the mission will be briefed by the UNDP Resident Representative. The mission will attempt to complete its work within 3 weeks, starting in Nairobi on 1 June 1992. Upon completion of its work, it will be debriefed by the UNDP Resident Representative. At the end of the mission, the UNDP Resident Representative will organize a meeting involving senior Government officials and officials from the co-operating institutions, where the mission will present its initial findings, conclusions and recommendations, and be ready to discuss these. The UNDP and UNIDO representatives will as well be debriefed in their respective Headquarters.

The mission will complete its report in draft in Nairobi. It will leave behind a copy of the draft with the Resident Representative.

The final version of the report will be submitted simultaneously to UNDP and UNIDO Headquarters (3 copies each) and to the UNDP Resident Representative, who will be responsible for formal submission of the report (6 copies) to the Government.