

The Role of SMEs as the engine of economic growth in Africa



Compiled Report of the 7th Annual SME Conference & Expo

10th – 11th September 2019
Nairobi, Kenya

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Strathmore
UNIVERSITY
BUSINESS SCHOOL

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Executive summary

Small and Medium Enterprises (SMEs) contribute greatly to economic growth of developing countries. Their share in employment and wealth creation tends to be higher than from large enterprises. As such, policy provisions remain fundamental in propelling these enterprises towards self-sustenance and realization of their full potential in contributing to economic growth.

As an exemplar, Kenyan SME operations cut across almost all sectors of the economy and sustain majority of households. SME activities form a breeding ground for businesses to thrive and provide one of the most prolific sources of employment. As such, debates and policy provisions geared towards boosting their operations are not only good for the sector, but the country's economy as well. Experience over the years has also shown that in addition to policy provisions, SMEs need training, support services, networking and business opportunities to help them develop and implement their growth plans.

It is against this background that Strathmore University organized the 7th Annual SME Conference and Expo that brought together SMEs regionally with a view to providing opportunities for networking and business growth. The theme and sub-themes of the event allowed participants to explore how they could become competitive players in a continental market. The event provided opportunities for SMEs to share their needs and explore the various financial solutions available to promote business sustainability. A primary focus of the event was positioning Kenyan SMEs to be globally competitive players that can tap into opportunities associated with the African Continental Free Trade Area with an emphasis on a digital economy.

The theme of the conference was “The Role of SMEs as the Engine of Economic Growth in Africa”. The panel discussions focused on four key sub-themes: agriculture and food security, housing and urbanization, universal health coverage and manufacturing.

The key messages of the conference were that for SMEs to drive economic growth in Africa, they need to invest in the following:

1. Scalability and networking
2. Creativity, innovation and use of technology
3. Conducting business in a socially responsible manner
4. Enhanced business practices that allow for access to finance, access to government opportunities and other avenues for growth
5. Value addition
6. Partnerships with other business along the value chain as well as collaboration with stakeholders such as government, academia and civil society.

A prerequisite to achieving these outcomes is formalization, building trust among customers, suppliers and other players in the market and delivering quality products and services consistently and sustainably.



Conference Overview

The 7th Annual Small and Medium Enterprises (SMEs) Conference and Expo was held at Strathmore University on 10th and 11th September 2019.

Conference Objectives

The conference had four key objectives. These were to:

1. Enhance business linkages and networking among SMEs.
2. Assist SMEs to identify and exploit business opportunities in the market.
3. Enhance the competitiveness of SMEs through innovation and value addition.
4. Facilitate development of socially responsible entrepreneurs of high integrity.





Conference Design

Keynote Speeches

Keynote speeches were delivered at the beginning of each day to anchor the deliberations of the day.





Panel Discussions

Panelists who were drawn from industry, government, SMEs and academia discussed the following sub-themes:

-  The role of SMEs in transforming the agricultural sector and food security
-  The role of SMEs in promoting innovations in the manufacturing sector
-  The role of the SMEs in transforming the housing and urbanization sector
-  The role of SMEs in promoting the Universal Health Coverage

Breakout Discussion Topics

The conference provided opportunity for organizations to have targeted discussions focused on key areas of interest. The topics discussed included:

-  The use of technology in amplifying economic growth
-  Marketing trends and business opportunities in various sectors
-  Competitiveness through value addition
-  Networking and scaling up.

Exhibition

The conference and expo had an exhibition area located within proximity of the main conference venue. This gave opportunity to the entrepreneurs to showcase their products and services and also engage with Corporates, Government and Civil Society actors who represent the ecosystem.

Business Plan Competition

The conference concluded with the launching of a business plan competition that ran from 16th to 27th September 2019. The winners were awarded on 16th October 2019.







Welcome Remarks

Dr. George Njenga, Executive Dean, Strathmore University Business School

Dr. Njenga opened his presentation by welcoming and appreciating the delegates, sponsors, partners and Strathmore University staff for putting together the 7th Annual SMEs Conference & Expo #2019.

His presentation highlighted the following key ideas:

-  *Intergenerational contract responsibility of the present enterprises with future generations:* Delegates, partners, sponsors and faculty were reminded of their responsibility to future generations and that due care is crucial to ensure we plan to secure and transfer resources and enterprises to the next generation for prosperity and growth into the future through succession planning that requires training and deliberate efforts.
-  *Scalable Vision:* He gave an analogy of ‘Enjoying chicken alone today vs sharing an elephant with others tomorrow.’ Enterprises have to work together to take advantage of economies of scale, synergies and to discover new opportunities for growth beyond existing scopes and national boundaries. Business that come together can co-create a bigger vision to realize scalability for the future.
-  *Intra-African Trade Potential:* He also challenged the delegates to consider the huge opportunities that lay untapped within the continent with special reference to the various regional trade blocks. Businesses in Africa lose up-to USD 80 Billion annually in lost opportunities for inter-trade according to COMESA (2019). More reason for collaboration among enterprises.
-  *Synergies* between SMEs, Academia, Private Sector Enterprises and the Government are key to economic growth in Africa.

Issues for future discussions

From his session, the key issues that all sector players need to be concerned with include:

- 🌐 How do we address gaps in inter-generational transfer of enterprises?
- 🌐 How do we connect enterprises to spur new ideas and scalable growth – connecting the value chains?
- 🌐 How do we generate scalable visions for sustainable growth in future?
- 🌐 How do we tap into Intra-African Trade Potential as SMEs?

Key Conclusions

Following the issues arising, Dr. Njenga concluded that:

- 🌐 Capacity building exists in the form of training opportunities at Strathmore and other institutions on Family Business Management to partly help today's entrepreneurs realize, plan for and take up the responsibility to pass on their enterprises to future generations as part of Business Continuity Planning.
- 🌐 Government, private sector, development agencies, and academia need to create more fora to bring enterprises together to discuss issues of mutual concern.
- 🌐 Businesses need to come together to co-create a bigger vision to realize scalability for the future.
- 🌐 Need for policies around further easing of Intra-African Trade by the Kenyan Government in collaboration with SMEs, academia and development agencies to tap into the USD 80 Billion annually in lost opportunities for Inter-Trade according to COMESA (2019).



Opening Remarks

Dr. Vincent Ogutu, Vice Chancellor Designate, Strathmore University

Dr. Ogutu's presentation focused on the following areas:

- 🌍 Role of government, industry and SMEs as partners in the region's economic growth agenda cannot be overemphasized. The government and academia do not have all the answers. Collaboration and synergies are critical for success.
- 🌍 Africa is on the rise. He highlighted that the rest of the world was recognizing the tremendous growth of the African continent across a variety of economic parameters and the potential was clear.
- 🌍 There is need to walk the distance for Africa to realize her potential. The economic growth journey demands that Africa must be prepared to work very hard to realize the promise behind the potential. Future growth will be enhanced through capacity building, formalization, innovations and industriousness.
- 🌍 The Government of Kenya must be held accountable for the promises made to SMEs during the 2018 SME Roundtable. Some of the interventions promised by government were already in place.
- 🌍 Strathmore University also has a role to play in supporting the economic growth of SMEs. The university continues to champion and coordinate forums like that SME conference that bring together the stakeholders as well as provide the much needed capacity building through training and research.

