

The Evolving Landscape of Strategic Business Development Services in Kenya

2016 - 2023

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List of Abbreviations and Acronyms

ACIH	Association of Countrywide Innovation Hubs
AECF	Africa Enterprise Challenge Fund
AFC	Agriculture Finance Corporation
AGPO	Access to Government Procurement Opportunities
ANDE	The Aspen Network of Development Entrepreneurs
ASSEK	Association of Startup and SMEs Enablers of Kenya
BAF	Business Advocacy Fund
BDS	Business Development Support
BMO	Business Membership Organization
BMZ	German Ministry of Economic Cooperation and Development
CPF	Country Partnership Framework
DCED	Donor Committee on Enterprise Development
EAVCA	East Africa Venture Capital Association
EPZA	Export Processing Zones Authority
FCDC	Frontier Counties Development Council
FCDO	Foreign and Commonwealth Development Office
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GIZ	German Agency for International Cooperation
IFC	International Finance Corporation
ILO	International Labour Organisation
ITC	International Trade Centre
KAM	Kenya Association of Manufacturers
KDC	Kenya Development Corporation
KenInvest	Kenya Investment Authority
KeNIA	Kenya National Innovation Agency
KEPSA	Kenyan Private Sector Alliance
KIBT	Kenya Institute of Business Training
KIEP	Kenya Industry and Entrepreneurship Project
KIM	Kenya Investment Mechanism
KIRDI	Kenya Industrial Research and Development Institute
KJET	Kenya Jobs and Economic Transformation Project
KNBS	Kenya National Bureau of Statistics
KNCCI	Kenyan National Chamber of Commerce and Industry
KoTDA	Konza Technopolis Development Authority
KYEOP	Kenya Youth Empowerment and Opportunities Project
LMIC	Lower- and Middle-Income Country
LREB	Lake Region Economic Bloc
MOIC-DE	Ministry of Information, Communications and The Digital Economy
MSEA	Micro and Small Enterprise Authority
MSME	Micro, Small and Medium Enterprise
NOREB	North Rift Economic Bloc
PACE	Partnering to Accelerate Entrepreneurship
SDGs	Sustainable Development Goals
SME	Small and Medium Enterprise

Executive Summary

This report aims to understand and assess the current provision of business development support (BDS) services for small and medium-size enterprises (SMEs) in Kenya, highlighting changes that have taken place since 2015.

During this period, Kenya's economy has grown, its human development indicators have improved, and its population has increased. Despite this progress, Kenya still faces development challenges including poverty, inequality, addressing youth employment, and the susceptibility of the economy to internal and external shocks. Devolution has been an important aspect of trying to improve socio-economic development outside of Nairobi. Micro, Small and Medium Enterprises (MSMEs) are an important driver of the Kenyan economy while most businesses remain in the informal sector.

The Kenyan entrepreneurial ecosystem has been evolving since 2010. This evolution has been aided and underpinned by government policy, interest from international donors, a tech boom, and the growth in impact investment. This evolution also links to the growing momentum and global interest in the promise and potential of supporting micro, small and medium-sized enterprise (MSME) growth and entrepreneurship as a long-term, sustainable, and viable solution to address economic development and the Sustainable Development Goals (SDGs). Despite challenges such as economic downturns, COVID-19, and terrorism, the entrepreneurial ecosystem has demonstrated its strength and resilience.

The number of Business Development Support organizations is quite high with over 170 organizations involved in some form of BDS provision. Despite increasing expansion to regional economic blocs since 2015, the majority of organizations still operate in

Nairobi. Cohort-based programs are the most frequent type of program offer, and there has been an increase since 2015 in the number of consulting companies offering BDS through programs and tailored support. Hubs are also a growing feature of the BDS landscape, particularly outside of Nairobi, offering incubation services, workspaces, and mentoring with a focus on early-stage businesses, youth, and tech. International NGOs have also increased their capabilities to offer BDS services. Women and youth continue to be target populations, and themes and sectors such as climate, social enterprise, agriculture/agribusiness, and tech are featured in many organizations and programs.

The Kenyan government runs many initiatives that include aspects of BDS through a variety of ministries. International donors continue to be significant players, working with the Kenyan government and the private sector to building the entrepreneurial ecosystem and to support and scale BDS.

The BDS landscape is strong in Kenya, but more can be done to improve its reach beyond Nairobi and to ensure that there is a sufficient offer of services for enterprises, particularly more dynamic businesses, operating in established “bread and butter” industries—such as trading, manufacturing, retail, and services—and deploying proven business models. Continued coordination and integration between actors, sustained donor support, and setting quality standards for BDS are all integral to continued viability and success.

I. Introduction

This report aims to understand and assess the current provision of business development support (BDS) services for small and medium enterprises (SMEs) in Kenya.

It highlights the changes that have taken place in the business development services landscape since 2015, when Argidius Foundation first commissioned a study of the Kenyan BDS landscape.

It is intended to be used by funders, policy makers, investors and other actors that are interested in supporting SMEs in Kenya. It is based on desk research, interviews, and surveys. The research is not intended to be exhaustive but instead indicative and captures a snapshot in time of an evolving and changing landscape.

This report focuses on strategic business development services as defined by the Donor Committee on Enterprise Development (DCED).

DCED distinguishes between operational and strategic business development services.

Operational services are those needed for day-to-day operations, such as information and communications, management of accounts and tax records, and compliance with labor laws and other regulations.

Strategic services, on the other hand, are used by the enterprise to address medium- and long-term issues to improve the performance of the enterprise, its access to markets, and its ability to compete e.g. services can help the enterprise to identify and service markets, design products, set up facilities, and seek financing¹.

II. Kenyan Country Overview

To understand the Kenyan business development support landscape, it is important to contextualize Kenya's economic, social, and political situation and its evolution since 2015.

Kenya is a country on a growth trajectory, with a GDP that has grown at an average rate of about 4.5% per annum since 2015² (even when accounting for a slight contraction in 2020). The World Bank's Economic Update for Kenya 2023 assessed GDP growth at 4.8% in 2022³.

In 2015, Kenya was Africa's fifth largest economy—it now stands in third position behind Nigeria and South Africa.

Kenya's economy has outperformed its Lower and Middle-Income Country (LMIC) peers in part due to an increasingly better-educated and healthier labor force⁴. The country has also advanced from "Low" to "Medium" Development on UNDP's Human Development Index since 2015.

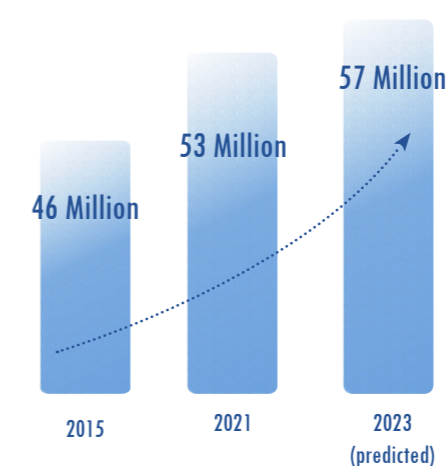
Despite this progress, Kenya still faces development challenges such as poverty, inequality (including gender inequality), vulnerability to climate change, corruption, weakening private sector investment, and the susceptibility of the economy to internal and external shocks⁵.

It also has a large informal sector, with women concentrated in unlicensed businesses (that are mostly micro and informal in nature) compared to men⁶.

Kenya is a country with a rapidly growing population: the population grew from 46 million in 2015 to 53 million in 2021, with a predicted increase to 57 million in 2023. It is a young population, with almost 40% of Kenyans under the age of 15 as of 2020, and with a median age of 20⁷.

Thus there is a large young labor force which requires education, skills, and training as well as employment and economic opportunities. Kenya is ranked 78 in the World Economic Forum's 2017 Human Capital Index⁸ with the index report highlighting that Kenya benefits from the stock of know-how embodied in large medium-skilled employment sectors and comparatively strong education quality and staff training, laying the foundation for building their future human capital potential.

Kenya's Population



II. Kenyan Country Overview

Kenyan Economy

Kenya has an economy anchored in agriculture, emerging services, and tourism industries and has benefitted from broadband and mobile-money platform investments. However, it is an environmentally fragile economy, susceptible to climate change and droughts⁹.

Micro, Small and Medium Enterprises (MSMEs) play an instrumental role in the Kenyan economy. It is estimated that there are over 7.4 million MSMEs in Kenya, employing more than 15 million people.

In 2015, the value of MSME output was estimated at KSh 3,372 billion (approx. \$24 billion)¹⁰ against a national output of KSh 9,971 billion (approx. \$72 billion). This represents a contribution of 33.8%¹¹.

Entrepreneurship is thus important, and the three main reasons cited for starting a business in the MSME Survey conducted by the Kenya National Bureau of Statistics (KNBS) in 2016 were: better income (23%); preference for self-employment (20%); and having the requisite skills (17%).

Kenyan Devolution and Regional Inequality

The system of devolution enshrined in the 2010 Constitution is an evolving process. Devolution is intended to enhance the participation of the people in making decisions affecting them, to protect and promote the interests and rights of minorities and marginalized communities, to promote the provision of proximate, easily accessible services throughout Kenya as well as ensure equitable sharing of national and local resources throughout Kenya¹².

