#ClosingThe GapKenya

Update on Key Challenges for the "Missing Middle" in Kenya

2015

Commissioned on behalf of:
Dutch Good Growth Fund (DGGF) / Investment funds local SME

Coordinated by Triple Jump:
Marnix Mulder, *Head of Advisory Services*
Julia Brethenoux, *Senior Advisor SCBD Program*

In partnership with:
Aspen Network of Development Entrepreneurs (ANDE):
Jenny Everett, *Deputy Director*
Mary Mwangi, *East Africa Regional Chapter Manager*
Saurabh Lall, *Research Director*

East Africa Venture Capital Association (EAVCA):
Nonnie Wanjihia Burbidge, *Executive Director*

Authors:
Business Consulting Team, Intellecap

Senior Advisor:
Mukund Prasad,
Usha Ganesh

Authors:
Stefanie Bauer,
Manasi Agaskar,
Saurabh Sinha,
Antariksh Gupta,
Nivedita Pooja

Design:
Infonauts

Disclaimer:

#ClosingTheGapKenya has been commissioned on behalf of DGGF as the pilot study in the #ClosingTheGap series of entrepreneurial ecosystem assessments. The findings and recommendations are at the discretion of the consultant -Intellecap - and do not necessarily reflect the opinion of DGGF and/or its partners.

Contents

Partners ... 4

Glossary ... 6

List of Abbreviations ... 10

Executive Summary ... 12

Summary of Report ... 14

1. Objective and Methodology ... 16
   - 1.1 Objective of the Study ... 16
   - 1.2 Research Approach ... 17
   - 1.3 Methodology ... 18
   - 1.4 Snapshot of Kenya's Entrepreneurial Hubs: Nairobi, Nakuru and Mombasa ... 20
   - 1.5. Considerations ... 22

2. Kenya's SME Landscape ... 26
   - 2.1 Kenya: Startup and Innovation Hub in East Africa ... 26
   - 2.2 Kenya's Small and Medium Enterprises: Growing Opportunities ... 29
   - 2.3 The need for SME Sub-Segmentation ... 31
   - 2.4 Identifying critical gaps in the SME Ecosystem ... 40

3. Closing the Gap in the 'Missing Middle' Ecosystem ... 44
   - 3.1 Finance: The Central Challenge for most SMEs ... 44
   - 3.2 Seed and Angel Capital ... 46
   - 3.3 Long-term Growth Capital ... 50
   - 3.4 Business Support ... 58
   - 3.5 Linkages to Overcome Fragmentation in the Ecosystem ... 64

4. Conclusion: Scaling up the Entrepreneurial Ecosystem ... 66

5. Annex ... 68
   - Annexure A: Framework for comparative assessment of Kenyan entrepreneurial ecosystem in East Africa ... 68
   - Annexure B: Framework for assessment of Kenyan entrepreneurial ecosystem ... 70
   - Annexure C: World Bank Enterprise Survey 2013 analysis ... 72
   - Annexure D: SME Finance Expert Forum – Agenda 8th of June 2015 ... 76
   - Annexure E: SME Finance Expert Forum – Attendee List ... 77
   - Annexure F: List of Organizations Interviewed ... 81
   - Annexure G: Bibliography ... 82

Partners

Dutch Good Growth Fund

The *Dutch Good Growth Fund* (DGGF) is an initiative of the Dutch Ministry of Foreign Affairs.

Many small and medium-sized enterprises in developing countries have difficulty securing the financial backing they need to grow. This group of businesses is often referred as 'the missing middle', where they have outgrown micro financing but do not yet have access to regular financial services. To increase local SMEs' access to finance, the DGGF fund 'Local SMEs' invests in investment funds that in turn invest in businesses in the DGGF countries. The DGGF enlarges its impact by investing in intermediary funds that are better placed to reach local SMEs. This part of the DGGF is a 'fund of funds': it is building up a portfolio of intermediary funds that are catalysts for local economic growth. Greater access to finance enables local SMEs to grow and strengthens the financial sector in low and middle-income countries. The DGGF has set specific targets for intermediary funds that invest in young or female entrepreneurs and entrepreneurs in fragile states.

The DGGF part Investment funds local SMEs is managed by a consortium of Triple Jump BV and PwC.

Triple Jump BV manages and advises funds that aim to invest responsibly in developing countries. Its focus is on the bottom of the pyramid markets where it improves livelihoods by managing and advising responsible investment funds. Inclusive financial sector and micro and small & medium sized enterprises are at the center of its developmental focus.

PwC is a network of firms in 157 countries with over 195,000 people who are committed to delivering quality in advisory, tax and regulatory services. Its industry specialization allows it to help co-create solutions for clients across sectors.

Research Partnership

The DGGF has partnered with the Aspen Network of Development Entrepreneurs (ANDE) and the East African Venture Capital Association (EAVCA) to identify, discuss and address the key challenges that the missing middle face in East Africa in general and in Kenya specifically. An SME Expert Forum was organized jointly by the DGGF, ANDE and EAVCA on 8th June 2015 in Nairobi, Kenya, providing the opportunity for ANDE and EAVCA members as well as relevant stakeholders to engage and share insights on new emerging SME finance initiatives and elaborate on potential solutions to bridge the 'missing middle' financing gap.

ANDE

The Aspen Network of Development Entrepreneurs (ANDE) is a global network of more than 220 organizations that propel entrepreneurship in emerging markets. ANDE members provide critical financial, educational, and business support services to small and growing businesses (SGBs) based on the conviction that SGBs will create jobs, stimulate long-term economic growth and produce environmental and social benefits.

EAVCA

The East Africa Venture Capital Association (EAVCA) was founded in 2013 to represent the private equity industry in East Africa. The objective was to provide a platform for industry players to raise awareness and engage in regional policy matters. EAVCA is seeking to bridge the knowledge gap between the public and private sector of the impact of private equity on growing enterprises. It also plays a role in influencing policy within the government and other institutions. It aims to ultimately play a greater role in mobilizing investment flows in the region.

Intellecap

Intellecap has been commissioned to undertake the research and write the report. It is a pioneer in providing innovative business solutions that help build and scale profitable and sustainable enterprises dedicated to social and environmental change. The company's unique positioning at the intersection of social and commercial business sectors allows it to attract and nurture intellectual capital that combines the business training of the commercial world with the passion and commitment of the social world to shape distinctive solutions. Intellecap was founded in 2002 and has more than 100 employees. Intellecap has worked with more than 60 clients on over 450 engagements across 30 countries.

Glossary

Accelerator: a cohort based, structured program (usually 3-6 months) aimed to assist growth-stage startups (i.e. those with existing prototypes and ideally, some traction in the market proven by an active user base and revenues) and increase the value of their company quickly. Typically, this involves providing intensive, individual and/or group mentoring and seed-financing over a short period of time (weeks to months) in order to either bolster the startups current strategy and accelerate its growth or to help the startup team pivot or adjust its strategy due to new information available about its target market.

Angel investor: mostly High Net Worth Individual (HNWI) who invests his/her own money in new and very risky businesses in exchange of a minority stake in the enterprise. He/she invests in a start-up but also shares his/her sector expertise and network, provides guidance, coaching and mentoring to help build enterprises and make them attractive for follow-on investors.

B-plan stage: the enterprise takes shape and resources required to run the startup are identified. The business model has been finalized and revenue streams have been identified. Operations have started, although there is considerable scope for improvements and changes before product/service roll out.

Business enabler: a market-driven program that provides services, including mentoring and coaching to new ventures to accelerate their growth.

Business incubator: a unique and highly flexible program combining business development processes, infrastructure and people designed to nurture new and small businesses by helping them to survive and grow through the difficult and vulnerable early stages of development.

Chamas: any collection of individuals or legal persons in any form whatsoever including but not limited to societies registered under the Kenyan Societies Act, Partnerships and Limited Liability Companies, whose objective is pooling together of capital or other resources with the aim of using the collated resources for investment purposes (also known as Investment Groups).

Cost of equity: the return a firm theoretically pays to its equity investors (shareholders) to compensate for the risk they undertake by investing their capital. Equity is a stock or any other security representing an ownership interest.

Covenant: a condition in a commercial loan that requires the borrower to fulfill certain conditions or which forbids the borrower from undertaking certain actions, or which possibly restricts certain activities to circumstances when other conditions are fulfilled.

Credit bureau: an organization that collects credit information from various sources and provides credit information on individuals for a variety of credit borrowed.

Credit score: the numerical expression based on a level analysis of a person's credit files, to represent the creditworthiness of the person. A credit score is primarily based on credit report information typically sourced from credit bureaus.

Entrepreneurial ecosystem: comprises all stakeholders including public and private entities with an impact on entrepreneurial activities – outside the individual entrepreneur that are conducive to or inhibitive of the probabilities of his or her success.

Exit: the process of an equity investor selling his/her stake to another investor.

Factoring: a financial transaction in which a business sells its accounts receivable (i.e. invoices) to a third party (called a factor) at a discount to meet immediate cash needs.

Growth capital: funds invested in enterprises at the growth and later stages of development.

Growth/ Scale stage: the entrepreneur seeks and leverages opportunities to grow the enterprise beyond its current offerings by entering a new geography, refining the current offering, or both. The entrepreneur has to consider the sustainability of the venture and long-term strategies for hiring and funding. At this stage the entrepreneur will face challenges such as diverse cultures of customers in new markets, emerging market trends, changing economic policies of countries and more.

High Net Worth Individual(s) (HNWI): individuals with an investable finance - financial assets excluding primary residence - in excess of US$ 1 mn.

Idea stage: the entrepreneur generates an idea and determines its feasibility. He/ she runs pilot tests to refine the core idea or makes a case for it through existing market research.

Impact investor: makes investments into companies, organizations, and funds with the intention to generate social and environmental impact alongside a generally below average financial return. Impact investors provide capital to support solutions to the world's most pressing challenges in sectors such as sustainable agriculture, affordable housing, affordable and accessible healthcare, clean technology, and financial services.

Invoice discounting: a form of short-term borrowing used to improve a company's working capital and cash flow position by allowing a business to draw money against its sales' invoices before the customer has actually paid.

Letter of credit: a document from a bank guaranteeing that a seller will receive payment in full as long as certain delivery conditions have been met. In the event that the buyer is unable to make payment on the purchase, the bank will cover the outstanding amount.

Local Purchase Order (LPO) financing: designed for contractors and vendors to obtain capital required to execute work orders and local purchase orders assisting in addressing working capital need.

Management buyout: one of the exit routes which involves the repurchase of the private equity investors' shares by the company and/or its management.

Mezzanine finance: a debt capital that gives the lender the rights to convert to an ownership or equity interest in the company. It is generally subordinated to debt provided by senior lenders such as banks and venture capital companies meaning that in case of default, senior lenders would be paid first.

Microfinance Institution (MFI): an organization that offers financial services such as loan, deposit accounts, and insurance amongst other services to low-income population.

Credit-only MFIs: MFIs that only give credit to its borrowers but do-not accept deposits.

Missing middle: Small and Medium size enterprises (SMES) employing 5 to 250 persons with capital needs ranging from US$ 20,000 to 2 mn and facing significant challenges accessing finance, talent and markets.[1]

Mobile money: involves use of mobile phones in order to transfer funds between banks or accounts, deposit or withdraw funds, or pay bills. This term is also used for the broader realm of electronic commerce; it can refer to the use of a mobile device to purchase physical or electronic items.

Networks and platforms: peer-to-peer networks such as an association of entrepreneurs organizing networking events in order to facilitate information sharing among different stakeholders of the entrepreneurial ecosystem.

Parallel and Network entrepreneur: an entrepreneur who is in parallel running many businesses taking advantage of newly emerging opportunities, locally or globally.

Private Equity (PE): investors and funds that make larger investments than Venture Capitalists (VC), directly into companies at growth and later stages. The funds are pooled from institutional investors and accredited investors who can commit large sums of money for long periods of time. PE investments often demand long holding periods to allow for a turnaround of a distressed company or a liquidity event such as an IPO or sale to a public company. Initial Public Offering (IPO): the first sale of stock by a private company to the public.

Profit stage: the entrepreneur utilizes resources to break even, and generate profits. This is the secondary implementation phase. The enterprise is likely to have built a loyal customer base, and may have to face competitors offering similar products or services. As the enterprise makes profits, and its business plan is validated, it can seek investment to scale operations.

Revenue stage: the entrepreneur procures resources (financial, human and capital) needed for the enterprise, and revenues begin to stream in as the customers start paying for the products and services. The products and services in offer are nearly finalized, and the

1 DGGF definition of Missing Middle

entrepreneur is validating the business plan. The marketing strategy and operations strategy are being refined so as to increase the customer base.

Savings and Credit Cooperative Societies (SACCOs): institutions whose primary objective is to give group-based members access to a convenient savings system and affordable credit Seed funds/ capital: investment funds focused on investing in the seed (idea + b-plan) stages of an enterprise.

Small and Growing Businesses (SGBs): commercially viable businesses with 5 to 250 employees that have significant potential, and ambition, for growth. Typically, SGBs seek growth capital from US$ 20,000 to 2 mn as defined by Aspen Network of Development Entrepreneurs (ANDE).

Valuation multiple: an expression of market value of a company relative to a key statistic that is assumed to relate to that value. Valuation multiple is the quickest way to value a company, and is useful in comparing similar companies.

Venture Capital (VC): capital provided by equity investors to early-stage high-growth startups, and small and growing businesses, with perceived long-term growth capital, in exchange of a portion of equity stake in the company. It typically entails high risk for the investor, but has the potential for above-average returns.

Weighted Average Cost of Capital (WACC) /Hurdle Rate: the minimum rate of return on an investment required by an investor.

List of Abbreviations

AGPO	Access to Government Procurement Opportunities
ANDE	Aspen Network of Development Entrepreneurs
CAGR	Compounded Annual Growth Rate
CBA	Commercial Bank of Africa
COMESA	Common Market for Eastern and Southern Africa
DFI(s)	Development Finance Institution(s)
DGGF	Dutch Good Growth Fund
EAC	East African Community
EAVCA	East Africa Venture Capital Association
GDP	Gross Domestic Product
GEMS	Growth Enterprise Market Segment
HNWI(s)	High Net Worth Individual(s)
IFC	International Finance Corporation
ICT	Information and Communication Technology
KBAIN	Kenya Business Angel Investor Network
KCB	Kenya Commercial Bank
KSh	Kenyan Shillings
KYC	Know Your Customer
M&A	Mergers and Acquisitions
MFB(s)	Micro Finance Bank(s)
MFI(s)	Micro Finance Institution(s)
MSME(s)	Micro, Small and Medium Enterprise(s)
NBFI(s)	Non-Banking Finance Institution(s)

NSE	Nairobi Stock Exchange
OECD	Organization for Economic Cooperation and Development
PE	Private Equity
SACCO	Savings and Credit Cooperative Society
SGB	Small and Growing Business
SME	Small and Medium Enterprise
US$	United States Dollar
VC	Venture Capital
WIPO	World Intellectual Property Organization

Executive Summary

Kenya's vibrant entrepreneurial ecosystem has brought the spotlight on SMEs' contribution towards growth and innovation

Kenya's dynamic entrepreneurial ecosystem and increasing number of innovative tech startups have contributed to its global reputation as "Silicon Savannah", attracting a growing number of African and international investors. The key driver of this boom has been the growth of the information and communication technology (ICT) sector. According to Kenya ICT Authority, the sector is set to contribute up to 8% to the GDP in 2017. Partly driven by the tech boom, Kenya has also become the most attractive private equity market in the East African region. Since 2012, venture capital funds have committed US$ 93 mn[2] and since 2010, private equity investors have US$ 862 mn under management[3] in Kenya.

SMEs are a major contributor to Kenya's economy

Not all SMEs are high growth startups: a majority of Kenya's SMEs indicate low or moderate growth rates. A large part of the sector is necessity-driven with income generation as the primary motive. While numbers on size and performance of the sector vary, estimates state that SMEs provide jobs to close to 80% of the workforce and that they contribute 20% to the gross domestic product (GDP)[4]. A significant number of SMEs are unregistered, and hence, there is little information available about their performance.

Kenya's SME sector is diverse, consisting of several sub-segments with different growth paths

This research suggests seven sub-segments of SMEs that help to understand the different needs and financing strategies:

- Necessity or subsistence entrepreneurs, whose primary motivation is income generation.
- Many of them discontinue their business, as soon as other opportunities arise.
- Successful necessity entrepreneurs, who are largely informal and run a business due to the absence of other employment opportunities and run their micro enterprise sustainably.
- Parallel or network entrepreneurs, who run multiple businesses and grow horizontally.
- Low or moderate growth enterprises that are often in manufacturing, agribusiness or trade.
- High growth startups that are often in the tech and services sectors.
- Small and growing enterprises that have growth and expansion potential.
- Gazelles, who are mature in their life cycle, but show continuous high growth rates.

Research and stakeholder feedback have identified four key challenges in the entrepreneurial ecosystem

Interviews with more than 30 stakeholders and findings of an Expert Forum on SME Finance (gathering over 100 participants) hosted by DGGF, ANDE and EAVCA on 8th of June 2015 have revealed four major gaps in the current SME support landscape:

2 Source: Authors
3 Source: Authors
4 African Economic Outlook 2011

- Risk taking angel and seed investments that help high growth startups to grow their business,
- Patient growth capital that helps SMEs, which demonstrate moderate growth and do not qualify for pure-play equity,
- Affordable and relevant business support services that help SMEs to grow and raise finance,
- Increased linkages in the ecosystem that help SMEs navigate through the ecosystem effectively, and access available support.

Finance is the main challenge for most SMEs across sub-segments

An analysis of World Bank 2013 Enterprise Survey data shows that the majority of SMEs across the seven segments use retained earnings for financing their business. While necessity-driven SMEs require small ticket size finance that is usually catered to by microfinance institutions, there are other SMEs that are too big to avail microfinance and too small or risky for commercial investors, both debt and equity. These are often referred to as the 'missing middle'. While angel and seed capital are appropriate financial instruments to meet the demand of high growth SMEs, mezzanine instruments can play an important role on the growth journey of low and moderate growth SMEs. Youth and women entrepreneurs in this segment face additional challenges in accessing capital, due to the lack of necessary business skills, appropriate networks and support required to succeed, and hence, need targeted solutions.

Business support providers have developed innovative models to make SMEs investment-ready

To help SMEs on their journey to grow their business from idea to scale and raise capital, a diverse landscape of non-financial service providers have evolved in recent years, comprising of co-working spaces, incubators, accelerators, and specialized service providers that offer business and financial modeling as well as transaction advisory support. The service providers are increasingly becoming willing to offer their support on a sustainable basis; innovation can help scale up these efforts and ensure that services can be offered on the basis of viable business models.

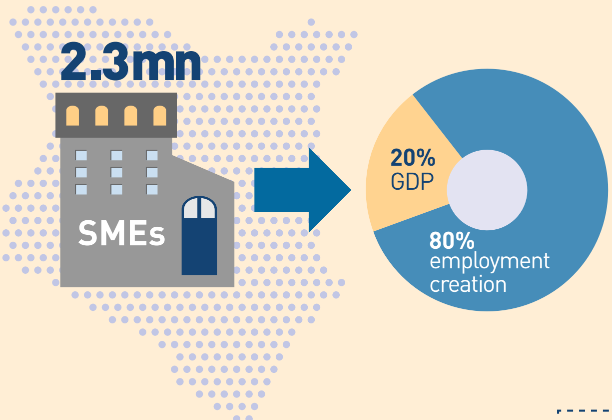
Improved linkages can help overcome the current fragmentation in the ecosystem

With an increasing number of financial and non-financial support providers, navigation becomes difficult for individual SMEs. Information is not easily available and entrepreneurs find it difficult to identify and map available support for their segment and stage in the life cycle of the business. Linkages between different ecosystem players and collaboration among them will help SMEs graduate beyond service providers and access a continuum of support throughout their life cycle from idea to scale.

Summary of the report

KENYA

SMEs play a critical role in the country's development...



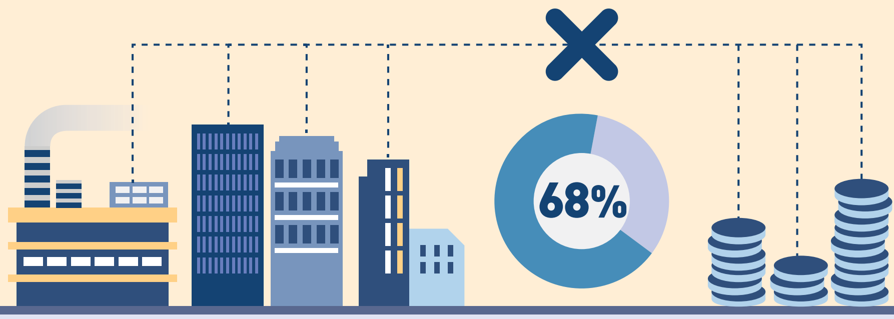
However, there are several definitions and estimates;

2.3mn conservative estimates

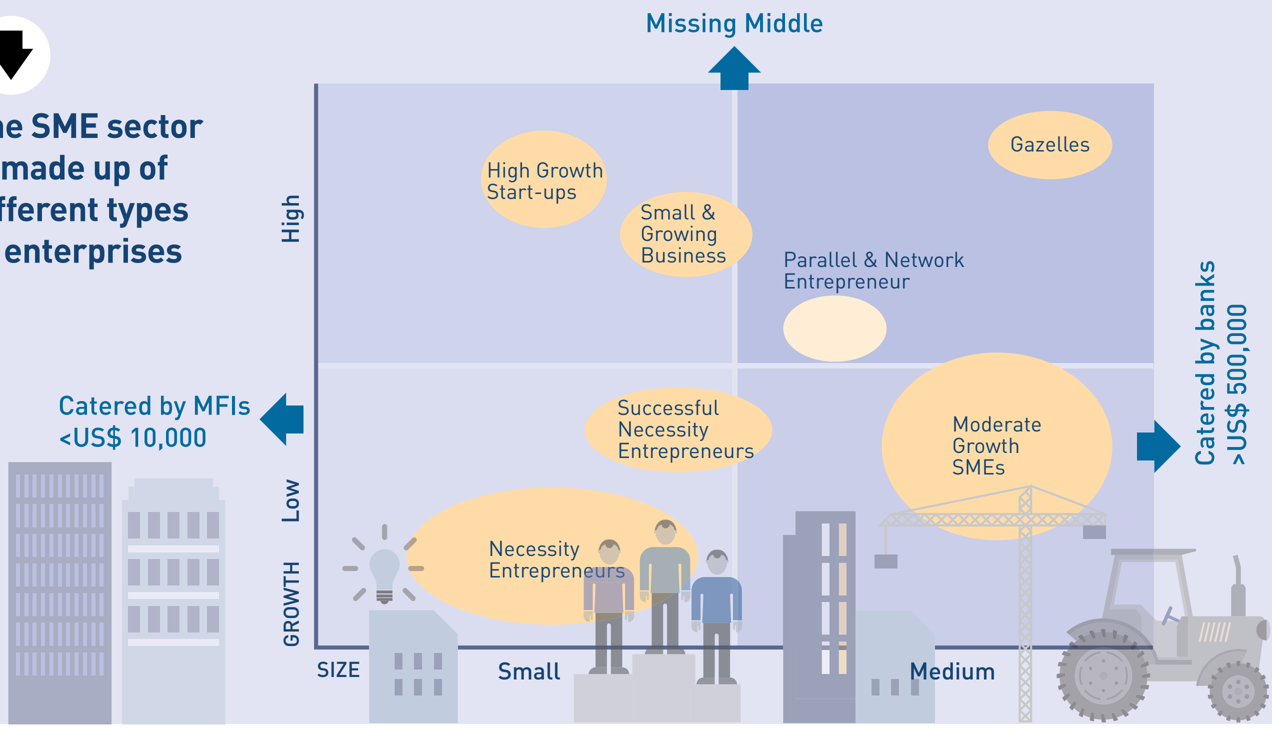
12.6mn MSME authority

Finance is key challenge

68% of Kenyan enterprises state access to finance as a challenge

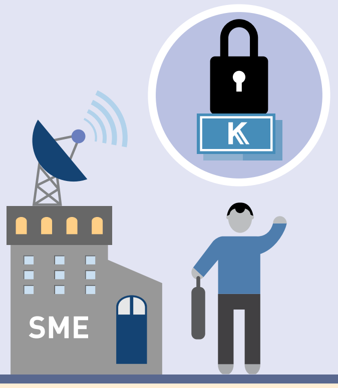


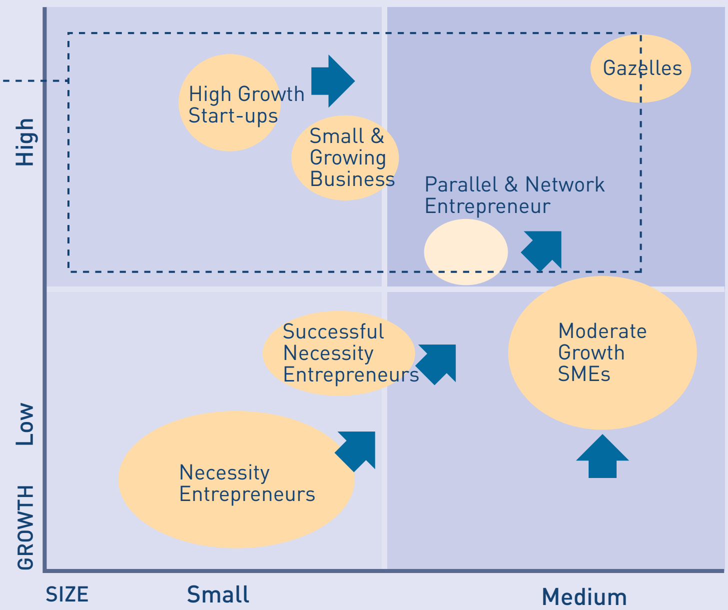
The SME sector is made up of different types of enterprises



SMEs face challenges unique to their respective sub segments

Missing Middle
- Major contributors to the Kenyan economy
- But face financing challenges the most





Expansion-related challenges
- Growth capital
- Human capital
- Systems and processes

Productivity-related challenges
- Working capital & asset financing
- Business skills

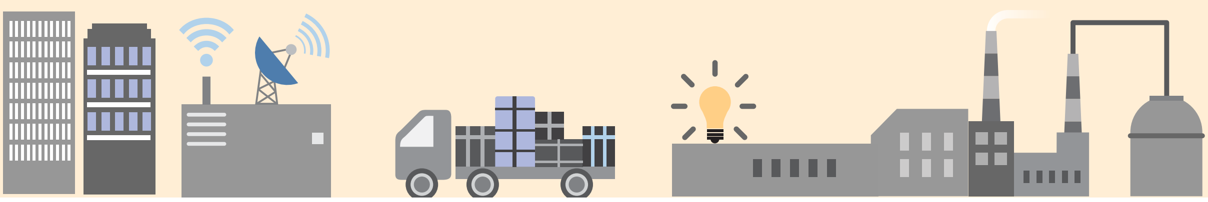
4 key gaps in the Kenyan entrepreneurship ecosystem

1. Seed and Angel Capital
Equity

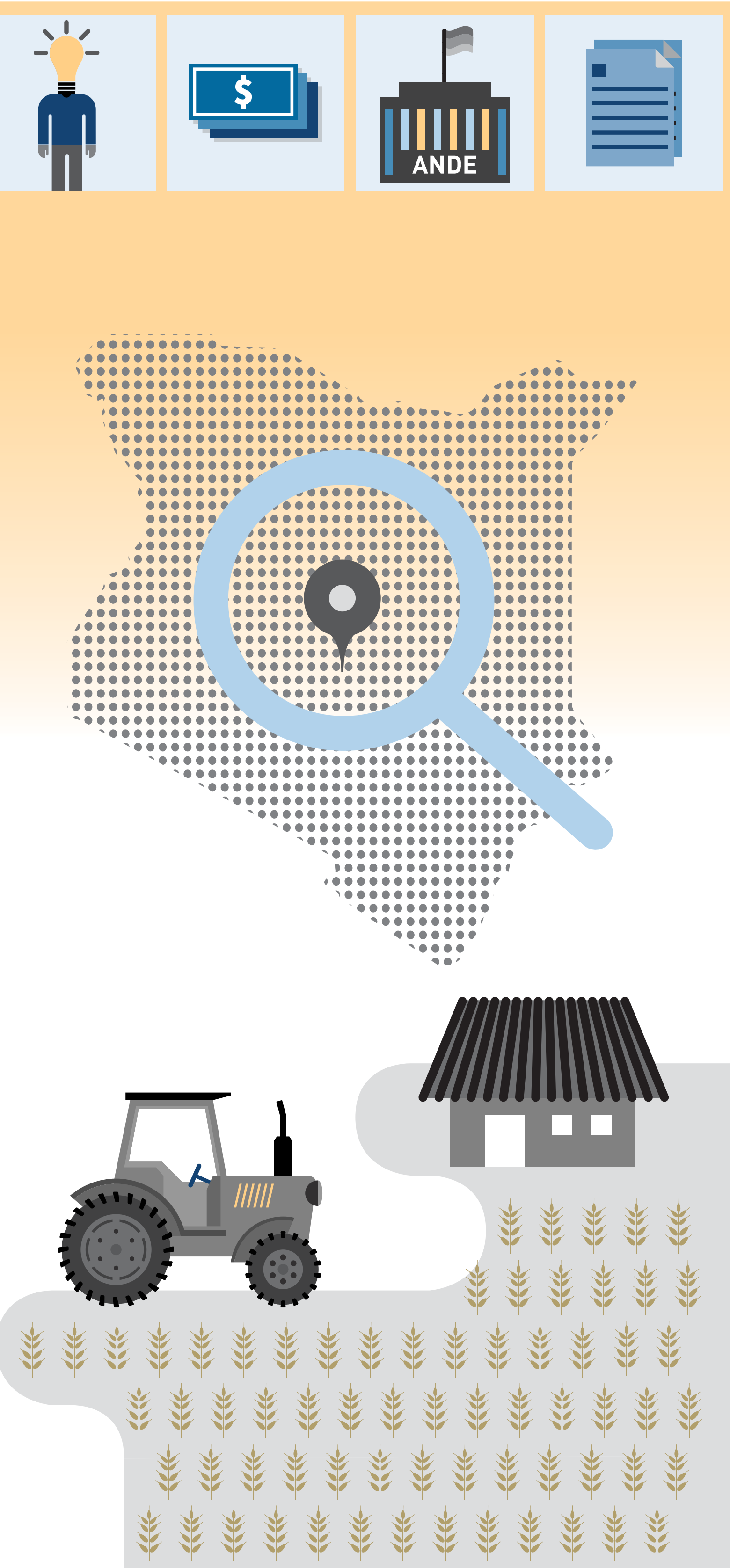
2. Long-term Growth Capital
Debt and mezzanine finance

3. Business Support
Incubation, business and transaction advisory

4. Linkages in the Ecosystem
Collaborations to provide a continuum of support



1 Objective and Methodology



In the past five years Kenya with its vibrant start-up activity and recognition as the “Silicon Savannah” has emerged as an entrepreneurial hub in East Africa. It boasts of an increasing number of investors and business development support providers. The Dutch Good Growth Fund (DGGF) has partnered with Aspen Network of Development Entrepreneurs (ANDE) and East African Venture Capital Association (EAVCA) to undertake a diagnostic study of the Kenyan entrepreneurial ecosystem with a deeper evaluation of the financial offering for small and medium-sized enterprises (SMEs).

