LESSONS LEARNED FROM THE M-SAWA PROJECT

PROMOTING INVESTMENT IN KENYAN BUSINESSES
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<th>Full Form</th>
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<tr>
<td>BA</td>
<td>Business Association</td>
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<td>BDS</td>
<td>Business Development Services</td>
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<td>BPI</td>
<td>Business Partners International</td>
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<td>BPI EA</td>
<td>Business Partners International East Africa</td>
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<td>CA</td>
<td>Contribution Agreement</td>
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<td>CAD</td>
<td>Canadian Dollar</td>
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<tr>
<td>EAP</td>
<td>Environmental Action Plan</td>
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<td>EPTPSD</td>
<td>Equitable Prosperity Through Private Sector Development</td>
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<td>ESG</td>
<td>Environmental Sustainability Grant</td>
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<td>GAC</td>
<td>Global Affairs Canada</td>
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<td>GEM</td>
<td>Gender Equality Mainstreaming</td>
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<td>GLI</td>
<td>Gender Lens Investing</td>
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<td>KES</td>
<td>Kenyan Shilling</td>
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<td>KII</td>
<td>Key Informant Interview</td>
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<td>LAPSSET</td>
<td>Lamu Port-South Sudan-Ethiopia Transport</td>
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<td>LF</td>
<td>Lead Firm</td>
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<td>LOP</td>
<td>Life of Project</td>
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<td>MEDA</td>
<td>Mennonite Economic Development Associates</td>
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<td>M-SAWA</td>
<td>Maendeleo Sawa</td>
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<td>NCGI</td>
<td>Northern Corridor Growth Initiative</td>
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<td>NKGC</td>
<td>Northern Kenya Growth Capital</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
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<td>PEI</td>
<td>Private Equity Investment</td>
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<tr>
<td>PMF</td>
<td>Performance Measurement Framework</td>
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<tr>
<td>SE</td>
<td>Small Entrepreneur</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<td>TA</td>
<td>Technical Assistance</td>
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<td>TAG</td>
<td>Technology Adoption Grant</td>
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<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>USD</td>
<td>United States Dollar</td>
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ABSTRACT

The M-SAWA project is a 7-year economic development program funded by Global Affairs Canada (GAC) and implemented by Mennonite Economic Development Associates (MEDA) with the goal of supporting the growth of small and medium enterprises (SMEs) and small entrepreneurs (SEs) in targeted regions of Kenya. One of the key objectives of the project, which completed activities in July 2022, was to “increase access to private equity investment capital by SMEs in targeted sectors.” This outcome and its associated outputs were implemented in partnership with M-SAWA’s two main investment partners: Business Partners International (BPI) East Africa and the Lundin Foundation.

Through the course of implementation, the M-SAWA project learned that the investment eco-system for SMEs in Kenya can be challenging, as SMEs are often deemed not investment ready, lacking requirements to pass due diligence, such as proper book-keeping, collateral, clear business plans, and clear purposes for investment funding. These challenges are further evident in SMEs owned or led by traditionally marginalized groups, such as women-led SMEs. Customized technical assistance is needed for Kenyan SMEs to become attractive to investors and ready to receive private equity funding. The M-SAWA project saw an opportunity to pivot its project design to cater to these challenges which became increasingly apparent for SMEs operating in the project’s targeted areas during project implementation. Additionally, challenges outside the project’s control affected the speed at which investments were placed. Despite these and other challenges, M-SAWA was able to surpass its targets and learn valuable insights along the way which are captured within this learning document.

The three central questions this paper seeks to address related to best practices and lessons learned from the investment approach, as supported by the project, are:

1) What assumptions were made in the project design for frontier investment that needed to pivot? What changes were made?

2) What are the characteristics of Kenyan SMEs that received private equity investment within the M-SAWA project?

3) What are the common financing needs/challenges for Kenyan SMEs seeking private equity investment? What types of technical assistance are SMEs receiving?

M-SAWA’s primary investment partner BPI served as the main key informant to offer insight into this learning paper, in addition to a review of past project reports documenting the changes and insights learned throughout seven years.
of project implementation. With these findings, M-SAWA has contributed to MEDA’s learnings on the investment landscape for Kenyan SMEs.

ACKNOWLEDGEMENTS

<table>
<thead>
<tr>
<th>Author</th>
<th>Nicole Heaney</th>
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<td>Graphic Design</td>
<td>Wendy Helgerman</td>
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The Equitable Prosperity through Private Sector Development (EPTPSD) Project, also referred to as the Equitable Prosperity or Maendeleo Sawa (M-SAWA) project was implemented by Mennonite Economic Development Associates (MEDA) in Kenya from 2015 to 2022. The M-SAWA project was made possible with the generous support of the Government of Canada, through Global Affairs Canada (GAC).