Issues for Future Discussions

The following issues arose from Dr. Ogutu's remarks:

- 🌍 How can SMEs prepare to walk the distance to realize the potential economic growth of Africa?
- 🌍 To what extent are government initiatives geared to support SMEs actually benefitting them?
- 🌍 What is Strathmore University's role and how can this be enhanced – in training, research and business development services?

Key Conclusions:

The following conclusions were made in the session:

- 🌍 SMEs need to start thinking BIG to match potential.
- 🌍 Capacity building exists in the form of training with the help of government, private sector and development agencies.
- 🌍 The Kenya Government needs to make a follow-up of the 2018 SME Roundtable to give an account of progress made to promote SMEs.
- 🌍 The SMEs can also identify other areas of support from government with regard to creating an enabling environment for business.
- 🌍 Among Strathmore University's role is research, training and organise forums to bring SMEs, government and development partners together to deliberate on how to spur economic growth. Strathmore also has other initiatives to support SMEs including business incubation centres such as @ibiz Africa, @ilab Africa, Kenya Climate Innovation Centre (KCIC), Strathmore Energy Research Centre (SERC) and Centre for Intellectual Property in Information Technology (CIPIT).









Session Notes





Achievements and emerging issues in the SME sector since the first SME presidential round table in 2018 : lessons learnt and way forward

Ms. Anne Mutahi , SME Advisor, Office of the President

Ms. Mutahi made a presentation on the following issues:

-  Government recognition of SMEs and their role in economic growth
-  Government appreciation of the challenges facing SMEs
-  Formalization of SMEs
-  Government as a partner for SMEs
-  Growth of SMEs
-  Ease of doing businesses index for SMEs

The following key ideas arose from her presentation:

-  The Government fully recognizes the importance of SMEs. However, it would be preferable that SMEs formalize and register themselves with relevant Government agencies for more recognition and to improve on access to services and government opportunities. For example, informal/unregistered SMEs cannot benefit from initiatives such as lower electricity tariffs for SMEs. The government is aware that many businesses, especially the micro and small enterprises fear registration to avoid obligations that come with it such as paying taxes to the Kenya Revenue Authority, as well as permits and licenses to Nairobi City Council, and other county governments. However, the benefits of registration far outweigh the costs.
-  The Government is very conversant with the challenges affecting SMEs after the 2018 Presidential Roundtable and is working hard to support SMEs.
-  Many small businesses do not seem to experience the country's economic growth over the years nor how they contribute to or benefit from it.
-  Innovation is critical for SMEs to grow. The Government is considering partial Government Guarantees for SMEs financing to support innovation.

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- 🌐 The Government plans to undertake an ‘Ease of Doing Business Index for SMEs’ to track progress in the sector, identify areas of challenge and facilitate their growth and development.

Issues for Future Discussions

Issues arising from her session included:

- 🌐 Do SMEs realize or derive benefits from the country’s continued economic growth? If not, what is the gap? What is missing?
- 🌐 What needs to be done to incentivize formalization and registration of SMEs?
- 🌐 Are the changes made by the government to assist SMEs such as lower electricity tariffs, and improvement of the market worksites benefitting the SMEs?
- 🌐 Might an ease of doing business index for SMEs help to serve the SMEs better?

Key Conclusions

The session concluded the following:





- 🌐 There is need for research on how to link the country’s economic growth to SMEs.
- 🌐 The Government needs to explore ways to incentivize formalization and registration of SMEs and especially those in their first five years of existence. This could be through introducing tax breaks/lower tariffs for start-ups. This is a policy gap that needs to be addressed.
- 🌐 The Government has achieved some milestones based on the 2018 Roundtable deliberations. There is, however, need for a survey on the impact of the interventions made.
- 🌐 An ease of doing business index for SMEs to track progress in the sector and to further facilitate SMEs may be required. This is a possible area for research.









The Role of technology in enhancing growth of SMEs

Bitange Ndemo , Associate Professor of Entrepreneurship University of Nairobi Business School

Prof. Ndemo's presentation focused on the following:

-  The role of Technology in enhancing Growth and Efficiency.
-  Leveraging on data to enhance the growth of SMEs
-  Standardization of products and services for sustainability of SMEs
-  Collaboration and synergy between countries for bigger market share

The key ideas from the session included:

-  SMEs should invest in understanding the needs of their customers. They should also understand their own needs so that interventions are well targeted. For example, access to finance is not always the key need for a business. Sometimes is it good financial management, better customer engagement, or higher quality products/services.
-  Data rush is the fourth industrial revolution. Data driven decision-making and the use of big data to understand markets should be a concern to SMEs.
-  SMEs need to unpack the supply and value chains and use technology to simplify it.
-  Another important consideration is understanding how their businesses make (and lose) money. This will help them improve on efficiency. Without clarity on both revenues and profitability, the incentives to be more efficient and effective may be missed.
-  SMEs should standardize their services to ensure sustainability and predictability. A customer wants to know they can get the same quality of product/service every time. Consistency is important.
-  There can be many opportunities for innovation and growth if SMEs asked the right questions. For example, with regard to imported popular brands, they could engage in finding out how they can produce the same or better products locally.

However, an enabling business environment is needed so that the local costs of production are not prohibitively high.

- 🌐 Problems and opportunities are two sides of the same coin. The more problems there are, the more opportunities present themselves.

Issues for Future Discussions

- 🌐 How can SMEs take advantage of big data to promote their growth? What role can universities play in this regard?
- 🌐 How can SMEs standardize the quality of their offerings, while maintaining customization that is quite popular in small businesses? How can they generate the benefits of both?

Key Conclusions

Key conclusions included the following:





- 🌐 SMEs need to collaborate with academia to exploit data and information they have for better decision-making and sustainability.
- 🌐 Technology should be incorporated in every facet of business.
- 🌐 Children must be taught critical thinking and problem solving at early age to appreciate entrepreneurship.
- 🌐 Before an SME receives financial support, there is need for training to realize the actual needs of the business.




The Role of SMEs in transforming the agricultural sector and enhancing food security*

Panelists: Grace Ndungu, Head marketing, Sales, partnerships and Alumni, SBS • Dr. Andrew Tuimur, CAS, Ministry of Agriculture • Kennedy Karani, Co-Founder & Director, M-Farm Ltd. • Linda Kwamboka, Co-Founder & Director, M-Farm Ltd.