1.1 Objective of the study

There is a need to understand the challenges and opportunities that different SME sub-segments face. Kenya has a vibrant and diverse entrepreneurial ecosystem, with enterprises ranging across different sizes and growth stages. There is little known about their different characteristics and needs. Dutch Good Growth Fund (DGGF) has partnered with the Aspen Network of Development Entrepreneurs (ANDE) and the East African Venture Capital Association (EAVCA) in order to gather a better understanding of the Kenyan enterprise landscape and identify specific challenges and needs faced by different segments of the SME sector, particularly SMEs that are too large for microfinance and too small and risky for banks and equity investors (the “missing middle”)[5].

With the help of the ANDE entrepreneurial ecosystem toolkit, the research team aimed to:

- Map and identify specific sub-segments in the Kenyan SME landscape;
- Undertake a diagnosis of the Kenyan entrepreneurial ecosystem with a particular focus on the financial services offering for SMEs
- Assess opportunities and challenges with regard to access to finance; and
- Map existing initiatives and service providers that support Kenyan SMEs

- Pilot this light approach before scaling the #ClosingTheGap ecosystem assessments to other countries covered by the DGGF mandate

The objective of this pilot study was to undertake a rapid assessment of the entrepreneurial ecosystem that can be replicated in other countries, applying the ANDE toolkit as a structured methodology for gathering data.

1.2 Research approach

The research was conducted in three phases (Figure 1):

- **Phase 1:** Basic assessment of the entrepreneurial ecosystem using the ANDE diagnostic tool
- **Phase 2:** Detailed assessment of the Kenyan finance ecosystem
- **Phase 3:** Conclusions and Report Writing

DGGF, ANDE and EAVCA hosted an SME Expert Forum after completion of Phases 1 and 2, where the research team presented the initial findings of the research, and discussed them with a group of more than 100 SME experts (see Annex D). This report captures the insights derived from the SME Expert Forum.

FIGURE 1 **Research approach**

PHASE 1: Basic Assessment- Kenya Entrepreneurial Ecosystem Diagnostic

Adaptation of ANDE Entrepreneurial Ecosystem Diagnostic

Finance | Business Support | Markets | Human Capital | Infrast-ructure | R&D | Policy | Culture

Analysis of World Bank 2013 Survey Data | **Analysis of Secondary Data**

PHASE 2: Detailed Assessment- Kenya Finance Ecosystem

Detailed Assessment of Finance, Business Support and Policy Landscape

Literature Review | Detailed Analysis of World Bank 2013 Survey Data | Triangulation of 30 interviews with Stakeholders and Entrepreneurs | Service Provider Mapping

Presentation of Interim Findings and Discussion with Industry Experts at June 8th SME Expert Forum

PHASE 3: Conclusions and Final Report

SME Landscape | Ecosystem Assesment | Identification of Gaps | Conclusions

1.3 Methodology

Phase 1: Basic assessment of the Kenyan entrepreneurial ecosystem

Entrepreneurial performance is influenced by aspects such as access to finance, availability of business support providers, enabling policy and regulatory framework, access to markets, access to high quality human capital, supporting infrastructure, strong culture of innovation and R&D, and a culture conducive to entrepreneurship.[6] ANDE has created a diagnostic toolkit to develop a common language for comparing entrepreneurial ecosystems (Figure 3).[7]

The research team applied the ANDE diagnostic framework after selecting 30 relevant indicators to benchmark Kenya against the similar countries in East Africa, and conducted a basic assessment of three counties in Kenya — Nairobi, Mombasa and Nakuru, with a specific focus on the access to finance for SMEs in these three locations. These three counties are important entrepreneurial hubs in Kenya: Nairobi is the industrial center, whereas Nakuru is the agricultural backbone of the country and Mombasa's port acts as a gateway to the world.

The research also included analysis of the World Bank Enterprise Survey 2013 data and secondary data for these three economic hubs, capturing the perception of local SMEs on different ecosystem dimensions (see Annex B). The focus of this assessment was to understand the access to finance for different SME sub-segments, and how the other entrepreneurial ecosystem dimensions affect access to finance. Special emphasis was given to business support services that can help SMEs prepare adequately to access finance.

This framework-driven approach to information capture provided a snapshot of the determinants that enable or hinder enterprise growth. It also helped in building structured insights on the sector's performance and knowing the way the determinants impact the Kenyan economy at large.

FIGURE 2 ANDE - ecosystem methodology

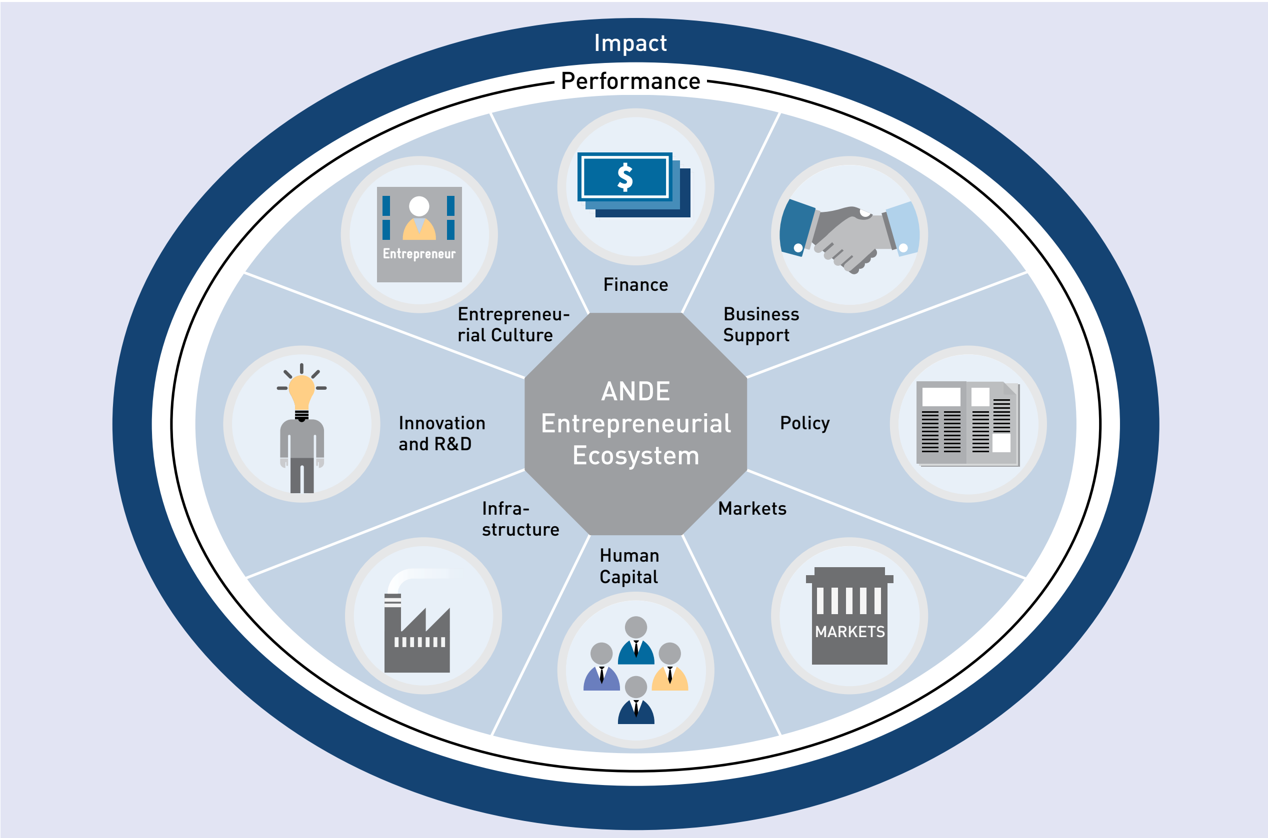
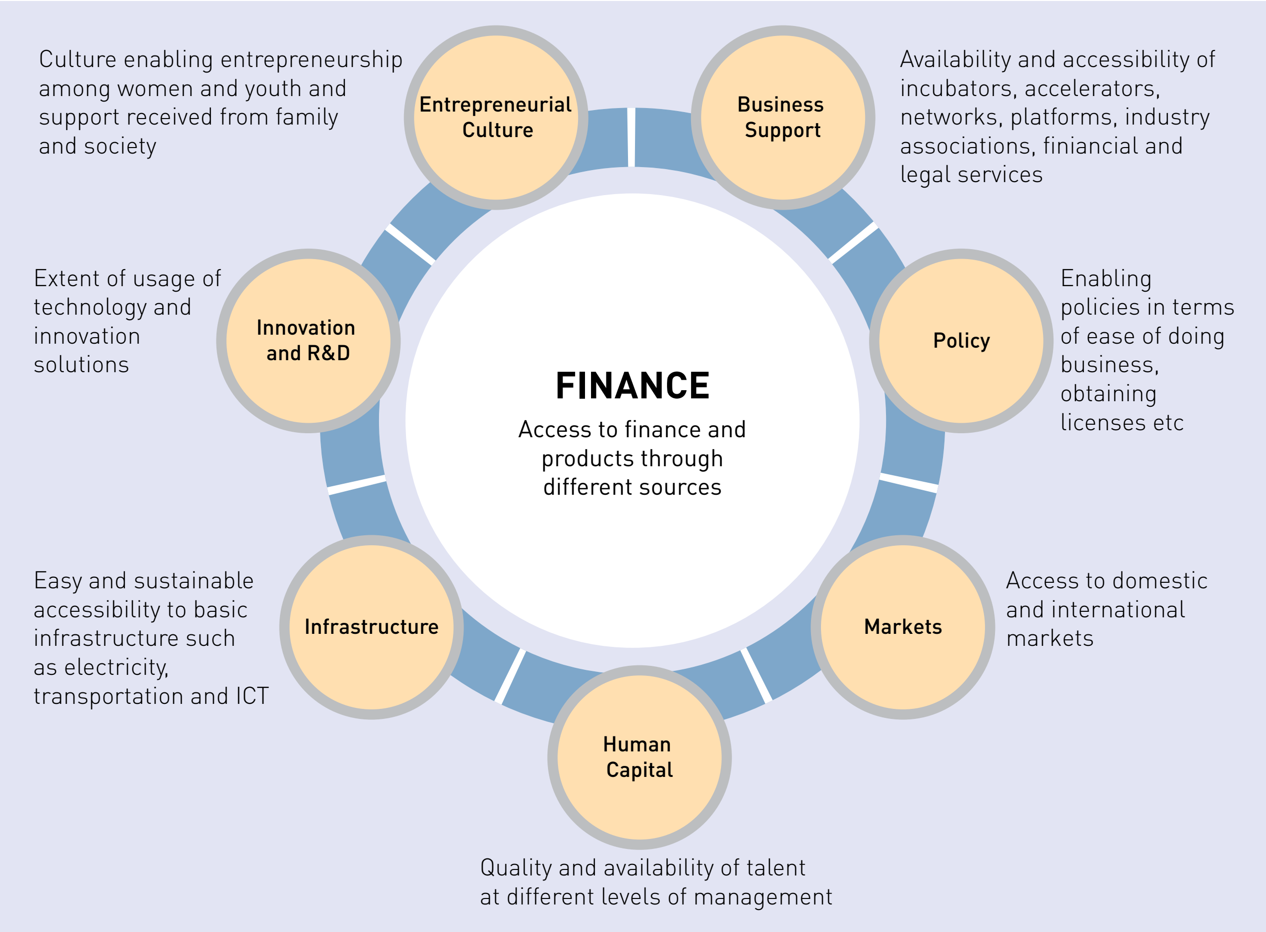


FIGURE 3 Application of the ANDE-framework - assessing ecosystem support to access finance



Source: ANDE 2013: Entrepreneurial Ecosystem Diagnostic Toolkit

Phase 2: Detailed assessment: Kenyan finance ecosystem

The detailed assessment of the finance ecosystem was built on four broad pillars:

1. Analyzing finance-related data from the World Bank Enterprise Survey 2013 for Nairobi, Nakuru, and Mombasa provided the context for a detailed assessment of the Kenyan finance ecosystem.
2. A service provider and initiatives mapping was carried out to identify gaps in the support continuum for enterprises from idea to scale-up stage.
3. To incorporate a practical practitioner's perspective, 30 stakeholder interviews were conducted, including interviews with the government bodies like the MSME Authority and Kenya Investment Authority, enterprises from different sub-segments, business support providers such as incubators, and financial service providers such as banks, investors and investment groups.
4. The research was supported with an analysis of secondary data, databases[8] and industry reports.[9]

5 Missing Middle refers to Small and Medium size enterprises (SMEs) employing 5 to 250 persons with capital needs ranging from US$ 20,000 to 2 mn and facing significant challenges accessing finance, talent and markets.
6 Entrepreneurship Measurement Framework, OECD, 2007, Global Entrepreneurship Development Index (GEDI)
7 Entrepreneurial Ecosystem Diagnostic Toolkit, December 2013, Aspen Network of Development Entrepreneurs (ANDE)

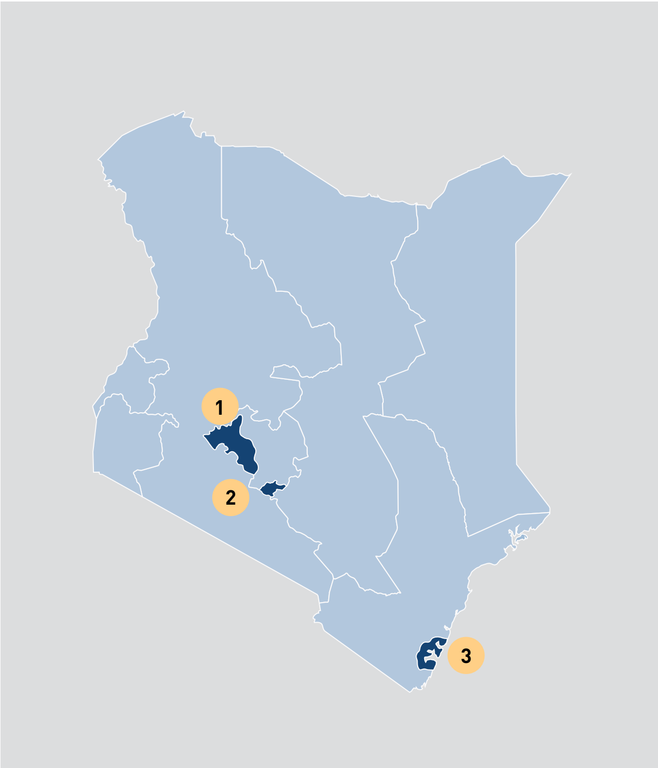
Phase 3: Final report and conclusions

The insights derived from Phases 1 and 2 were presented during the SME Expert Forum, a multi-stakeholder workshop that was hosted by DGGF, ANDE and EAVCA on June 8, 2015. More than 100 experts participated in the workshop and provided feedback on the preliminary findings, which were incorporated in this final report.[10]

1.4 Snapshot of Kenya's Entrepreneurial Hubs: Nairobi, Nakuru and Mombasa

The World Bank Enterprise Survey Data 2013 captured the views of 585 SMEs who were surveyed in Nairobi, Nakuru and Mombasa between January 2013 and September 2014. Most of these enterprises were small in terms of size, and mature in terms of vintage (Figure 4).

FIGURE 4 The three SME hubs in Kenya: Mombasa, Nairobi and Nakuru



1. **NAKURU :** 48% of income of this county comes from agriculture; tourism is second major revenue earner for this county.
2. **NAIROBI :** A manufacturing hub involving industries such as chemicals, food processing, garments, plastics and rubber. It also witnesses start-ups coming up mainly in ICT (Information and Communication Technology.
3. **MOMBASA :** Is a major port of East Africa; facilitates trading activity and huge exports of horticulture products, tea and coffee to East African and European countries.

A majority of the survey enterprises (60%) were from Nairobi, which has a fairly good representation of enterprises across all size and stage segments. Nakuru had the largest number of small (5 to 19 employees) among the three counties, while Mombasa had the most number of mature (set up between 1970 and 1999) enterprises.

The survey sample indicates a dominant presence of low-growth enterprises, particularly in the early and mature stages, where ideally enterprises seek access to capital for growth. The sample of women-owned enterprises too indicates a similar trend of mature, low-growth enterprises (Figure 5 and 6).

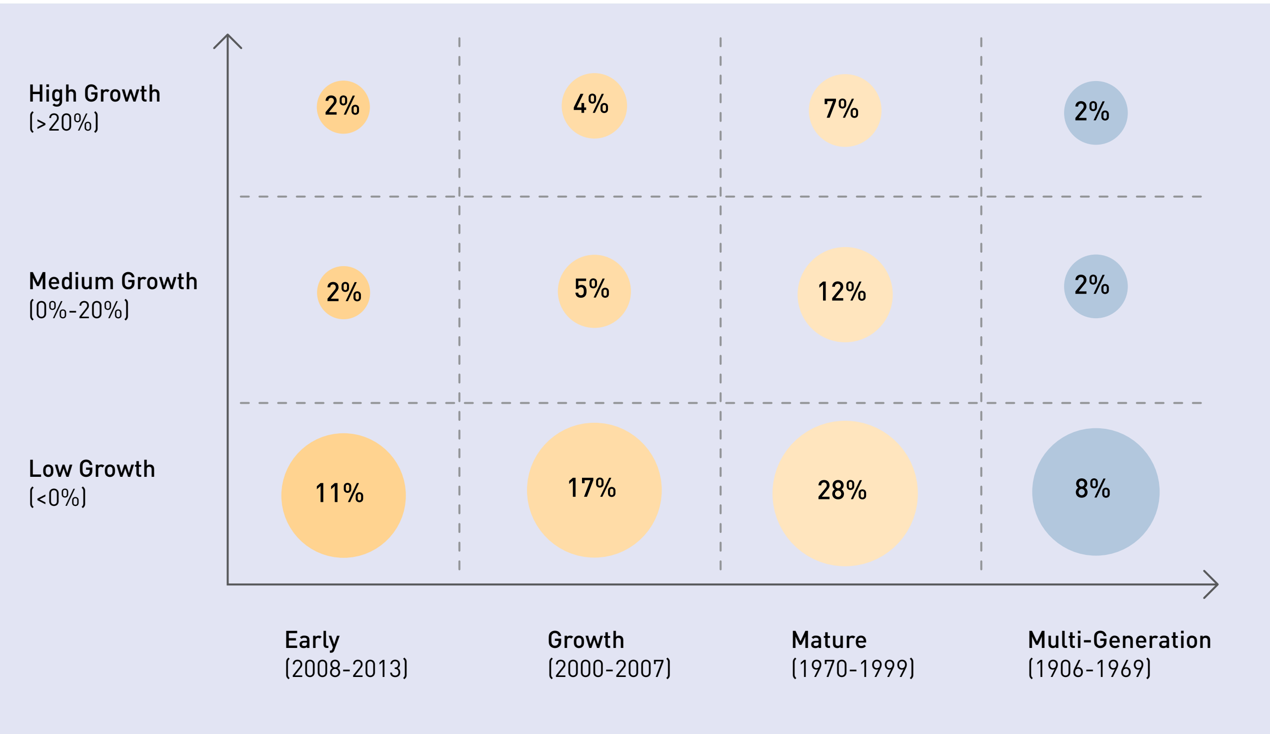
8 Databases such as GIIN Impact Base, Africa Assets
9 Industry reports such as Private Equity Industry Survey of East Africa for the period 2007 – 2014, KPMG and EAVCA, 2015
10 SME Expert Forum hosted by DGGF, ANDE and EAVCA in Villa Rosa Kempinski, Nairobi on June 8th, 2015

FIGURE 5 Enterprise survey characteristics

	Enterprises Surveyed	Mombasa	Nairobi	Nakuru
	Total Enterprises	25	60	15
	Women owned enterprises	21	63	16
Size	Small enterprises (5-19 employees)	41	38	54
Size	Medium enterprises (20-99 employees)	28	32	30
Size	Large enterprises (more than 99 employees)	31	30	15
Stage of Firm	Early Stage (2008-2012)	11	13	9
Stage of Firm	Growth (2000-2007)	13	28	26
Stage of Firm	Matured (1970-1999)	67	46	51
Stage of Firm	Multi-generation (1906-1969)	9	12	14

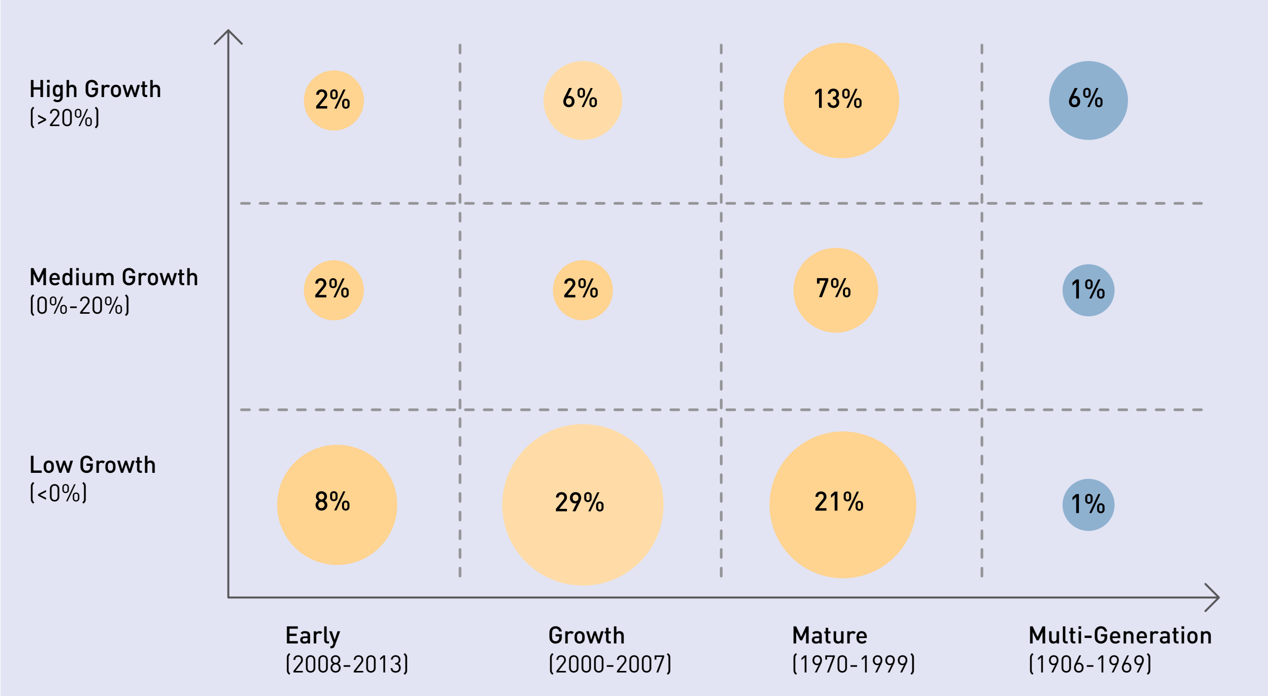
Source: Authors' Research based on World Bank Enterprise Survey 2013

FIGURE 6 Enterprise survey - age and growth split



Source: Authors' Research based on World Bank Enterprise Survey 2013

FIGURE 7 Women entrepreneurs



Source: Authors' Research based on World Bank Enterprise Survey 2013

1.5. Considerations

This report was designed to be a rapid dip-stick research of the Kenyan entrepreneurial landscape. Hence, there is scope for refining the findings with subsequent focused and deep dive research. Some challenges that impacted the depth of the findings include:

- Lack of comprehensive, validated and updated data on the SME sector, its size and its performance.
- The World Bank Enterprise Survey 2013 data sample seems to indicate a bias towards manufacturing enterprises. This might underestimate the presence and characteristics of services sector enterprises.
- Lack of robust supply-side data (debt and equity) that can aid more detailed analysis of the finance gap across different segments.
- Lack of robust demand-side data (debt and equity) at the enterprise level to support stronger estimation of demand for debt or equity.

SPOTLIGHT: KENYA'S ENTREPRENEURIAL ECOSYSTEM

The ecosystem diagnostic tool developed by Aspen Network of Development Entrepreneurs (ANDE) was applied as a basic diagnostic tool to understand the Kenyan entrepreneurial ecosystem and the context in which SMEs operate. With 30 indicators that have been analyzed to assess the eight dimensions finance, business support, policy, markets, human capital, infrastructure, innovation & R&D, and entrepreneurial culture, it provides a snapshot on the performance of the ecosystem. It provides a methodology that can be used in other contexts and countries as a rapid tool to understand the environment in which SMEs are operating.

Finance

68% SMEs in Kenya use retained earnings to finance the business. Supply side constraints include high interest rates (18%), high cost of recovery for bad debt (40% of loan amount) and poor contract enforcement. Demand side challenges include low awareness about products (less than 20% uptake of letter of credit and factoring), inability to offer collateral and lack of investment ready models. Equity capital markets are also not well developed for SMEs.

Business Support

Kenyan business support ecosystem has evolved over the last 5 years. Nairobi has emerged as the start-up capital with a number of entrepreneurial networks and business initiatives. Our mapping has found 24 incubator-like organizations. However, the support ecosystem outside Nairobi is still nascent. Most incubators and accelerators provide largely support to SMEs in the ICT sector.

Policy

Kenya ranks 136th out of 189 countries in the 'Doing Business' Index of the World Bank. The government is trying to improve this situation: The new Huduma centers aim to ease the process for obtaining licenses. The tax reforms have reduced the time required for tax compliance and filing returns from 432 person hours in 2005 to 308 hours in 2014. the government has also mandated that 30% of the public procurement has to be sourced from women and youth entrepreneurs.

Markets

Kenya is a major exporter/re-exporter in the East African region and accounts for 50% of total exports supported by membership of east African (EAC) and Common Market for Eastern and Southern Africa (COMESA). Kenya ranks 153 on 'ease of trading across borders' in 2015. SMEs find it difficult to access international markets. This is mainly due to poor infrastructure and underdeveloped transport facilities.