We would like to thank M-SAWA’s many partners, staff and MEDA’s generous private supporters.

1. INTRODUCTION

About the M-SAWA Project

The Equitable Prosperity through Private Sector Development (EPTSDP) Project, also referred to as the Equitable Prosperity or Maendeleo Sawa (M-SAWA) Project, is a seven-year, $28.7 million Canadian Dollars (CAD) initiative funded/implemented by Mennonite Economic Development Associates (MEDA) (supporters, partners, and investors) with funding from Global Affairs Canada (GAC), implemented from 2015 to 2022.

M-SAWA aimed to contribute to Kenya’s economic growth and increase job creation by improving the business, environmental, and gender performance of small and medium enterprises (SMEs) and small entrepreneurs (SEs) in 20 select counties along the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) and Northern Corridors in the following 3 project focus sectors: Agriculture/Agribusiness, Construction/Allied Industries, and Extractives. In support of this goal, MEDA offered matching grants to lead firms (LFs), business associations (BAs) and SMEs. The project worked with 2 categories of SMEs – LFs and other SMEs benefiting from business development services (BDS), access to investment/financing, and participation in BAs/SME alliances. LFs are defined as SMEs with strong supply and/or distribution chain linkages with SEs which were engaged to implement initiatives supporting the growth of the LF along with
its suppliers/distributors. In this context, LFs are ‘inclusive businesses’ that play pivotal roles in moving their industry and other value chain actors forward.

The MEDA M-SAWA Learning Series

This paper is part of a series of learning documents developed by MEDA focused on identifying and sharing key lessons learned over the life of the M-SAWA project. There are a total of 9 documents in this series, each focusing on a key project element, namely:

1) Best practices and lessons learned in delivery of Business Development Services (BDS)

2) Collaboration between Business Associations and Lead Firms

3) The impact of COVID-19 on SMEs and Lead Firms

4) The impact of Technology Adoption Grants (TAGs)

5) Access to Finance for Women-led SMEs

6) Business Case for Gender Equality Mainstreaming (GEM)

7) Use of Environmental Action Plans (EAPs) with SME Partners

8) Impact of Environmental Sustainability Grants (ESGs)

9) Promoting Investment in the SME sector in Kenya
This learning paper focuses on the best practices and lessons learned from the frontier investment component supported by MEDA’s M-SAWA project.

2. METHODOLOGY

This learning document focuses on answering the following key research questions:

1) What assumptions were made in the project design for frontier investment that needed to pivot? What changes were made?

2) What are the characteristics of Kenyan SMEs that received private equity investment within the M-SAWA project?

3) What are the common financing needs for Kenyan SMEs seeking private equity investment? What types of technical assistance are SMEs receiving?

A combination of primary and secondary research served this learning document. Key informant interviews (KIIs) were conducted with M-SAWA’s primary investment partner (BPI EA) as a main source of data for this report. Additionally, findings were validated against input given from the Chief Operations Officer of a project microfinance bank partner (Yehu Microfinance) who received a matching grant through the M-SAWA project. This provided a brief comparison between SME challenges as identified by the project’s primary investment partner and a microfinance bank operating in Kenya targeting the SE level. Relevant information from the project reports and monitoring/evaluation documents has been included where appropriate and supplemented by secondary research.

3. BACKGROUND

Access to finance is one of the greatest hurdles facing SMEs in emerging economies, with Kenya being no exception. Despite Kenya’s private sector being one of the most robust in the region, the SME sector continues to be perceived as too risky by bank and non-bank financial institutions. To tackle this, M-SAWA partnered with two investment partners to incentivize the flow of needed capital into the SME sector in Kenya. These include Business Partners International East Africa (BPI EA) and the Lundin Foundation. MEDA believes that through providing strategic technical assistance, SMEs will become better prepared and capable to receive investment from investment partners and non-partners.
Within M-SAWA’s Logic Model, the project dedicated the 1300 level to frontier investment with the intermediate outcome, “Increased access to private equity investment capital by SMEs in targeted sectors.” The project also had a focus on targeting women-led businesses and aimed to place investments in at least 16 (40% of LOP target) of SMEs. Project achievement was measured through two key outputs outlined in Figure 2: M-SAWA Impact in Frontier Investment.
### Output