Key Ideas

-  Agriculture is the backbone of Kenya's economy but we lost it. We need to get back on track; Agriculture contributes 32% of GDP directly and 27% of GDP through linkages.' other sectors. The sector employs more than 40 per cent of the total population and more than 70 per cent of Kenya's rural people.
-  Agribusiness training programmes are important in the business as the world cannot survive without an efficient and sustainable food supply system.
-  Technology is very important for scaling up agricultural production and value addition. M-Farm seeks to solve issues of surplus and scarcity of produce by linking those with the supply of food with the market. Access to information about markets, prices, quality and quantities makes it possible to deliver what is need where and when it is needed.
-  There is much data that can be (or has been) generated from agriculture and related enterprises. However, the data is scattered, irretrievable, fragmented, incomplete and inconsistent. Kenya's 2019 National census took into account farming enterprises to try to aggregate this data in a way that makes it meaningful and useable. With devolution, the county governments also have an opportunity to aggregate relevant county agricultural statistics and make the information available for decision-making.

Issues for Future Discussions

-  Is there a way of linking up the issues around agriculture and food security – from policy, access to markets, value addition, use of technology, and consolidation of data so that the government can have a comprehensive way of addressing them? Examples are the potato task force, rice and leather value chains.

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- 🌍 How can Huduma Centres (Service centres) help in interfacing the government with its citizens, especially those in the Agricultural sector?
 - 🌍 How can the agricultural extension services be revamped to promote quality and adequate agricultural production?
 - 🌍 There was something called guaranteed minimum returns (GMR), what happened to it? The GMRs were abused by farmers and therefore withdrawn. The Government has been working with private partners e.g. OneAcre Fund and Contract farming with maize millers or milk processors is encouraged. However, the GMR policy may be reintroduced to cushion farmers from losses and motivate them to invest in agriculture. The perennial food shortage and starvation experienced in parts of Kenya must cease.
 - 🌍 How can the youth be engaged more actively in agriculture? Access to interest-free loans? Business competitions?
 - 🌍 The players in the agricultural sector have not understood the supply chain to enable them synergise and benefit from each other. How can this be harnessed?
 - 🌍 The distribution of food is another challenge. Kenya has sufficient capacity to feed its people. We know where the demand is and at what time of the year, and we can produce sufficient food to match demand. But often the political will to do so is lacking. How can we distribute food efficiently throughout the country?
 - 🌍 Government has been building dams to facilitate food production throughout the year. However, we continue to experience food shortages. Why is there a gap between the provision of resources (and agricultural projects, such as the Galana Kulalu irrigation scheme), and food sufficiency?
 - 🌍 Finally, the agriculture supply side often doesn't understand issues of wastage and quality. According to Kenya National Bureau of Statistics (KNBS) 2017 data Kenya lost KSh150 billion worth of food that went to waste, was tossed out or left to rot.

* Plenary Session

Farmers lost earnings as they struggled to manage, store, and transport their produce to the market. How can post-harvest losses be minimized and food sufficiency enhanced?

Key Conclusions

- 🌍 For those in agribusiness, keeping financial records is crucial to facilitate access to finance. Banks and insurance firms cannot make decisions because they cannot evaluate risk due to lack of information. Additionally, sound record keeping ensures the enterprise is run efficiently as costs can be managed and incomes tracked.
- 🌍 There is need to match food demand and supply.
- 🌍 Technology, technology adoption, going digital, better seeds, and good agronomic practices are key.
- 🌍 Youth and women are a large part of Kenya's population. If they are actively engaged and supported, agricultural production and food sufficiency can be enhanced.
- 🌍 Transformation of the agricultural sector is imperative for us all. This entails larger scale production, better linkages of the value chain, access to markets, value addition, strong distribution networks and sufficient government support on infrastructure and policies.



European Investment Bank's support for SMEs in East Africa

Mr. Guillermo Bosse, Regional Team Leader, European Investment Bank, Technical Assistance Programme.

Mr. Guillermo's presentation focused on the European Investment Bank's Facility and Technical Assistance Programme for East Africa. He shared with the delegates that they work with local banks to support SMEs in the region for economic development in Africa. He shared statistics and reports highlighting the investments they had made through local partners to support economic development with a special focus on SMEs in various regions in Africa including East and West Africa.

The EIB has been actively supporting Kenya and the wider East African region's development and growth agenda for several years, through the provision of medium to long term funding to financial institutions. In Kenya only, the EIB has over the past 7 years made available over EUR 350 million to the financial sector, in support of micro, small and medium enterprises (MSMEs) operating in key productive sectors of the economy. EIB's financial sector lending programme in the region is further supported by an important technical assistance programme targeting both financial institutions and MSME clients. This programme was initially endowed with a EUR 5 million grant and replenished in 2017 with an additional EUR 4.7 million which is currently being deployed throughout the region by a team of experts of Agriculture and Finance Consultants (AFC) from Germany. Its objective is essentially to ensure an efficient deployment of EIB lending facilities and greater impact thereof through capacity and expertise enhancement of the participating banks.

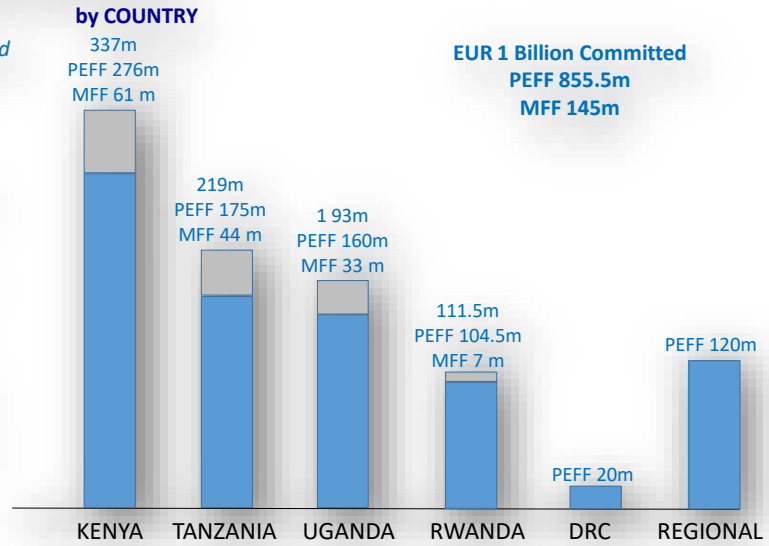
Kenya was by far the biggest beneficiary of the EIB credit line facilities in East Africa as per data from 2007 to 2019.