Human Capital

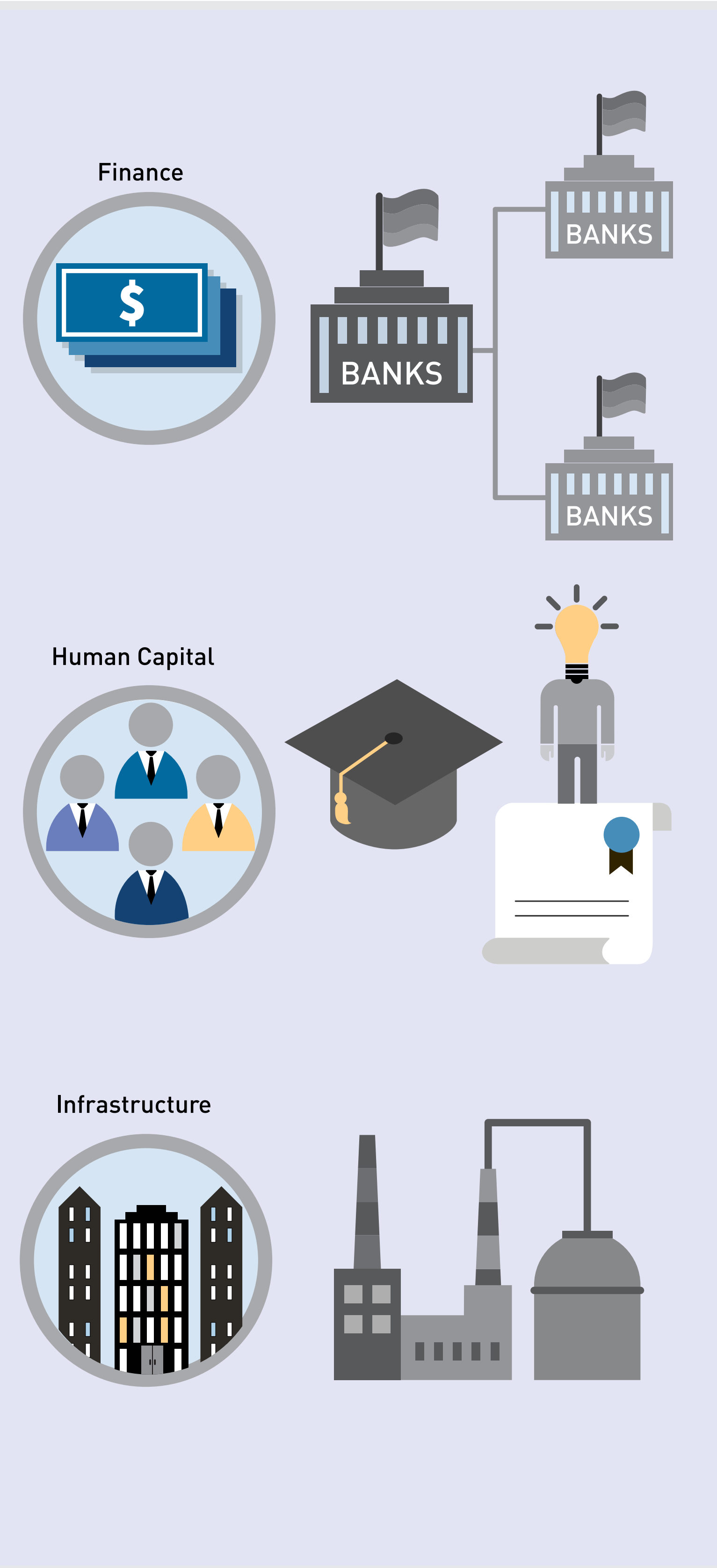
According to the WB Survey, 2013, 35% firms in Kenya identify inadequately skilled workforce as a constraint. This is partly due to high drop-out rates of students moving from primary to secondary education. Lastly, the availability of skilled personnel is especially low at the middle level management making them expensive to hire. A lot of highly skilled talent prefers to start own business instead of working for another startup.

Infrastructure	The Internet penetration in Kenya remains high at 49.5% compared to 16% in Africa. 60% of people living on less than US$ 2.50 a day have access to mobile phones. However, electricity and transportation still remain major challenges. SMEs in Kenya experience more than 600 hours of power outages per year compelling firms to use generators which increases the cost of doing business. Transportation challenges such as poor roads and low capacity of port are major roadblocks. Kenyan firms lose 2.6% of annual sales to indirect costs such as spoilage during transportation , which is highest among low-income countries.
Innovation and R&D	Kenya ranks among low income countries in Global Innovation Index and is regarded as an innovation learner. According to the World Intellectual property Organization (WIPO), creative industries in Kenya contribute to over 5% to GDP and 3% to employment. The innovation ecosystem is comparatively well developed in Nairobi, as compared to Nakaru and Mombasa where it is still nascent.
Entreprenurial Culture	The entrepreneurial culture in Kenya has developed significantly over the last few years. In a survey conducted with youth entrepreneurs, 78% mentioned that their family is supportive of the idea of starting their own business. 50% entrepreneurs mentioned that entrepreneurship is encouraged in society. Kenya also has the highest number of women entrepreneurs in East Africa.
Performance	As per IFC 2010, there are ~2.3 mn (~1 mn in formal sector) SMEs in kenya contributing significantly in diverse sectors such as trade, manufacturing and services. Commercial banks are becoming more comfortable in lending to SMEs and their exposure to the SME sector has increased from KSh 127 bn (US$ 1.3mn) in 2009 to KSh 331 bn (US$ 3.4mn) in 2013, registering CAGR of 27%. As per FSD Kenya 2013, SMEs accounted for 17% of commercial banks portfolio and 21% of bank's overall profitability, indicating positive performance of the sector.
Impact	Although the SME sector employs ~80% of the total workforce including formal and informal (African Economic Outlook 2015) it contributes only 20% to Kenya's GDP. The sector has a lot of potential to create a positive impact on the Kenyan economy, and hence it is imperative to develop neccessary SME infrastructure and focus on their growth to increase their contribution in the economy. This is also critical given Kenya's Vision 2030 to achieve the status of middle income nation from the present low income nation.

Source: World Bank Enterprise Surveys, 2013; Authors


SME

2 Kenya's SME Landscape



The Kenyan SME sector is a major contributor to socio-economic development. SMEs provide 80% of the country's employment and contribute to 20% of its GDP[11]. A systematic diagnosis of the challenges that SMEs face helps to understand the opportunity of supporting this sector and enhance their growth. While the Kenyan ecosystem has an evolved landscape of service providers, there are critical gaps in serving different segments of SMEs, especially the enterprises in the 'missing middle' that are too big for microfinance and too small for private equity.

2.1 Kenya: Startup and Innovation Hub in East Africa

Kenya is the entrepreneurial hub in the East African region

Kenya is the largest economy in East Africa and is a hub for trade and entrepreneurship in the region. It experienced constant GDP growth rates between 6% and 7% throughout the past five years.[12] A recent survey conducted by *Omidyar Network and Monitor Group* on the entrepreneurial ecosystem reported that Kenya outperformed in many of the composite indicators.[13] It leads in terms of innovation performance, topping the *Global Innovation Index* in the category of low income countries.[14] According to the *Global Entrepreneurship Development Index*, Kenya ranks first in the Sub-Saharan Africa region (29 countries) in technology transfer and gross expenditure on research and development, outperforming its regional peers.[15]

With an evolved support ecosystem that offers a variety of financial and non-financial services, Kenya also leads the region in support services to SMEs :
It has the highest number of incubators in the East African region, a diversity of business and investment advisors, co-working spaces and enterprise networks. Two thirds of Kenyan respondents from a recently conducted survey believe that becoming an entrepreneur is seen as a desirable career choice by most people, indicating a positive entrepreneurial

culture that rewards risk-takers.[16] 63% of Kenyans responding in that same survey see an entrepreneurial career as more respected than a corporate job. Enterprises and corporates alike perceive Kenya as the gateway to the East African region. Relative market openness enables entrepreneurs to tap into opportunities outside of Kenya.[17]

Finance, human capital and infrastructure remain big challenges

While Kenya's innovation performance has been in the spotlight, Kenyan SMEs face similar challenges to sustainability like their peers in neigbouring countries. Basic infrastructure, access to finance and human capital remain important challenges, hampering growth of the sector beyond key cities and sectors.

- **Finance:** The credit gap per enterprise is the highest in the region, although lending to SMEs has increased in recent years. Access to risk capital is comparatively easier than in other countries in the region.[18] Overall, there is an inequity in access to capital with many SMEs unable to access debt capital. Entrepreneurs are, therefore, more likely to access high cost equity capital early in their life cycle, which could impact their sustainability in the long run.[19]

- **Human Capital:** Talent is a major constraint for enterprises in Kenya. Entrepreneurs cite inadequately educated workforce and a crunch at mid-level management level as major constraints faced by them. Kenya ranks 23rd out of 29 in the Global Entrepreneurship Development Index when it comes to tertiary education.[20] Entrepreneurship education is in its infancy in Kenya; however, an increasing number of universities and colleges have included entrepreneurship in the curriculum.[21]

- **Infrastructure:** While the ICT- infrastructure has improved significantly, energy and transportation infrastructure remain key challenges, increasing the cost of doing business in Kenya.[22] Primary research reveals that the energy infrastructure is especially poor, with parts of the country having no access to electricity while other regions suffer from unstable supply. According to World Bank data, Kenya ranks 162nd out of 185 countries on the 'Ease of Getting Electricity' metric.[23]

11 African Economic Outlook – Kenya, AfDB, OECD, UNDP, and UNECA, 2012
12 African Economic Outlook 2014
13 Omidyar Network and Monitor Group 2014
14 Global Innovation Index 2014
15 Global Entrepreneurship Development Index, Website 2015
16 Omidyar Network and Monitor Group 2014
17 World Bank Enterprise Survey 2013; Omidyar Network and Monitor Group 2014
18 Omidyar Network and Monitor Group 2014
19 Global Entrepreneurship Development Index, Website 2015
20 Global Entrepreneurship Development Index, Website 2015
21 Omidyar Network and Monitor Group 2014
22 Kenya Communications, CIA World Fact book, 2012.
23 World Bank 2011

TABLE 1 Access to infrastructure

Parameters	Nairobi	Rank*	Mombasa	Rank	Nakuru	Rank	Country Average
Improved water (% households 2009)	83.1	5	75	14	66.4	24	66.5
Improved sanitation (% households 2009)	98.7	10	96.6	18	97.0	16	87.8
Electricity (% households 2009)	72.4	1	59	2	34.0	5	22.7
Paved roads (as % of total roads)	-	-	28.6	1	8.3	12	9.4
Good/fair roads (as % of total roads)	-	-	32	41	31.1	42	43.5

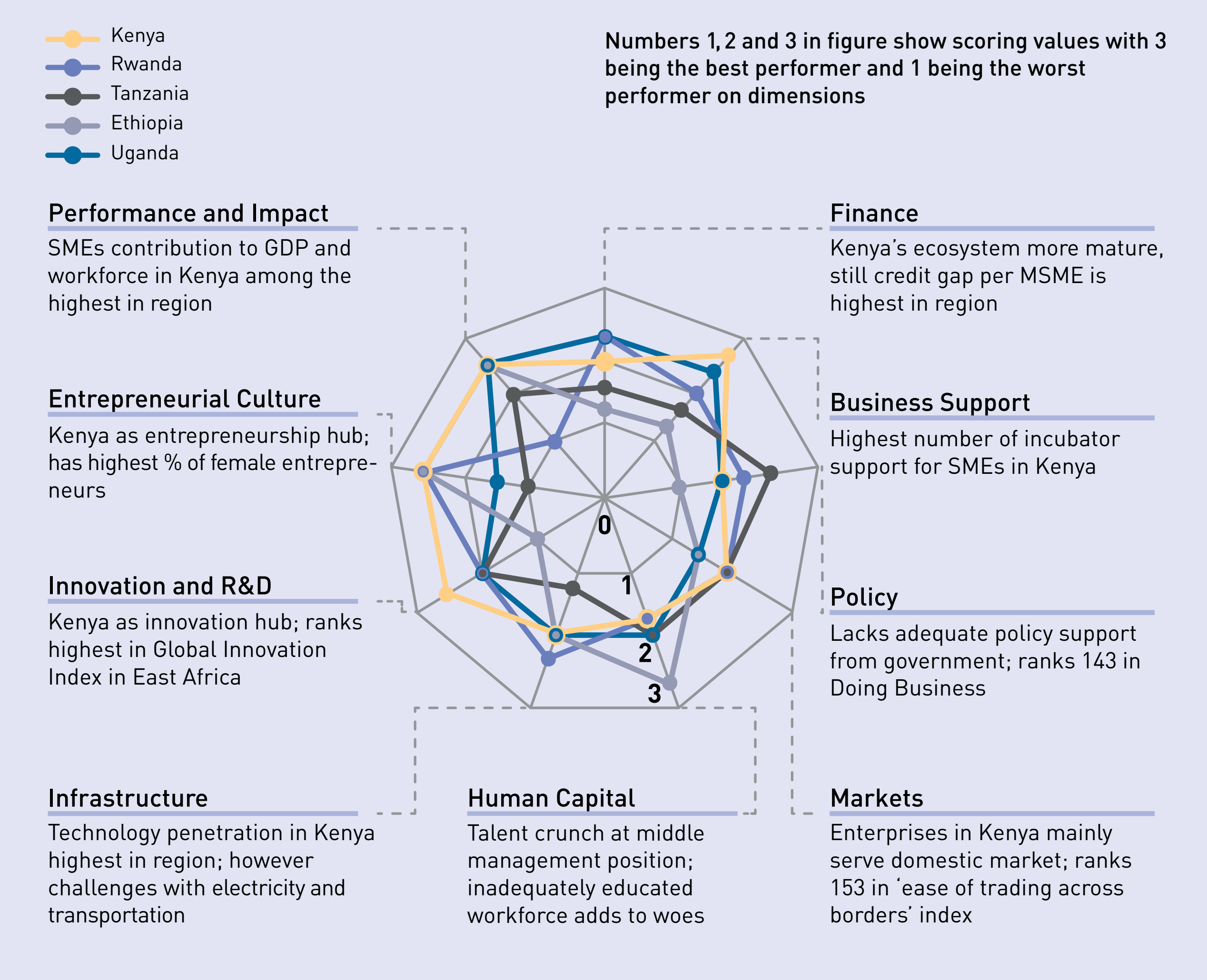
Source: Commission on Revenue Allocation 2011
*Rank among Kenya's 47 counties

Policy environment is not conducive to entrepreneurship

While Kenya ranks higher than its regional peers in East Africa in terms of business support, innovationand entrepreneurial culture, it trails Tanzania and Rwanda on policy environment (Figure 8). Kenya ranks 136 out of 189 in the World Bank Doing Business Index; while Rwanda ranks 46 and Tanzania 131. The business climate is also impacted by politics and is structurally exposed to shocks, particularly for sectors such as tourism and agriculture.[24] The government is trying to decrease red tape and has simplified business registration processes to reduce the administrative burden on SMEs. In order to fight corruption, the government established the Kenyan Anti-Corruption Commission.[25] The Kenyan Private Sector Alliance (KEPSA)-led private sector Code of Conduct is one initiative by the private sector to address corruption. The government has also made changes to the constitution and shifted greater decision making to the county level in order to develop regional economies beyond Nairobi in the long run.[26] Targeted policy initiatives such as the mandatory public procurement of 30% of resources from women and youth entrepreneurs and persons with disabilities as well as the establishment of a dedicated MSME authority could contribute to the growth of the sector (Table 1).

24 AfDB 2013
25 Kenya Overview Trust Law Website
26 The Constitution of Kenya, The Official Law Reports of the Republic of Kenya,2010

FIGURE 8 Ecosystem benchmarking Kenya vs. the East African region



Source: Authors' Analysis

2.2 Kenya's small and medium enterprises showcase growing opportunities

With growing interest in SMEs, there is a need to understand its needs and growth constraints

The SME sector in Kenya is a significant provider of employment opportunities – it supports around 80% of all employment. As a result of Kenya's international reputation as one of Africa's entrepreneurship and innovation hubs, the country has seen increased capital flows and there is greater attention on the SME sector from the Kenyan government, corporates, foundations, donor agencies and other ecosystem players. These stakeholders see a potential to boost the SME sector and increase its contribution to the Kenyan economy beyond the current 20% to GDP. This research seeks to understand the sector's needs, growth constraints and financing challenges in order to seed and support initiatives to catalyze the growth of the SME sector. Kenya's SME landscape is diverse, and there are different types of enterprises across the country, with entrepreneurs that are driven by different motivations and responding in different ways to the business conditions around them.

Lack of coherent definition hinders implementation of relevant support strategies

One of the key barriers to identifying these challenges is the lack of a widely accepted SME definition. Stakeholders often use the terms SME and MSME interchangeably when referring to the sector. The government, banks and other support organizations use different definitions. The Kenyan MSME Act 28 (2012) defines micro and small enterprises based on the number of employees, annual turnover and investments, but does not have a very clear definition for medium-sized enterprises.[27]

Banks and financial institutions use their own definitions that reflect their market interest. The criteria most often used by service providers to define the target of their SME-finance products include loan size, number of staff employed, turnover and capital employed[28] (see Figure 9). These multiple definitions make it difficult to compare findings across studies. Given that there are different types of SMEs, treating the sector as a homogenous group makes targeted interventions difficult.

For this study, the following definition of missing middle has been adopted: SMEs employing 5 to 250 persons with capital needs ranging from US$ 20,000 to US$ 2 mn and facing significant challenges accessing finance, talent and markets.

FIGURE 9 **MSME definitions**

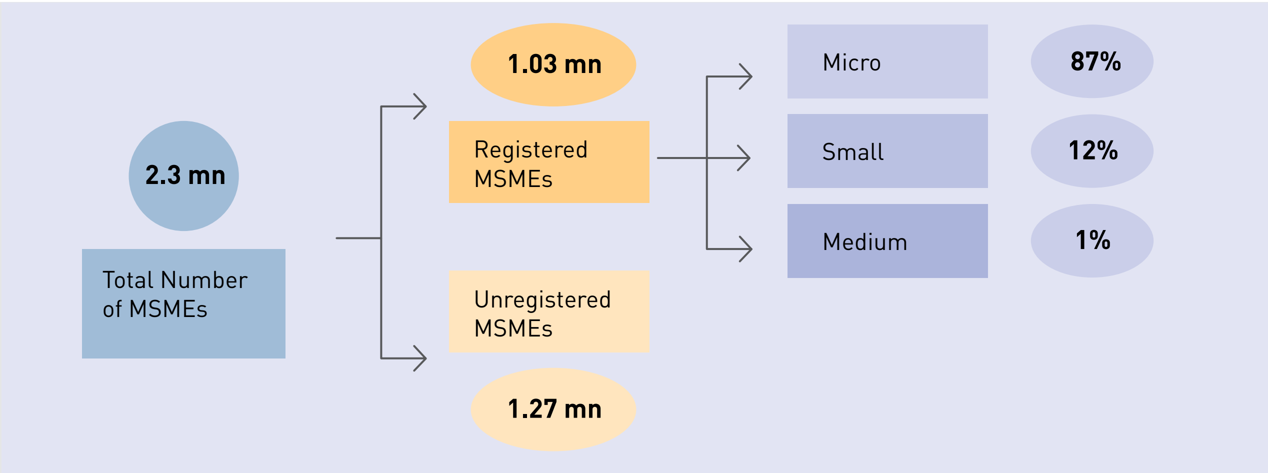
Kenya MSME Bill 2009 & MSE Act 2012					WB Enterprise Survey, 2013	Chase Bank	KCB
Type of enterprise	No. of employees	Annual turnover limit	Investment in P&M+Capital	Equipment investment +Capital	No. of employees	Monthly turnover	Monthly turnover
Micro	1-9	<US$ 5000	Upto US$ 0.1 mn	Upto US$ 52000	<5	<US$ 250	
Small	10-49	US$ 5000 to <52000	More than US$ 0.1 mn but less than 0.5 mn	More than US$ 52000 but less than 0.21 mn	5-19	<US$ 250 to 1030	Upto US$ 10 mn
Medium	50-99	US$ 52000 to 8.25 mn	Not specified	Not specified	20-99		

Source: Government of Kenya, Chase Bank and Kenya Commercial Bank (primary research).

Existing estimations of market size vary from being conservative to being all inclusive

As with the definitions, there is also inconsistency with estimates of the SME market size. Estimations of the SME opportunity vary among stakeholders. According to conservative estimations which includes the micro enterprise segment as well, there are 2.3 mn MSMEs in Kenya (Figure 10). The MSME Authority, on the other hand, during the interview for this research, shared that it estimates a total of 12.6 mn MSMEs, excluding the agricultural sector.[29] Moreover, around 90% of the businesses in Kenya are unregistered and operate in the informal sector,[30] making data availability a challenge. As per recent IFC data, only 13% or 134,000 enterprises out of Kenya's total registered enterprises are small and medium in size, whereas the large majority of 2.2 mn MSMEs are either micro-enterprises or part of the informal economy. In the absence of data, banks, investors and other financial institutions seeking to address this segment come up with their own estimates applying criteria that suit their business purposes.

FIGURE 10 **Estimation of Kenya's SME sector**



Source: IFC 2010

2.3 The need for SME sub-segmentation

Segmenting SME into groups will aid the design and implementation of targeted interventions

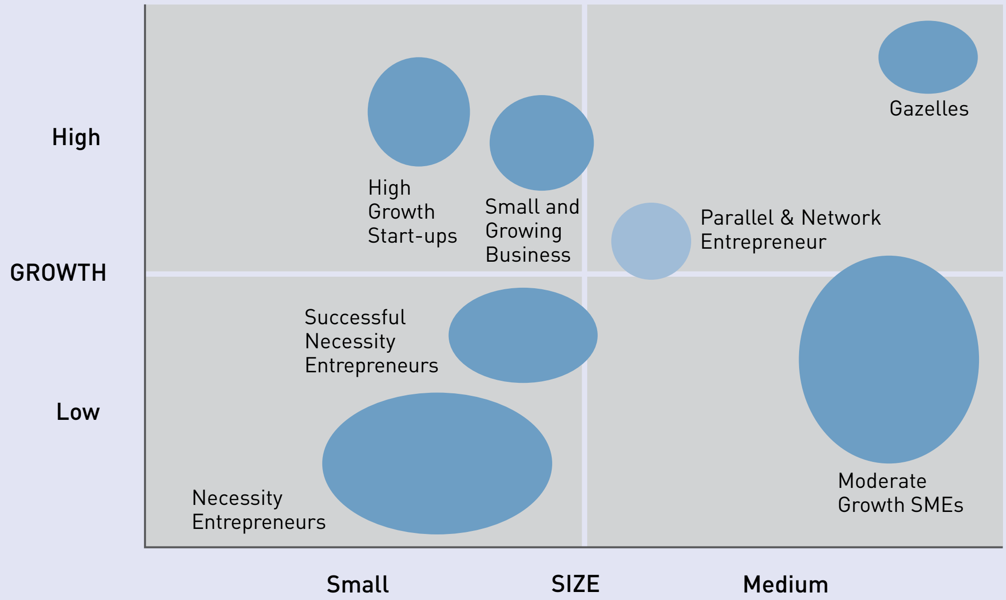
A closer analysis of the World Bank Enterprise Survey data reveals that the SME segment is not a homogenous group. Instead, it differs largely in its size, maturity and economic performance.

The following segmentation shows a broad grouping of enterprises by common characteristics that was developed in an iterative process and on the basis of literature review, analysis of World Bank Survey 2013[31] and primary interviews with enterprises and ecosystem players. Size and growth of SMEs were two overarching criteria that were valid for different sectors and business models. To segment the SME sector by size, enterprise data on the number of employees was considered. For the segmentation based on growth, enterprise data on growth rates was used.

The proposed segmentation is not static (Figure 11). Enterprises can move from on sub-segment to another based on their growth trajectory. Enterprises could share some motivations or response patterns across subsegments in some cases. With this segmentation, stereotypes have been created that help as a first pragmatic step to move from the "one-size fits all solutions" to more customized support that recognizes differences in size, growth aspiration, type of industry, financial maturity and stage of development.[32] (Figure 12)

27 Key objectives of the MSMES Act 2012 are to promote entrepreneurial culture and create an enabling business environment, to facilitate informal sector formalization and upgrading, and to facilitate access to business development services20 Global Entrepreneurship Development Index, Website 2015
28 Bank Financing to Small and Medium Enterprises in East Africa: Findings of a Survey in Kenya, Tanzania, Uganda and Zambia,Working Paper Series, African Development Bank, March 2012
29 Authors' Research
23 World Bank 2011
30 International Labor Organization (ILO), 201325 Kenya Overview Trust Law Website
31 Referred to as Survey henceforth
32 Challenges facing uptake of eEquity financing by Small and Micro enterprises in Kenya: A case study of Small Financial Services

FIGURE 11 SME sub-segments



Source: Authors' research based on World Bank Enterprise Survey 2013 data

Note: *The sizes of bubbles are representative of the The World Bank Enterprise Survey sample.*

FIGURE 12 Key characteristics of sub-segments

Sub-segments	Break up of size	Growth	Growth rates
High growth startups	Micro and small	high growth	>=20%
Small and Growing Businesses	Small	moderate growth	>=10% to <20%
Successful necessity entrepreneurs	Micro and small	low growth	>=0% to <10%
Necessity entrepreneurs	Micro and small	no growth	<=0%
Moderate growth businesses	Medium	moderate to low growth	<20%
Gazelles	Medium	high growth	>=20%

1. **Necessity Entrepreneurs:**[33] Over a third (36% of the survey sample) of the enterprises are necessity entrepreneurs, experiencing low growth. They are referred to as Jua Kali sector ("under the sun"), a large part of them is operating in rural areas. These necessity entrepreneurs are focused on subsistence and income generation for their family; many of these enterprises are not registered.[34] They often operate in asset light sectors such as retail and trade or in agriculture as subsistence farmers and only have a small number of equipment.

2. **Successful Necessity Entrepreneurs:** Some of the necessity entrepreneurs (8% of survey sample) succeed in growing their firm over a long time. Despite good economic performance, they very rarely employ other people.[35] However, limited business skills and lack of systems and processes hampers their growth. Most of the business support comes from informal networks.

3. **Parallel and Network Entrepreneurs:** Some entrepreneurs start multiple enterprises as they see growth in their first venture, and grow horizontally into related or unrelated opportunities. They typically cross-finance their businesses, and hence, see multiple businesses as a risk mitigating strategy. This segment is largely not understood as there are few studies to examine motivations and effect of running multiple businesses as a strategy. Therefore, there is very little data on this sub-segment.

4. **Moderate Growth Entrepreneurs:** According to the Survey data, a large number of Kenyan SMEs (37%) are low or moderate growth enterprises. Many of these enterprises are in the manufacturing, agribusiness or trade sectors. These enterprises are often family businesses that have been in existence for more than 10 years.They remain small to medium in size, and are often driven by a need for stability. They often employ between five to 50 employees.[36] These enterprises demonstrate incremental growth and prefer debt and bootstrapping to equity capital.

5. **High Growth Startups:** Only a small number of SMEs (7%) in the Survey indicate high growth, many of them are driven by innovation. High-growth startups could be micro or small in size. The fastest growing startups are in the tech- and financial services sector, and are based out of Nairobi or the capital region.[37] Primary analysis shows that many high growth businesses are owned by young entrepreneurs below 35 years old, often internationally educated or with previous work experience abroad. Their business is usually less than 5 years old.

6. **Small and Growing Businesses:** This is a small sub-segment (5% of the survey sample). These enterprises are small or medium in size and are usually driven by market opportunity. Often they are in the service sector or trade.[38] According to ANDE, SGBs unlike many medium-sized companies often lack access to the financial and knowledge resources required for growth.[39] These businesses have been in operation for more than 5 years, and often led by founding teams that have substantial experience.

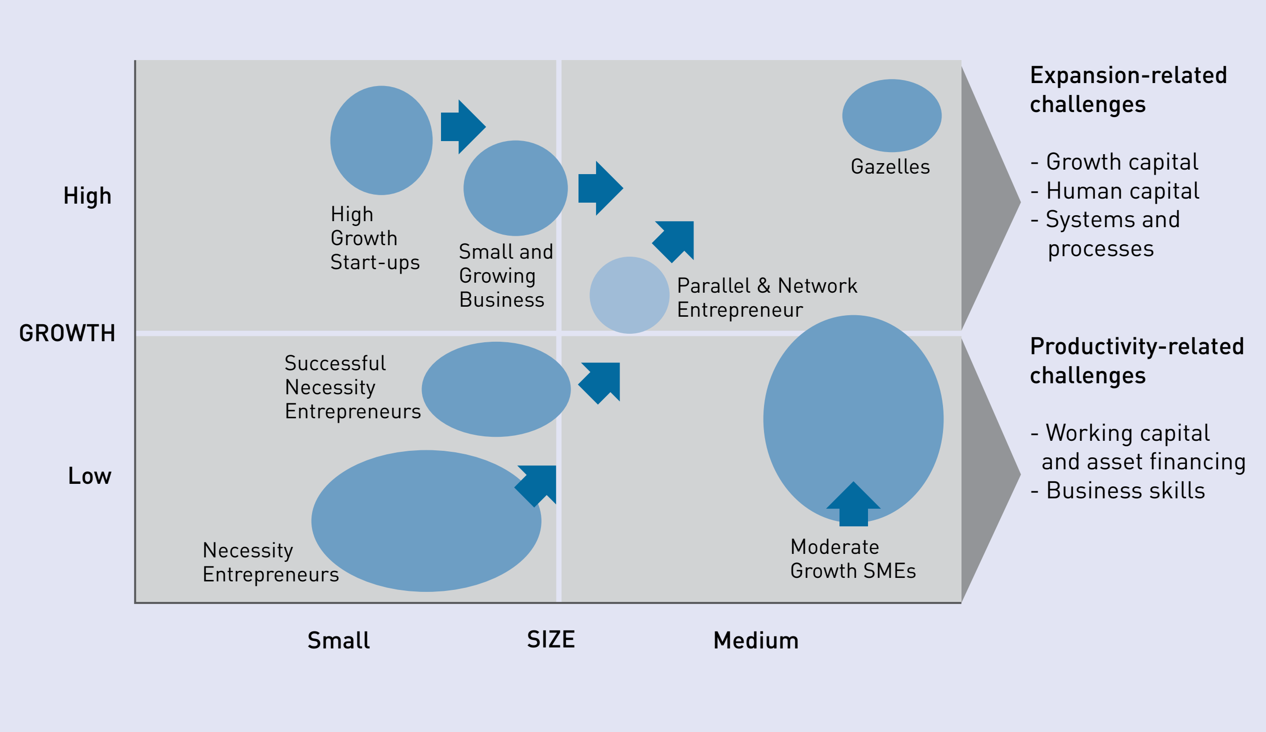
7. **Gazelles:** Mature, high growth businesses that boast of high revenue and employment growth are referred to as gazelles. They are usually medium sized enterprises, show continuous growth rates of 20% or more, and typically in the manufacturing sector.[40] In the Survey sample, around 6% of the enterprises are gazelles.