<table>
<thead>
<tr>
<th>Indicator</th>
<th>LOP Target</th>
<th>End of Project Progress</th>
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<tr>
<td><strong>1231:</strong> Third-party capital attracted into private equity investment (PEI) funds for targeted strategic and frontier SMEs</td>
<td>$6,865,692 CAD</td>
<td>$16,475,910 CAD (LOP target exceeded by 247%. Actual cumulative results adjusted to reflect exit from Lundin NKGC Fund, includes only investments placed during project pre-CA amendment and honoured by Lundin.)</td>
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<tr>
<td><strong>1232:</strong> SMEs assisted to access investment capital through PEI funds, including targeting women-led SMEs to address the financing gap</td>
<td>40 SMEs (16 women-led) assisted to access PEI capital</td>
<td>43 SMEs • 13 woman-led, • 30 men-led, • 11 in agriculture • 28 in construction • 4 in extractives (LOP target achieved. Women-led target fell short of LOP target, achieving 81% of gender target)</td>
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| **Figure 2: M-SAWA Impact in Frontier Investment** |

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**Business Partners International East Africa**

Since 1981, Business Partners International (BPI) has invested over $1 billion USD into over 30,000 businesses globally. BPI is built upon the belief that SME lending is possible when investment officers are provided with the tools and flexibility to lend to growing lifestyle small and mid-sized businesses that do not have sufficient collateral to obtain financing from traditional banks. BPI hires intelligent and driven local staff through a rigorous language and numeric test and looks for staff with experience in the traditional banking sector or accounting field with a strong orientation towards customer service. BPI operates an East African Fund, focused on providing capital to SMEs in Kenya, Rwanda, and Uganda. BPI’s philosophy is to support entrepreneurs by enhancing their technical skills and providing them with capital to succeed. BPI also targets 40% of their investees to be women-owned. Given BPI and BPI EA’s background in the financial sector, its increased focus on women in business,
and its impact on job creation, BPI EA was seen as an ideal investment partner for M-SAWA.

At the onset of M-SAWA, the project planned to invest CAD $2.3 million into BPI's East Africa fund. BPI EA used these funds to lend between CAD $50,000 and $1M to SMEs in Kenya, Rwanda, and Uganda, with an average deal size of CAD $300K - $350K. BPI EA is sector and geographically agnostic across the three East African countries and therefore, M-SAWA anticipated that several investments would be placed in SMEs that fall outside of M-SAWA's targeted regions and sectors within Kenya. Therefore, to measure the impact of M-SAWA's contribution into the BPI EA Fund, the project monitored any and all firms that received investment within Kenya and that fall within M-SAWA's target sectors (agriculture, construction, and extractives) through either their business purpose or investment purpose (i.e., the investment funds will be used for construction). M-SAWA considered all Kenyan investees within BPI EA's Kenya portfolio as those within M-SAWA's targeted regions, due to the assumption that for most investees, supply chains or customers will stretch across the country and therefore, into M-SAWA's targeted regions. The suppliers and customers across Kenya would benefit from the increased competitiveness and capabilities of BPI EA investee firms.

Technical Assistance

Alongside MEDA's investment in the BPI EA Fund, MEDA and GAC contributed CAD $400K into the fund's technical assistance (TA) facility, which was used to enhance investment objectives. The project TA funds were directed exclusively to SMEs in Kenya. BPI EA carefully selected close to 400 TA providers with a proven track record of providing professional and efficient TA offerings including, but not limited to: general business consulting, sectoral technical assistance, specialist technical assistance and turnaround management services to assist SMEs in challenging times. The BPI TA facility is provided to Kenyan SMEs as an interest-free loan. Upon project closure, MEDA agreed to shift full ownership of the TA facility to BPI EA to ensure sustainability and provide post-project support exclusively to Kenyan SMEs. Under the agreement, all repaid capital from eligible SMEs will be deposited back into the TA facility and used to re-invest in future portfolio SMEs to access beneficial TA offerings.

This model was developed jointly between MEDA and BPI EA and provides an innovative approach to inclusive finance. In terms of reporting, the same philosophy as private equity was applied to TA recipients, in that, if the SME is operating within Kenya and in one of the target sectors, or the investment or TA funds are used for sector-related activities, the TA contribution by BPI contributed to MEDA's overall impact, as guided by the Logic Model and PMF.
Lundin Foundation (Northern Kenya Growth Capital Fund)

Established in 2006, the Lundin Foundation is a Canadian registered non-profit organization. At the beginning of project implementation, M-SAWA worked closely with Lundin and assisted with the creation of Lundin’s Northern Kenya Growth Capital (NKGC) fund. This fund was focused on investing in SMEs in the LAPSSET corridor, aligned with M-SAWA’s target sectors and counties. This meant that all of Lundin’s investments were considered when measuring the impact of the M-SAWA project. M-SAWA’s relationship with Lundin was much more hands-on than BPI EA, given the size of the fund (Lundin being smaller), thus resulting in M-SAWA having more influence on placed investments.