**EIB CREDIT LINE FACILITIES FOR EAST AFRICA:
PROGRAMME OVERVIEW**

- Data since 2007 of funds committed

OBJECTIVES

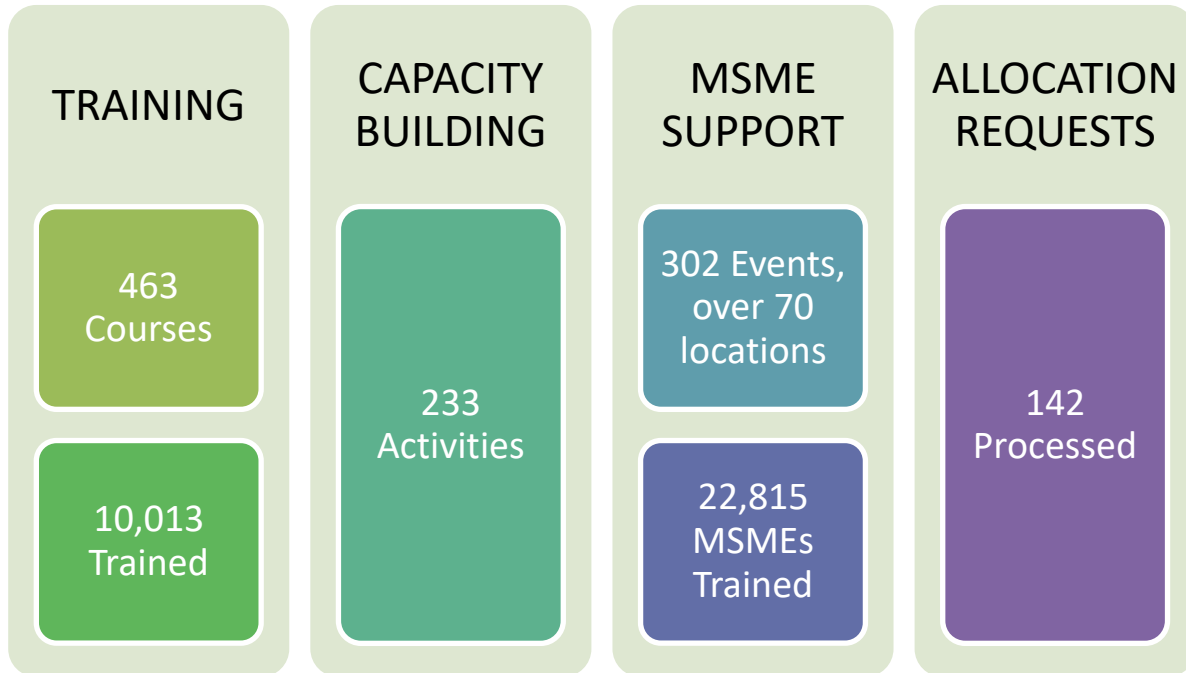
- Micro Small and Medium Enterprises (MSMEs)
- Medium and Long-term
- Productive Sectors
- Economic growth and employment generation
- Environmental and social impacts identified and addressed



Kenya also had benefitted from MSME Trainings as part of EIB’s achievements in Phase I and Extension stage of their interventions.

Achievements: Phase 1 + Extension Phase

November 2014 to June 2019



<i>Country</i>	FIs/ NBFIs	Trainings	Trained	CB Activities	MSME Events	MSMEs Trained	Allocation Requested
<i>KENYA</i>	15	243	5261	90	98	1755	49
<i>UGANDA</i>	6	83	2064	36	78	6762	49
<i>TANZANIA</i>	7	98	2138	68	116	14092	29
<i>RWANDA</i>	6	39	550	39	10	206	15
<i>TOTAL</i>	34	463	10,013	233	302	22815	142

Mr. Guillermo also shared with the delegates the Project Team Composition indicating a great wealth of experience to support MSMEs and financial institutions as part of the EIB's agenda for economic growth and empowerment for the region.

Project Team Composition

Scope of Work

Objective: *Introduce international best practice to improve capacity of FIs to ensure EIB funds allocated to creditworthy MSMEs, encouraging economic growth and job creation*

- **Component I:** Design and deliver training programs focusing on Credit Risk Management
- **Component II:** Provide Targeted Capacity Building within FIs.
- **Component III:** Organise series of MSME Support Actions
- **Component IV:** Oversee program, provide first level control of allocation requests

Long Term Experts (LTEs)

Technical Inputs, Allocation Requests, Operational Support

- KENYA: Team Leader, Guillermo Bosse
- KENYA: LTE, Titus Karanja
- TANZANIA: Deputy Team Leader, Michael Alcorn
- UGANDA: LTE, Andrew Obara
- RWANDA: LTE, Barbara Kleinjohann

Short Term Experts (STEs)

Intermittent Technical Inputs

- 35+ STEs Mobilized
- > 15 International, 20 Regional

He also shared the footprint (on the following page) of EIB's interventions in the region for MSMEs support.

MSME Support Activities

**Overall: 302 events at over 70 locations,
22,815 MSMEs Trained.**

**European
Investment
Bank**
The EU

13 banks and 4 MSME institutions supported in 4 countries

**European
Investment
Bank**
The EU

Topics: Starting and growing a business, Business planning, Bookkeeping and Financial Management, Marketing, etc.

Bank/Institution	Country	Events	Trained
<i>Sidian</i>	KE	14	598
<i>Family Bank</i>		5	245
<i>KEFEC</i>		79	912
<i>NMB</i>	TZ	87	11,785
<i>Bank of Africa</i>		6	331
<i>Access Bank</i>		21	1914
<i>Open Outreach</i>		2	62
<i>Centenary</i>	UG	50	5015
<i>DFCU</i>		1	33
<i>Housing Finance</i>		18	938
<i>KCB – U</i>		9	776
<i>BRD</i>	RW	2	42
<i>KCB</i>		3	63
<i>I&M</i>		4	88
<i>AB Bank</i>		1	13

Financial Institution Partners (excluding MSME institutions)

Increasing number of EIB Project Clients





	Kenya (12)	Uganda (10)	Tanzania (7)	Rwanda (5)	DRC (1)	Regional FIs (3)
1.	ABC Bank	Centenary Bank	Access Bank	Bank of Kigali	ProCredit DRC	EADB
2.	Family Bank	HFB	BOAT	BRD		TDB
3.	Faulu Bank	KCB Uganda	CRDB	KCB Rwanda		Shelter Afrique
4.	Housing Finance	DFCU	EXIM	AB Bank		
5.	NIC Bank	Pride Microfinance	KCB Tanzania	I&M Bank		
6.	Prime Bank	Bank of Barod	NMB			
7.	Cooperative Bank	Crane Bank	Equity Bank Tanzania			
8.	Consolidated Bank	BoA Uganda				
9.	Chase Bank	Equity Bank Uganda				
10.	Sidian Bank	Diamond Trust Bank				
11.	Equity Bank					
12.	I&M Bank					



Innovation, Technology and Creativity[†]







Moderator: Jamal Mohamed, Strathmore Business School

Mr. Mohamed introduced the discussion by highlighting the following:

-  The need for proper definition of Innovation, Technology and Creativity.
-  Highlighting why innovation is key to SMEs (ease of doing business, strengthening competitive advantage, enhancing profitability, saving time and effort, reducing costs, and developing customer focused products).
-  Challenges faced by SMEs in integrating innovation, technology and creativity.
-  Possible solutions to SMEs in incorporating the three aspects.