While Kenya is making progress in its devolution, there are still gaps in terms of economic activities and support services in different counties, and **Nairobi remains the center of economic activity and investment.** This is noticeable in the startup and innovation sector.

The 2023 ANDE study of green entrepreneurship in Kenya found that 83% of the 94 small and growing businesses tracked for the study are in Nairobi¹³. Likewise, over 97% of the Kenyan tech startups tracked by a 2022 Disrupt Africa report are based in Nairobi¹⁴.

An International Trade Centre (ITC) survey in 2017/18¹⁵ on SME competitiveness found companies in areas of high economic activity tend to be more competitive, which gave a greater advantage to those already located in big cities such as Nairobi. The report further highlights that competitiveness can depend greatly on the degree of access to utilities in the business ecosystem. Investment in energy, water, and information and communications technology infrastructure outside of Kenya's central region is needed to improve the productivity and competitiveness of firms in these areas. For example, cutting the costs and increasing the efficiency of logistics services, and improving rural roads, would help agri-food SMEs become more competitive¹⁶.

The survey also noted companies in the north and central regions of Kenya were content with the availability of skilled labor for hire, although that was not the case elsewhere in the country. The shortage of skilled labor was most acute in the south, specifically in Kitui and Kwale counties, and was also severe in the west¹⁷.

II. Kenyan Country Overview

Micro, Small, and Medium Enterprise Definitions in Kenya

*There is no globally agreed definition for classifying different sizes of enterprises. Research generally relies on country standards, but even in Kenya different organizations use slightly varying definitions. The 2016 Kenya MSME survey by the Kenyan National Bureau of Statistics (KNBS)¹⁸ used a simple 2005 Government of Kenya definition¹⁹ and categorized enterprises simply as **micro (1-9 employees), small (10-49 employees), and medium (50-99 employees) sized establishments.***

Micro enterprise

A firm, trade, service, industry or a business activity--

(a) whose annual turnover does not exceed five hundred thousand shillings;(approx. \$3,600)

(b) which employs less than ten people; and

(c) whose total assets and financial investment shall be as determined by the Cabinet Secretary from time to time, and includes—

(i) the manufacturing sector, where the investment in plant and machinery or the registered capital of the enterprise does not exceed ten million shillings (approx.\$72,000);

(ii) the service sector and farming enterprises where the investment in equipment or registered capital of the enterprise does not exceed five million shillings (approx. \$36,000).

Small enterprise

A firm, trade, service, industry or a business activity—

(a) whose annual turnover ranges between five hundred thousand and five million shillings (approx. \$,3,600 to \$36,000); and

(b) which employs between ten and fifty people; and

(c) whose total assets and financial investment shall be as determined by the Cabinet Secretary from time to time, and includes—

(i) the manufacturing sector, where the investment in plant and machinery as well as the registered capital of the enterprise is between ten million and fifty million shillings (approx. \$72,000 to \$360,000); and

(ii) service and farming enterprises, where the equipment investment as well as registered capital of the enterprise is between five million and twenty million shillings (approx. \$3,600 and \$144,000)²⁰.

In the table below we see that The Micro and Small Enterprises Authority's 2020 Policy on the Promotion of Micro and Small Enterprises uses similar but slightly different criteria for its definition of micro and small enterprises and the Kenyan Banker's Association survey 2021 provides a definition for medium enterprises based on similar criteria.

II. Kenyan Country Overview

Micro, Small, and Medium Enterprise Definitions in Kenya

1-9 employees Micro	10-50 employees Small	31-150 employees Medium
<ul style="list-style-type: none"> Annual turnover is below KSh. 1 million (approx. \$7,200) And meets any of the following criteria: <ul style="list-style-type: none"> a) Employs less than 10 people; or b) Has total assets as shall be determined from time to time by the Cabinet Secretary (Responsible for matters relating to MSEs). 	<ul style="list-style-type: none"> Annual turnover ranges between KSh. 1 million and KSh. 5 million (approx. \$7,200 to \$36,000) And meets any of the following criteria: <ul style="list-style-type: none"> a) Employs between 10-50 people; b) Has total assets as shall be determined from time to time by the Cabinet Secretary 	<ul style="list-style-type: none"> Annual turnover between KSh. 50 million and KSh. 250 million (Approx \$360,000 to \$ 1.8 million), General workforce of between 31 to more than 150 employees, between 10 and 50 permanent employees, Asset base of over KSh. 4 million (Approx \$28,800), and at least 3 years in business operation.
<p><i>Source: Micro and Small Enterprises Authority policy on the promotion of Micro and Small enterprises²¹.</i></p>	<p><i>Source: Micro and Small Enterprises Authority policy on the promotion of Micro and Small enterprises²².</i></p>	<p><i>Source: The Kenyan Banker's Association (KBA) MSME survey in 2021²³.</i></p>

The KNBS survey estimated that medium establishments employing between 50 to 99 employees only account for 0.7% of the total number of licensed MSMEs in the country²⁴ which shows that apart from the varying definitions, using MSME as a blanket term can be misleading, as the statistics are often skewed by the vastly greater number of micro enterprises which make up the total.

The growth trajectory, needs, and impacts small and medium enterprises are quite different to those of micro enterprises.

This report focuses on Business Development Support for Small and Medium Enterprises (SMEs).

However, where data or policy on micro enterprises is not disaggregated from that of small and medium enterprises, we will refer to MSMEs. We also recognize that business development service providers don't always refer to these definitions or distinguish between the different segments, often including micro businesses in their offers to small businesses.

III. The Kenyan Entrepreneurial Ecosystem

There are many models of what constitutes an entrepreneurial ecosystem and the enabling environment in which business development service providers operate.

Varying models consider elements such as entrepreneurial culture, markets, networks, business development service provision, education, physical infrastructure, finance, and policy amongst other factors. Models also consider the interconnectivity across these different elements.

The International Labour Organisation (ILO) defines the concept of enabling environment as “the combination of conditions that affect an enterprise’s capacity to start up, grow, and create decent jobs, and are of political, economic, social, and environmental nature”²⁵.

The ILO highlights that “Small and medium enterprises (SMEs) are often hit harder by an uncondusive enabling environment. Improving it helps them to access new services to perform better, reduce their cost of doing business, unlock investment opportunities, and create more decent and productive employment.”

Models are useful ways of understanding that many dimensions in addition to direct support to an enterprise need to be working in tandem to ensure success. For this research, we focus on direct business development support, but also present background and context on other elements including policy, government support, international support, and donor support.

It is worth noting that changes in the enabling environment for SMEs or the entrepreneurial ecosystem affect BDS providers who are also often SMEs themselves. It is also important that there is a thriving SME environment to ensure that BDS providers can themselves become sustainable businesses.

To understand the context of the business development support landscape in 2023 it is important to understand the evolution of the entrepreneurial ecosystem since 2010. It should be noted that there are BDS organizations that have been supporting entrepreneurs and SMEs prior to that date. Likewise, there were initiatives supporting the ecosystem pre-2010.

We choose this point in time because we believe it was the start of a period that demonstrated shifts in the evolution of the ecosystem. These narratives are not exhaustive but point to some important events and entrants that affected the entrepreneurial ecosystem.



III. The Kenyan Entrepreneurial Ecosystem

2010 – 2017 Evolution of the Entrepreneurial Ecosystem

2010 to 2017 was a time of growing attention to and investment in policy development and BDS support for microenterprises and SMEs.

The Micro and Small Enterprise Act was introduced in 2012 after a stakeholder consultation process which took several years. This gave power to The Micro and Small Enterprise Authority (MSEA)--now housed since 2022 in the new Ministry of Cooperatives and MSME Development--to formulate and coordinate policies. The formation of this authority signaled the importance of MSMEs' contribution to development and employment in the country.

This general timeframe also reflected the growing momentum and global interest in the promise and potential of supporting MSME growth and entrepreneurship as a long-term, sustainable, and viable solution to address economic development and international goals.

The UN Sustainable Development Goals (SDGs) were adopted in 2015 and this coincided with a growing interest on the part of large international development agencies in investing in private sector engagement for development and supporting program investments that leveraged SME support as a viable and more sustainable development strategy.

In 2014 Kenya was reclassified as a Lower- and Middle-Income Country (LMIC) by the World Bank. One of the implications of this change in classification is that foreign policy toward Kenya from many donor countries shifted from aid to trade.

The focus on trade put an emphasis on building the capacity of Kenyan SMEs to engage in international trade.

It is during this time that USAID's Feed the Future Innovation Facility in Kenya (2012) started to support agri-SMEs with BDS interventions. USAID's Partnering to Accelerate Entrepreneurship (PACE) Program started its support to BDS providers and ecosystem players (2014) signaling the importance of BDS and investing in BDS service provision, with Kenyan organizations awarded grants through PACE.

This was also a time of growth of already existing initiatives such as the Africa Enterprise Challenge Fund (AECF), which created momentum for supporting the development of a pipeline of agri-businesses that might be investable or would require pre-investment support.

The established business development services providers in Kenya started to attract more international interest. Cohort-based acceleration programs were launched. Business development service providers started to increase in number, especially those that were offering incubation programs targeting tech ventures.