The NKGC fund was fully established in the project’s third year and was ready to place investments. M-SAWA and Lundin would meet quarterly to discuss investments placed and those in the pipeline, including M-SAWA recommending SMEs that might be eligible for third party financing. In subsequent years, the NKGC fund identified and screened hundreds of potential SMEs to receive investment but struggled to move past due diligence and provide SMEs with investment. Although Lundin was able to successfully invest in one SME, changes to the relationship were eventually made to combat the slow pace of placing investments and provide strategies to make potential SMEs investment ready. This was one major learning from the project which resulted in a pivot in the relationship with Lundin Foundation to be explored in further detail below.

4. RESULTS AND DISCUSSION

This section outlines the key results of MEDA’s work on the M-SAWA project related to access to frontier investment for SMEs.

Learning Question 1 – What assumptions were made in the project design for frontier investment that needed to pivot? What changes were made?

As mentioned above, M-SAWA’s approach and relationship with Lundin had to pivot in Year 5 of the project. Although Lundin’s NKGC fund was ready to place investments in Year 3, Lundin was able to identify only one SME that passed due diligence, despite screening over 100 SMEs within their pipeline each year. Common issues with pipeline companies included that they were often too small, lacked the requisite management expertise, did not keep adequate financial records, and were less likely to be banked because of the far distances from banks. Another challenge Lundin faced is that their products are not
Sharia-compliant and therefore not attractive to target SMEs in the Turkana region. Due to Lundin’s continual struggle to close investments, the NKGC fund returned M-SAWA’s fund contribution and began discussions to re-allocate the money into a technical assistance program for NKGC in Year 5 of the project. This experience highlighted the struggle for SMEs to pass due diligence and be deemed investment ready by investors.

Based on this learning, the M-SAWA project, in partnership with the Lundin Foundation, proposed a change to the project budget and design, utilizing GAC’s contribution to develop a technical assistance program for SMEs in LAPSSET, as part of the Northern Corridor Growth Initiative (NCGI), targeting early-stage SMEs to assist them to become investment ready (i.e., proper record-keeping, promoting systems for operational business tracking, etc.). MEDA requested formal GAC approval for this change after a final proposal was submitted in Year 5. This was approved by GAC and adopted in Year 6 of the project.

Lundin’s NCGI is a business accelerator and financing program that combines targeted, intensive technical assistance, and seed financing through revolving investment schemes for a select number of SMEs offering the greatest impact to the communities in which they operate. The 1st phase of the program was tailored to enable the growth of high potential businesses operating within the LAPSSET Corridor and aimed to support businesses to develop the knowledge and skills needed to progress from informal operations to formal businesses –
growing in size from micro to small and small to medium. The key objectives of the initiative were:

- Support local content in the oil and gas sector and large infrastructure projects through improving supply chains in Northern Kenya in the LAPSSET Corridor.
- Increase access to finance by supporting local businesses to set up the systems and processes that make them reliable and competitive suppliers, and ready for more investment.
- Support increasing access to finance through direct investment, thus enabling businesses to develop repayment records of the seed financing.
- Enable sustainable growth of businesses by supporting them to set up scalable systems and processes.
- Leverage both public and private linkages and partnerships to enhance SME competitiveness and investment readiness.

SMEs were supported through an intensive 6-month training program that supported managers to apply management concepts to challenges within each business. This support was conducted in cohorts of 10 –15 businesses each. Additionally, the technical assistance provided included Environmental Sustainability as well as Gender Equality discussions and considerations in the program delivery. In conjunction with MEDA, technical specialists assisted NCGI to develop contextually appropriate indicators to measure SME participant performance on Environmental Sustainability and Gender Equality. In addition to training and capacity building, and to further support the growth of the SMEs, a select number of beneficiary SMEs would be able to access concessionary funding through the program. SMEs became eligible for funding through NCGI upon successful completion of the training program. To encourage investment and de-risk the market for other investors while supporting business growth in the region, NCGI was designed to be increasingly risk tolerant, given the profile of emerging businesses in this region of Kenya.

The 2nd phase of the training portion of the program was focused on key business habits, with specific context around adapting to challenges (particularly in light of the COVID-19 pandemic) and provided practical tools that could be implemented within each business for immediate impact. This programme was designed to go beyond navigating COVID-19 challenges, to ensuring the businesses put in place strong systems and practices to enable them to thrive beyond the pandemic. Lundin worked closely with the businesses to help them adapt their core businesses and adopt improved practices, such as tracking inventory, tracking finances, regular customer outreach, and management and
development of teams. The implementation of these core habits enabled the businesses to set themselves up to thrive during the pandemic as well as post pandemic.