Challenges SMEs face in integration

Participants of this breakout session identified the following challenges to integrating innovation, technology and creativity:

-  Fear of the unknown. Businesses stay in their comfort zones.
-  Being overwhelmed by the daily routines of business. The entrepreneur focuses almost exclusively on operational matters and has no time to think strategically.
-  Shortage of capital – this is especially true when attempting to innovate. When the business is cash starved, it is highly unlikely to invest any resources in creating new products or services, or investing in new technologies.
-  Organization culture (including the owner-manager) is at times oblivious of the need for innovation – ‘if it ain’t broken, why fix it’. Complacency can easily set in especially if the business has been successful.
-  Fear of being copied (Intellectual property). Whereas the innovators may take a lead in the market, those copying their innovation are likely to reach market much faster and at a much lower cost.
-  The business environment is at times too dynamic to cope with. Changes in technology, and customer needs can make enterprises feel paralysed to respond.

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- 🌐 Limited exposure to realize need. For entrepreneurs who have not had access to new markets, products, opportunities to network, etc., they may be oblivious of changing market needs.
 - 🌐 Non-responsive statutory laws. High taxes, complex tax regimes, and other costs of doing business that seem non-responsive to the needs of SMEs.

Possible solutions

Participants identified the following possible solutions:

- 🌐 SMEs should set aside resources for the three. Additionally, financial institutions may consider identifying enterprises that have a strong credit history and support these with finances to innovate, upgrade or introduce technology, or create new products and services.
- 🌐 Leadership of SMEs should be sensitive to the need of the three. Employees should be given time and space to innovate and be rewarded accordingly.
- 🌐 SMEs should consider engaging experts in various areas to help achieve outcomes in the three areas.
- 🌐 Those who innovate (whether within a business setting or not) should be rewarded and supported to commercialize their innovations. There should also be protection of intellectual property. SMEs should be aware of the work of Kenya Intellectual Property Institute (KIPI) to see how they can patent and protect their inventions.
- 🌐 Partnerships and networking among SMEs are key to learning and growth.
- 🌐 Standardization of processes is key to maintaining quality and consistency and ensuring sustainability.

† Breakout Session

Key Conclusions





- 🌐 SMEs should conduct SWOT analysis regularly to enable them consistently reflect on areas of improvement and business opportunities.
- 🌐 Reliable and consistent quality among SME product offerings enhances customer trust and loyalty.
- 🌐 SMEs should take advantages of the creativity of young talent and willingness to challenge the status quo in order to find opportunities.
- 🌐 Where relevant, SMEs should learn and use Minimal Viable Product (MVP) (i.e., a product with just enough features to satisfy early customers and provide feedback for future product development) to mobilize financing.
- 🌐 The book, The Lean Start-up by Eric Ries was proposed as a 'must-read for every business owner (not just the start-ups).
- 🌐 There should be special focus on cybersecurity to avoid the risks associated with technology.
- 🌐 Only those entrepreneurs who are curious and looking out for new opportunities are likely to find areas of innovation and creativity.



Access to Finance[‡]








Moderator: Jeremy Kamau, Associate Director, SME Banking, Equity Bank Kenya Limited

Mr. Kamau introduced the session by highlighting four key areas for discussion.

-  SME Banking
-  SMEs challenges in accessing finance
-  Best practice for Banks
-  Best practice for SMEs








Challenges SMEs face in accessing finance

The key challenges identified by participants regarding access to finance included the following:

-  Lack of or insufficient collateral
-  Requirement to have minimum bank balances
-  The requirement for business records which small business people sometimes consider a nuisance
-  Poor relationship banking. The bank does not know its customers
-  Mistrust – banks and the SMEs not trusting each other
-  Repayment challenges – when the business is in financial difficulties and loan repayments become a challenge, this can affect an entrepreneur's credit scoring, hence limiting opportunities of accessing finances in future.
-  Credit Reference Bureau (CRB) listings. The CRB was initially thought of as a good institution whose records could help entrepreneurs prove their creditworthiness. However, it has turned out to be a nightmare for many business people, as individual and companies find themselves on the list erroneously or with most insignificant credit balances that significantly negatively impacts their credit scoring.

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-  Lack of bank guarantees.

Proposed Solutions

-  SMEs need to formalize and professionalize their businesses. It is difficult to build trust with a financial institution when these things are not in place.
-  SMEs at times perceive record keeping as a nuisance. The reality is that financial institutions will not provide finances to a business whose track record they cannot establish. Additionally, even if a business is not seeking funding, record keeping is critical to enable the entrepreneur know when his is making (or losing) money, keep track of costs and revenues, and be able to plan for future growth.
-  Responsive relationship banking. This is for the financial institutions. They need to invest in knowing their customers.
-  Government guarantees. In the absence of bank guarantees, the government could provide this, especially to businesses that demonstrate potential for scalability and addressing societal needs such as food security, quality healthcare and access to education.
-  More personalized SME products to fit unique ventures. More can still be done in this space to accommodate SME needs. The financial institutions must invest in KYC.
-  Re-evaluation of banking laws with a focus on assisting SMEs e.g. interest capping, which may soon be a thing of the past.
-  Loyalty to one's financiers. SMEs tend to hop from one financial institution to another, thereby not creating the necessary loyalty, trust and relationship that would make it easier for the financier to work with them.

‡ Breakout Session

Conclusions

- 🌐 Formalization and professionalization are essential. SMEs could consider outsourcing some services such as accounting and HR
- 🌐 Responsive relationship banking by the banks; more personalized SME products to fit unique ventures.
- 🌐 Consider diverse opportunities for accessing funding: Government guarantees, bank guarantees, interest-free loans, asset financing, LPO financing, etc.



Recap from Plenary Sessions

Presenter & Moderator: Prof. Ruth Kiraka, Strathmore University

Key Messages

-  Need for collaboration and synergies between SMEs, Academia, Private Sector Enterprises and Government are key to economic growth in Africa. This includes benefiting from cross-border trade.
-  Business continuity to future generations.
-  The government must be held accountable to create an enabling environment for SMEs on the one hand. On the other the SMEs need to formalize and register themselves with relevant agencies for more recognition, visibility and easier access to services and opportunities provided by government.
-  Academic institutions such as Strathmore University have a role to play in supporting SMEs with economic growth – capacity building, research and collaborative initiatives such as the SME conference. Academic institutions may also play a role in data analytics and working with big data to enhancing evidence-based decision-making.
-  Innovation and use of technology for scalability are critical for SMEs to grow.
-  Linkages between enterprises and strengthening value chains and value addition are key to business growth in the sector as a whole.
-  SMEs should be consistent in the quality of their services to ensure growth and sustainability.
-  Whereas access to finance is identified as a challenge by enterprises, this is often compounded by weak financial records, weak customer relationship management, inflexible loan products, and businesses that are not bankable. Financial institutions can work with other players to address these challenges.
-  The EIB works with banks and has provided over 1 billion Euros for SMEs in East Africa – Kenya Uganda, Tanzania, and Rwanda, of which about 350 million Euros

has been used to finance MSMEs in Kenya. Additionally, EIB provides training in areas such as book keeping, HR development, Digitization and capacity building.