Convenings and important networks in Kenya took off in this timeframe as well. The ANDE East Africa Chapter, headquartered in Nairobi, started to convene around 2010, and quickly became the largest chapter in the ANDE Global network.

III. The Kenyan Entrepreneurial Ecosystem

The East Africa Venture Capital Association (EAVCA) was founded in 2013 and based in Nairobi, to represent the private equity industry in East Africa and to enable industry players to raise awareness of the region's potential and engage on regional policy matters. The first Sankalp Africa Forum took place in Nairobi in 2013, bringing together impact-focused entrepreneurs, BDS providers, donors, and impact investors.

2015 was a pivotal year in entrepreneurship in Kenya. A highlight was Kenya's hosting of the Global Entrepreneurship Summit, headlined by US President Barack Obama. The summit and his visit galvanized even further interest in the ecosystem and showcased Kenya's entrepreneurial spirit and its potential.

2015 was also around the time when international NGOs started to actively define their role in business development service provision and their positioning vis-a-vis the growing impact investment movement. This was a period that included the launching of NGO venture funds and when international NGOs were able to benefit from donor interest in SME support.

In this period, the moniker "Silicon Savannah" was used in reference to Kenya and the country's potential for tech innovation. In 2015, Kenyan-based M-Kopa was recognized by Fortune Magazine as one of the 'Top 50 Companies Changing the World'. An influx of impact investors started setting up offices in Nairobi and looking for deals. Nairobi became a hub of business development support activity, with a focus on investment readiness and a Silicon Valley-like buzz

of activity around tech startups and acceleration. It also included the rise of shared workspaces and hackathons became a regular feature of the ecosystem.

A report published by the Global Impact Investing Network (GIIN) and Open Capital in 2015²⁶ quantified that Kenya, and specifically Nairobi, had become the regional hub of East African impact investing. At least 48 impact fund managers had staff placed in Nairobi according to their research, which at the time was more than three times as many local offices as in any other country in the region.

Almost half of the USD \$9.3 billion in impact capital disbursed in East Africa at the time was disbursed in Kenya—more than triple the amount deployed in each of Uganda and Tanzania, the countries with the next highest amounts at around 13% and 12% respectively.

The Kenya National Bureau of Statistics published the first National MSME Survey in 2016. This census helped to address the existing data gap and sought to provide data at national and county levels. This report provided insight and along with other analysis highlighted the growing gap between Nairobi, secondary cities, and rural areas.

According to internal research commissioned by Argidius Foundation, 2017 saw the highest number of new business development service providers formally registered as limited companies. This can be attributed to growing interest and activity in BDS by both domestic and international actors.

This momentum was not tempered by three major terrorist attacks between 2013 and 2015 which in total claimed 300 lives.

III. The Kenyan Entrepreneurial Ecosystem

2018 - 2023 Strengthening the Entrepreneurial Ecosystem

This period tested the resilience of the Kenyan BDS ecosystem. The country experienced another terrorist attack in 2019, again resulting in loss of life. COVID lockdowns and their economic fallout as well as shrinking development aid budgets—most notably that of the United Kingdom—presented challenges.

This period demonstrated which providers had the relationships, credibility, financial viability, and stamina to survive. There were some BDS providers that closed their doors or pivoted their offer. But there were also important investments made in Kenya and strategic development of its ecosystem.

Building on the momentum of 2010-2017, investment in the Kenyan entrepreneurial ecosystem flowed in. This trend continued, with the 2018 USAID Kenyan Investment Mechanism indicative of this—a five-year USAID program facilitating \$520 million in investment for key sectors of Kenya's economy and a commitment to strengthen the BDS system. This provided support for the existing business development service providers.

USAID played an important strengthening role in this period. Its East Africa Trade and Investment Hub, which ran from 2014 – 2019, assisted the region's private sector to engage with government in finding practical solutions to constraints to trade and investment and built awareness around opportunities for African and U.S. firms to increase trade, expand business partnerships, and investment in East Africa²⁷.

A key factor in influencing the creation of programs such as the Investment Hub was the African Growth and Opportunity Act (AGOA), passed by the US government in 2000, which provides selected sub-Saharan African countries with duty-free access to the U.S. market for over 1,800 products in exchange for meeting eligibility criteria on establishing market based economies, political pluralism and rule of law²⁸. The Livestock Market Systems project which ran from 2017 - 2022 worked on strengthening institutions, systems, and governance to support the development and competitiveness of livestock and other market systems²⁹.

III. The Kenyan Entrepreneurial Ecosystem

Another example of a program that had a lasting effect is The Danish International Development Agency's Business Advocacy Fund (BAF), which ran from 2006 – 2020. The Fund worked with business membership organizations (BMOs) and civil society groups to identify policies and laws that constrain members' businesses.

It then provided funding, training, and mentoring to BMOs to research the issues, develop new policies and regulatory changes to overcome the problems, and to advocate to government for improvements³⁰.

Kenya in this period established itself as one of the leading destinations for tech investment in Africa behind Nigeria and alongside South Africa. Many businesses were however not yet investment-ready, which signaled the need for business development support services to help de-risk investments through pre- and post-investment interventions. This provided opportunities for local organizations to provide support and technical assistance.

More impact investors were raising money for technical assistance to support their investments. The rise of impact investing in Kenya also helped to highlight the need for enterprises to have strong financial and business models and operations to merit investment.

The ecosystem also became more interconnected. In 2018 the Association of Startup and SMEs Enablers of Kenya (ASSEK) was launched to bring together and represent the interests of Kenyan-based organizations supporting the development and growth of startups and SMEs for maximum impact of their activities. In 2019 the Association of Countrywide Innovation Hubs (ACIH) was

launched to address the gap in entrepreneurship support outside of Nairobi. These two organizations signaled a shift to providing localized solutions based on Kenya's needs.

2020 tested the strength and resilience of the ecosystem—with BDS providers having to pivot to online delivery, cancel or delay programs, and face the prospect of their clients going into business survival mode or even closing. Whilst there was some attrition in the BDS market, many of the BDS providers were able to weather COVID-19 and its economic effects.

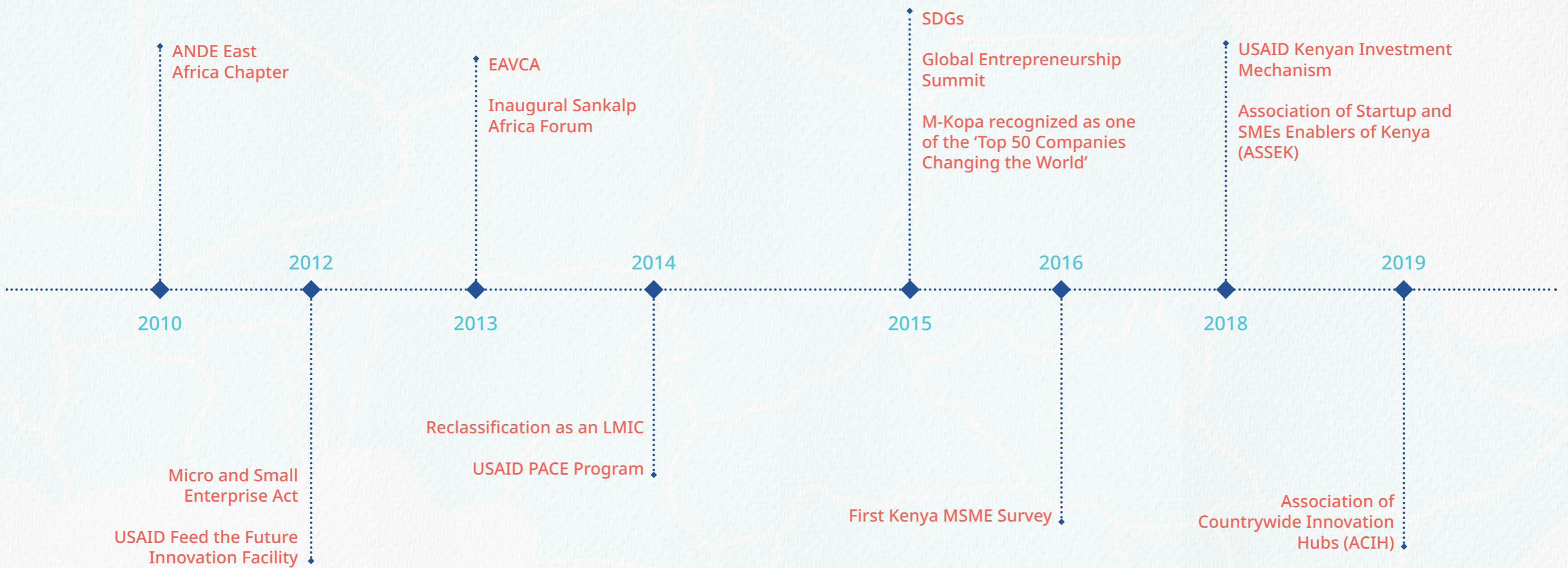
This included embracing strategies such as supporting core delivery with digital tools and practices, shifting to digital delivery models, or transforming into a digital-only organization. ASSEK, with support of GIZ, also helped to address digital solutions through a program to help BDS providers digitize their processes and to share best practices in digitization.