Depending on whether they are in the high or low growth cycle these enterprises face either

- expansion-related challenges such as access to risk and growth capital, and setting up systems and processes, or
- productivity-related challenges such as working capital, and developing business skills.

For SMEs in the expansion cycle, finance related support that fuels their growth is important: While startups need seed capital to grow their idea and scale it up, small and growing enterprises need longterm growth capital to finance their expansion. For enterprises in the lower part of the matrix, non-financial business support and leadership skills are of special importance (see Figure 13).

FIGURE 13 **Challenges of SME sub-segments**



Source: Authors' Analysis

Note: *The sizes of bubbles are representative of the The World Bank Enterprise Survey sample.*

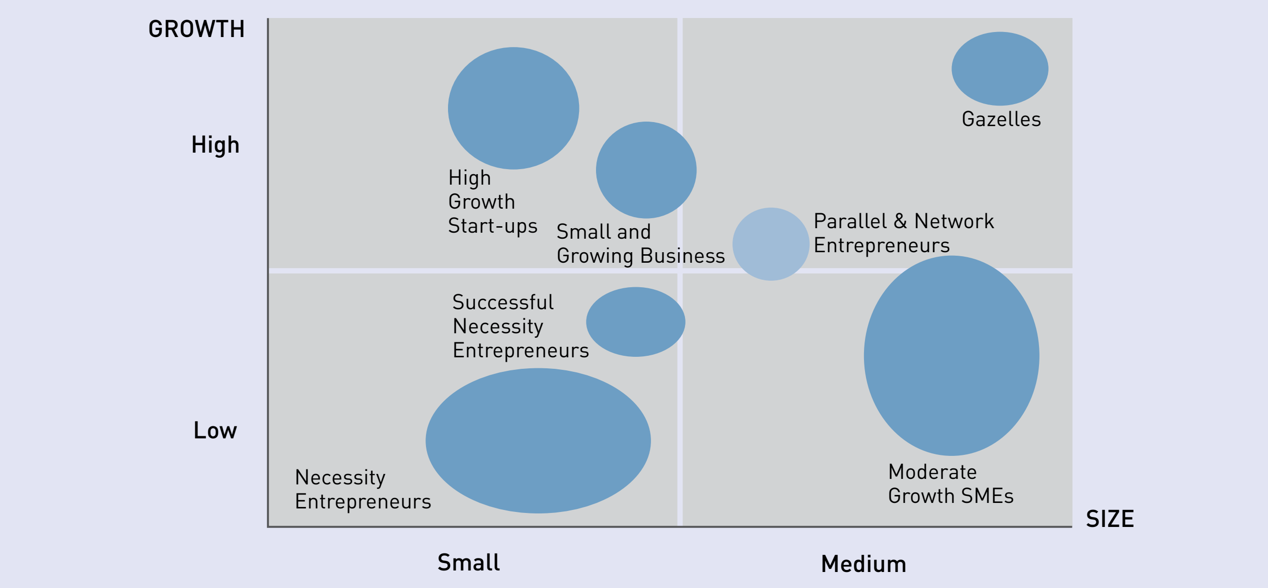
33 Necessity Entrepreneur and Subsistence Entrepreneur are used interchangeably
34 Global Entrepreneurship Monitor
35 Marcel Fafchamps, Oxford 2014
36 Marcel Fafchamps, Oxford 2014
37 AfDB 2013
38 High growth entrepreneurial Firms in Africa; Research Paper No. 2009/11
39 What is a small and growing business. ANDE website
40 High growth entrepreneurial Firms in Africa; Research Paper No. 2009/11
41 Voices of Women Entrepreneurs in Kenya, IFC, 2007
42 Voices of Women Entrepreneurs in Kenya, IFC, 2007

Women owned enterprises have specific challenges ranging from customary laws governing ownership to mobility and access to finance

Women owned businesses are well-represented in the Survey sample, across segments (60% of the total 585 enterprises in the Survey). Women entrepreneurs face very specific challenges, which hamper their growth. They are largely micro enterprises with an average of only 1.5 employees per enterprise. Until recently, only around 1% of women owned property in Kenya as customary laws prevented them from inheriting immovable assets, especially land.[41] Lacking collateral, these women entrepreneurs are often unable to access finance beyond microfinance. SME finance providers like Grofin, who provide long-term finance based on cash-flow projections, have a high proportion of women entrepreneurs in their portfolio. IFC research shows that women entrepreneurs accessed only 9% of available finance.[42]

However, given the economic reforms and better education in recent years, an increasing number of women are setting up businesses that they want to grow and scale. While the majority of women-owned SMEs is necessity-driven or show low to moderate growth (around 70% of survey sample), around 10% of women-owned enterprises are high growth startups; 4% are small and growing enterprises, and 6% are gazelles (Figure 14).

FIGURE 14 Women entrepreneurs across sub-segments



Note: *The sizes of bubbles are representative of the The World Bank Enterprise Survey sample.*

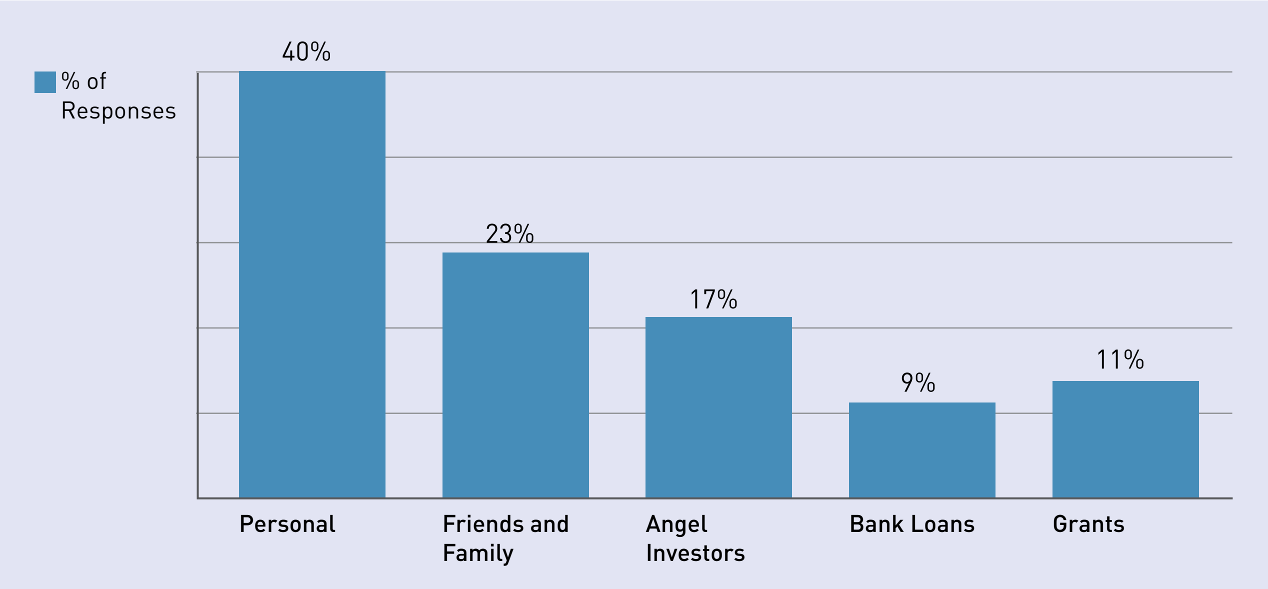
Incubators and accelerators have an increasing number of women entrepreneurs in their portfolios. One example is Ivette Ondachi, founder of agribusiness Ojay Greene, and an incubatee of Nairobi-based accelerator GrowthAfrica. She shared that lack of necessary business and leadership skills to grow her business is a challenge. According to Ondachi, many financial institutions are still skeptical about the seriousness of women entrepreneurs, and are therefore, hesitant to lend to them.

Banks have begun recognizing the importance of this sub-segment and are introducing special products for the women entrepreneurs. One such example is 'Grace Loan' by Kenya Commercial Bank, which offers a six-month grace period before enterprises need to start repaying the loan a long and flexible repayment period of up to 36 months, flexible security requirement, quick processing period, personalized advice and the opportunity to join the KCB Biashara Club.[43] Biashara Club offers SME business support services, networking opportunities and national and international business trips (e.g. to trade fairs). Interestingly, a study on global best practices highlights that women do not necessarily want special products; instead,they want to be served differently.[44]

Young entrepreneurs can be the next generation of Kenya's growth oriented entrepreneurs

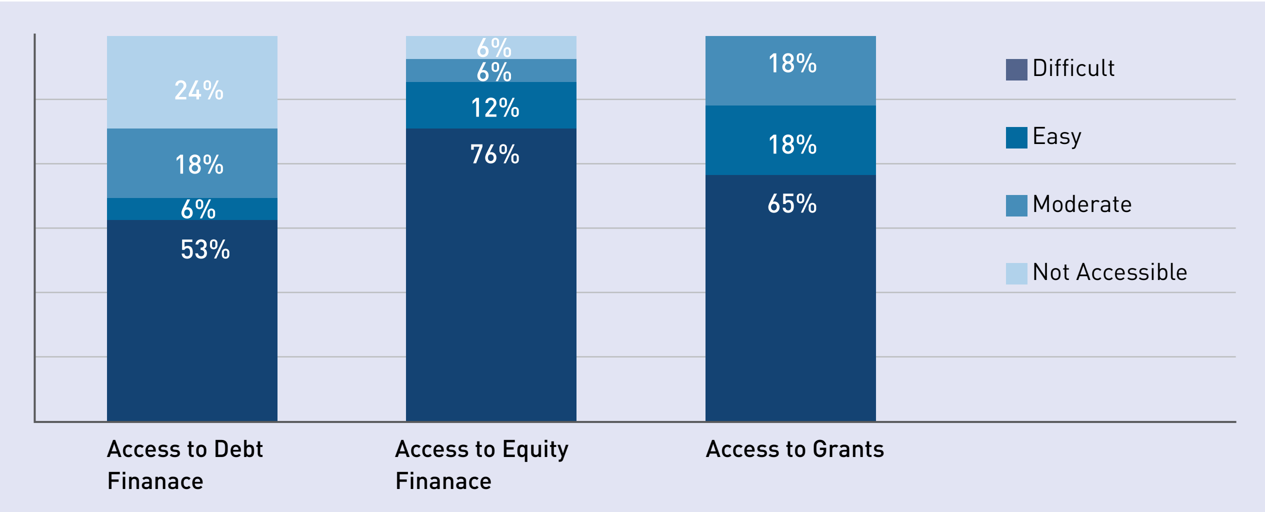
Kenya's co-working spaces and technology hubs are full of young entrepreneurs below 35 years old that are motivated to be the next wave of technology unicorns. Many of them start their businesses in the ICT or financial services sector, but an increasing number of these youth entrepreneurs are also identifying opportunities in the agricultural or service sectors. Given their lack of experience and credit history, they face tougher challenges than their more established peers. A 2015 survey of 50 young entrepreneurs revealed that 40% of young entrepreneurs self-finance their businesses, while 23% receive support from friends and family.[45] Only a small part (17%) received angel investments and an even smaller proportion (9%) accessed bank loans (Figure 15). 77% of young entrepreneurs highlighted that it is difficult to get debt financing and more than 80% stated that access to equity and seed funding are difficult[46] (Figure 16). Primary research revealed that youth entrepreneurs often faced challenges in becoming investment-ready and speaking the language of the investor.

FIGURE 15 Sources of finance for youth entrepreneurs



43 KCB Website
44 Global Best Practices in Banking Women-led SMEs, Women's World Banking and European Bank for Reconstruction and Development, 2014
45 Catalyst for Change: Creating an ecosystem for young entrepreneurs in East Africa, Intellecap, 2015
46 Catalyst for Change: Creating an ecosystem for young entrepreneurs in East Africa, Intellecap, 2015
47 Catalyst for Change: Creating an ecosystem for young entrepreneurs in East Africa, Intellecap, 2015
48 Kenya Vision 2030 is the country's new development blueprint covering the period 2008 to 2030. It aims to transform Kenya into a newly industrializing, "middle-income country providing a high quality life to all its citizens by the year 2030".

FIGURE 16 Youth ease of access to finance



The study also found that there is significant support for youth to develop their ideas and start up, but little support for developing and refining their products and bringing prototypes to market. Young entrepreneurs, hence, need affordable service providers that help to turn an idea to market. In addition, young enterprises find it difficult to access networks - more than conferences, young entrepreneurs value networking and mentorship events that bring tangible benefits for them.[47]

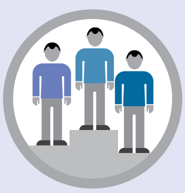
To tackle the unique challenges faced by women and young entrepreneurs (see a summary of the challenges in Figure 17), the president of Kenya launched Uwezo Fund in September 2013 that aims at enabling women, youth, and entrepreneurs with disability to access finance for their businesses.[48] In addition, the fund also provides mentorship opportunities and capacity building support to enable the beneficiaries take advantage of the 30% government procurement preference available for these enterprises.

FIGURE 17 Key challenges for women and youth entrepreneurs

Challenges faced by Women Entrepreneurs

Finance

- Only 9% of the available credit accessed by women
- Unable to provide collateral
- Difficult to access finance beyond microfinance >US$ 10,000 and above from banks and other sources



Capacity

- Typically a 'Jua Kali' (micro enter-prise) and mostly unregistered
- Lack business and leadership skills
- Low confidence levels
- Are 'time-poor' due to their dual roles in household

Sources: IFC,2006; World Bank, ILO, Kenya's MSME Survey, 1999

Challenges faced by Youth Entrepreneurs

Finance

- Higher risk perception by bankers and investors due to lack of credentials and credit history
- Higher dependency on informal sources of finance and bootstrapping
- Inability to articulate/pitch their business models effectively leads to inability to attract equity investors

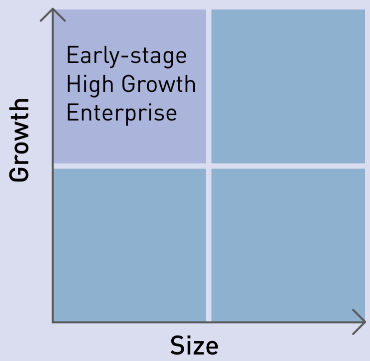
Capacity

- Lack of knowledge and experience
- Face sustainability challenges due to lack of comprehensive training to acquire adequete skills to manage their respective businesses
- Lack of awareness about locally available business networks and associations

Source: Authors' Research

SPOTLIGHT: HIGH GROWTH STARTUPS AND SMALL AND GROWING BUSINESSES ARE AN UNDERSERVED MARKET SEGMENT

MicroClinic Techologies is an early stage high growth tech startup, providing mobile and web based performance improvement and management solutions to Kenya's smaller health clinics.

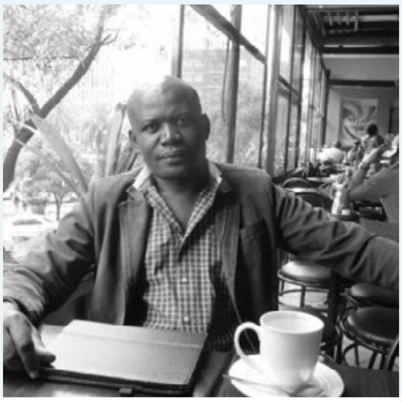


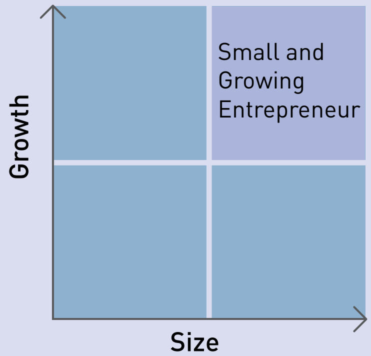
Moka Lantum, Microclinics

Moka is the founder of MicroClinic Technologies, an early stage tech startup, specialized in developing and commercializing healthcare technologies. Services include mobile monitoring devices for maternal and child conditions and a flagship enterprise health management application, ZiDi™. It is designed to improve the supply chain management of medical commodities in the African market. The management team brings over 40 years of combined experience in health operations and commodities management. Partners include Microsoft, the Kenya Medical Supply Authority and the Kenya Ministry of Health. MicroClinic Technologies was a winner of the 2013 GlaxoSmithKline and Save the Children Healthcare Innovation Award, winner of the 2013 App Gig Award sponsored by Informa East Africa and Winner of Sankalp 2014 Awards. Despite his success and experience, Moka finds it difficult to get the necessary financing to move from serving 10 clinics to 50 and scaling his business. He has been looking for an investor for over a year. He has reached out to multiple banks and received advisory services on his business and financial model from Intellecap's Impact Investing Network and Open Capital Advisors. Chase Bank provided him debt capital in 2015.

Characteristic	Entrepreneur Feature
Age of the Enterprise	0-5 years
Age of the Entrepreneur	25-35 years
Number of Employees	1-10
Typical Funding Requirements	US$ 100,000-500,000 seed capital to move from pilot to scale
Financing Challenges	Understanding the business model, collateral, credit history, track record
Other Challenges	Lack of human resources, systems & processes

Small and growing enterprise CafeDeli is a restaurant chain in the center of Nairobi, catering to the capital's middle class.





Obado Obadoh, CaféDeli

Pastry-chef Obado started CaféDeli after experience in the hospitality industry, working for major Kenyan hotel chains. His vision is to turn CaféDeli into a brand that is known for its cakes and pastries. Today, he has two chain restaurants in central Nairobi, planning to soon open the third restaurant. While Obado self-financed his early days as an entrepreneur, he needed growth capital when in 2011 the opportunity arose to buy-out an existing restaurant. He approached Grofin, who despite the absence of the required collateral supported him to fulfil his dreams. As this was Obado's first experience of a buy-out, GroFin provided him with advisory support by helping in reviewing and finalising agreements with the vendors, including the sale and lease agreementsfor the restaurant. The expansion also required new systems to monitor sales, purchases and stock. Under his management and following a successful re-branding of the business, the outlet saw its revenues increase by 250% since take-over. When Obado looks back, he values the fact that Grofin sat down to understand his opportunity; something that he feels banks do not do enough.

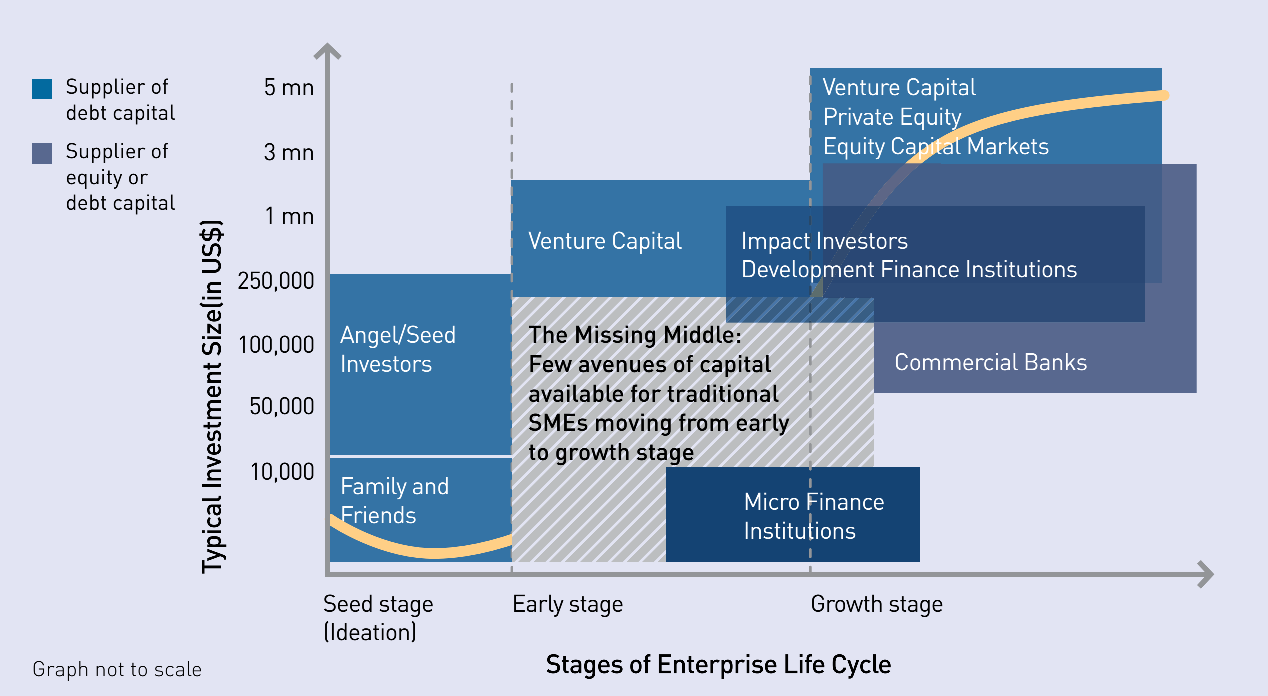
Characteristic	Entrepreneur Feature
Age of the Enterprise	5-10 years
Age of the Entrepreneur	35-50 years
Number of Employees	50-100
Typical Funding Requirements	US$ 500,000-1.5 mn; long-term growth capital for expansion
Financing Challenges	Collateral, cost of finance, timing of repayments, time of due diligence
Other Challenges	Lack of business skills, lack of access to human resources and information

2.4 Identifying critical gaps in the SME ecosystem

Stakeholders identify four critical gaps affecting the 'Missing Middle'

Kenyan microenterprises are supported by an evolved microfinance sector that comprises 9 microfinance banks (MFBs) and 23 credit-only MFIs worth a total asset size of US$ 586 mn.[49] Medium to large and growth-stage SMEs can access funds from 43 banks with a total asset size of US$ 28 bn.[50] It is the "missing middle" in between that experiences a gap in financial and non-financial support (Figure 18).

FIGURE 18 **The 'missing middle' and the emerging ecosystem**



Source: Authors' Analysis

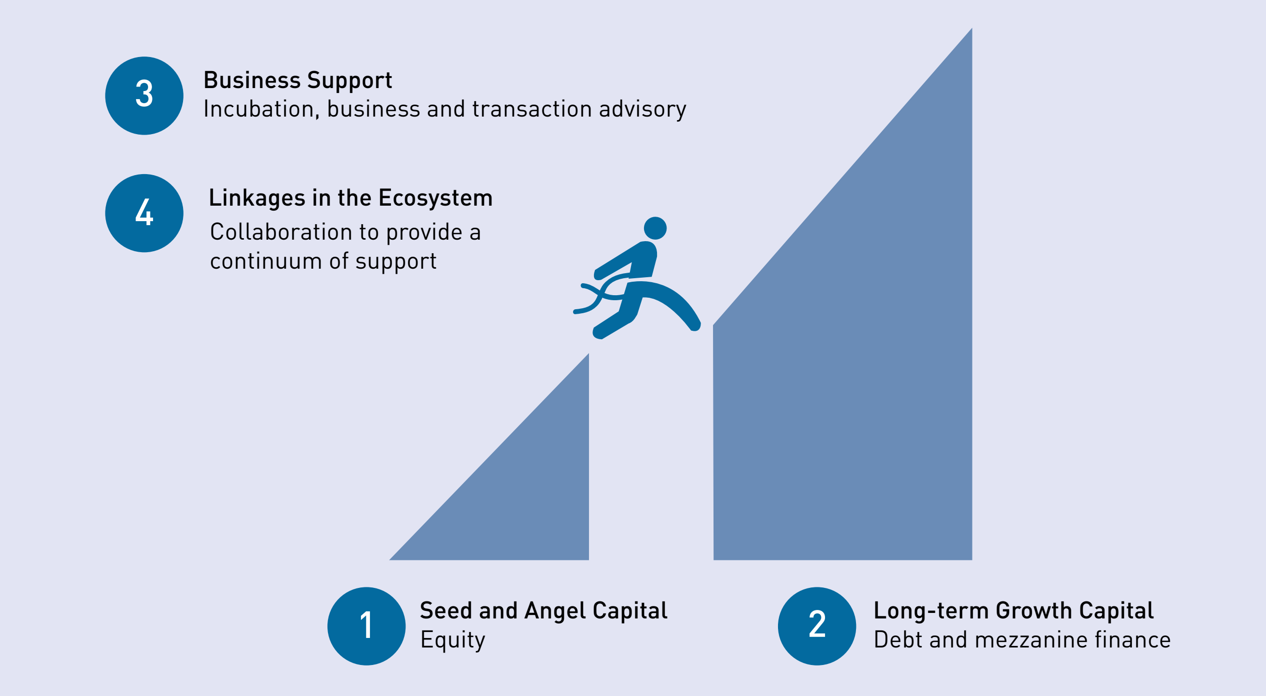
Based on the analysis of the World Bank Enterprise Survey 2013 data and stakeholder consultations, the following three sub-segments of the 'missing middle' were found to be most affected by gaps in the support ecosystem:

- Early stage, high growth startups,
- Small, growing enterprises, and
- Mature, low growth enterprises.

In order to identify key challenges that these sub-segments face with regard to access to finance, DGGF, ANDE, and the East African Venture Capital Association (EAVCA) hosted the SME Expert Forum on 8th June 2015, and brought together more than 100 experts from the financial sector, government and other ecosystem players. Working groups facilitated by local ecosystem players such as Niraj Varia, Investment Director, Novastar Ventures; Rishi Khubchandani, Investment Executive, GroFin Kenya; and Ben White, Founder, VC4Africa; helped to identify critical gaps in the SME landscape. The initial research on key gaps in the Kenyan SME ecosystem were presented and discussed with experts from Kenya and the East African region. Research and discussions with stakeholders revealed the following key gaps (figure 19):

49 Sector Report on the Microfinance Sector in Kenya, Association of Microfinance Institutions – Kenya, 2014
50 Eastern Africa Banking Sector, Ernst and Young, 2014

FIGURE 19 Key gaps for the 'missing middle'



Source: Authors' Analysis

1. **Seed and angel capital:** High growth enterprises in the early stages of their life cycle self-finance their business and use retained earnings. This is particularly true for young entrepreneurs without a track record, who find it difficult to get serious attention by banks or current investors. Enterprises like Microclinics, run by Moka, need seed and angel capital to grow their businesses. Stakeholders in the SME-Forum suggest that up to 80% of Kenyan startups do not survive beyond the first year. Angel networks and investing platforms like VC4Africa, Kenyan Business Angel and Investment Network, Viktoria Solutions, or Intellecap's Impact Investing Network have been mentioned as important attempts to fill the angel finance gap.