- 🌐 Start-ups and inventions need special consideration in accessing financing. Special purpose vehicles or loan products need to be made available for this.
- 🌐 Agriculture is the backbone of Kenya's economy, and in many ways has not received sufficient government support. The government needs to revamp extension services for quality agricultural production as well as create an enabling environment in terms of infrastructure, tariffs, and other regulatory issues.
- 🌐 Creation of a business index for SMEs that is able to track and address the challenges of a growth-oriented SME may help to promote their growth.



Policy Issues for SMEs

Moderator: Martin Mbaya

Key Issues

- 🌍 Food safety policies and standards across the entire value chain from growing processing, packaging and harvesting.

***Solution:** Stakeholder engagement of all players from the farm preparation and inputs stage, through the entire chain.*

- 🌍 High taxation that results in high costs of farm inputs; too many taxes as well.

***Solution:** remove duties on importation of farm inputs; one stop shop for all the licenses needed in this sector.*

- 🌍 Taxes on bottled water are too high (Ksh.5.2 per litre) makes it hard to compete with brands in the informal sector that evade these taxes.

***Solution:** Implementation of the excise duty stamp earlier proposed to ensure every brand in the market is competing on a level playing field.*



African Continental Free Trade Area



Opportunities for Africa's SMEs from the Africa Continental Free Trade Area (AfCFTA) Agreement

Jonah Omowunmi, Senior Enterprise Development Expert, African Development Bank

About AfCFTA

-  The AfCFTA is aimed at accelerating intra-Africa trade and boosting Africa's trading position in the global market by strengthening Africa's common voice and policy space in global trade negotiations.
-  54 countries are signatories to the Agreement and 27 of them have ratified it. The Agreement is now at the implementation stage.
-  The African Development Bank has given USD4.8m to promote the AfCFTA secretariat mostly on cross border infrastructure projects in transport, energy and ICT connectivity.
-  Africa has a cumulative GDP of USD2.5 trillion and is the 8th largest economy in the world and so has great potential.

Why the AfCFTA?

-  Production structures in Africa are weak, fragmented and undiversified.
-  There are infrastructure deficits and in particular, there is a lack of trade facilitation infrastructure that renders production and trade uncompetitive.
-  Most of intra-Africa trade takes place among countries within regions (mostly in the East African Community (EAC) and the Southern African Development Community(SADC) and not between regions.
-  The AfCFTA is projected to increase intra-African exports and lead to trade diversification. Some benefits include:
 - Enhanced productivity
 - Inclusion of small enterprises
 - Innovation

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- Shift to higher value-added products
 - Greater investment
 - Improved business climate
 - Enhanced competitiveness in global trade
 - Improved quality of export across the continent by integrating regional and global value chains.
 - Allow industries to develop across borders and be able to scale up.

How can SMEs be involved?

- 🌍 The African Development Bank is assisting AfCFTA in implementing this agreement and especially in finding ways of getting SMEs involved.
- 🌍 Free market space will make SMEs more competitive as they share their goods across borders.
- 🌍 For SMEs, they can use franchising as an entry mode in the international market and turn their products into franchise brands. This means they need to work on the quality of their products which will help them compete on an even ground with other global brands.
- 🌍 The SMEs will have to develop the skills necessary to create value, they will emphasize the need for the enterprises to develop skills that are employable and competitive across borders. It means addressing educational and institutional reforms to address the deficiency in quality skills.
- 🌍 There will be easy movement of skills across regions. There is a need to revitalize and expand tertiary education, research and innovation to address continental challenges and promote global competitiveness.
- 🌍 In Kenya there is a need to make the beneficiaries more aware of the AfCFTA. It seems only the political circles know what is happening. AfCFTA is like a policy paper and there is a need to unpack it and debunk some of the myths surrounding it to make the implementation of this agreement to work.

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- 🌍 There is the Agenda 2063 which is Africa's blueprint and master plan for transforming Africa into the global powerhouse of the future.
 - 🌍 The genesis of Agenda 2063 was the realization by African leaders that there was a need to refocus and prioritize inclusive social and economic development, continental and regional integration, democratic governance and peace and security amongst other issues aimed at repositioning Africa to becoming a dominant player in the global arena. Agenda 2063 encompasses strategies and programs, which can boost Africa's economic growth and development and lead to the rapid transformation of the continent. It identifies key activities to be undertaken in its 10-year Implementation Plans that will ensure that Agenda 2063 delivers a big win for Africa's people.
 - 🌍 African Development Bank can also work with Strathmore University in capacity building. We need to educate and inform entrepreneurs and SMEs about what the agreement means for them, how to manage innovation, drive down costs and become competitive at the global level.



Using the Franchising Model for SMEs to Access the African Market through the AfCFTA

Wambugu Wa Gichohi, Lead Franchise Consultant, Worldahead

Franchising and Micro franchising

- 🌐 Franchising is a powerful tool which SMEs can utilize to tap into opportunities under the AfCFTA.
- 🌐 Franchisees are in business for themselves but not by themselves. It is a business model that promotes social cohesion through regular interaction between the franchisee and franchisor.
- 🌐 Micro franchising is key. It is currently harnessing 415 million micro enterprises to operate in a structured way. Micro franchising is a business model that applies traditional franchising to very small businesses. It is a systemized approach to replicating micro-enterprises like food kiosks and stands, mall products and services and just about any other type of business that sells low-cost products or services, primarily in high traffic areas.
- 🌐 For a very small investment, entrepreneurs can now become micro franchisees in proven businesses without having to make high upfront investments.

Why SMEs should Franchise

- 🌐 Localized ownership: No one is more motivated than someone who is materially invested in the success of the operation. Your franchisee will be an owner, often with his life's savings invested in the business.
- 🌐 Standards: Fighting counterfeiting through ensuring protection of intellectual property and quality of standard of products and services.
- 🌐 Economic interest ('Skin in the game'): If I fail in the franchise so do my partners who have also invested most likely heavily in the franchise. The model supports and promotes all the players.

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- 🌍 Innovation: Because they have a stake in the success of their business, franchisees are always looking for opportunities to improve their business.
 - 🌍 Other People's Money (OPM)/Other People's Effort (OPE): In the franchise it is the franchisee's own money and effort, so they do not view it as OPM or OPE. They invest heavily in terms of time, effort and other resources.
 - 🌍 Formalization for expansion: To be able to expand and even get all the required legal documents one needs to show that they are compliant with the business regulations e.g. paying of taxes. The franchise model helps SMEs to formalize.
 - 🌍 Employment creation: Employs local people who spend their pay checks in their communities. It also gives local entrepreneurs the chance to build sustainable businesses with real, lasting economic impact. It is therefore both a socially responsible and scalable business model.