Despite the tough economic times, there was no significant attrition in business development services and interest in support for the entrepreneurial ecosystem.



III. The Kenyan Entrepreneurial Ecosystem

Kenya Ecosystem Evolution Highlights



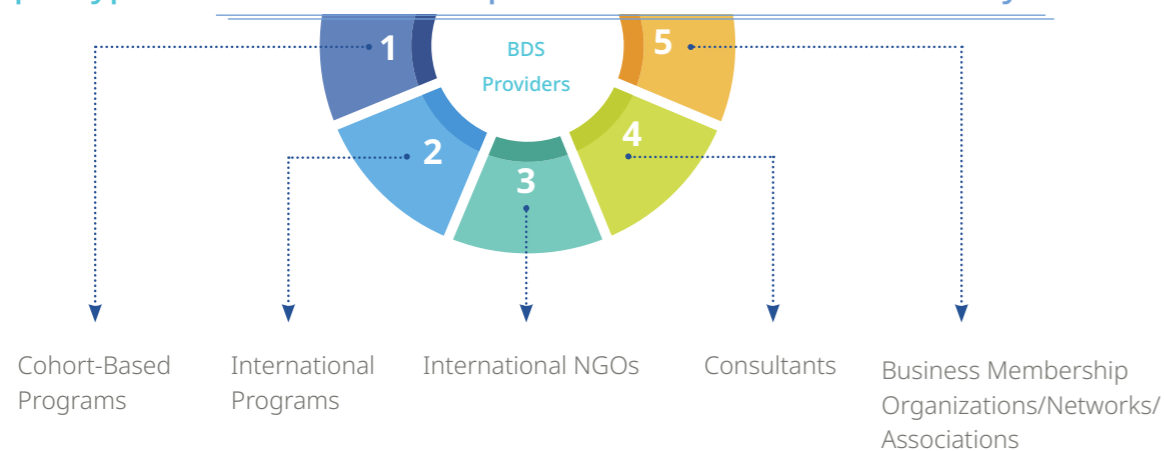
III. The Kenyan Entrepreneurial Ecosystem

IV. 2023 BDS Landscape

BDS Snapshots of Service Provisions

The following snapshots are based off a data collection effort that took place between September 2021 and October 2022 commissioned by Argidius Foundation. It included reaching out to various stakeholders via surveys as well as desk research. According to this data, there are 171 organizations providing some form of BDS in Kenya.

Top 5 types of Business Development Service Providers in Kenya

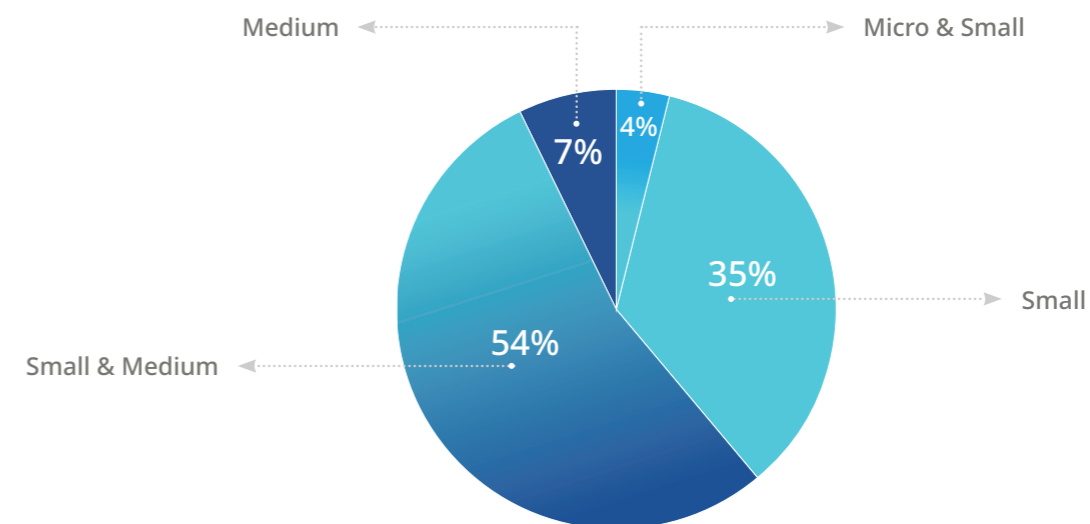


Top 5 Types of Interventions Offered

- 1. Training**
A collection of formalized teachings that informs, trains, and educates anyone interested in participating in socio-economic development through a project to promote entrepreneurship awareness, business creation, or small business development.
- 2. Financial Planning & Investment Readiness**
Support for the development of the business' financial model, cash flows and projections, and the preparation of financial documents that investors would require.
- 3. Management Consulting**
Is advisory and implementation services to the (senior) management of organizations to improve the effectiveness of their business strategy, organizational performance, and operational processes.
- 4. Technical assistance**
Provision of expert support in highly specialised areas of business such as agronomy, product engineering, taxation, supply chain etc.
- 5. Coaching & Mentorship**
A custom-tailored, reflective, and results-oriented development intervention by a professional coach (who may or may not have personal entrepreneurial experience) and an entrepreneur or team member. Coaching aims to improve the SME founders' and senior management leadership skills, abilities, and confidence.
A system where an experienced business or technical area expert guides SMEs through individualized or group sessions with guidance and advice on their area of operations.

IV. 2023 BDS Landscape

Sizes of Businesses Supported



Stages of Businesses Supported

Idea Stage

SME in its formative stages. Entrepreneurs may or may not have an idea on paper or are testing their prototype in the market and receiving feedback from early adopters. BDS, at this stage, focuses on ideation- developing a viable business idea or validating the product.

Early Stage

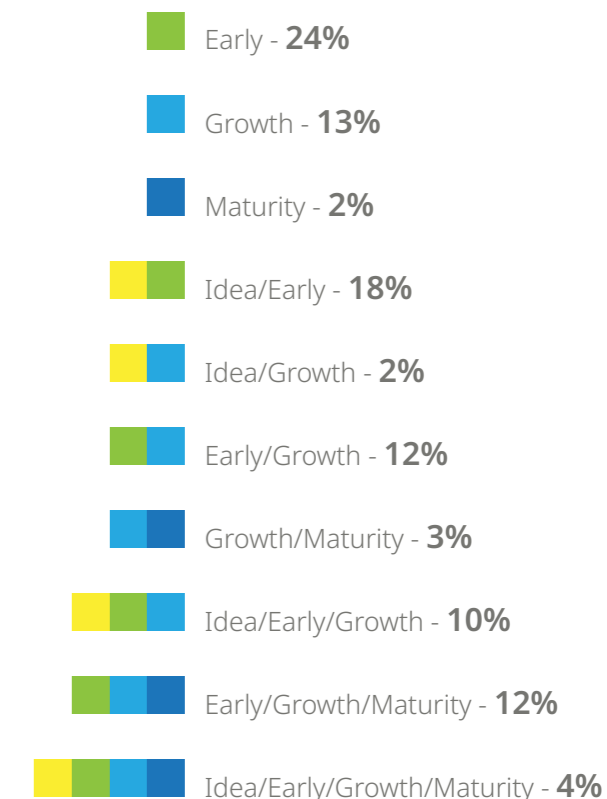
SMEs in post-revenue, having customers and a functioning revenue model. The business model is not yet fit for scale, and they have not raised significant capital outside the entrepreneur's capital, family, and friends.

Growth Stage

The business model is fit for scale. The SME has raised or is seeking to raise significant capital to finance expansion.

Maturity

The SME experiences steady growth but revenues and margins may begin to decline. It may be generating more cash as capital spending declines. The business may need to reinvent itself, diversify to new products or services, adapt its business model, or invest in new technologies to reposition itself in the market and avoid decline.



IV. 2023 BDS Landscape

BDS Service Providers

We consider BDS service providers to be those organizations that are committed to delivering business development services as their core offering, focused on entrepreneurs and SMEs, and have an established and/or sustained presence in Kenya.

These are organizations that go beyond training: they deliver services that may include capacity building, but also provide some form of customized coaching, mentoring, or advisory services. BDS service providers range from organizations that provide incubation and acceleration cohort-based programs to those that provide customized consulting, coaching, and transactional advisory services.

According to various research and evaluations commissioned by Argidius Foundation³¹, segmentation is an important consideration in delivering high quality BDS. There can be different segmentation variables that are applied when designing BDS services, identifying the target SME, and selection. **These include:**

- ◆ Age and stage of the business: idea-stage, early-stage, growth stage, and mature.
- ◆ Size of the business by annual revenue and/or number of employees.
- ◆ Various segmentation models and classifications.

The Collaborative for Frontier Finance's Segmentation Framework³² that considers the business model, growth trajectory, and capital needs:

High-growth Ventures

pursue disruptive business models and target large addressable markets. These enterprises have high growth and scale potential and pioneer completely new products, services, and business models and are often tech businesses or tech-enabled businesses.

Niche Ventures

create innovative products and services, but target niche markets or customer segments. They seek to grow but often prioritize goals other than massive scale—such as solving a specific social or environmental problem, serving a specific customer segment or local community, or maintaining a product/ service that is particularly unique or bespoke.