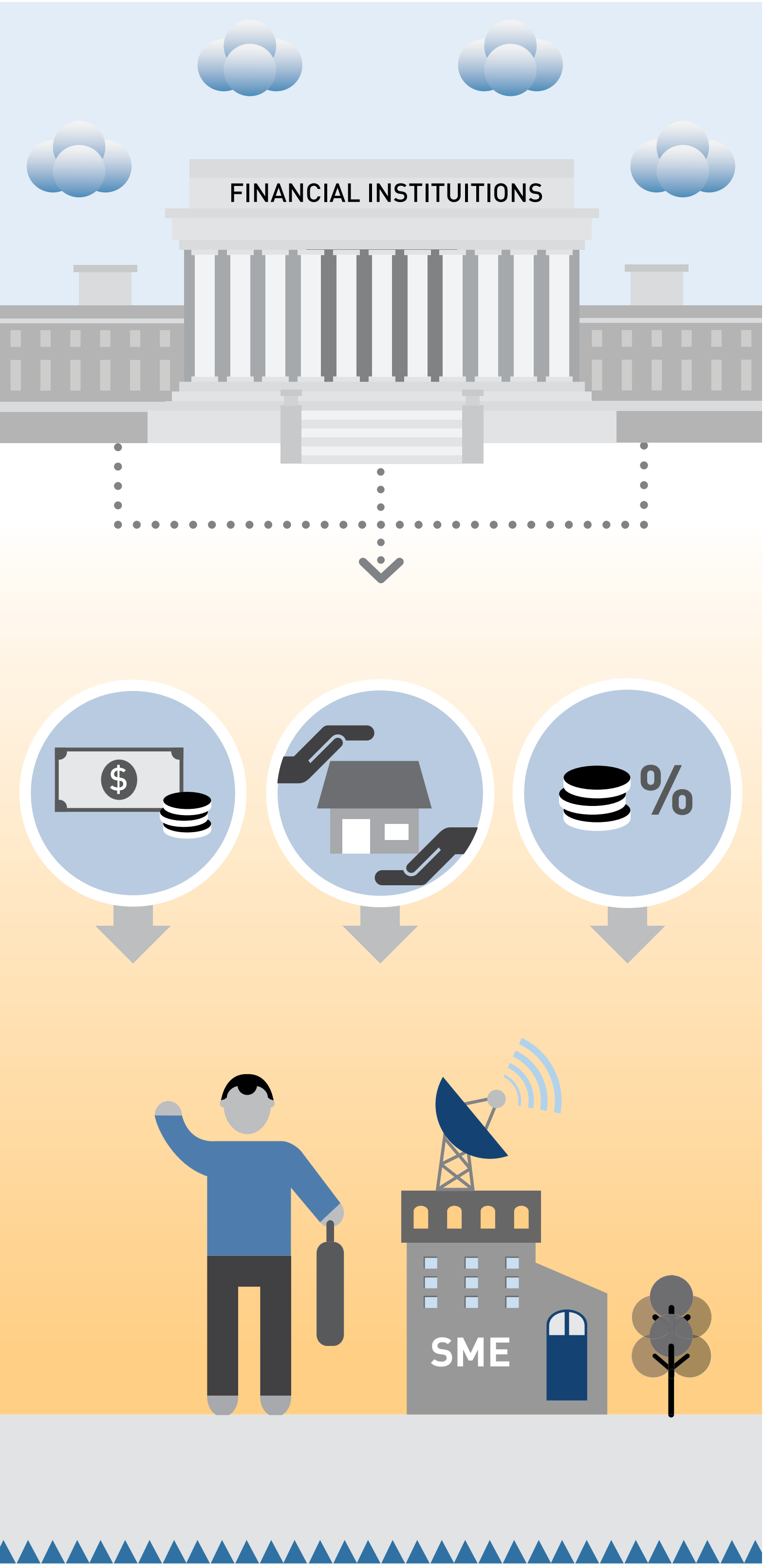
2. **Long-term growth capital:** Small and growing enterprises that are more than 5 years old also find it difficult to access long-term growth capital. Enterprises like CafeDeli, run by Obado, require long-term financing solutions to expand their operations. In the absence of long-term finance on favorable terms, they experiment with different options. Primary research with stakeholders indicates that many such entrepreneurs use their own resources or start a parallel business in a different sector to increase liquidity. Others take loans from informal sources at very high rates to be able to buy collateral that is needed to get a loan from a bank. Only a few are successful in accessing debt or equity finance for long-term growth, partly from innovative finance providers such as Grofin or Business Partners International that provide mezzanine finance.

3. **Affordable, high quality business support:** The supply of service providers that offer business support has improved in recent years. However, this non-financial support landscape is still nascent and geographically restricted to Nairobi. Given the increased demand for such services from other parts of the country, there is a need for more service providers that can offer affordable, accessible and relevant services in fields such as financial management, accounting and transaction advisory, legal advice, human resources, marketing and other business functions.

4. **Creating linkages in the ecosystem:** Entrepreneurs are often unaware about support providers and take time to navigate through the support landscape. There is a need for greater awareness building as well as provision of a continuum of financial and business support services from early stage to growth stage. There are a number of networks and platforms as well as a number of happy hours that bring enterprises and ecosystem players together; however, these efforts need to be scaled up.

The following section will provide a summary of insights derived from stakeholder consultations and secondary research and present examples as well as innovative approaches to address these gaps. Case studies of selected innovative service providers and initiatives will show how individual actors have found a way to turn these gaps into opportunities.

3 Closing the Gap in the 'Missing Middle' Ecosystem



Recent trends in the financial and non-financial support system are encouraging. The number of actors that aim to fill critical gaps that the 'missing middle' faces has been increasing in recent years. While these solutions are a step in the right direction, concerted and coordinated efforts will ensure they are accessible to more entrepreneurs.

3.1 Finance – The Central Challenge for most SME

The majority of SMEs self-finance their business
Analysis of the World Bank Enterprise Survey Data 2013 suggests that close to 68% of Kenyan enterprises state access to finance as a challenge. According to the Survey, 50% of the Kenyan SMEs have never approached a bank. Only 36% of Kenya's SMEs have accessed loans as compared to the OECD average of 51% (Figure 20). A closer analysis of the Nairobi, Nakuru, and Mombasa data reveals that more than 50% of enterprises across stages used retained earnings for financing fixed assets and 32% of SMEs used it for meeting their working capital demands.[51]

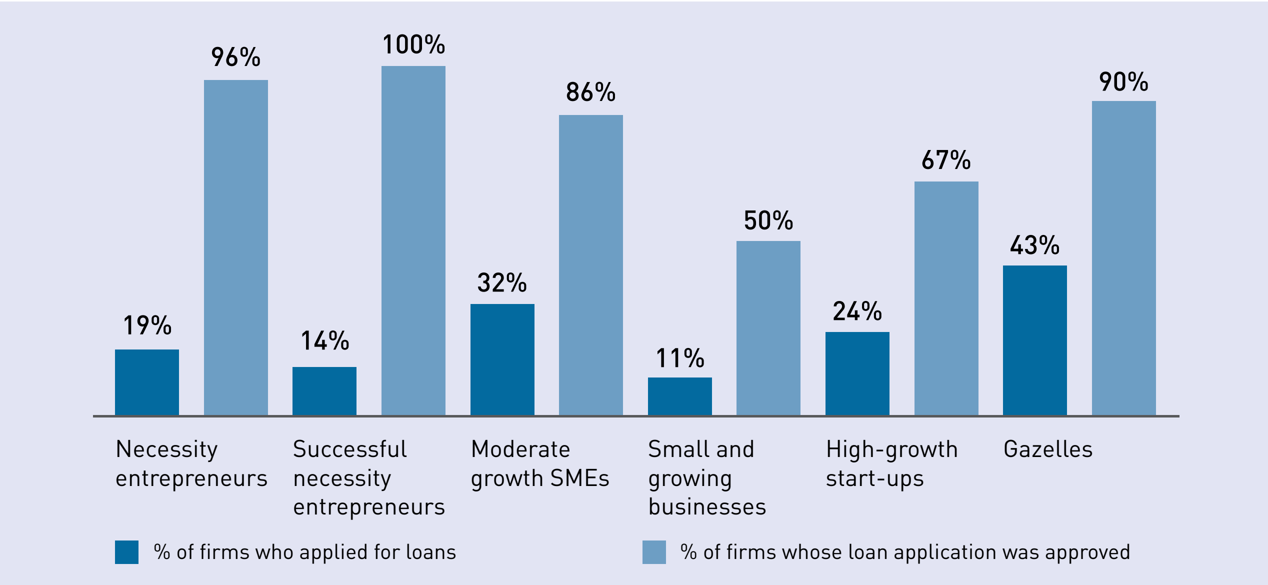
A closer look shows that it is mostly high growth SMEs or the gazelles (43%), who have approached banks and who were largely successful (86%) in accessing loans (Figure 21). For small and growing enterprises and high growth startups, accessing bank finance is much more challenging. While only 24% of high growth startups applied for loan funding, only two-thirds of these enterprises succeeded. Only 11% of small and growing businesses approached banks; however, only around half of these enterprises were successful. As per this sample and analysis, necessity entrepreneurs are successful in accessing loans; however, this is partly due to small ticket size loans, often catered to by microfinance institutions.

FIGURE 20 Access to debt

Indicator	Mombasa	Nairobi	Nakuru	Kenya	OECD
Percentage of firms accessed loans	**21%**	**44%**	**29%**	**36%**	**51%**
Percentage of firms applied for loans	44%	55%	40%	51%	59%
Percentage of firms whose loan application was accepted	94%	89%	81%	95%	88%

Source: World Bank Enterprise Survey 2013

FIGURE 21 Loan approval rate for sub-segments



Source: World Bank Enterprise Survey 2013

Among SMEs that have not applied for a loan, 68% stated they had sufficient funds and use retained earnings to finance their business (Figure 22). 14% SMEs in the survey mentioned that they did not apply for bank loans due to the high cost of debt. 40% of the SMEs that have accessed loans pay interest rates in the range of 16%-20%. As feedback from primary research shows, equity is largely unknown. Private equity providers, venture capitalists, and formal angel networks have been offering equity capital to SMEs only in the last five years.

FIGURE 22 Reasons for not applying for a loan

Indicator	Mombasa	Nairobi	Nakuru	Kenya
Had sufficient capital	**70%**	**64%**	**74%**	**68%**
Complex application process	3%	5%	5%	4%
Thought loan would not be approved	2%	1%	3%	1%
High collateral requirements	3%	4%	3%	3%
Insufficient size of loan and maturity	7%	2%	0%	3%
Unfavorable interest rates	7%	17%	13%	14%
Others	8%	5%	0%	7%

Source: World Bank Enterprise Survey 2013

3.2 Seed and angel capital

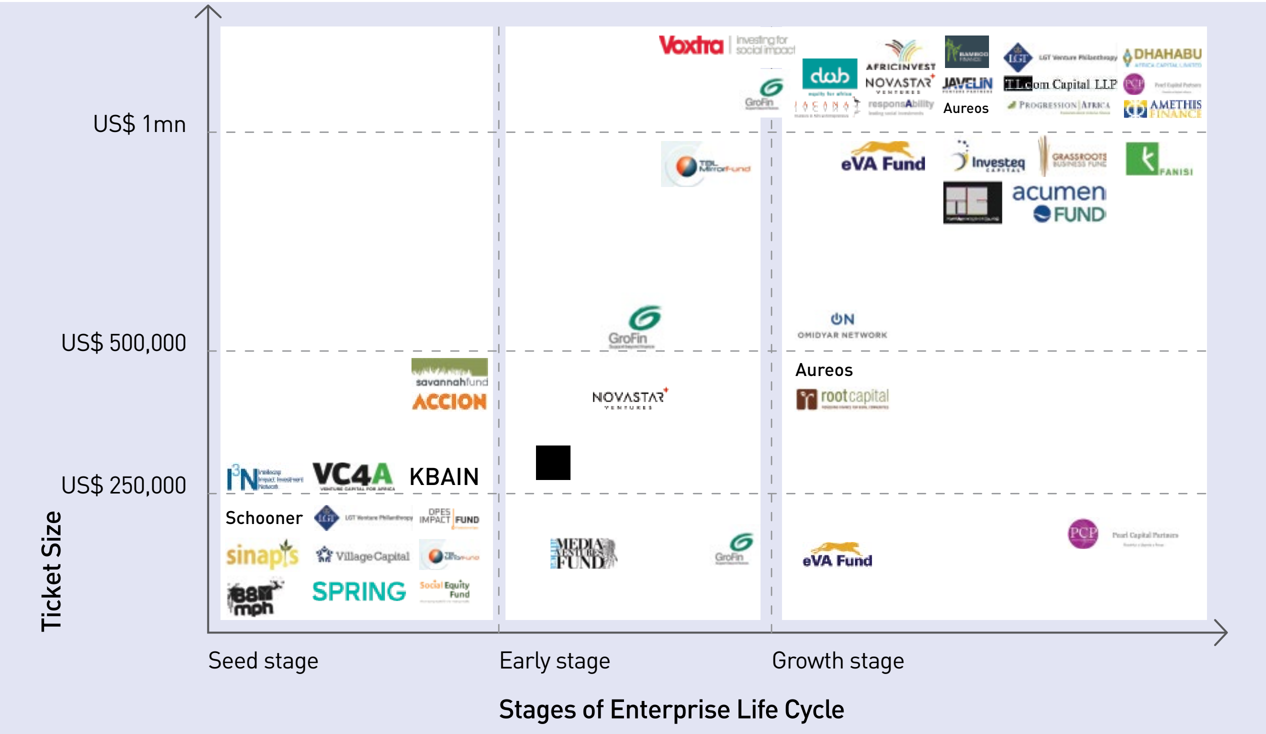
Angel investors play critical role in unlocking the capital for early stage high growth SME

Early stage capital in the form of angel investing is a recent trend in Kenya, and has gained momentum since 2010[52] (Figure 23). With an increasing number of high net-worth individuals (HNWIs) who are motivated to invest their own time and money to seed new startups, a new form of capital has become available for early stage enterprises.[53] An analysis of most active angel investors shows that a total of approximately US$ 10 mn has been invested in Kenya since 2008, spread across 82 investments. Ticket size generally ranges from US$ 20,000-500,000 per deal. Average ticket size is US$ 140,000 and the median is around US$ 44,000.[54] Typically, three to four investors co-invest in a start-up and acquire up to 25% of the stake in the enterprise.[55] Angel investors fund only 2% of Kenyan startups, most of which are in the ICT sector.

However, a recent study by GSMA shows that ticket sizes in ICT startups were also quite small, 40% of technology/ICT startups have received less than US$ 1,200 in funding, and only 7% have received more than US$ 120,000.[56] To unlock the potential of angel investing, the framework conditions for investing need to be addressed, especially to attract capital from outside the country. The absence of treaties to prevent double taxation, restrictive repatriation laws, and other legal and regulatory guidelines create discomfort among potential investors. Industry bodies that represent the interest of the angel investing industry like the East African Venture Capital Association or African Business Angel Network (ABAN) are important bodies to engage in policy advocacy with an objective to grow this space and build a strong African angel investment sector.

With the culture of angel investing being rather new, there is scope for unlocking more angel capital for early-stage enterprises. The following key challenges restrict the expansion of angel investing activity in Kenya:

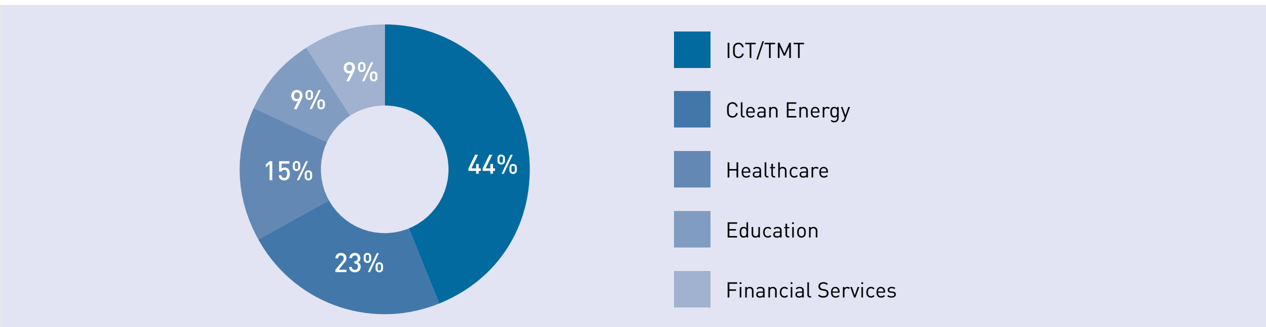
FIGURE 23 Early stage equity financing gap



Source: Author's Analysis

- **Limited involvement of HNWIs in Kenya:** Until recently, HNWIs had been investing in traditional and established sectors such as real estate and housing. In the last few years, some of them have explored angel investing, although they are mostly investing in tech startups (Figure 24). They are less aware of opportunities that exist in non-technology sectors such as agriculture and food-processing, manufacturing, as well as sectors that address basic needs such as healthcare, education, water, and energy. Opportunities also lie in mobilizing investments from Kenyan diaspora: Around 9% of Kenya's population lives abroad. In 2014, Kenya's diaspora collectively sent back US$ 1.43 bn (about 2.4% of Kenya's GDP) in remittances.[57] While remittances are usually targeted towards family, there is potential to mobilize this capital for angel investments. The Kenyan government recently launched the 'Diaspora policy' to involve Kenya's foreign residents in the economic development of the country. Among other things, the policy aims to encourage members of the diaspora to invest back home by informing them of opportunities and connecting them with the private sector.

FIGURE 24 Sector focus of Angels



Source: Author's Analysis

- **Limited pipeline of investible opportunities:** Angels find it difficult to identify viable investment opportunities, as many enterprises lack financial records and appropriate financial and business model. Angel networks have emerged in the past few years to address this mismatch between investors' expectations and enterprise readiness, and help facilitate investments. Investeq's Kenya Business Angel Investor Network (KBAIN) has facilitated seven investments since 2012. Virtual platform VC4Africa has facilitated 19 investments in Kenya in 2014. Viktoria Solutions and the recently launched East Africa Chapter of Intellecap Impact Investing Network (I3N) are other networks that provide not only capital, but also access to mentoring and networks.

- **Limited awareness among enterprises:** Primary research reveals that enterprises are often unaware of the benefits of having an angel investor on board in the early stages. In addition, the legal structure of many SMEs constrains their ability to raise seed capital. As a majority of Kenyan SMEs are registered as sole proprietorships (41%), they cannot raise equity capital. Only a small number of SMEs are limited liability companies (~ 10%) and can access equity capital.[58]

Case Example: Vc4africa- Catalyzing startup funding through community networks

VC4Africa is a web based platform for catalyzing startup funding in Africa. It was started as a LinkedIn group in 2008 and has grown organically into what is now the largest online community of entrepreneurs and investors dedicated to building innovative companies. Operating as peer to peer network, the community has members in 159 countries and meetups have been hosted in more than 50 cities around the world. It increases investors' access to high potential entrepreneurs. It offers free online tools, mentorship opportunities, and private deal rooms to help entrepreneurs navigate the investment process. VC4Africa apart from bringing together entrepreneurs and investors has also helped enable and support emergence of new breed of investors willing to make small ticket size funding in the range of US$ 5000 – US$ 2 mn. Many of the investors are from the African diaspora, interested in giving back to their societies through investment in entrepreneurship.

Innovative venture capital funds target early stage enterprises

Venture capitalists and impact investors provide capital for growth-oriented SMEs. High growth early stage enterprises are increasingly tapping into venture capital (VC) to supplement the angel funding they receive in the early stages. Venture capital is nascent in Kenya, with most investments taking place post 2011. During this time, the sector has seen the emergence of an increasing diversity of VC funds. Analysis suggests that US$ 93 mn of VC funding has been committed for Kenya.[59] The average ticket size of VC investments in Kenya is US$ 1 mn, with ticket sizes ranging from US$ 10,000 to US$ 6 mn (Table 2). On average, VC funds acquire a 25% - 49% stake in an enterprise.[60]

51 Analysis of World Bank Enterprise Survey Data 2013, Authors' Research
52 Author's Analysis
53 Angel Investing in Africa's start-ups: Join the movement, VC4Africa, 2014
54 AngelList/ Angel.co
55 Intellecap Impact Investment Network, Authors' Research, Angel Investing in Africa's start-ups: Join the movement, VC4Africa, 2014
56 Kenya Digital Entrepreneurship Report, GSMA, 2014
57 Central Bank of Kenya 2014
58 World Bank enterprise Survey Data, 2013
59 Authors' Research
60 Authors' Research

TABLE 2 Equity supply

	Private Equity	Impact Investing	Venture Capital	Angel Investing
Total Equity Supply*	US$ 862 mn	US$ 151 mn	US$ 93mn	US$ 10mn
Average Ticket Size	US$ 5mn	US$ 5mn	US$ 1mn	US$ 140,000
Ticket Size Range	US$ 250,000 to 15mn	US$ 250,000 to 3mn	US$ 10,000 to 6mn	US$ 20,000 to 500,000

*The total equity supply indicated here includes the amount already invested plus the potential amount to be invested in Kenya, where most of the activities have been tracked after 2008

Source: Author's Analysis

Chamas: Kenya's unique investment groups

Investment groups, also known as Chamas, pool savings together with the objective to make joint investments. As per the Kenyan Association of Investment Groups, Chamas have grown in size and estimates suggest that 300,000 Chamas manage US$ 3 bn in assets. TransCentury, Kenya's largest private equity firm started as a Chama. While Chamas are a source of capital for early stage enterprises and a number of sophisticated Chamas have invested in startups, not all Chamas are a suitable source for SME financing. Chamas have long decision making processes and members drop out over time. In addition, the current terms are expensive for the enterprise. Apart from charging high interest rates in the range of 14% to 22%, Chamas can also take up to 25% stake in the enterprise funded. Nevertheless, there is a potential to engage with individual members of Chamas who are interested in investing. They can be encouraged to make angel investments.

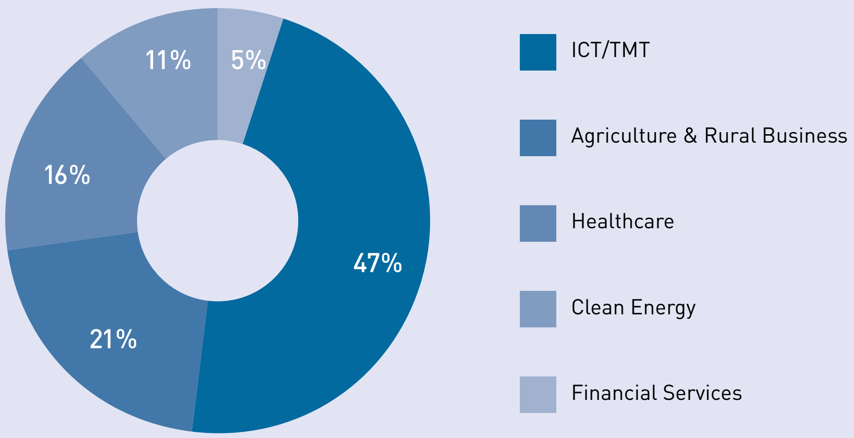
Investment philosophies and risk appetites vary. While some funds classify themselves as impact investors, investing in sectors and enterprises that cater to low-income markets, others are tech-focused (Figure 25). Mara Launch Fund, for example, invests in high-risk and high-growth enterprises, whereas TBL Mirror Fund and Invenfin Venture Capital invest in comparatively less risky but high-growth, small businesses. Novastar Ventures, for example, invests in high growth enterprises with high social impact.

According to investors, SMEs could benefit from support in business acumen and basic skills, such as preparing financial statements or well-structured business or financial models. They often need support to articulate their business model in a way that the investors understand it. Hence, impact investors often tie up with business support providers and offer a bouquet of advisory services such as business and financial modeling or preparing their financial documentation.

Case Example: Novastar Ventures – Combining capital and customized business support

Novastar Ventures was launched in March 2014 as a venture capital fund, assisting early stage, high growth businesses across sectors in the East African Community and Ethiopia. The fund has raised US$ 75 mn so far and is expected to close at US$ 80 mn in late 2015. Until now it has invested in eight companies across Kenya and Uganda. It aims to make minority equity and near-equity investments, expecting commercial returns. It targets businesses that serve the mass market as they have the potential to grow most quickly and generate profitable exits. Novastar Ventures uses the multiple round investment approach, also generally observed in venture funds for early stage companies. In the first round smaller amount is invested in a start-up and is followed by larger investments in the subsequent rounds. Apart from finance Novastar provides support that is customized to company's stage of development. They provide entrepreneurs with active handholding support to bring their ideas to life and multiply their impact. The fund has a life time of 10 years.

FIGURE 25 Sector focus of VC funds



Source: Authors' Analysis

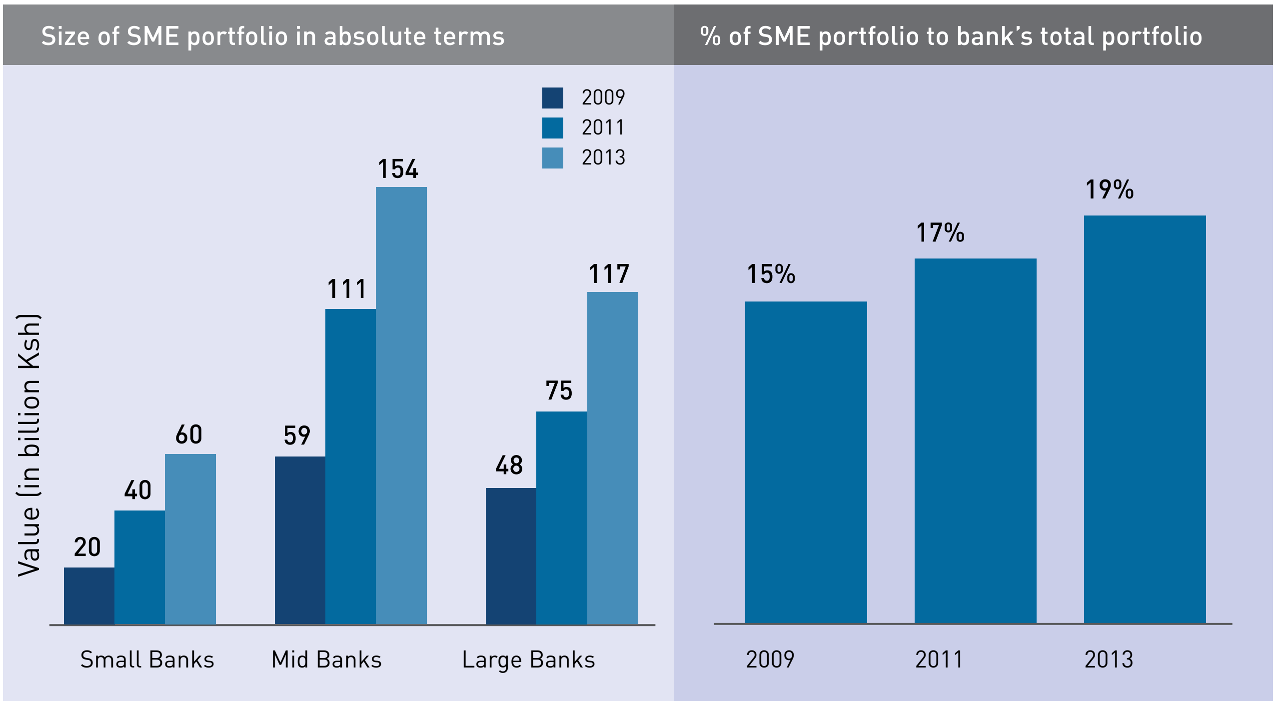
3.3 Long-term growth capital

Banking sector meets only part of the SME demand for capital

Debt instruments are more suitable to finance expansion and growth of small and growing enterprises and low growth SMEs that do not meet the requirements and return expectations of equity investors. The Kenyan banking sector is able to meet some of this growth-capital gap. The supply of debt has been steadily increasing over the past few years and the gross loans and advances of the banking sector, including micro-finance banks, increased to US$ 18.56 bn in June 2014 from US$ 12.63 bn in 2009 registering a CAGR of 8%. Private sector credit as a percentage of GDP for Kenya is 32%, which is significantly lower than the Sub-Saharan average of 48% and OECD average of 153%. As of 2013, SME loans comprised about 19% of the overall bank portfolio of commercial banks as against 15% in 2009[61] (Figure 26).