Key Conclusions








- 🌍 We should not take the franchising model from the West and copy-paste it in Kenya. Let us come up with our own form of franchising and make it applicable to Kenya and Africa.
- 🌍 Franchising is all about scaling up and duplication of success and this can be done across borders.



The Role of SMEs in Promoting Innovations in the Manufacturing Sector


Amandla Ombaka, McKinsey & Company, Engagement Manager – Agriculture & Food) • Dr. Parmain Ole Narikae, CEO, Kenya Industrial Estates • Joyce Njogu, Kenya Association of Manufacturers • Paul Mutemi, Proprietor & Managing Director, Country Clock Kenya Limited

Key Ideas

-  Where each SME fits in the value chain. Look at the entire value chain for relevance and value addition.
-  Markets change and adapt. The value chains must change with time.
-  With value addition, the entrepreneur can charge higher prices.
-  Formalizing helps to engage with government and bigger organizations.
-  Training helps to boost skills.
-  Quality standards should be made known to SMEs for them to get the necessary standards certification.
-  The government has cheaper financing options for SMEs in manufacturing.

Market Trends in the Sectors and Value Addition

After numerous previous policy proposals and interventions, such as the Sessional paper 10 of 2012 on Kenya Vision 2030, Sessional Paper No 14 of 2012 on Education and Training, Technical and Vocational Education and Training (TVET), and the Big 4 Agenda, where are we now?

-  The key to driving growth is value addition – think from cow to shoe (leather value chain) or from farm to fork. Value addition enables the entrepreneur to charge higher prices. In the Economic Pillar of Vision 2030, SMEs are critical for economic development, especially through manufacturing. According to Kenya Economic Survey 2019, 83.6% of the job were created by SMEs, and they also contributed 33% of GDP.

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- 🌐 It is important to identify value chains that are relevant to us. We need to look at backward, forward, horizontal and vertical integration.
 - 🌐 The focus sectors for value addition are:
 - Micro processing (majorly processing agricultural produce) which accounts for 40 to 50% of value addition initiatives
 - Leather
 - Textiles
 - Metal and wood
 - Construction

Kenya Industrial Estates (KIE)

Kenya Industrial Estates is a parastatal under the Ministry of Trade. It provides the following services:

- 🌐 Incubation spaces
- 🌐 Financial support services such as affordable financing for value addition
- 🌐 Entrepreneurial training
- 🌐 Business advisory services

KIE is present in 37 counties. In 35 of these, there are SME parks. They receive up to Kshs.20million, at an interest rate of 10% on reducing balance. Women and youth do not need collateral because they can co-guarantee each other. Depending on the enterprise, an entrepreneur can get up to 8 years' repayment plan to buy equipment and machinery.

KIE also runs seminars on business opportunities. These provide specialized training, guides and materials to show where there are opportunities for agro processing. Training sessions are complemented by sector-specific tours to factories.

Once entrepreneurs are able to provide quality goods, and have developed a good portfolio, it is easier to get financing and grow out of the KIE incubation.

Accessing KIE Loans

Lending is for value addition only and is open to every MSME which has been in value addition from 1 year to 8 years.

Short-term loans are available for working capital.

Entrepreneurs in need of large machinery can get up to Kshs.20million, with a grace period of up to 1 year for setting up. Financing is 10% interest on reducing balance.

It takes up to 4 days to get loans processed (existing customers). This may go up to 40 days for women groups, depending on consent.

Financing does not carry processing fees, but does include training fees ranging between Kshs.500 and Kshs.2000.

Case Study

Paul Mutemi, Proprietor & Managing Director, Country Clock Kenya Limited

Paul's Story

I was in industrial area which was expensive to rent space. I went to Kariobangi light industries. I got space to do production. There were over 300 SMEs both formal and informal. I wanted to be formal.

We formed an association to look at the kind of products we are able to manufacture. We have farming, construction, agricultural equipment. No one realizes the potential that is there. No one was able to realize their own potential.

In 2018, the Presidential team visited us through the SME advisory board. They said they were coming to our rescue, but we were afraid. We were not sure we could trust what they were telling us. They said they wanted us to formalize our businesses. It was not easy.

We realised they were serious about affordable housing. We were forced to merge with 2 other associations we didn't know – Kamukunji metal works, and Ngong Road Association. We were supposed to form a legal entity that can do business.

Ngokamka is the name of the holding company we formed that is working to produce products for the affordable housing. It is working. We have finished Block 1 with 250 units.



There are many opportunities in formalizing business. We have got a lot of artisans in production, and doing fittings and finishings for houses at the worksite. It is practical. There were challenges in standardization. There were no standards. We used different dimensions and materials, but after training we were able to standardize and deliver. We are doing well now.

Kindly sample our products.




Audience Feedback

Discussions from the audience highlighted the following four areas:

KIE and training:

-  Research shows an inadequacy of skills. We engaged partners like the Technical and Vocational Education Training (TVET) institutions where we send our artisans to refine their skills and know about standardization. There are many partners coming on board requesting to offer free training to the artisans. These partnerships have been very beneficial.
-  KIE ensures growth of skills through entrepreneurship training and business consulting. There is still a big gap on entrepreneurial training. The biggest challenge is the soft skills; people management, marketing, promotion, planning, customer service, etc.

KIE and financing:

-  We have received many proposals from local banks. We do not have much trouble with financing from local banks. The challenge is some of requirements needed. E.g. Credit Reference Bureau (CRB) rating and using Mshwari disqualifies people, as these tend to be informal businesses. KIE has 800+ SMEs that they are trying to become formalized.
-  Some experiences have been painful. Some businesses borrow for one business and put the money in another. Some engage in accounting malpractices. Some lack focus and discipline. Additionally, banks don't provide start-ups financing, so the government needs to do more in this space and also reach out to entrepreneurs in the rural areas.
-  When SMEs approach KIE for loans, an assessment is done to determine eligibility. They are taken through training and linked up to more specialized trainings and to corporates, e.g. in Machakos, SMEs are linked to General Motors (GM) to supply nuts and bolts. Some SMEs have highly skilled labour but are not exposed. KIE therefore links SMEs to technology, markets and other SMEs. They work with

county governments and have joint programmes to train. Lending, especially for new enterprises is only done after this assessment and extensive training is done.