IV. 2023 BDS Landscape

Dynamic Enterprises

operate in established “bread and butter” industries—such as trading, manufacturing, retail, and services—and deploy proven business models. Many are well established, having steadily expanded over a number of years. Their rate of growth is typically moderate and tempered by the dynamics of mature, competitive industries.

Livelihood-sustaining Enterprises

are small businesses selling traditional products and services. While most of these businesses operate informally, there are those that are either formal or ready to formalize; they tend to operate on a small scale to serve local markets or value chains and deploy well-established business models.

The Small Firm Diaries Project is a research initiative to understand the role of low-income small firms in poverty reduction identified the following classification that is prevalent in Kenya.

Stability Entrepreneurs are entrepreneurs and firms that “take on risk in a volatile environment to create their businesses and aspire to grow them in the short- and long-term. However, they also have a significant desire to achieve greater

stability at the same time rather than taking on additional risk to that which they already face³³.”

It can be challenging to decipher the target enterprises of BDS providers as the variables above are not universally accepted or applied. BDS providers often use their own language to define their target customer, what they offer, and how they deliver their services. Organizations in Kenya define themselves often as supporting innovation, acting as hubs, or identifying as communities or venture builders for example.

The language of supporting startups is fluid, without any clarity or consistency as to what is considered a startup, and the terms technology ‘ventures’ and ‘startups’ are used interchangeably. We also observe that there is not a clear distinction between microenterprises and SMEs for many BDS providers. Often microenterprises are included in programs in the hope that they will grow into SMEs.

Despite these challenges, where possible, we used segmentation variables in our analysis.



IV. 2023 BDS Landscape

BDS Models

Acceleration

In Kenya there are many BDS providers that identify as accelerators or offer accelerator-like programs. This entails delivering a time-limited program often in a cohort with a learning curriculum and customized support. These organizations tend to offer a mix of services—including coaching and mentoring, some level of advisory and consulting, and preparation to take on investment—in many cases offering some type of intermediation with investors (if not also offering a grant or directly investing). There are some that focus on sectors (e.g.—tech, fintech, health, agriculture).

These organizations often offer other ancillary services or programs to either subsidize their acceleration service or to diversify, such as training, research, or offers beyond their target groups. This includes delivering specific thematic or targeted accelerators on behalf of donors or partner organizations. Accelerators are more likely to target enterprises in the high growth and niche venture segments and those enterprises in the startup or early stage of their growth trajectory.

Consultancy

There is an increase in consultancy firms in Kenya that are offering BDS. These firms may be providing direct support to SMEs through a fee-for-service or commission model (e.g.- strategy and market assessment work or financial advisory or transaction services). These firms can also be contracted to deliver BDS programs on the part of donors, NGOs, or corporations. Not only is there an increase in the number of consultancies providing BDS services since 2015, but anecdotally those that are established are growing the business opportunity. Consultancy firms offer flexibility in terms of the segments and customers they can deliver to as well as the services they can offer.

There are also individual consultants that provide services directly to SMEs, and this was cited as a large part of BDS service provision, especially for dynamic ventures and mature businesses. There are also a growing number of more traditional business service providers that offer accountancy and management consulting services and are positioning their work to capture clients in the SME market.

IV. 2023 BDS Landscape

Hubs & Small Business Development Centers

Hubs and small business development centers tend to offer a mix of training, advisory and consulting, market intelligence and market linkage services. They also are intended to build networks and many offer shared services. Hubs in Kenya are often physical collaboration spaces that tend to focus on technology at the ideation stages and are intended to help in building skills and networks, especially among young entrepreneurs. Many of them provide mentoring. Hubs often differ from acceleration programs in that they may have more open enrollment offerings and are focused more on incubation services. The number of hubs has been increasing in Kenya in the past 5 years with growth of hubs outside of Nairobi.

Soft Skills Support

Kenya has become a focus country for human capital development for SMEs. There is a strong cadre of BDS providers that provide services related to SME leadership, SME talent and team development, coaching, and mentoring. This provision can be through open enrollment leadership and development programs, customized programs designed for SMEs, or through one-to-one individual support.

Technical Assistance

In the context of impact investment, customized BDS services are often referred to as technical assistance. Impact investors try to raise a pool of grant money (often referred to as a technical assistance facility) that can be deployed to help de-risk an enterprise pre- and/or post-investment. As the impact investing market has grown, so too has the BDS provision of technical assistance. Investors often leverage established providers, and in particular consulting firms, to support the technical assistance provision or will pay for consultancy services on behalf of their investees.

IV. 2023 BDS Landscape

Specialization

Specialization is becoming a more explicit feature of the BDS landscape. Specialization can take many forms.

Target Populations

Youth, women, persons with disabilities, and refugees have dedicated organizations providing BDS designed to suit their needs. There are also specialized programs and cohorts targeted to their needs delivered by generalist BDS providers.

Generalist BDS providers often partner or bring in organizations with specific expertise in engaging with these populations to deliver specialized programs targeting these populations.

The survey data from BDS providers shows that youth and women are growing in importance as a specialized focus of BDS offers.

Themes & Sectors

Themes such as climate, circular economy, blue economy, and social enterprise have dedicated BDS service providers, as do sectors such as agriculture/agribusiness, clean energy, and technology. BDS providers that are specialized in themes and sectors provide expert knowledge, mentors, and training support.

For instance, agricultural-focused BDS providers focus on areas beyond the core business fundamentals, providing assistance on areas such as production, good agricultural practice, food safety, and certifications. Providers that specialize in tech for example are helping to build digital skills and providing expertise on AI, machine learning, and intellectual property.

The themes and sectors that are strongest in the Kenyan BDS ecosystem from the surveying of BDS providers are agriculture/agribusiness, tech, social enterprise, and climate.

IV. 2023 BDS Landscape

Regional Growth

There are a substantial number of organizations that have been operational in Kenya for at least ten years, with most of these more established organizations based in Nairobi.

There has been a slow but steady progression of BDS organizations in other cities and regions, with many of them establishing post 2015 and with BDS offered in each of Kenya's economic blocs. Notably, there is an ecosystem of BDS providers emerging in Mombasa.

Most of these newer organizations are focused on tech, youth, startups, and offering workspaces. Very few support established "bread and butter" industries – e.g., trading, manufacturing, retail, and services, deploy existing products / proven business models, seek to grow through market extension / incremental innovations, and have moderate growth and scale potential.

Mombasa, Nakuru, Kisumu and Eldoret are other geographic areas where there is the

emergence of a handful of different established organizations—often hubs—again focusing on tech, workspace, and attracting young entrepreneurs.

Many of these dispersed organizations are hubs that are providing a mix of entrepreneurship and tech skills development, capacity building, and early-stage business development support.

There is a greater focus on tech and many of these organizations specify services for youth (although youth can be defined as old as 40 in some cases). These organizations have interconnectivity through the Association of Countrywide Innovation Hubs (ACIH) and/or The Association of Startup and SMEs Enablers of Kenya (ASSEK).

V. Other Ecosystem Actors

International Programs

There are many international programs that source entrepreneurs from Kenya for their programs but may not be solely focused on Kenya and/or are not embedded in the Kenyan BDS ecosystem. These include programs that are delivered online, annual offers, or one-off programs.

The programs may be delivered in Kenya or bring entrepreneurs to other countries. They include pan-African programs and global programs. These programs demonstrate the value of bringing entrepreneurs from different countries together to share and learn from each other, as well as the importance of pan-African networks for market expansion, partnerships, and integration.

International Contractors and NGOs

Funding from large bilateral donors in Kenya has catalyzed the BDS capabilities and networks of international development contractors to manage and monitor large scale BDS programs. Delivery of these programs is usually done by local BDS providers who are subcontracted.

Several NGOs have built BDS capabilities to deliver training and business development services or to complement value chain and market system development projects, with a specific focus on strengthening SMEs and offering business development service components.

This support sometimes includes grants or other forms of financial support. This is often delivered in specific sectors based on the core competencies of each NGO (i.e.—agriculture, renewable energy, WASH, nutrition, etc.).

It is important to consider whether in the future BDS programmatic capabilities and program delivery within NGOs can be

maintained, especially with the high level of donor dependency. However, these NGOs play an important role in reaching rural SMEs and underserved populations. Their services often help to de-risk SMEs and provide specific technical assistance—especially in sectors such as agriculture.

These NGOs are in many ways building a pipeline of businesses that might be supported in the future by other BDS service providers. NGOs have also been instrumental in mobilizing technical experts to provide specialized support and some are even investing directly in SMEs.

With the intent to build more sustainable offers, there are examples of NGOs that have developed specific or stand-alone BDS offers. Some NGOs and multilaterals have built their own venture programs, recognizing Kenya as a hub for entrepreneurship and innovation.

V. Other Ecosystem Actors

Kenyan Banks

Kenyan banks have launched business clubs to cater to their business clients. Generally, these clubs offer members benefits such as access to training on entrepreneurship, business advisory services, and business trips to tap into new and emerging markets and networking opportunities. They may also offer preferential access to banking services and in some cases lower interest rates. As banks expand their SME lending through lines of credit and other incentives, the need to attract and de-risk SMEs is of growing importance to their business model.