61 FSD Kenya 2013
62 Authors' Research
63 Authors' Research

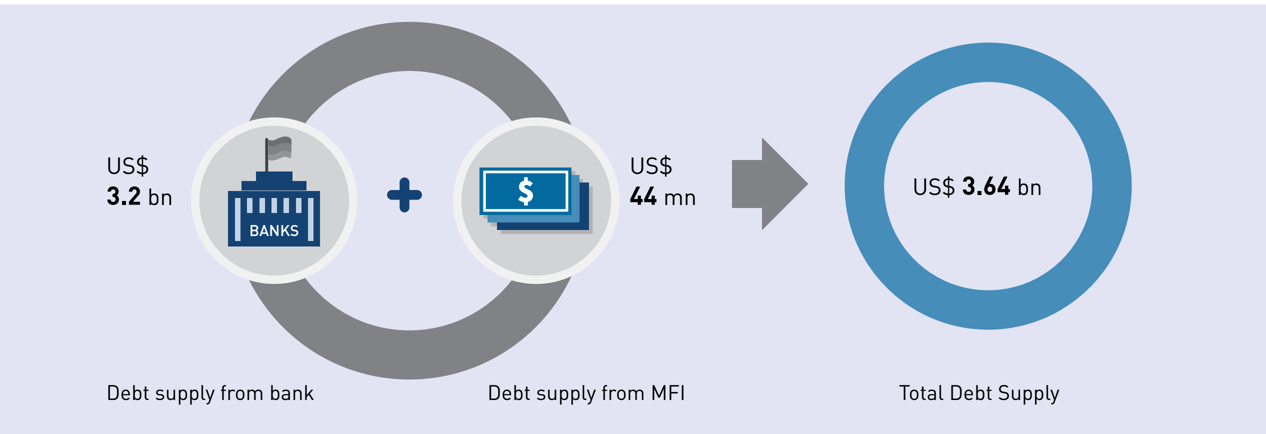
FIGURE 26 Banks' SME portfolio



Source: FSD Kenya 2013

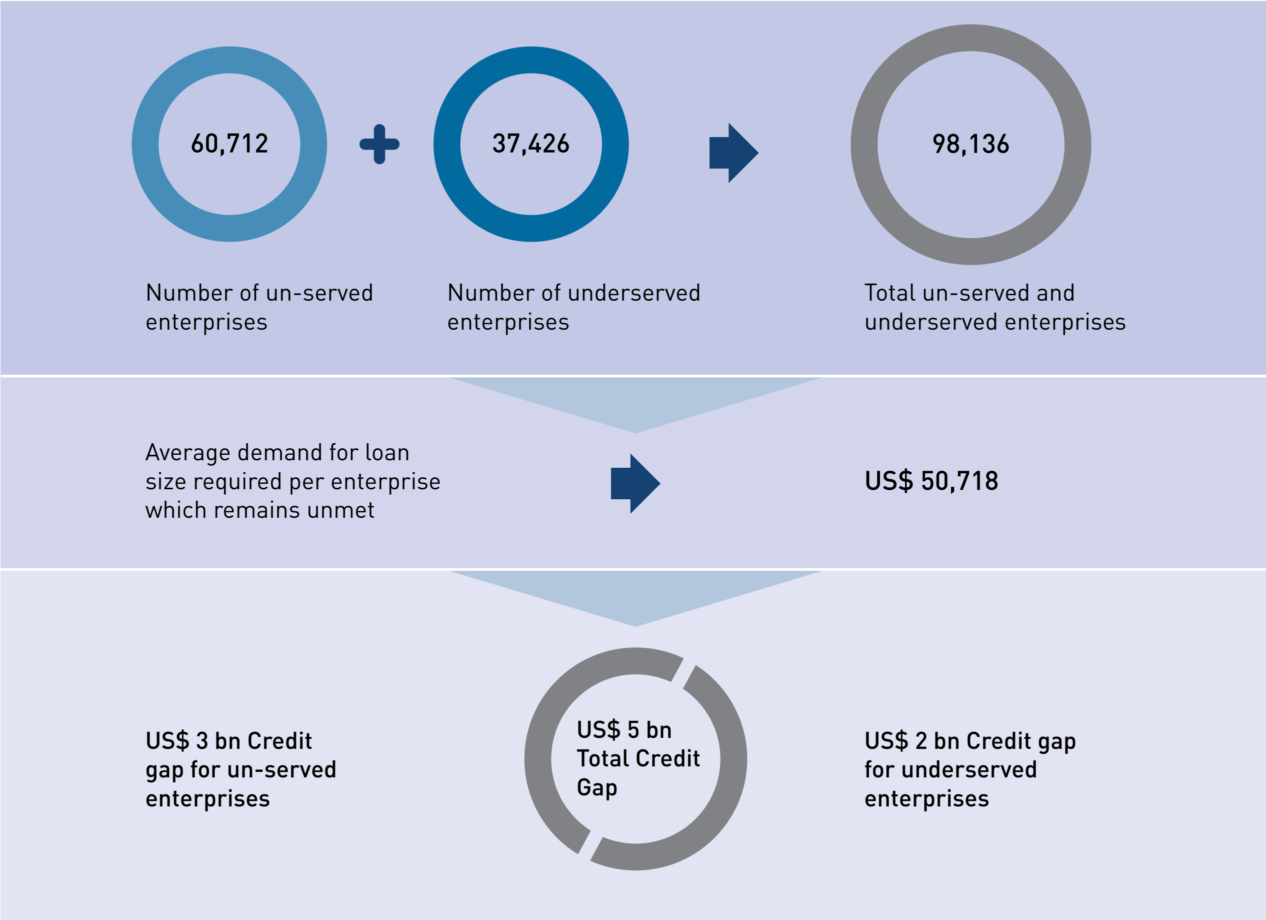
The introduction of banking agents, who assist in opening accounts and facilitate general transactions have improved outreach and increased acquisition of customers in the SMES segment. Kenya Commercial Bank (KCB) alone has 10,000 agents and plans to grow this number to 30,000 in 2015.[62] In addition, bank partnership with telecom operators for mobile banking solutions has become an additional channel of outreach to the SME segment. An example of this is M-Shwari, a savings and loan product launched in November 2012 by Commercial Bank of Africa (CBA) and Safaricom. It allows all M-PESA users to avail a 30-day loan with 7.5% facilitation fee. Since the launch, CBA has disbursed 20.6 mn loans, totaling US$ 277 mn to 2.8 mn unique borrowers with an average loan size of US$ 15, thereby offering a solution to microenterprises' need for working capital. Despite the increased efforts to lend to SMEs, analysis indicates that there is a credit gap of US$ 3 bn for enterprises that have completely remained unserved, making a total credit gap of US$ 5 bn for underserved plus unserved SMEs[63] (Figure27 and 28).

FIGURE 27 The Kenyan annual supply side story



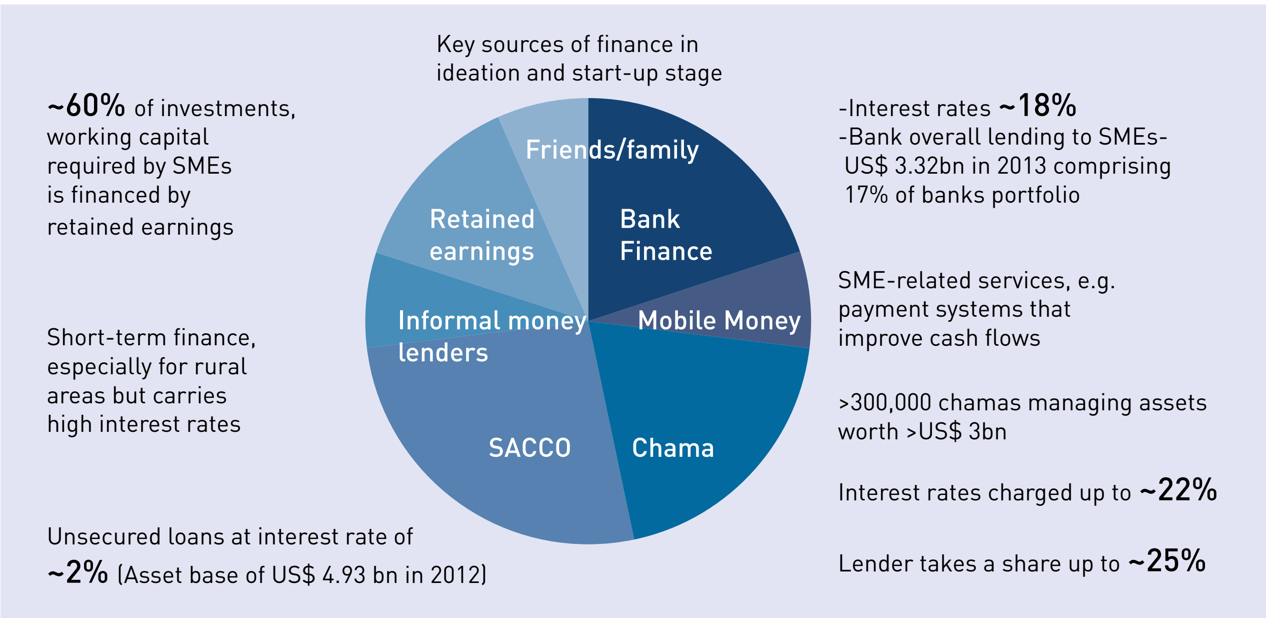
Source: Author's Research Note : The data is an annual estimation for based on annual supply side data of the Association Of Microfinance Institutions, Kenya, 2013, and IFC Enterprise Finance Gap Raw Database 2008

FIGURE 28 **Total SME credit gap**



Source: Author's Research Note: The number of un-served and under-served enterprises was obtained from the IFC Enterprise Finance Gap database 2008. The average unmet demand for loan size was obtained by considering the following- (a) average loan size required by un-served and under-served enterprise (expressed as % of revenues) (b) their average total revenues (data provided in World Bank Enterprise Survey). Thus, USD 3 bn and USD 2bn credit gap was arrived at for un-served and under-served enterprises respectively.

FIGURE 29 **SME financing strategies**



Source: Intellecap primary research, FSD Kenya, Kenya Association of Investment Groups, Kenya Bankers Sacco ltd, World Bank Enterprise Survey 2013

Most SME loan products are targeted towards meeting short term financing needs, such as overdraft facilities, local purchase order (LPO) financing, asset financing or factoring. Thus, the options for longterm growth capital remain limited. Primary research suggests that this shortage of formal long-term capital forces enterprises to use a mix of financing strategies from different sources. Apart from the commercial banks, other key formal players that act as a supplier of debt (Figure 29) to SMEs are Microfinance Institutions (MFIs) and Savings and Credit Cooperative Societies (SACCOs). MFIs lend small ticket sizez to SMEs and have a total exposure of ~US$ 44 mn to Kenyan SMEs, which is around 13% of the total MFIs portfolio. Savings and Credit Cooperative Societies (SACCOs) offer short-term finance at lower interest rates to their members in comparison to banks. While challenges in accessing debt exist on the supply-side, a variety of reasons on the demand side prevents enterprises from accessing debt (Figure 30 and 31).

FIGURE 30 Demand-side challenges in accessing debt finance

Demand side challenges (from SME)

Inability to offer collateral such as land: Banks accept only property as collateral, and expect applicants to present collateral, at times as high as 120% of the amount of the loan. Further, it is a challenge for women entrepreneurs to meet collateral requirements as they own less than 1% of land in Kenya.

Lack of awareness about products by customers: As per World Bank Enterprise survey 2013, the uptake of financial products such as letter of credit and factoring has remained less than 20% due to lack of awareness among customers.

Inability to articulate business plan: SMEs often lack ability to clearly articulate business plan and financial projections related to their businesses, weakening the robustness of loan proposal.

Lack of management skills: SMEs often lack expertise in terms of business and financial planning as well as governance structures, weakening their loan proposals.

Perception of rejection of loan applications: SMEs perceive that banks will typically lend to corporates and not SMEs, resulting in them not approaching banks for credit facilities.

FIGURE 31 Supply-side challenges in accessing debt finance

Supply side challenges (from Banks)

Lack of customized products: Products offered to SMEs are the standard loan products. They are not customized according to the needs of the SMEs

SME lending teams: Often banks do not have specialized SME teams who have in-depth sector expertise and know business models of enterprises.

Collateral definition: As per prudential regulations, banks can only consider 'property' as collateral; attempts to create a collateral registry that allows lending against movable assets are underway

Risk assessment procedures: Risk assessment of most banks are not sophisticated and only focused on limited types of assets.

High interest rates: Average commercial bank's lending rate is around 18% with high interest spread of 10% per annum over last 10 years. This discourages SMEs from seeking debt finance.

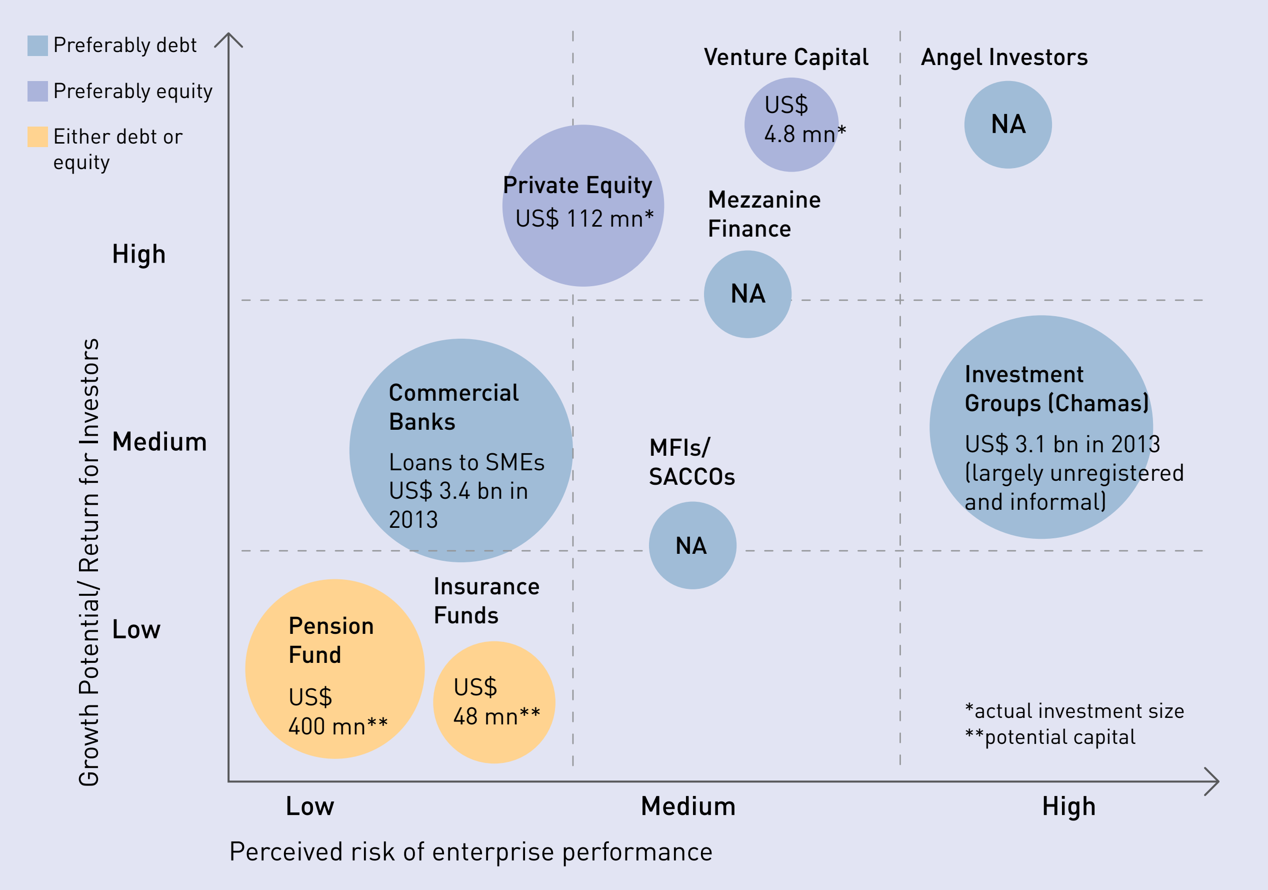
Source: Author's Research

Only high growth SMEs can access private equity

Private equity (PE) investors expect returns of around 20% and provide capital to high growth SMEs with high capital requirements.[64] As a majority of SMEs finds it difficult to meet these return expectations, private equity remains an option for only a few.[65] Analysis indicates that major PE funds in Kenya have US$ 862 mn under management since 2010, inclusive of SME funds.[66] Pearl Capital Partners, for example, invests in high-growth SMEs through its two funds – African Agriculture Capital Fund of US$ 25 mn and African Seed Investment Fund of US$ 12 mn. Amethis Finance and Helios Investment Partners have recently launched SME focused funds for Africa of which US$ 61 mn is dedicated solely to Kenya. The average ticket size of SME-focused PE funds is US$ 5 mn, and the ticket sizes range from US$ 250,000 to US$ 15 mn. Depending on the investment amount, PE investors acquire around 25% - 75% of stake in the company. Overall, the PE-industry has not seen many exits yet. A recent KPMG report counts 21 exits over a seven-year period from 2007 to 2014.[67] Seven of these 21 exits were undertaken in 2014.

FIGURE 32 Financing beyond equity

The larger share of the capital sources available in Kenya is for debt based instruments



Source: Author's Research

Mezzanine finance can fill the gap between debt and equity

Debt instruments are more easily available to SMEs in Kenya (Figure 32). Equity players such as angel investors and VCs only cater to high growth SMEs. Opportunities in mezzanine financing are underdeveloped, and unexplored to a large extent. In the last 5-7 years, a few innovative financial service providers such as Grofin, and Business Partners International have experimented with mezzanine solutions. Mezzanine finance has lower collateral requirements; however, the lender can convert to an ownership or equity interest in the enterprise in case of default or limited achievement of milestones (Figure 33). Mezzanine financers also include certain covenants that the enterprises must follow. This ensures that the enterprises adhere to minimum financial ratios and focus on regular monitoring and improving their performance. The covenants for mezzanine finance are fairly flexible compared to those for bank finance.

Hence, mezzanine financing brings financial discipline along with flexibility. The involvement of a mezzanine financer in an enterprise reduces the perceived risk of the banks, and thereby leads to increased access to capital. Despite these merits of mezzanine finance, entrepreneurs need to be aware that mezzanine finance comes at higher interest rates than debt capital from banks, and also carries some risk of loss of control.

64 Source: Authors' Analysis
65 Source: Authors' Analysis
66 Source: Authors' Analysis
67 Private Equity Industry Survey of East Africa for the period 2007 – 2014, KPMG and EAVCA, 2015

FIGURE 33 Mezzanine finance

Equity	Debt
• Provides long-term finance • Fosters innovation, growth and professionalism to expand and scale • Has high cost (>20%), • Limited availability of seed or angel investors	• Enables enterprises to meet short term finance needs • Limits exposure to external capital shocks • Better accessibility due to larger presence of debt capital providers • Comparatively lower cost (~18%)

Mezzanine Instruments

- Fixed interest rate (typically unsecured) and equity component
- Offers more flexibility to enterprises to manage their long term and short term financing needs
- Mezzanine finance is less expensive than equity and also has tax advantages

Source: Authors' Analysis

Case Example: GroFin – Mezzanine Finance and One stop solution for SMEs

GroFin is a pioneering development financier that provides finance and support to small and growing businesses across Africa and the Middle East. Established in 2004, it manages 7 funds on behalf of 24 international investors with a committed capital in excess of US$ 400 mn. Until now, it has provided business support to 6187 SMEs, helped create and maintain 13,964 jobs and created economic impact of US$ 1.67 bn. GroFin leverages patient capital and specialized business support to grow emerging market enterprises. It supports businesses to buy new assets, expand their operations and develop new product lines. The collateral requirements are lower than for bank debt. It provides debt or mezzanine finance in the range of US$ 50,000-1.5 mn to enterprises across multiple sectors. As part of the loan, it also provides entrepreneurs with business training and peer to peer learning opportunities that are critical for their success.

Recent trends and innovations in SME financing

The primary research suggests that a number of innovative financial service providers understand the different customer segments within the SME sector. Those with fast growing SME portfolios in the Kenyan market like Chase Bank or Equity Bank and specialized service providers such as Grofin and Business Partners International (BPI) have demonstrated that the solution lies in a customer-centric approach to provide targeted solutions to SME clients. Stakeholders emphasize that the future of SME banking will lie in combinations of financial products with non-financial advisory services. A number of innovative Non-Banking Finance Institutions, fin-tech startups like Kopo Kopo and telecom providers like Safaricom or Airtel are entering traditional banking domains by offering solutions for SMEs that establish strong relationships (e.g. salary payment systems, merchant cash). There are several examples of how banks and innovative service providers have found solutions to cater to the SME segments (Figure 34).

FIGURE 34 Innovations in SME banking

Approach	Focus Areas	Examples In Kenya
Understanding SME customer and subsegments	**No one size fits all:** SME sector is not a homogenous group; there is significant diversity in different SME subsegments and their needs. **Identifying the opportunity:** A number of bank clients have SMEs in their portfolio that have growth-potential but that have not thought about taking long-term risk or growth capital. Identifying the opportunities and investors that can provide them with equity or hybrid capital can turn low growth companies into scalable enterprises.	**Build customer relationships through powerful tie-ups:** Safaricom and KCB have partnered to launch a one-stop platform to meet the needs of SMEs. While Safaricom offers SMEs business tips, cloud software management applications, domain hosting and professional email services; KCB provides advisory services, SMEs banking, access to loans, and insurance and online banking services amongst others.
Developing SME oriented products and services	**Catering to different SME sub-segments:** There is a strong need among SME sub-segments for customized finance. Women- and youth entrepreneurs and startups are niche markets that offer a potential for first-movers. **Offering non-financial services:** Innovation potential lies in offering advisory support, for example, through relationship managers, virtual advisory, self-learning services, training programs or specialized service offerings. For many banks this is a direct cost; some have initiatives with partners or support programs through their CSR budget.	**Tailored product for women customers:** KCB has introduced the Grace Loan, which is tailor-made for women entrepreneurs and women business groups to meet their working capital and business expansion needs. Under the Grace loan, women can apply for a loan of up to US$ 62,000, repayable over 36 months. The loan has an important training component, offering workshops, capacity building, networking, and business advisory services. Since its launch, the Bank has on-lent over US$ 1.6 mn to 350 women entrepreneurs.
Building SME oriented teams within banks	**Building SME-teams:** Banks need teams that can understand the challenges and needs of different SME sub-segments. There is need for relationship management teams that ensure continuity by acting as backup in case staff is leaving or promoted. **Spotting Opportunities:** Focus on business and management skills can help build competence in understanding new business models and recognizing opportunities of growth. **Aligned incentives:** The current practice of housing SME banking within corporate banking teams may not work as incentives reward large ticket-size loans. SME banking should be housed within the retail banking, where customer-orientation matters.	**Dedicated SME team:** Standard Chartered in Kenya has a dedicated team of experts and relationship managers focused on SME banking. It has dedicated centers/hotlines for its SME customers. These initiatives need to be undertaken by other banks as well.

Market landscape	**The need for more competition:** Despite a total of 43 banks, 6 banks dominate 80% of the Kenyan market, leading to little incentives for innovation in SME banking. **Innovating SME Banking Business Models:** With the emergence of Non-Banking Finance Institutions and telecom companies providing mobile money solutions, the scope for comprehensive SME Banking strategies has increased. Offering "sticky products" such as payroll services are one solution. Offering mobile money offerings for small business is another.	**Small ticket size lending through *MShwari***: M-Shwari is a joint venture between mobile provider Safaricom and CBA. MShwari is a bank account issued by CBA, which enables saving and access to debt. It leverages M-PESA's mobile money reach as customers can access it directly via the MPESA menu ona mobile device. It pays interest ranging from 2%-5% based on a customer's average daily balance in the mobile wallet. It enables customers to apply for a loan without prior credit history, and facilitates the loan for 30 days initially with a 7.5% facilitation fee. Since launch, CBA has disbursed 20.6m loans totaling US$ 277 mn. It has 2.8 mn unique borrowers with an average loan of US$ 15.[68]
Organizational systems and processes	**Information systems for growth:** Cross-sales and more comprehensive SME banking strategies are possible when information and customer relationship management systems exist that allow better prediction of consumer behavior. **Streamlined processes:** Effective and efficient processes of delivering financial services are as important as product offerings themselves. **Sophisticated risk-assessment practices:** Effective lending to SMEs needs to move away from risk assessment methods that focus only on limited types of assets to collateralize loans (e.g. urban land, real estate). Credit scoring, drawing on sources of credit bureaus is one such innovation. Improving the quality of the loan portfolio through closer monitoring and analysis of patterns of non-performing loans are another innovation. Simplified lending processes that rely on the relationship with the consumer, such as invoice based discounting or asset–based lending are a possible innovation.	**Collateral free lending:** AFB, consumer and business finance company, has launched an innovative Business Cash Advance product for SMEs in Kenya. The product offers eligible SMEs unsecured cash advances without any collateral requirement of up to KSh 5 mn (US$ 51,546) to finance them with working capital for their business growth and expansion. **Innovative risk mitigation technique:** CfC Stanbic bank has initiated a new psychometric test to vet potential clients. It is a computer tool that gives a score depending on how the potential borrower performs on the list of questions. It is a risk mitigation measure that would help in lending to enterprises without a proven track record. It also enables bank to offer loans at competitive interest rates as perceived risks by banks are lowered through performance on the test.

3.4 Business Support

Business enablers prepare the 'missing middle' for finance

A recent enterprise survey by Monitor Group showed that only 30% of Kenyan enterprises believe business support is sufficient and meets enterprise needs.[69] Only 13% of enterprises believe that services are affordable; while only 33% believe the services deliver value for money. In the same survey, only 5% agree that business support services are available across the country. Around 76% of enterprises felt that the number of incubators in the country was insufficient to meet enterprise needs.

Traditionally, donor-funded programs, government programs and initiatives by NGOs have dominated the business support ecosystem for SMEs in Kenya. These programs largely provide trainings and technical assistance, but these tend to be short term and are often not market-based. In the past few years, innovative service providers have emerged to support SMEs with business and legal advisory services, financial management (e.g. accounting and auditing) services and incubation and acceleration services. They facilitate capital, talent acquisition, product and process innovation and market identification among other services

Incubators like m:lab or accelerators like Nailab and GrowthAfrica play an important role in identifying innovative SMEs and providing mentoring and coaching services to SMEs that aim to strengthen their business model.[70] Incubators help SMEs identify market opportunities, build and refine business models, develop expansion strategies and effectively pitch the business to investors. A recent study by VC4Africa has shown that enterprises that join an incubator or accelerator program or participate in sector events, secure 23% more external finance than their counterparts who do not seek such services[71]. Co-working spaces like iHub enable peer-to-peer learning, build networks and strengthen the entrepreneurial culture.

Case Example: GrowthAfrica: Moving beyond ICT start-ups

GrowthAfrica is a business incubation hub in East Africa that helps local and international companies to grow their businesses. It was founded in 2000 with a mission to proactively contribute to the social and economic growth of African economies through strengthening local enterprises. The company today works in five business areas:

- **GrowthAfrica Consulting**: Market entry, expansion and partnership facilitation between international and East African companies, with an emphasis on Kenya
- **The GrowthHub:** Start-up incubation/acceleration services and programmes
- **GrowthAfrica Management:** Serviced offices, shared services and outsourced business processes
- **GrowthAfrica Capital:** Investment facilitation for start-ups and early stage enterprises
- **GrowthAfrica Ventures:** Co-creation of web and mobile ventures

The team provides incubation and acceleration support to local and international companies wanting to set up and grow the business in the region. They source high potential businesses and provide them with mentoring, coaching and peer-to-peer learning opportunities. Recently, it launched a Green Pioneer Accelerator program in association with Impact Amplifier, VC4Africa and Hivos to support early stage enterprises in Kenya and South Africa contributing to environmental issues such as climate change, loss of biodiversity and soil degradation. 11 entrepreneurs were selected from Kenya for the 2015 Green Pioneer Acceleration Program. GrowthAfrica has also partnered with 'Spring Accelerator' that supports businesses whose products and services help transform the lives of adolescent girls. It also runs an acceleration program in collaboration with Village Capital.

Innovations are needed to fill the gaps in the business support landscape

While a number of innovative models are catering to the 'missing middle', the research to map different services and service providers indicated gaps in the current support landscape. This section will summarize these white spaces and provide examples of how the gaps can be filled.

- **Support gap between business plan and revenue stage:** There are a number of initiatives like business plan competitions that help Kenyan entrepreneurs to gain confidence. Our research, however, suggests that there is a shortage of pre-incubators that help startups to move to the next stage (Figure 36). This gap in the support system can lead a large number of entrepreneurial ventures to close down before they reach the revenue stage. Some models that could potentially fill this gap and increase access and affordability of support services are virtual incubation and peer-to-peer learning forums.