KIE and innovation and efficiency

- 🌐 We have no doubt about efficiency. Our first bulk order came for 1000+ doors and they were done. We are ready for bigger projects. There is efficiency in terms of delivery. We are planning to have a one stop shop. We will have a portal to access opportunities from government, private individuals and for warehouses to source our products from the Jua kali sector.
- 🌐 Under the Ministry of Industry, Trade and Cooperatives, there are several interlinked state corporations – KIE, Kenya Industrial Research and Development Institute (KIRDI), Kenya Industrial Property Institute (KIPI), Kenya Bureau of Standards (KEBS) and Kenya Institute of Business Training (KIBT) which are all sister institutions. If an entrepreneur has an innovation, KIRDI will be involved with the research and development, KIPI for patenting, KEBS for certification and then KIE for incubation. KIBT and other institutions will be involved in providing training. The best barometer for quality, innovation and efficiency is the demand for products. In KIE there are cost-shared services so that this process is not too burdensome on one enterprise.
- 🌐 For those involved in construction, there is also the National Construction Authority (NCA), who have given a manual for the construction products and certified the enterprises.

KIE and raw materials

- 🌐 Jua kali artisans are prudent and proactive. They negotiated early for raw materials, and do their homework to get good deals. They get supplies in bulk. The only challenge has been wood products. Government is working on a sustainable model regarding supply of wood.



The Role of SMEs in Transforming the Housing and Urbanization Sector

Jay Kothari, Managing Director GCE • Robert Kibaara, CEO, Housing Finance • George Wachiuri, CEO, Optiven

Key Ideas

- 🌐 Areas where SMEs can venture into as enablers of the value chain:
 - Data analytics on customer needs e.g. Generation Z housing needs (Minimalist approach to housing)
 - Mitigation of environmental impacts
 - Manufacture, supply and distribution of low cost material
 - Using technology to fill the gap in real estate demand.
- 🌐 In terms of market trends in the sector and value addition
 - Demand for housing is countrywide as is the need for affordable housing.
 - Developers have shied away because of low margins.
 - SMEs can fill the gaps in the value chain for example by manufacturing toilet seats, tiles and other fittings for houses.
 - There is also a gap in the prefabricated houses which can solve the housing problem. SMEs can manufacture components of housing.
 - Housing Finance can bridge the skills gap in construction of houses within SMEs so that they are able to deliver quality products (houses and fittings).
- 🌐 Franchising model
 - Solution is in partnering with county governments since they have plenty of land
 - Engage local developers at the county level since they are cheaper. However, they must still meet the quality requirements for construction.
 - Housing schemes should be based on voluntary bonds, as opposed to the proposed statutory government deductions.



The Role of SMEs in promoting Universal Health Coverage

Dr. Stephen Wando, Pharmaceutical Supply Chain Expert • Edwin Kegode, General Manager, Healthcare Division, MINET • Dr. Pratap Kumar, Strathmore Business School • Ms. Irene Ayoti, Health Manager, Shining Hope for Communities (SHOFCO)

Key Ideas

-  UHC as a theme means equity in access to and financial protection for health services.
-  Health systems are anchored on 6 key pillars:
 - Leadership and Governance
 - Human resources for health
 - Medicines, Vaccines and Technologies
 - Service Delivery
 - Healthcare Financing
 - Healthcare Information
-  On health insurance MINET provides healthcare financing.
-  Only 20% of Kenya's population consumes health insurance mainly via employers' healthcare schemes; 80% remain uninsured. MINET is working to close this gap.
-  Big-Data Technology – Predictive Technology is changing the way things are done in the healthcare industry as access to better data means better decision-making for better services for all stakeholders.
-  We may transition from homosapiens to homocyborgs (beings with computer chips) for better appreciation of life and for critical healthcare advancements.
-  UHC can be realized faster with innovations. Using an innovative mobile technology, it is possible for every mother to get an ultra-sound of their pregnancy. Training is need to get more healthcare professionals to use the innovation.

Key Issues

- 🌐 How do we reduce the premiums to create affordable healthcare for the underserved?
 - Embrace SMEs in Healthcare
 - Embrace ICT to become more efficient and manage costs
 - SMEs to use data for decision making
 - SMEs to review and re-engineer their supply chain
 - SMEs to seek education on opportunities around Universal Health Coverage (UHC)

- 🌐 Are there low cost healthcare products for the Bottom of the Pyramid beyond National Health Insurance Fund (NHIF)?
 - Solutions exist for SMEs and individual cover products priced for affordability. There is also Group life cover. Domestic package can include a cover for the house help.
 - Government will deliver UHC via NHIF.
 - We are one medical bill away from poverty. It is possible to get affordable health coverage for everyone.
 - Table banking and other informal savings schemes found at community level could unlock UHC for the groups and individuals. Government may consider how to work with these informal (but often strong) groups to bring them to the UHC, where they can access services through group cover.

- 🌐 How can SMEs use ICT and franchising to serve the Informal Sector?
 - Tele-health Care
 - Video-e-health Care
 - Drones for Medication Distribution

-
- Franchising model: small, high quality services providers can be located in informal settlements supported by the larger hospitals. Patients pay a nominal fee to cover some administrative costs, but the larger hospitals provide training, pay salaries, etc.
 - 🌍 How can we safeguard UHC for the underprivileged from corruption and abuse?
 - Community engagement for buy-in and ownership
 - Community informed of their rights and can demand accountability.

Case Study

Irene Ayoti, Health Manager, Shining Hope for Communities (SHOFCO)

Irene's Story

SHOFCO stands for Shining Hope for Communities. It is based in informal settlement in urban centers: Kibera, Mathare, Mukuru, Bangladesh and Kondele. It uses a five-pronged approach to serve the communities.

- *Education: Girls leadership and education, early childhood development and adult literacy*
- *Health*
- *Water, sanitation and hygiene (WASH)*
- *Sustainable livelihoods*
- *Essential services: Addressing gender-based violence, community centres and libraries.*

Healthcare is a luxury for that population. Average earnings are less than a dollar a day.

Systemic challenges in the health sector have led to the growing gaps of access, quality and affordable healthcare for the poor.

SHOFCO tries to provide quality, accessible, reliable and dependable healthcare for the slum set-up.

Many SMEs rely on this group for their staff, so the SMEs can and should contribute to the healthcare of this population.



Closing Remarks

Dr. Hellen Otieno, Strathmore Business School

Dr. Otieno appreciated the participants, keynote speakers, sponsors, SMEs delegates, Financial Institutions, Government Representatives and the Strathmore University community comprising the Management Board, Catering department, Housekeeping department, SBS Faculty and Executive Education Staff, Ushers, Communication Department and the Rapporteurs.

- 🌐 Strathmore will engage on policy dialogue with the government through the Office of the President.
- 🌐 Avenues for moving the conversations discussed in the conference forward will continue to be available. This will be achieved through synergy and continuous dialogue with the government and other key stakeholders.
- 🌐 Strathmore to engage the African Development Bank to help SMEs explore and exploit opportunities created through African Continental Free Trade Area.
- 🌐 Through the communication channels available, participants are encouraged to dialogue on the topics they would like discussed at the next SME conference.