Banks also offer support to BDS through their foundations, with programs providing operational BDS through accountancy and legal services and strategic BDS through capacity building and advice on access to markets.

Networks and Associations

Private sector networks and associations are important in terms of shaping the enabling environment for enterprises, delivering business support, and advocating for better policies. They also play an important role in market access. The following are some of the leading private sector networks and associations.

The Kenyan Private Sector Alliance (KEPSA)³⁴ brings together local and foreign business associations, chambers of commerce, professional bodies, multinational companies, SMEs, and startups from all sectors of the economy to engage government, development partners and other stakeholders on cross-cutting policy issues and development programs.

The Kenyan National Chamber of Commerce and Industry (KNCCI)³⁵ is a membership-based trade support institution working to protect commercial and industrial interests of the Kenyan business community. KNCCI advocates for the creation of a favorable commercial, trade and investment environment that supports enterprise expansion. Its membership is made up of micro, small, medium, and large enterprises. Since the promulgation of the new Kenyan Constitution in 2010, KNCCI has established County Chamber's offices in all 47 counties in addition to its head office in Nairobi.

The Kenya Association of Manufacturers (KAM)³⁶

fosters the development of a flourishing entrepreneurial culture and competitive small and medium manufacturers in Kenya and in the region. KAM aims to provide strategic leadership in supporting manufacturing SMEs towards inclusive global competitiveness. KAM membership constitutes 40% of manufacturing value-add industries in Kenya, and over 50% of its approximately 1,200 members are SMEs. It offers BDS services to these SMES such as mentoring, expertise on market linkages business growth, networking, and study tours.

In addition to the examples above, our research shows that there are more than 20 networks and associations in Kenya with SME members or specifically targeting SMEs, including those targeting women. They bring their members together to address sector specific concerns. Their main activities are often sector-specific education for members, networking, advocacy, and improving access to markets for their members.

V. Other Ecosystem Actors

Education and Training Providers

Education is another important aspect of the entrepreneurial ecosystem. There are many entrepreneurship offers in the educational market. According to SOMO³⁷, there are at least 15 institutions offering a diploma in entrepreneurship development as well as many certificates available in entrepreneurship.

Academic institutions are important in that they provide entrepreneurship education, practical

support, and research. This can be through multi-year degree courses or short executive style courses.

They are also helpful in supporting business ideation through programs such as hackathons. Some universities have grown their entrepreneurship and SME support work into fully fledged departments or have created semi-autonomous centers affiliated with the university.

BDS Aggregators

There are three major associations that bring BDS providers together.

The Association of Countrywide Innovation Hubs (ACIH)

is an association of hubs outside of Nairobi to help the development of entrepreneurship and SMEs in rural and peri-urban areas.

There are over 60 hubs involved in activities that include policy and advocacy, programs, projects, resource mobilization and research.

The Aspen Network of Entrepreneurs (ANDE)

has an East Africa chapter based in Nairobi. It fosters collaboration, discussion, knowledge sharing, advocacy, and learning opportunities for its members.

It has local members as well as international members that have an interest or operations in East Africa and includes investors as well as business development service providers in its membership.

The Association of Startup and SMEs Enablers of Kenya (ASSEK)

is an association that brings together and represents the interests of organizations supporting the development and growth of startups and SMEs.

It was founded in 2018 and has over 70 members. It promotes networking amongst the actors and is a focal point for different international and governmental programs and projects.

VI. Government's Role

There are a substantial number of organizations that have been operational in Kenya for at least ten years, with most of these more established organizations based in Nairobi.

In 2012 Kenya published its National Industrial Policy 2012 – 2030 with a vision of making Kenya a leading industrialized nation in Africa by 2030. At its heart is the creation of sustainable jobs and the policy states "The Micro, Small and Medium sector is recognized as the foundation of Kenya's industrial development."³⁸

The Ministry of Trade, Investments and Industry's Policy on the Promotion of Micro and Small Enterprises³⁹ published in 2020 aims to provide an integrated business enabling environment for the growth and development of productive micro and small enterprises in Kenya that make significant socio-economic contributions to the economy through provision of decent jobs and quality products.

The policy aims to address key challenges identified through a literature review and stakeholder engagement. Amongst the 10 challenges are skills and capacity development, access to a diversified and affordable range of financial products and services, facilitation of startups and enhanced coordination and implementation of support programs targeting development of the sector.

In 2020 a first draft Kenyan startup bill was proposed⁴⁰. Follow up drafts have since been developed. The latest draft of the bill aims to provide a framework that fosters a culture of innovative thinking and entrepreneurship, enables the linkage of startups with financial

institutions, private sector research institutions and government institutions, as well as facilitating investment and financial and non-financial support to startups.

It also aims to promote an enabling environment for the establishment, development, and regulation of startups and the establishment of incubation facilities at the national and county levels⁴¹. At the time of writing however no startup bill has been passed.

Since the arrival of the new government of President William Ruto in 2022, there has been continued investments in MSMEs. An example of this is the creation of The Hustler Fund to offer affordable credit to the informal sector, and which is to be coupled with a number of initiatives aimed at growing these businesses into formal Micro, Small and Medium Enterprises⁴².

The Kenyan government does not just shape the enabling environment by creating policies and a regulatory framework. Many government ministries are actively involved in enterprise development through programming, partnerships with private sector organizations and NGOs, as well as the creation of public bodies to oversee the implementation of key areas of policy. Below is an overview of some of the key ministries, their work, and their projects and initiatives.

VI. Government's Role

The Ministry of Trade, Investments, and Industry

This Ministry's mission is to facilitate accelerated growth of industrial sectors through enabling institutional, policy and legal frameworks.

The Export Processing Zones Authority⁴⁴ (EPZA)

is a state corporation under the Ministry of Investments, Trade & Industry with a mandate for the development of all aspects of the Export Processing Zones (EPZ) with particular emphasis on the provision of advice on the removal of impediments to, and creation of incentives for, export-oriented production in export processing zones.

Kenyan Industrial Research and Development Institute⁴³ (KIRDI)

has a mission to undertake industrial research and transfer innovative technologies for social-economic development. Through its capacity building program, industrial entrepreneurs are provided with knowledge and skills to enable them to adopt and apply outputs from industrial research and development.

This involves practical training and demonstration for instance in the production of food, leather, natural products, and textile technologies. The major client base of KIRDI are MSMEs who receive support on product design, development, standardization, and certification.

VI. Government's Role

The Ministry of Cooperatives and MSME Development

This Ministry addresses support for MSMEs through its Department for Micro, Small and Medium Enterprises Development⁴⁵ whose mission is the development of entrepreneurship, the promotion and development of micro and small enterprises and the enhancement of their competitiveness, as well as business innovation and incubation. The Department has oversight of some important and relevant state agencies and semi-autonomous government agencies.

Kenya Industrial Estates⁴⁶

promotes small and medium industries with a focus on rural industrialization. It provides affordable medium to long-term finance to enterprises: KSh. 100,000 to KSh. 20 million (approx. \$720 to \$144,000) for the purchase of machinery, equipment and working capital either for startups, expansion, modernization, or rehabilitation focusing on priority sectors. It also provides business advisory services.

The Kenya Institute of Business Training (KIBT)

trains entrepreneurs in practical business and management skills and has seven regional offices in Mombasa, Embu, Garissa, Nyeri, Nakuru, Kakamega and Kisumu.

The Micro and Small Enterprise Authority⁴⁷

is responsible for facilitating the integration of various public and private sector activities, programs and development plans relating to micro and small enterprises and promoting innovation and access to markets for micro and small enterprises. It also develops capacity building programs and has responsibility for data collection on the sector.

The Youth Enterprise Development Fund⁴⁹

is a Kenya Vision 2030 project that provides affordable credit, market linkage support and business development services to youth-led businesses to mainstream their participation in economic growth.

Uwezo Fund⁴⁸

is a flagship program for Kenya Vision 2030 aimed at enabling women, youth, and persons with disabilities access. The Fund aims to be highly devolved with decision making done at the grassroots level. Since inception, the Fund has disbursed more than KSh 7.2 billion (approx. \$52 million) through provision of affordable and accessible credit, capacity building on entrepreneurship skills, basics on bookkeeping, and market linkages and networking.



VI. Government's Role

Other Government Ministries

Ministry of Education

This Ministry oversees the Kenya National Innovation Agency⁵⁰ (KeNIA) which strengthens interrelationships between actors to promote innovation and enterprise development from research and ideas and coordinates the establishment and implementation of appropriate policies, standards, processes, infrastructure, and partnerships to nurture the innovative ideas.

The Ministry of Information, Communications and The Digital Economy (MOIC-DE)

This Ministry oversees the development of Konza Technopolis⁵¹, a large technology hub planned by the government of Kenya to be built 64 km south of Nairobi. The government established the Konza Technopolis Development Authority (KoTDA) to facilitate the development of Konza as a sustainable, world-class technology hub.