- **Current incubation capacities cannot meet the demand from potential high growth SMEs:** The growth in the SME sector calls for more diverse, accessible and cost-effective business support services. Of the 24 incubators, accelerators and specialized service providers that were part of the mapping study, all are located in Nairobi with a very few having a presence in other counties. For example, Sinapis Group[72] is an incubator that operates in Nairobi and Mombasa. The stakeholder conversations and assessment based on publicly available information suggests that incubators or cohort-based accelerators on average support around 18 SMEs per year. This is only a small fraction of SMEs which need these support services.[73] In 2013, 28,800 new businesses were registered in Kenya, and going by global trends, it is anticipated that 25% of these would need incubation support.[74]

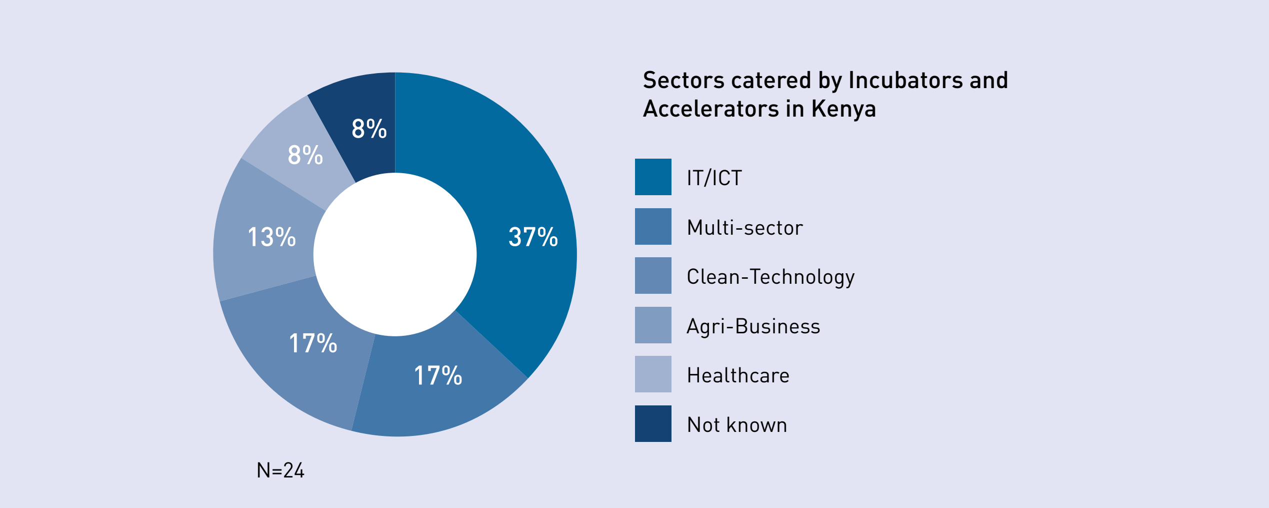
- **Shortage of non-ICT ecosystem players:** The mapping study suggests that the ecosystem has developed unevenly - 9 out of 24 incubators and accelerators mapped for this study provide incubation and advisory support solely to technology entrepreneurs (Figure 35). iHub is a co-working space for technology startups, whereas Nailab, 88mph[75], m:lab East Africa, @iBizAfrica[76] provide structured business support and mentoring. Only few players support enterprises in other growth sectors, such as agribusiness, healthcare and energy.

The Kenya Climate Innovation Center[77], Chandaria Business Innovation and Incubation Center (BIIC)[78] and GrowthAfrica's recent Green Pioneer accelerator program are examples of accelerators that look at innovation opportunities beyond ICT.

The recently launched SPRING accelerator housed within GrowthAfrica targets enterprises that develop solutions to empower women and girls. Overall, analysis indicates a bias towards the services sector. This stems from the fact that incubating product and manufacturing enterprises is much more resource intensive than incubating asset-light ICT and service sector enterprises.

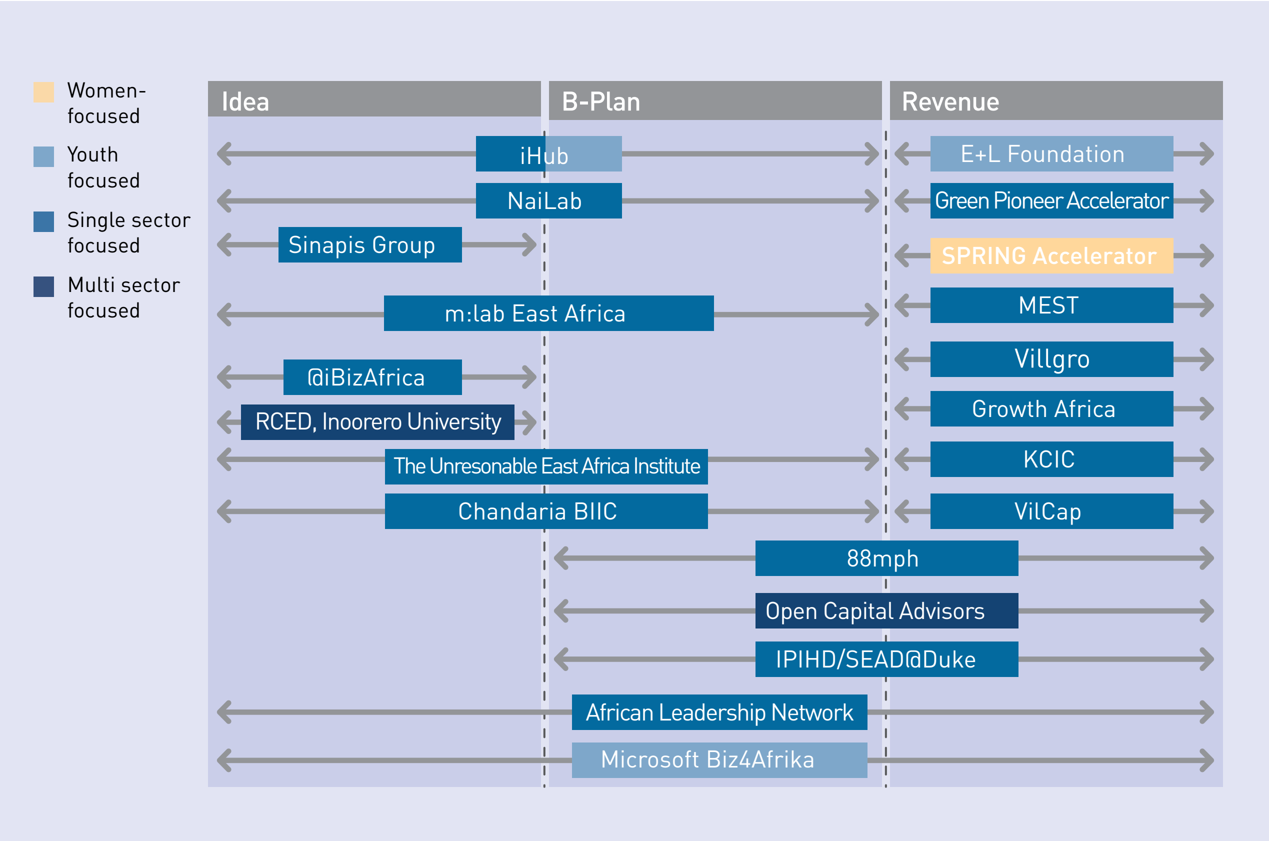
- **Lack of awareness in the entrepreneurial community:** There is an information asymmetry with respect to availability of support services in Kenya. While enterprises know of accounting services, they are less aware of other service offerings such as incubators, accelerators and business competitions (Figure 37). Many enterprises shared that they would rather access informal business support networks such as friends and family with experience in a particular field[79]. In addition, many enterprises also shared that they would prefer to pay for services that clearly demonstrate value[80].

FIGURE 35 Sector focus by incubators/accelerators



Source: Author's Analysis

FIGURE 36 Key business support providers in Kenya across the enterprise life cycle



Source: Author's Analysis

68 How M-Shwari Works: The Story So Far, Access to Finance Forum, Reports by CGAP and its Partners, No. 10, April 2015
69 Omidyar Network 2014
70 m:lab East Africa is a consortium of four organizations that identify, nurture and help to build sustainable enterprises in the knowledge economy through training, advisory and providing co-working space and networking. Nailab and Growth Africa are a startup accelerator programs that offer structured programs to entrepreneurs of a period between 3-6 months
71 Venture Finance in Africa, VC4Africa, 2015
72 Sinapis Group is an accelerator program
73 Authors' Research
74 Number of new businesses registered, World Development Indicators, 2013; The Anatomy of an Entrepreneur, Kauffman.org, 2009

FIGURE 37 Assessment of 4a's for different business support services to SMEs

	Availability	Affordability	Accessibility	Awareness
Incubation and Acceleration Services				L
Legal advisory and transactional services	L	L	L	M
Accounting services		L	L	H
Network and platforms	M	H	L[1]	
Business associations*	H	H	H	L

Note: H- High, M-Medium, L- Low
* Business associations-formal as well as informal
# The iHub and state of Internet in Kenya 2014
1 Accesibility to networks and platforms is low because membership to a lot of networks is based on access to internet and only 49.5% of the total population in Kenya has access to internet
Source: Author's Analysis

Investment readiness and transaction advisory are critical links

A number of service providers have emerged as intermediaries between investors and enterprises, and offer critical services that help in decreasing the transaction cost for investors.

- **Sourcing enterprises:** Growth-oriented SMEs are emerging all over Kenya, and are not restricted to the national capital region of Nairobi. As investors typically have small teams, they experience bandwidth constraints to work across counties. They rely on other support organizations that build a pipeline for investment. Organizations like Open Capital Advisors help to identify SMEs with growth potential and bring them to investor's attention. Angel networks like Kenya Business Angel Investor Network (KBAIN) and Viktoria Solutions source high growth SMEs and showcase them to investors. The recently launched East Africa Chapter of Intellecap's Impact Investing Network (I3N) sources ten enterprises every six months and showcases them to a network of investors. Technology platforms such as VC4Africa connect enterprises with investors and facilitate investments.

- **Making SMEs investment ready:** A handful of boutique service providers work closely with investors and offer fee-based services to SMEs, helping them with their business plans and financials models as well as with documentation that investors and banks need. Accelerator programs like 88mph help enterprises build investment readiness in exchange for equity stakes. Savannah Fund's accelerator program offers mentoring and coaching services and also deploys US$ 25,000-30,000 in each company in exchange for 12% equity stake. This is for a cohort of 5 enterprises every quarter, and 20 enterprises each year.

- **Providing transaction advisory:** Traditionally, accounting and investment banking firms provide transaction advisory services for larger enterprises. The market for affordable transaction advisory services is still nascent; there are limited players in this space due space due to the high-touch and personalized model of service provision and the limited ability of SMEs to pay for such services. Innovative business models such as partnerships with investors that pay for the service as part of their technical assistance facility can help service providers offer these services to enterprises on a sustainable basis.

- **Providing affordable, high quality professional services:** High growth startups and small and growing businesses find it difficult to access affordable high quality services. In a survey conducted as a part of Intellecap's study on Youth and Entrepreneurship in East Africa in January 2015, out of 50 early stage startups, 47% enterprises mentioned difficulty in accessing specialized support, such as legal advisors; 41% found access to technical experts difficult, and 29% identified access to accounting and service providers difficult.[81]

Case Example: Open Capital Advisors – Making enterprises investment ready

Open Capital Advisors (OCA) is a management and financial consulting firm that supports high-growth businesses and innovative investors. Over the last 5 years, it has supported 130 engagements, of which 80 are enterprises based in East and Southern Africa. Its enterprise support includes both pure consulting arrangements and capital raises. The other 50 engagements are work with investors, development actors, and corporates. It has helped raise US$ 50 mn for SME clients, with an average of just over US$ 1 mn per raise and ticket size starting with as low as US$ 50, 000. It has hired & trained more than 25 top local university graduates to work with the OCA team – the retention rates are quite sound, and those who have moved on to new opportunities have gone to top international business schools, and to work in leadership roles with top local companies.

75 88mph is a co-working space and accelerator for tech startups
76 iBizAfrica is an accelerator program housed in ilab at Strathmore Business School
77 Kenya Climate Innovation Center focuses on incubating enterprises that develop climate technologies, e.g. in sectors such as renewable energy, agribusiness and water management, providing mentorship and access to finance support
78 Chandaria BIIC is an incubator targeting university students at Kenyatta University
79 Authors' Research
80 Authors' Research
81 Catalyst for Change: Creating an ecosystem for young entrepreneurs in East Africa, Intellecap, 2015

Ensuring sustainability through innovation of business models

A majority of the support providers are backed by technology corporates like Microsoft and Samsung, or funded by technology partners, grants from international aid agencies, DFIs and the government. An increasing number of providers, however, aim to develop sustainable business models and revenue streams to increase independence and sustainability. According to primary research, of the 24 incubators and accelerators mapped in Kenya, 11 (~46%) are for-profit organizations seeking sustainable revenue sources.[82] Conversations with founders of not-for-profit support organizations indicate that even they are working towards building sustainable business models. Following global trends, incubators and accelerators have started taking an equity stake in the enterprise as an additional revenue stream. For example, m:lab, which was earlier primarily funded by infoDev, has now entered into corporate and technology partnerships. Instead of relying solely on grant funding, the organization has experimented with virtual incubation models in order to cut costs and scale services. Virtual incubators have a wider outreach, as enterprises do not have to be on-site to access services. They can be more cost-effective as compared to setting up physical infrastructure for the incubator or accelerator.

3.5 Linkages to overcome fragmentation in the ecosystem

Overcoming fragmentation through facilitators, networks and platforms

While there is an increasing number of service providers and initiatives that target SMEs, the ecosystem remains fragmented and information on support opportunities is difficult to access. Linkages between initiatives are needed to help enterprises navigate the increasingly complex ecosystem.

- **Business Networks:** Business and peer-to-peer networks can fill this gap by providing entrepreneurs with latest information and mentoring on various aspects like technology, markets and investors. They can also act as advocacy bodies that facilitate a collective voice for the SME sector. Examples of networks and platforms include:

- *Business associations and industry bodies* such as Kenya National Chamber of Commerce and Industry (KNCCI), Kenya Association of Manufacturers, and Micro & Small Enterprises Federation (MSEF) strengthen the sector through providing networking events, marketing its products and services and undertaking policy advocacy with an objective to lobby SMEs interests.

- *Industry events* such as the Kenya SME Finance Forum by IFC accelerate access to finance for SMEs by promoting knowledge exchange and policy advocacy. Sector specific events can play a key role in enhancing peer learning on industry-specific bottlenecks and strategies to overcome them.

- *Youth-oriented business fora:* Kenya Association of Young Entrepreneurs (KAYE) brings together young entrepreneurs for networking, exchange of business ideas and market information. It organizes networking dinners for existing and aspiring youth entrepreneurs.

- **Investor Platforms:** Investor-oriented networks also help create linkages and collaboration. After successfully securing the first US$ 100,000 of external finance, many enterprises struggle to attract the next round of investment. Very few players such as Novastar Ventures, DOB Equity and Progression Capital Africa provide the option of follow-on investments for their portfolio SMEs. For others, secondary sales become important. Collaborations among equity investors and other ecosystem players such as incubators and accelerators, legal and accountancy firms, and business networks are important to facilitate deal flow and syndicate relationships between investors, strengthen secondary sales and create more exit opportunities. Industry gatherings facilitated by the East African Venture Capital Association (EAVCA) and platforms such as Sankalp Forum[83] act as a market place, allowing investors to exchange pipeline information. As many VC funds have started investing in SMEs only recently, it is yet too early to discuss the exit infrastructure for the early stage financing space. Nevertheless, with increasing investments, secondary sales and exits will become important to ensure flow of capital.

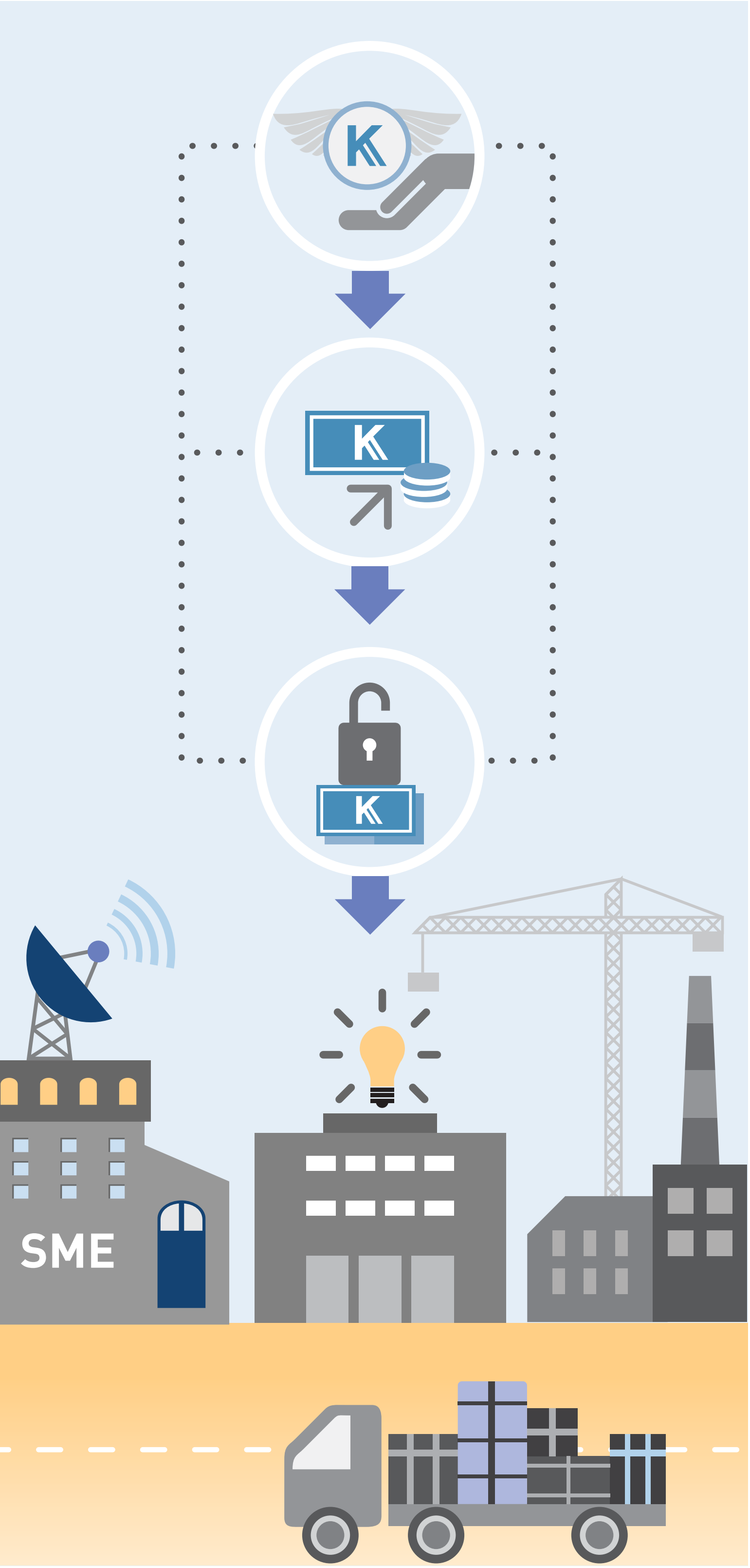
- **Media platforms:** Events and media platforms such as Demo Africa and Pivot East play a key role in creating visibility for entrepreneurs and contribute to attracting investor interest.[84] While more mature enterprises have high visibility, it is especially early stage enterprises that benefit from being exposed or showcased as success stories or local champions. Awards and other recognitions can engender a celebration of entrepreneurship and showcase viable enterprises to a larger community of potential investors.

Pathfinders are important to create linkages in the ecosystem

In response to SME demand, there has been a proliferation of service providers in recent years. Yet, entrepreneurs face a number of challenges in identifying and selecting appropriate support services for their business models and stage. As a result, enterprises miss out opportunities or take part in support programs that are inappropriate for them. Interviews with enterprises have highlighted the need for greater collaboration among service providers to help enterprises graduate from one service provider to another, hence accessing a continuum of support throughout the life cycle.

82 Author's Analysis, 2015
83 Sankalp Forum is an annual enterprise summit and award process, hosted by Intellecap since 2014 in Kenya but with roots in India, where it started in 2009. It aims to bring ecosystem players together to create a common platform, showcase investment opportunities and identify opportunities for collaboration,
84 Pivot East is a pitching competition and initiative by m:lab, held annually. Demo Africa is an initiative by LIONS@frica that aims to connect African startups to the global ecosystem. Demo Africa is the place where the most innovative companies from African countries get a platform to launch and showcase their products.

4 Conclusion: Scaling up the entrepreneurial ecosystem



Kenya's entrepreneurial ecosystem has evolved over the past 5 years – there are many innovative organizations with different approaches to cater to the 'missing middle'. However, they only cater to a small set of SMEs. With scale, they could make the ecosystem more conducive for SME growth. The ecosystem is also fragmented: Collective efforts will expedite scale up of existing efforts. Initiatives to seed new efforts to unlock seed and angel funding, increase the supply of long-term growth capital, provide sustainable models for delivering high quality business support as well as making existing support more accessible will ensure a strong and enabling ecosystem of support for SMEs.

Kenya ranks highest on the Global Innovation Index for the low-income countries and has seen rapid growth in the incubation landscape in Nairobi. However, the SME financing challenge is as severe as in neighboring countries. More than 68% define access to finance as a challenge and the credit gap is highest in Kenya as compared to the African region (US$ 2734).[85] While Kenya is seen as a leader in SME finance, the challenge lies in addressing the realities of unmet financing demands. Banks and financial institutions with customer-centric approaches that understand the needs of the SME sector have been successful in recent years and need to be scaled up to close this gap.

Different SME sub-segments across various stages of growth have unique financing needs

High growth startups, small and growing businesses, and low and moderate growth enterprises have developed different strategies to meet their financing needs. In the absence of tailored solutions, most of them currently self-finance or bootstrap their businesses, compromising growth. Youth and women entrepreneurs in different stages of their life cycle face particular challenges, often related to the risk perceptions that bankers and financial institutions associate with this segment. Approaches have been successful globally that offer more than targeted products to women and youth, but offer business and leadership skills as well as advisory along with the financial solution.

The last years have seen innovations in financial and non-financial service offerings to SMEs at different stages. An ecosystem of support providers offering capital, incubation and networking has evolved, gaining international recognition for Kenya as the "Silicon Savannah." Today, Kenya has the highest number of business support services in the East African region. A diversity of incubators, coworking spaces, business networks, as well as service providers that help SME to get investment ready and that facilitate transactions with the investors has emerged, improving their service offerings continuously in order to offer more targeted support.

Despite these successes, the ecosystem is still fragmented and individual organizations often operate in silos, making it difficult for the entrepreneur to navigate the ecosystem. Stakeholders, in conversations during the course of this research, made the following suggestions to scale up the existing ecosystem efforts:

1. ***Make information about start-up support more accessible:*** Enterprises find it difficult to find information about competitions, accredited business support providers or other opportunities. Possible solutions include tech-enabled information platforms, portals and other market infrastructure that allow enterprises to access available business support and get information about high quality service providers.

2. ***Unlock angel investments from local high net worth individuals and diaspora:*** Angel investing is a recent trend in Kenya. To increase the amount of seed and angel investing, domestic capital from local HNWIs and from diaspora Kenyans can be mobilized for early stage investing. The culture of group investing through chamas can potentially be tapped and channelized in SMEs.

3. ***Increase the supply of mezzanine finance as a solution to address the long-term growth capital gap:*** While equity is only for high growth enterprises and loan products are not accessible due to high perceived risk by bankers and the heavy requirements for the entrepreneurs, mezzanine finance offers an instrument that allows more risk-taking for the financer and hence provides a solution to fill the gap, especially for low and moderate growth SMEs.

4. ***Combine financial with non-financial support:*** Some investors recognize the importance of non-financial services for the success of early stage SMEs and provide technical assistance pre-investment, supporting enterprises to prepare the enterprise for investment. Some funds provide advisory services along with the capital or provide enterprises the opportunity to apply for additional support from a technical assistance facility. While some offer the advisory support in-house, others have partnerships with service providers.

85 SMES Finance Forum, IFC, 2010

5 Annexure

Annexure A — Framework for comparative assessment of Kenyan entrepreneurial ecosystem in east Africa

Parameters	Kenya	Rwanda	Tanzania	Ethiopia	Uganda
Finance:					
Credit gap (IFC database) ($ Bn)	6.2	0.3	2.4	5.4	0.7
Credit gap per MSME ($)	2734	1400	583	2343	630
% fo firms identifying access to finance as constraint	17%	35%	44%	44%	20%
Access to bank loans/line of credit	36%	46%	17%	17%	10%
Business Support:					
Knowledge and technology outputs	26.9	15.5	17.5	17.5%	24.3
University-industry research collaboration	54.7	45.2	41.8	41.5%	45.5
Number of SMEs per incubator	4129	9338	9361	5000	2450
Policy:					
Ease of starting a business	143	112	124	168	166
Cost of starting a business	42.7	52.3	23.8	89.3	64.4
% of firms identifying business licensing and permits as constraint	18.7	7.7	34.2	3	15.2
Markets:					
Ease of trading across borders	153	164	137	168	161
% of firms identifying customs and trade registered as major constraint	22.4	18.1	38.8	19.7	19.3
Human Capital:					
Percent of firms identifying an inadequately educated workforce as a major constraint	29.5	28.4	40.8	4.3	13.8
Proportion of unskilled workers (out of all production workers) (%)	32.1%	30%	15.7%	23.5%	22.8%
Proportion of workers offered formal training (%)	50.9%	55%	49.5%	60.9%	41.4%
Infrastructure:					
Losses due to electrical outages (% of annual sales)	6%	1%	5%	3%	6%
Percent of firms identifying electricity as a major constraint	23%	15%	46%	23%	27%
Percent of firms identifying transportation as a major constraint	22%	28%	37%	10%	16%
Internet penetration as a % of population	47%	9%	15%	2%	18%
Innovation and R&D:					
Global innovation index ranking	85	102	123	126	91
Percent of firms using technology licensed from foreign companies	20%	24%	11%	43%	36%

Parameters	Kenya	Rwanda	Tanzania	Ethiopia	Uganda
Entrepreneurial Culture:					
Percent of firms identifying corruption as a major constraint	21%	15%	47%	7%	19%
Percent of firms with female participation in ownership	49%	43%	25%	35%	27%
Performance and Impact:					
% contribution to GDP	40%	21%	35%	28%	58%
Employment to total workforce	80%	44%	55%	50%	51%

Source: World Bank Enterprise Survey 2013/IFC

Annexure B Framework for assessment of Kenyan entrepreneurial ecosystem

Kenya Entrepreneural Ecosystem Diagnostic Framework

Determinants

Indicators		Mombasa	Nairobi	Nakuru
Finance	**1** % of SME identifying access to finance as a constraint:			
	-Very severe obstacle	1%	11%	3%
	-Major obstacle	17%	8%	10%
	-Moderate obstacle	28%	19%	22%
	- Minor obstacle	28%	28%	32%
	- No obstacle	24%	34%	28%
	2 % of SMEs with a bank loan	28%	41%	32%
	3 % of SMEs using banks to finance investments	35%	49%	56%
	4 % of SMEs using banks to finance working capital	36%	44%	25%
	5 % of SMEs using NBFIs to finance working capital	4%	8%	5%
	6 % of SMEs that make use financial products:			
	-letter of credit	17%	29%	8%
	-trade insurance	48%	53%	25%
	-factoring	12%	12%	5%
	7 Proportion of investments financed through different sources:			
	by equity or stock sales (%)	8%	6%	7%
	Retained earnings	49%	62%	48%
	Bank borrowings	31%	26%	34%
	Borrowings from NBFIs	2%	1%	0%
	Credit/advances from suppliers and customers	7%	4%	7%
	Informal sources	3%	1%	4%
	8 No of Angel and VC deals*	10 angel deals and 19 VC deals in 2014		
Business Support	**9** No. of Incubators and Accelerators*	24 in Kenya		
	10 No. of Networking organizations and platforms*	25 in Kenya		
	11 No. of financial advisory service providers*	35 in Kenya		
Policy	**12** No of days to start a business /get an operating licence	8	19	20
	13 % of SMEs identifying tax rates as a major constraint	23%	18%	18%
	14 % of SMEs identifying corruption as a major constraint	21%	26%	15%
Markets	**15** % of SMEs exporting directly or indirectly (at least 1% of sales)	56%	34%	11%
	16 % of total sales that are domestic sales	61%	87%	95%

Indicators		Mombasa	Nairobi	Nakuru
Human Capital	**17** % of SMEs identifying an inadequately educated workforce as a constraint	22%	34%	41%
	18 Extent to which the region retains and attracts talent?*	Medium	High	Low
Infrastructure	**19** Losses due to electrical outages (% of annual sales)	9%	5%	5%
	20 % of SMEs identifying transportation as a major constraint	16%	27%	15%
	21 % of population having access to (high speed) internet*	49.5% at Kenya level in 2013		
Innovation and R&D	**22** % of SMEs using technology licensed from foreign companies	34%	20%	20%
	23 No. of patents registered by SMEs*	NA	NA	NA
Culture	**24** Positive attitude towards entrepreneurship as a career choice	78% mentioned family supportive; 50% mentioned society supportive		
	25 Positive attitude towards growth of enterprise*	Yes	Yes	Yes
Performance				
Indicators				
	1 Real annual sales growth (%)	-9%	-23%	-38%
	2 Annual employment growth (%)	4%	2%	1%
	3 Capacity utilization (%)	74%	75%	74%
Impact				
Indicators				
	1 SME Contribution to GDP Growth of country	40%		
	2 SME Contribution to Employment Generation in country	80%		

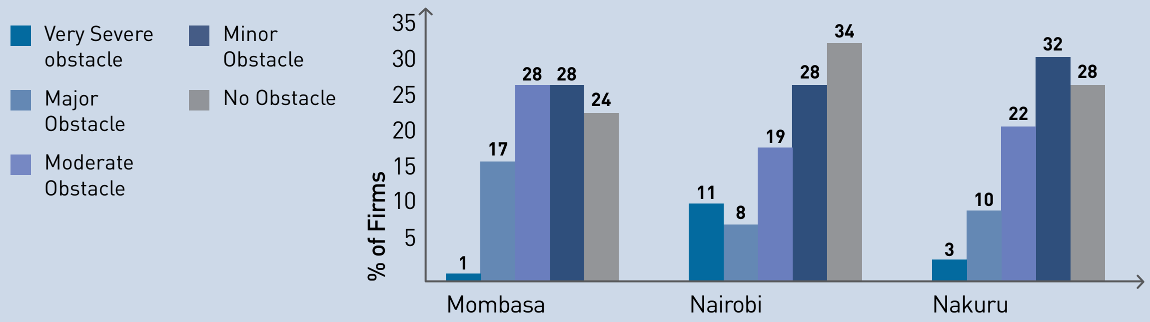
Source: World Bank Enterprise Survey 2013, Authors' Research and Analysis
Note: * means Authors' Research and Analysis

Annexure C World bank enterprise survey 2013 analysis

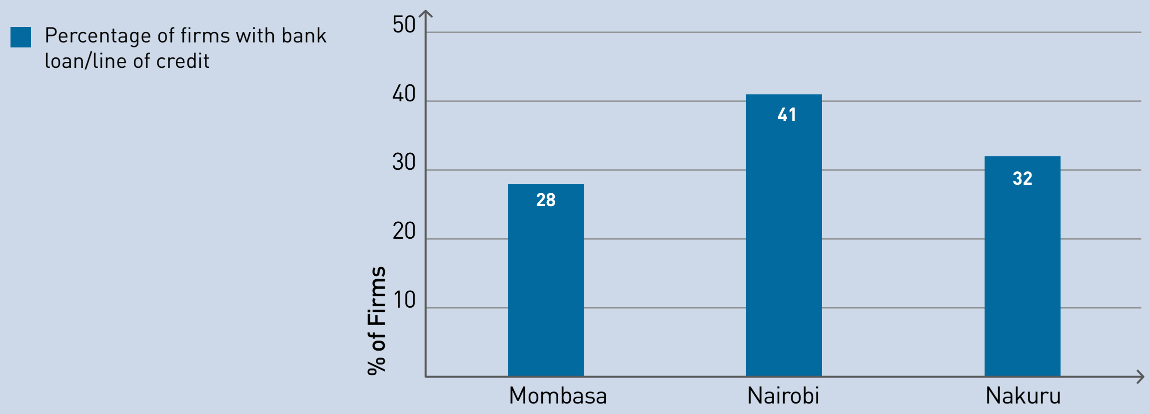
The following pages presents some key data points from the analysis of World Bank Enterprise Survey data.