Ministry of Public Service, Gender and Affirmative Action

This Ministry coordinates gender mainstreaming in national development planning and oversees socio-economic programs including providing functional skills on entrepreneurship and access to Government Affirmative Action Funds and Access to Government Procurement Opportunities (AGPO) to Women. This includes oversight of the semi-autonomous Women's Economic Empowerment Fund established in August 2007 to provide accessible and affordable credit to support women start and/or expand business for wealth and employment creation.

VI. Government's Role

Other Government Initiatives

There are a few other government initiatives worth noting that deliver support for SMEs.

◆ As part of the East African Community, Kenya is involved in the development of an **e-commerce platform**⁵² to enhance intra-EAC trade and investment for SMEs.

◆ **The Kenya Development Corporation Ltd (KDC)**⁵³ is a Development Finance Institution that is owned 100% by the Government of Kenya and provides long-term financing and other financial, investment and business advisory services to fill gaps for long-term funding that cannot be met by commercial banks.

◆ **Agriculture Finance Corporation (AFC)**⁵⁴ is a Development Finance Institution wholly owned by the Government of Kenya with the mandate of assisting in the development of agriculture and agricultural industries by making loans and providing managerial and technical assistance.

◆ **The Kenya Investment Authority (KenInvest)**⁵⁵ is responsible for facilitating the implementation of new investment projects, providing aftercare services for new and existing investments, as well as organizing investment promotion activities both locally and internationally.

◆ **Biashara Centers** are a one-stop-shop concept set to bring government services closer to the people as well as to MSMEs to access government services from agencies in the entrepreneurship ecosystem under one roof. Several counties have launched them.

Kisumu County describes its Biashara Center

*"as seeking to provide essential business and trade services such as tax compliance registration, MSMEs loans, and branding registration support. The center will provide training on production, product certification, and systems accreditation. Other services to be provided at the center include promoting, regulating and developing MSMEs to boost growth in the sector."*⁵⁶

◆ **The Kenya Export Promotion and Branding Agency**⁵⁷ is a state corporation established in 2019 after the merger of the Export Promotion Council and Brand Kenya Board. The Agency's mandate is to implement export promotion and nation branding initiatives and policies to promote Kenya's export of goods and services.

VII. International Support for Enterprise Development

International support has helped catalyze and grow BDS capabilities in Kenya, through financial support and partnership with the Kenyan government, Kenyan financial institutions, and other domestic actors. Research commissioned by Argidius Foundation estimated that in 2020 Kenya received around \$29 million in bilateral aid with a specific BDS component, with a further \$11 million from private foundations.

The World Bank Group

The World Bank and Kenyan government recently published their new Country Partnership Framework (CPF) for 2023 - 2028⁵⁸. It addresses Kenya's need to accelerate quality job creation by focusing on labor market demand and supply.

- ◆ In the MSME sector, the International Finance Corporation of the World Bank Group (IFC) will continue expanding its portfolio of over US\$47 million in **advisory services** on SME banking and capacity building, agribusiness and health SMEs, access to finance for women, and business climate reform.
- ◆ IFC will also support **digital entrepreneurship and innovation** through support to local and regional startups.
- ◆ **The Kenya Youth Empowerment and Opportunities Project (KYEOP)** will continue. It is a KSh 15 billion (approx. 110 million USD) national project funded by the World Bank and the Kenyan government. It is designed to equip young people between the ages of 18 to 29 with life skills training, core business skills training, internship opportunities or work experience. It supports businesses to enhance their capacity to secure sustainable livelihoods with over 30,000 youth receiving business support and over 25,000 receiving a 40,000 KSh grant (approx. \$290).

- ◆ **The Kenya Industry and Entrepreneurship Project (KIEP)**, a US \$50 million project running from 2019–2024, aims to increase innovation and productivity in select private sector firms in Kenya by strengthening the private sector (including startups, SMEs, incubators, accelerators, technology bootcamp providers, etc.) through financial grants and technical assistance.
- ◆ **The Kenya Jobs and Economic Transformation Project (KJET)** currently in development for FY24 will target MSME clusters across Kenya's regional economic blocs with larger, catalytic public investments while supporting broad based actions to ease regulatory barriers, deepen access to markets, and expand business development services for MSME development.

VII. International Support for Enterprise Development

The US Government

The US government supports a range of relevant projects in Kenya.

- ◆ **The Kenya Investment Mechanism (KIM)**⁵⁹ is a five-year USAID program (2018-2023) that is facilitating \$520 million in investment for key sectors of Kenya's economy. KIM addresses two principal market failures that have discouraged investors from Kenyan MSMEs: insufficient quality consulting services and limited availability of financial products tailored to these sectors. KIM facilitates lending to underserved sectors, such as agriculture.
- ◆ **The Kenya Small Business Development Centers Program**⁶¹ (2021-2026) strengthens the capacity of Kenyan MSMEs and builds linkages to U.S. counterparts. The program targets MSMEs at any stage of business in the agribusiness, apparel, and creative sectors. The centers provide consulting, training, business development advisory services, and market intelligence and policy research.

KIM supports financial institutions to structure and list deals on the capital markets; conduct value chain analysis and value chain financing arrangements; and mitigate risk. KIM also runs the Kenya work of USAID's Women's Economic Empowerment Initiative which trains small and medium-sized women-owned businesses and women entrepreneurs who lack collateral on how to access cash flow-based long-term loans and on how to further develop their business skills to help their companies grow and thrive⁶⁰.

The German Government / GIZ

Through its Ministry of Economic Cooperation and Development (BMZ), the German government finances several relevant projects which are managed by the German Agency for International Cooperation (GIZ). Many GIZ implemented projects are also co-financed by the EU as well as other bilateral donors and UN agencies. In addition to providing instrumental support for ASSEK and ACIH and their programming, GIZ supports the following projects.

VII. International Support for Enterprise Development

◆ **GIZ technical cooperation with Kenyan State Department for Industry⁶²** enables implementation of interventions aimed at improving the MSMEs ecosystem in Kenya through education on the policy across the country, capacity building for MSE associations and entrepreneurial support organizations, and integration of initiatives. They also are supporting market access and certifications for MSEs.

◆ As part of the **Employment and Skills for Development in Africa⁶³** project they are working with private and public enterprises on a range of capacity and skills building projects as well as projects that focus on promoting MSME recovery and resilience post COVID.

◆ **GIZ's Promoting Self-employment and Entrepreneurship among Young People in Kenya program⁶⁴** is identifying young enterprises with products and services that have a high market potential and supporting them with seminars and mentorship, financial education, and acceleration services.

Other Donors

◆ **The UK government's Foreign and Commonwealth Development Office (FCDO)** finances a number of relevant projects including The Kenyan Catalytic Jobs Fund⁶⁵: a 5-million-pound, 4-year (2019 – 2023) programme with challenge fund to support innovations that have potential to create jobs.

It focuses on grants and technical assistance to SMEs and it supports agriculture, shifting from informal to formal sector, youth, and women.

◆ **The European Union's Go Blue Growth⁶⁶** project is a 25-million-euro project from 2021 – 2024 aiming to promote economic development in coastal areas of Kenya Kilifi, Kwale, Lamu, Mombasa, Taita Taveta, and Tana River.

Part of the project aims to improve the competitiveness of MSMEs as suppliers, service providers and actors in marine-related value chains.

◆ As the joint agency of the United Nations and the WTO, the **International Trade Centre (ITC)** is a multilateral agency fully dedicated to supporting the internationalization of SMEs.

It runs a number of multi-country programs of which are active in Kenya, including a program supporting value chains through inclusive policies, investment promotion and alliances running from 2018 -2024⁶⁷ and a trade training hub which builds capacity of professionals in international trade, by providing high quality, internationally accredited certification.

VII. International Support for Enterprise Development

Private Donors

In addition to government donors, there are private foundations that are supporting BDS. Some of them support programs and provide organizational support grants, some support the entrepreneurial ecosystem, and others support specific BDS activities focused on sectors or themes (i.e.—green entrepreneurship, health, nutrition, social entrepreneurship, etc.).

VIII. Observations

Business Development Services are growing and becoming more tailored and specialized. They are also expanding outside of Nairobi, which is seen as a positive development. There is also a growing number of consultancies that are strengthening their BDS proposition. However, it is often complicated to clearly identify the offer of BDS providers and their target segment and stage of business.

BDS organizations have been resilient through challenging times and there is a vibrant ecosystem of BDS provision and evidence of collaboration, although we do not have an SME perspective on the BDS provision in terms of relevance and quality. There is also greater coordination and sharing through ecosystem aggregators (ASSEK and ACIH).

The importance of SME development remains firmly anchored in Kenyan government policy as well as that of international development organizations and donors and is seen as a key aspect of achieving Kenya's 2030 goals. However, it is not clear the level of coordination that runs across ministries, the level of coordination and collaboration with the private sector, and whether government in some cases competes

with the private sector in BDS service provision. Donor interest seems to influence delivery and international donors are critical to the funding of BDS providers and the overall ecosystem. Donors are subsidizing the sector and there are stakeholders that feel that this creates distortion in the market and inhibits the competitiveness of high-quality fee-for-service programs.

There is a big gap between Nairobi and the rest of the country with respect to access to BDS, with MSMEs in and around Nairobi having greater access to a greater variety of BDS providers.

The process of formalizing MSMEs is slow in Kenya and transitioning beyond 'necessity entrepreneurship' remains a challenge. Ultimately informal micro enterprises still make up the lion's share of the MSME sectors highlighted by the KNBS 2016 survey: micro sized establishments constituted 92 percent of all licensed establishments⁶⁹.

IX. SWOT Analysis

Strengths

- ◆ There are strong BDS providers in Kenya. There are many that are well-established and have proven track records.
- ◆ There is evidence of stability and resilience of BDS providers.
- ◆ The Kenyan government has demonstrated its interest and involvement in growing and supporting SMEs as evidenced by policies and programs.
- ◆ There are organizations that bring together BDS providers, create greater interconnectivity and knowledge sharing, as well as serve as an entry and aggregation point for donors.
- ◆ There is acknowledgement of the importance of growing BDS services beyond Nairobi and actions are being taken to support the growth of BDS services in secondary cities and rural territories.
- ◆ BDS providers have demonstrated agility: they can provide tailored services to enterprises and meet donor needs.
- ◆ International and local organizations (e.g.--donors, NGOs) are using existing BDS providers to deliver their programs in lieu of establishing new BDS organizations.
- ◆ There is a growing trend of partnerships to bring specific technical knowledge and skills together alongside traditional business development support.
- ◆ There is more investment capital flowing to Kenya, in part due to successes of Kenyan tech startups.

Weaknesses

- ◆ There is a lack of shared terminology and definitions used by the sector. This includes terms such as early-stage, startups, communities, hubs, and innovation. This creates a challenge in terms of classification and segmentation. It also has the potential to confuse entrepreneurs and SMEs.
- ◆ There is a lack of interconnectivity and integration between public and private actors. This might lead to duplication or gaps in BDS.
- ◆ The willingness of MSMEs to pay for strategic BDS is low.
- ◆ Although there is an increase in services in rural areas, there is still a lack of BDS for rural populations.
- ◆ There is a lack of indicators or standards to measure the quality of programs and organizations, and the ecosystem lacks transparency on results and success rates.
- ◆ There is currently a small concentration of interested international and private donors, which could be a cause for concern for long-term sustainability.
- ◆ Donors focusing on special interest programs may skew programming or distract BDS providers from their core offering.

Opportunities

- ◆ Better segmentation and use of shared language to indicate target enterprises and clarity on intervention types and delivery methods. More offers for dynamic businesses that provide real economy goods and services: these businesses might grow at a slower rate but are important for job creation.
- ◆ Leveraging the momentum of devolution to continue to stimulate investment outside of Nairobi in both BDS providers and SMEs.
- ◆ Where there are clusters of BDS providers forming in geographic areas outside of Nairobi (such as Mombasa), help them develop as micro-ecosystems.
- ◆ Continue to build and support the development of rural BDS provision.
- ◆ Optimize and engage the young workforce in BDS, in entrepreneurship, and in SMEs.
- ◆ Coordinate with the Ministry of Cooperatives and MSME Development to integrate policy and private sector and donor initiatives.

Threats

- ◆ Changing donor priorities, donor fatigue in Kenya, or disillusionment in supporting BDS as a solution would be detrimental, as the system is reliant on donor support.
- ◆ Becoming too tech and startup focused or too focused on niche topics such that traditional businesses are overlooked.
- ◆ Poor quality of BDS provision could disenfranchise SMEs and cause a loss of confidence in BDS.
- ◆ Inadequate evidence to substantiate impact claims by BDS providers or the ecosystem could undermine SME and donor confidence.

*The following SWOT analysis is based on the research and observations

X. Recommendations

The following are recommendations for continuing to strengthen the ecosystem and to ensure a holistic offer of BDS support to all segments, stages and types of enterprises and entrepreneurs across Kenya.

◆ Continue to fill gaps in BDS service provision.

This gap filling includes continuing to focus on extending services to the economic blocs outside of Nairobi and to continue to ensure sufficient access to BDS for rural enterprises. It also entails ensuring that there is an ample offer and continued support for dynamic enterprises. This does not necessarily mean that new BDS organizations need to be created; strategies could also consider how existing BDS service providers can extend their reach.

◆ Coordinate efforts between private and public sector.

There are roles for the private sector and public sector and a need for greater public-private sector coordination. This includes the private sector taking more of a role in policy development and working with the public sector to solve the challenge of building rural infrastructure for rural business needs.

◆ Update the MSME Survey.

The MSME survey was pivotal for understanding MSMEs and their needs. It would be helpful to be able to measure progress against the 2016 baseline. This update could serve to guide policy and investment. Better disaggregation of data on micro, small and medium enterprises would create a better understanding of each segment and allow for more targeted interventions to be designed and measured per size of enterprise.

X. Recommendations

◆ Socialize frameworks and language.

It is difficult to assess who is serving what type of entrepreneur/SME, the service offer, and the delivery mechanism. This is because of the inconsistency of language and use of divergent terminology. Supporters of BDS need to advocate for using more widely understood frameworks and terminology so that there is clarity not only for donors and policymakers, but also for the entrepreneurs trying to navigate the ecosystem so that they can choose appropriate BDS that will best meet their needs.

◆ Consider how to embed quality metrics and standards.

There needs to be a greater focus on the quality and standards of BDS. The lack of standards is a risk to the system. Quality assessments would also help to ensure a competitive, viable and sustainable ecosystem and help to validate claims. Most importantly quality is important to the enterprises that want to invest their time and money in accessing BDS.

Argidius Foundation's SCALE framework could be a useful tool to help consider standards and metrics, and has been used by other countries in various ways for this purpose.



Authors' Note

There is no perfect way to categorize different business development service providers. For instance, accelerator programs are often delivered through cohort style programs; however, acceleration services can also be delivered to individual businesses. There are organizations that deliver programming (such as leadership development or training programs) via a cohort approach. Other challenges in classification are the recognition that there are nuanced differences between a network and an association although they share commonalities of bringing specific audiences together to network and advance shared agendas. Other challenges include grouping NGOs together who might embed BDS into existing contracts, have dedicated units, or even have impact investing vehicles.

The following table is intended to help the reader understand how we thought of and classified various BDS providers to help inform the report. This is not an exhaustive list of categories. Three examples of organizations have been randomly chosen to help illustrate the category that we feel exemplify the defined attributes.

Category	Attributes	Examples
Banks	Banks might have dedicated programs offering non-financial services for SME clients and/or foundations that support SME BDS provision.	<ul style="list-style-type: none"> ◆ Equity Bank & Equity Group Foundation ◆ KCB & KCB foundation ◆ Stanbic Bank & Stanbic Foundation
Consultancy	Firms that contract specifically with organizations, donors or individuals to provide customized support or a suite of support. Consultants can deliver programs or work one-to-one with businesses.	<ul style="list-style-type: none"> ◆ CrossBoundary ◆ Open Capital
Government Agencies	Government agencies or institutes that provide or oversee the provision of BDS.	<ul style="list-style-type: none"> ◆ Kenya Industrial Estates ◆ Kenya Industrial Research and Development Institute ◆ Micro and Small Enterprise Authority
Incubators & Accelerators	Organizations that provide a structured but often customized suite of services and support (often involving elements of training, business planning, mentorship and/or coaching) with the explicit intent to start and/or significantly grow the business.	<ul style="list-style-type: none"> ◆ GrowthAfrica ◆ Sinapis ◆ Somo Africa ◆ Sote Hub ◆ Transformational Business Network- ◆ East Africa ◆ Villgro Africa ◆ ygap

Category	Attributes	Examples
International Development Contractors	Organizations that are set up to administer large-scale donor projects related to BDS in Kenya.	<ul style="list-style-type: none"> ◆ ACIDI -VOCA ◆ DAI ◆ Palladium
International NGOs	International non-governmental organizations that are committed to delivering business development services as a part of their offer.	<ul style="list-style-type: none"> ◆ MEDA (Kenya) ◆ SNV ◆ TechnoServe
International Programs	Programs that operate internationally but either source entrepreneurs and SMEs from Kenya, provide virtual services and/or run regular programming in the country.	<ul style="list-style-type: none"> ◆ 1MillionStartups ◆ Echoing Green ◆ Stanford Seed Transformation Program
Investors	Investors with dedicated BDS delivery /technical assistance funding to help de-risk investments pre and/or post investment.	<ul style="list-style-type: none"> ◆ AECF ◆ Balloon Ventures ◆ Grassroots Business Fund ◆ GroFin
Networks & Associations	Groups that have a defining commonality that come together in a structured way to share, learn, and grow as entrepreneurs and businesses.	<ul style="list-style-type: none"> ◆ Kenya Association of Manufacturers (KAM) ◆ Kenya National Chamber of Commerce and Industry ◆ Organization of Women in International Trade (OWIT)
Specialized Support Organizations	Organizations dedicated to providing specific technical assistance and support in an area of expertise. This expertise may come through volunteers.	<ul style="list-style-type: none"> ◆ Partners in Food Solutions ◆ PUM
Training Programs	Organizations that use learning and capacity building methodologies to build knowledge and skills for application in businesses.	<ul style="list-style-type: none"> ◆ Africa Agribusiness Academy ◆ AMI (African Management Institute) ◆ Amani Institute

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