Access to Finance

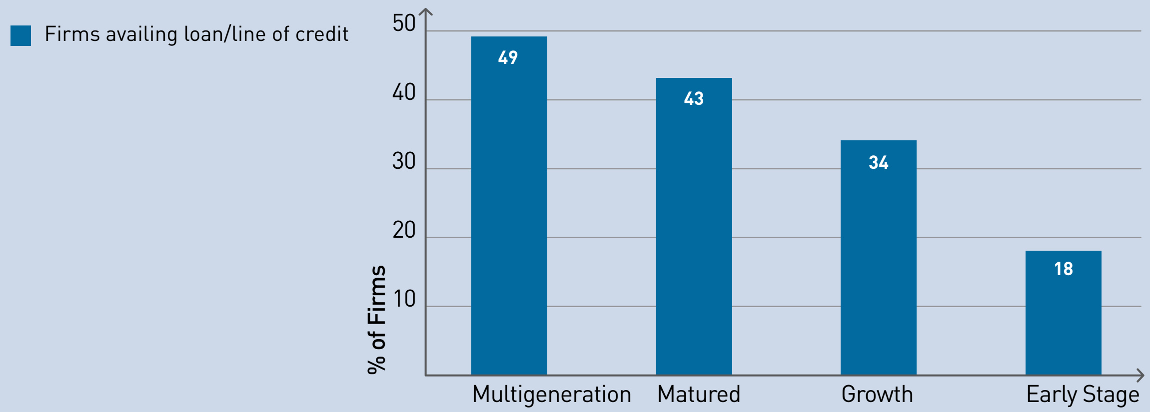
Access to finance as constraint



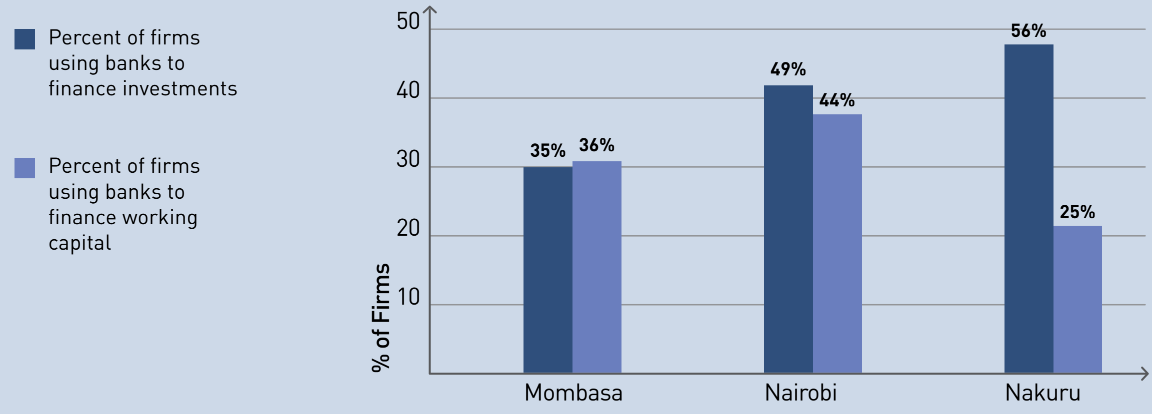
Bank Loans accessed by firms



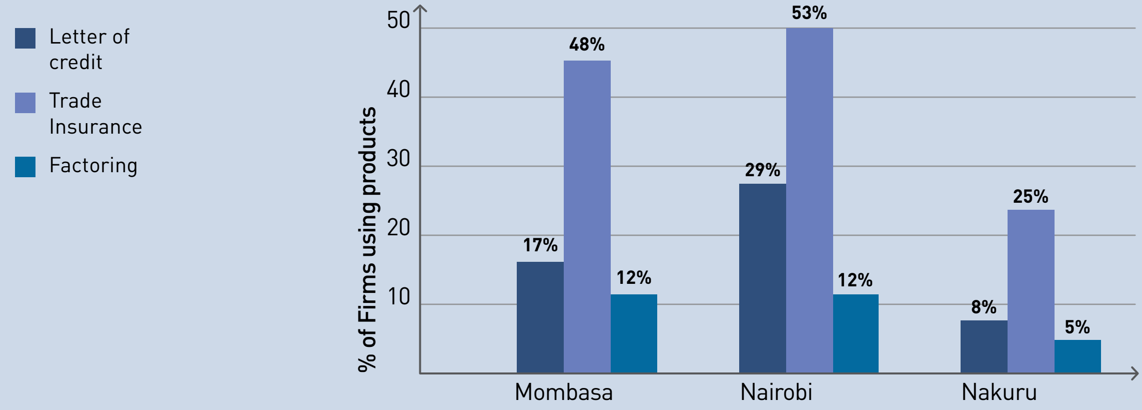
Loan/line of credit availed by firms at different lifecycle stages



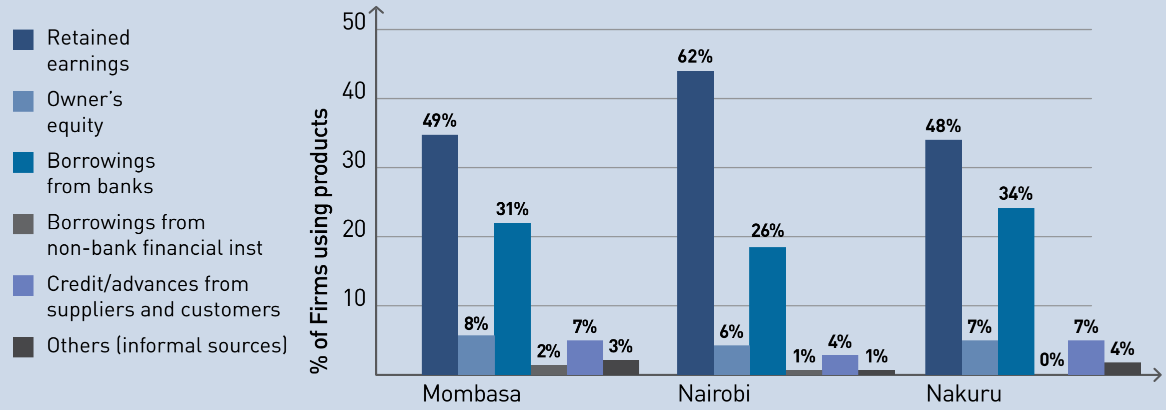
Firms using banks to finance investments and working capital



Uptake of Financial Products



Investments financed by different sources

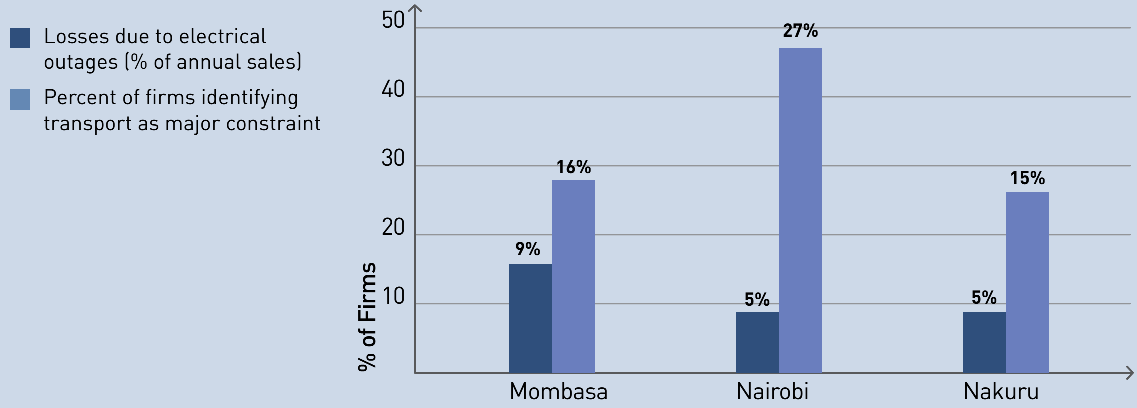


Key Insights

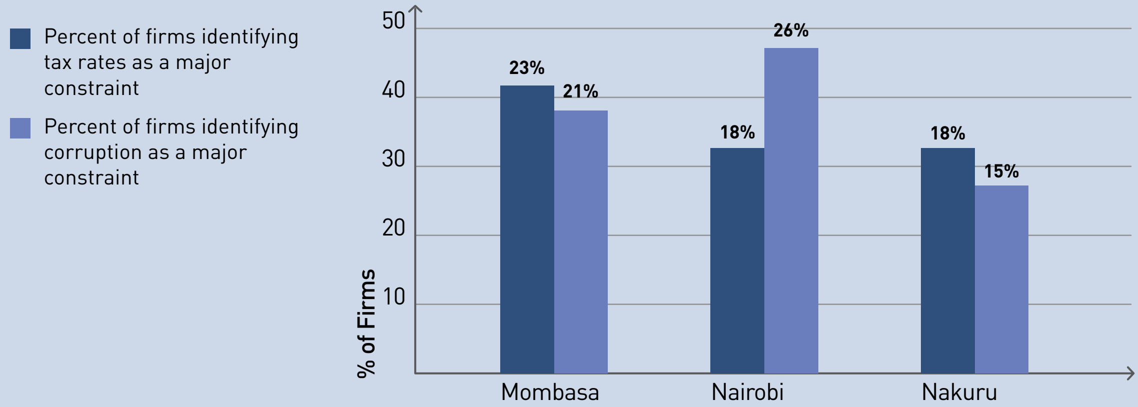
- Around 68% firms find access to finance as a key challenge
- 68% of investments and working capital are financed by retained earnings; however, firms are compelled to do so since they lack access to formal sources of finance
- Loan is easily availed by multi-generation/family owned enterprises compared to early stage enterprises since they have credit history and are financially stronger
- Though on an average 44% enterprises use banks to finance investments, only 24% of investments are financed by bank borrowings indicating that the average loan ticket size from commercial banks is small
- Trade insurance has witnessed good uptake; however, uptake of letter of credit and factoring is very low. This is due to lack of awareness about the utility of products

Policy and Infrastructure

Losses due to electricity outage and transportation as constraint



Tax rates and corruption as constraint

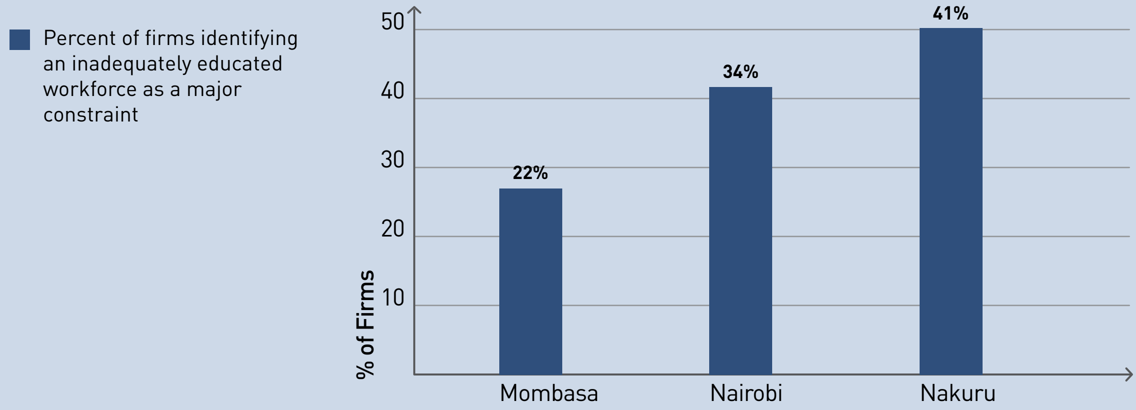


Key Insights

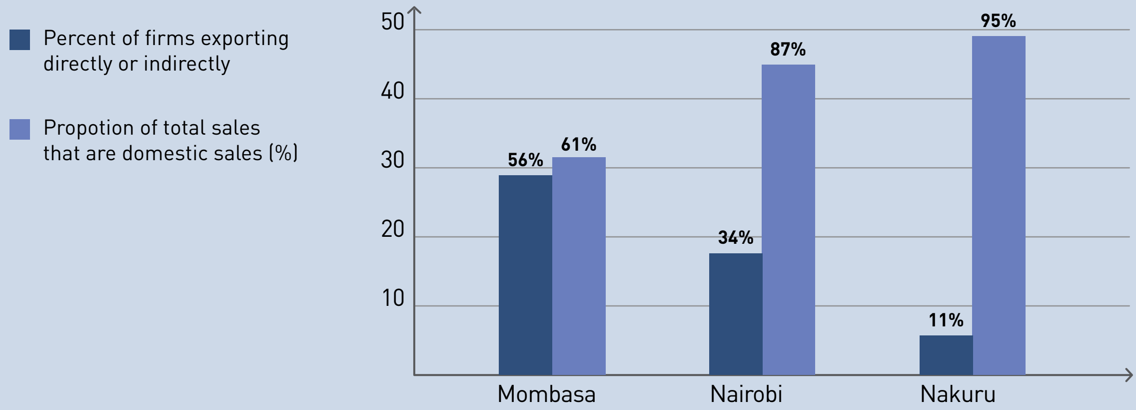
- ICT infrastructure in Kenya is good; however, electricity and transportation are major challenges
- **Difficult to start a business:** As per Doing Business Report 2015, Kenya ranks 143 out of total 189 countries on ease of starting a business
- **High cost incurred to start a business:** 43% of per capita income which is higher compared to countries like Namibia and Tanzania where cost is only 13% and 24% of per capita income
- **Power Outage:** SMEs in Kenya experience more than 600 hours of outages per year compared to 120 hours in South Africa; this is due to dilapidated grid network and poor distribution by *Kenya Power*, the only electricity distributor in Kenya; even generators used by SMEs increase cost of production and loses competitive advantage

Human Capital and Markets

Inadequately workforce as constraint



Firms exporting directly and indirectly



Key Insights

- Primary education enrollment in Mombasa, Nairobi and Nakuru are 57%, 50% and 63% respectively
- However, secondary enrollment reduces drastically to 15%, 18% and 13% in Mombasa, Nairobi and Nakuru respectively
- Kenya is a major export/re-exporter in East African region to EAC and COMESA; 50% of regional exports are manufactured in Kenya with rest 50% re-exported
- However, as per Doing Business Report 2015, Kenya ranks 153 out of 189 economies on the ease of trading across borders which is below even the Sub-Saharan Africa rank of 142; this is due to poor infrastructure and quality of transport

Source: World Bank Enterprise Survey 2013

Annexure D SME Finance Expert Forum – agenda 8th of June 2015

Agenda			
13.30	Welcome & introduction	Ambassador of Royal Dutch Embassy	H.E. Joost Reintjes, Netherlands Ambassador in Kenya
13.45	Host	Origin, objective & structure of the day/ Update & discussion & wrap-up	Facilitated by: Jenny Everett, Deputy Director ANDE
14.00	Key note contribution	Update on main challenges for Small and Medium Enterprises in Kenya to bridge the gap – present survey results	Stefanie Bauer, Intellecap, Associate Vice President
14.30	Break-out sessions	Three parallel sessions on topics: • Strengthening the Venture Capital ecosystem for fast growing enterprises • Integrating business support and patient riskfinance to increase the success rate of SGBs • Facilitating Angel Investment for SGB growth	Facilitated by: Niraj Varia, Investment Director, Novastar Ventures Facilitated by: Rishi Khubchandani, Investment Executive, GroFin Kenya Facilitated by: Ben White, Founder, VC4Africa
16.00	Coffee Break		
16.30	Closing panel	"Empowering local entrepreneurial talent to foster SGB's success and growth"	Facilitated by: Jenny Everett, Deputy Director ANDE
18.00	Cocktail & networking	Cocktail & food	

Annexure E | SME Finance Expert Forum – Attendee List

Dutch Good Growth Fund (DGGF), Aspen Network of Development Entrepreneurs (ANDE) and East African Venture Capital Association (EAVCA) conducted an Expert forum on SME Finance in Nairobi. The session focused on *"How do we reach the 'missing middle' and bridge the gap between start up support and full-fledged equity participation?"*

Following are the details of the event:
Date: Monday, 8th June 2015
Time: 12.30-7.30PM
Venue: Villa Rosa Kempinski
Location: Chiromo Road, Nairobi Expert Forum on SME Finance

Following is the attendee list:

Attendee Name	Organization
Akoi Eric	Farmfix Africa
Amos Gichinga	Grassroots Business Fund
Carol Kioko	Not available
Caroline Chege	Sozo Kenya
Christofer China	Not available
Dan Haswell	Not available
Dickson Kariuki	Axis Solutions Ltd
Elijah Kang'ara	AAA
Ellen Halle	I-DEV International
Eric Githinji	Innov8 Kenya
Esther Ndeti	Aspen Network of Development Entrepreneurs
Evelyn Gitonga	PharmAccess Foundation
Florian Hugonnet	Triple Jump
Fred Kiteng'e	Root Capital, Inc
Geoffrey Nyamota	SCOPEinsight
Jamlick maina	Hisaplay limited
Jenny Everett	Aspen Network of Development Entrepreneurs
Joan Kamau	Equity Bank
John Kashangaki	SBA Consulting
Johnni Kjelsgaard	GrowthAfrica
Joram Karanja	Phink Digital
Jorn Leeksma	Dutch Embassy Kampala
Joy Muballe	Lundin Foundation

Attendee Name	Organization
Kanika Kumar	Intellecap
Linda Karanja	Highlands Annexxe restaurant
Loren Hostetter	Mennonite Economic Development Associates
Lydia Kimani	Agribusiness for African Markets
Manikariza Aimable	Association des Jeunes pour la Promotion des Idées"A.J.P.I"
Marise Blom	SCOPEinsight
Marnix Mulder	Triple Jump
Martijn Blom	Droomzaken
Mary Mwangi	Aspen Network of Development Entrepreneurs
Megan Larcom	CrossBoundary
Nehemiah Gitonga	Farmsoft by Tenacious Systems Africa
Njeri Kiunjuri	Lamudi Kenya
Noelle McKean	Intercontinental Trust
Oliver Cheruiyot	Phink Digital
Patricia Chin-Sweeney	I-DEV International
Patricia Jumi	SPRING Accelerator
Patrik Huber	responsAbility Africa Limited
Robert Van Der Hum	Dutch Embassy Nairobi
Samuel Gichuru	Nailab
Stefanie Bauer	Intellecap
Stephen Gugu	Viktoria Solutions
Sylvia Sable	Social Entrepreneurship Accelerator at Duke (SEAD)
Vivian Maina	Not available
Waweru Kaggia	Not available
Wilmont Allen	CrossBoundary
Zeph Kivungi	Hivos East Africa
Julia Brethenoux	Triple Jump
Norman Sarria	Enterprise Projects Ventures Ltd
Micah Sarkas	Lundin Foundation
Njeri Kiunjuri	Lamudi Kenya
Laura Smeets	BiD Network
Leo Soldaat	Hivos
Jason Spindler	I-DEV International

Attendee Name	Organization
Sebastiaan Surie	Green Eye Solutions
Maarten Susan	Financial Access
Vandana Thottoli	SNV Netherlands Development Organization
Paula Tjossem	The MasterCard Foundation
Eline van de Veen	Dutch Embassy Addis Ababa
Peter van der Krogt	Financial Access
Niraj Varia	Novastar Ventures
Tevin Waiguru	Marcrea
Samuel Waiharo	Sam Productions Enterprise
Caroline Waithera	Not available
vivien Wamalwa	Latitude Consulting
Jacinta Wanjohi	Nation Media Group
charlotte ward	Lundin Foundation
Ben White	VC4Africa
Maggie Xiaomin Wu	Grameen Foundation
Patrick Mwangi	Ag CEO Micro and Small Enterprises Authority
Erick Namude	Bizzlab Kenya Ltd
Kefah Njenga	USIU
Gathigia Njiiri	Feel Fitness Kenya
Vyonne Nyanjom	Resolution Insurance
TIMOTHY NZIOKA	Land O'Lakes, Inc.
Richard Obuobi	Africa Risk Institute
Marceline Obuya	Medical Credit Fund
Patricia Odero	Social Entrepreneurship Accelerator at Duke (SEAD)
Douglas Ogeto	Bonelli Design Firm
ROBERT OGOLLA	BIZZLABKENYA
Robert Oketch	Not available
Celia Okuom	Tadece Enterprises Ltd
George Omedo	Village Capital
David Ongolo	Dutch Embassy Nairobi
Duncan Onyango	Acumen Fund Inc.
Byemaro Peter	ICS Africa
Joost Reintjes	Dutch Embassy

Attendee Name	Organization
Annie Roberts	Open Capital Advisors
Andreata Muforo	TLcom TIDE Africa Fund
Olivia Muiru	B Lab
Kevin Samuel	Kevin Samuel & Co.
May Mumo	I-DEV International
Irene Mumo	Trueways Enterprises Ltd

Annexure F List of organizations interviewed

Name of Organization	Organization
Aspen Network of Development Entrepreneurs	Network/Association
Acumen	Financial Service Provider
CaféDeli	Enterprise
Cap Youth Nakuru Center	Non-financial Service Provider
Chase Bank	Financial Service Provider
Compassion Holdings Ltd.	Enterprise
East African Venture Capital Association	Network/Association
Equity Bank	Financial Service Provider
FSD Kenya	Donor Programme
Grassroots Business Fund	Financial Service Provider
Grofin	Financial Service Provider
Growth Africa	Non-financial Service Provider
iHub	Non-financial Service Provider
Kenya Association of Investment Groups	Network/Association
Kenyan Association of Manufacturers (KAM)	Network/Association
Kenya Commercial Bank	Financial Service Provider
KenInvest	Government
Microclinics	Enterprise
m:lab	Non-financial Service Provider
MSME Authority	Government
Novastar Ventures	Novastar
Ojay Greene	Enterprise
Open Capital Advisors	Non-financial Service Provider
Rocac Group	Enterprise
Pivot Works	Enterprise
Plexus Energy	Enterprise
ShopSoko	Enterprise
SNV Nakuru	NGO
Wonder Foods Limited	Enterprise
World Bank	Development Finance Institution

Annexure G Bibliography

Abel Kinoti Meru, Miemie Struwig, An Evaluation of the Entrepreneurs' Perception of Business-Incubation Services in Kenya, 2011, International Journal of Business Administration

Angela Hansen, Ciku Kimeria, Bilha Ndirangu, Nadia Oshry and Jason Wendle, Assessing Credit Guarantee Schemes for SME Finance in Africa: Evidence from Ghana, Kenya, South Africa and Tanzania. 2012. Dalberg Global Development Advisors, Agence Française de Développement, France

Access to Credit Among Micro, Small, And Medium Enterprises, Access to Finance, 2013, IFC Advisory Services

Annual Report on Microfinance Sector in Kenya, 2013. Association of Microfinance Institutions Kenya

Annual Report, 2014, Central Bank of Kenya

Capital Raising Opportunities for SME: The Development of Micro-Cap Securities Markets in Kenya, 2010. Capital Markets Authority

Corruption prevention to foster small and medium-sized enterprise development, 2007, United Nations Industrial Development Organization (UNIDO), United Nations Office on Drugs and Crime

Digital Entrepreneurship in Kenya, 2014, GSMA Mobile for Development, UKaid, Omidyar Network

Economic Survey Report, 2015, Kenya National Bureau of Statistics

Francis M. Mwega, Financial regulation in Kenya: Balancing inclusive growth with financial stability, 2014, Overseas Development Institute, UK

Florence Sigara Memba, The Impact of Venture Capital Finance on Performance of Small and Medium Enterprises in Kenya, 2011. The Jomo Kenyatta University of Agriculture and Technology

Going Beyond Efficiency, Doing Business Report, Kenya Profile, 2015, World Bank Group

Global Report, 2014, Global Entrepreneurship Monitor Report

Hannah Schiff, Rebecca Fries & Tim Chambers, Beyond the Threshold: Investing in Women-led Small & Growing Businesses, 2013, Value for Women, Aspen Network of Development Entrepreneurs (ANDE)

Klaus Schwab, The Global Competitiveness Report 2014-15. World Economic Forum

Kenya's Infrastructure — A Continental Perspective,' World Bank, 2011.

Lois Stevenson and Annette St-Onge, Support for Growth-oriented Women Entrepreneurs in Kenya, 2005. International Labor Organization (ILO), Private Sector Department (OPSD), African Development Bank (AfDB)

Mary Karumba, Martin Wafula, Collateral Lending: Are there Alternatives for the Kenyan Banking Industry, 2012, Kenya Bankers Association

Nisha Dutt, Stefanie Bauer, Usha Ganesh, Manisha Singh, Catalyst for Change: Creating an eco-system for young entrepreneurs in East Africa, 2015, Intellecap

National Micro and Small Enterprise Baseline Survey 1999, Central Bureau of Statistics (CBS), international Center for Economic Growth (ICEG), and K-Rep Holdings Ltd

Pietro Calice, Victor M. Chando, Sofiane Sekioua, Bank Financing to Small and Medium Enterprises in East Africa: Findings of a Survey in Kenya, Tanzania, Uganda and Zambia, March 2012, African Development Bank Group 2012

Peer Stein, Tony Goland, Robert Schiff, Assessing the credit gap for micro, small, and medium-size enterprises in the developing world, Two trillion and counting, 2010, IFC and McKinsey & Company

Private Equity Round up – Africa, 2014, Ernst and Young

Private Equity Industry Survey of East Africa for the period 2007 to 2014, Jun 2014, KPMG and EAVCA

Profiling developments in financial access and usage in Kenya, FinAccess National Survey 2013, FSD Kenya, Central Bank of Kenya

Seeing beyond the waves, East Africa Private Equity Confidence Survey, 2013, Delloitte

Securing credit for growth, Case for a new asset register in Kenya, 2014, FSD Kenya

SME Finance Policy Guide, 2011, GPFI (Global Partnership for Financial Inclusion), IFC (International Finance Corporation)

Small and Growing Businesses: Investing in the missing middle for Poverty Alleviation, 2012, Aspen Network of Development Entrepreneurs

SME Trade Finance Review of facilities available in Kenya, GrowthFin, FSD Kenya

The Business Models of m:lab and mHubs—An Evaluation of infoDev's Mobile Innovation Support Pilots, 2014. infoDev Growing Innovation, The World Bank

The Mobile Economy, 2014, GSMA

Transforming East African ICT sector by creating a business engine for SME. UKaid, Hivos, infoDev.

The Global Innovation Index 2014: The Human Factor in Innovation. Johnson Cornell University. INSEAD, World Intellectual Property Organization WIPO

Understanding Africa's challenges to creating opportunity-driven entrepreneurship, Accelerating Entrepreneurship in Africa, 2014, Omidyar Network and Monitor Group

Venture Finance in Africa- the progress of early-stage high-potential growth companies, 2015, Venture Capital for Africa

Zoltán J. Ács, László Szerb, Erkko Autio, Global Entrepreneurship and Development index, 2014