During the life of project, M-SAWA was able to learn about the realities and challenges for Kenyan SME and pivot its investment strategy accordingly. Pivoting the design to provide TA and work with SMEs to become investment ready, rather than providing direct investment in emerging regions such as LAPSSET, ensured that the project was both relevant and sustainable for full impact. In this way, the NCGI directly related to M-SAWA’s ultimate outcome to provide access to equitable economic and employment growth through profitable and competitive SMEs operating in Kenya.

**Learning Question 2 –** What are the characteristics of Kenyan SMEs that received private equity investment within the M-SAWA project?

**Business Partners International East Africa:** To measure M-SAWA’s impact in frontier investment, the project reviewed quarterly reports received from BPI EA and determined which investments placed in Kenya fell within the project’s targeted sectors of agriculture, construction, and extractives. Because BPI EA is a large fund, with M-SAWA being just one of the many contributors, the project was not directly involved in approving investments placed in BPI’s EA fund. However, this approach was aligned with the project design and MEDA’s approach to partnering with the private sector, as BPI EA is a reputable investment fund and confidence was given in its ability to place investments for greater impact in Kenya’s economy. Between April 2016 and March 2022, 68 investments were placed in Kenyan SMEs by BPI EA. Of the 68 investments placed, 43 (63% of all BPI EA investments in Kenya) were counted towards M-SAWA’s target as they met sectoral requirements, demonstrating alignment between the project and growing economic sectors in Kenya. When looking at the division between sectors, SMEs operating in construction accounted for more than half (60%) of investments placed with BPI EA. These results are largely attributed to the methodology the M-SAWA utilized when deciding on which investments to include towards the project goal (see Figure 3).
As noted above, M-SAWA considered SMEs using investment funds for construction (such as expansion) as falling within the construction sector contributing to the higher proportion of investments associated with this sector. From a gender perspective, although the project aimed to place at least 40% of investments in women-led SMEs, the project fell short of its target and placing investments in 31 women-led SMEs (achieving 81% of its target). It is worth noting that 40% was also the target for BPI EA in reaching women-led businesses. BPI EA confirmed with MEDA that women-owned SMEs face their own specific barriers when accessing finance, such as:

i. Lack of collateral  

ii. Inability to make decisions for the business  

iii. Risk averse  

BPI EA has observed women’s “inability to make decision for the business” as many SMEs will have a wife, or female family member, as the owner on paper only. It is known in Kenya that many government bodies and non-governmental organizations (NGOs) have targeted reaching women, therefore SME owners feel it must be the same for microfinance banks and investment funds and if a woman’s name is on the ownership, they will be more likely to receive access to finance. Additionally, BPI EA stated it is common to see women owning a business if it is the second or third for the family. This allows the business owner to apply for multiple funds since the ownership is different. BPI EA found that in these cases, the women owner will still attend meetings, but they do not make decisions and will go back to their husband or family for final decision making. These cases are also more evident with women business owners who seem to lack confidence in meetings.
It is also worth noting that BPI EA found unique barriers for women in SMEs operating in all stages of their business (i.e., start-up, growth, established), although the barriers are slightly more apparent in SMEs in the growth stage. Lack of collateral was also the number one women-specific challenge identified by Yehu, a microfinance bank that operates in M-SAWA’s targeted regions. Although Yehu has an annual portfolio target of 90% for women-led businesses, they stated the same barriers as BPI EA and referenced the decision-making imbalance, as women often have to consult with their spouses on business decisions, even if they are involved in business operations and not just on paper.

Yehu Microfinance: Yehu is a microfinance institution operating in Kenya. Yehu uses the Grameen approach to microfinance by working with clients in groups of 10-40 members targeting marginalized populations, such as women borrowers. Yehu meets with groups on a regular basis where loan repayments are made and groups receive valuable business training. Yehu was one of M-SAWA’s key implementing partners who received a Lead Firm grant. Yehu aimed to support 1,000 farmers in the Lamu and Tana River Counties during the life of the M-SAWA project. At the end of the project, Yehu surpassed its target reaching a total of 1,466 farmers (1,339 women and 127 men).

Lundin Foundation (NKGC): As mentioned under Learning Question 1, the NKGC fund identified and screened over 150 SMEs as potential opportunities for investment. Despite a large pipeline, NKGC found that most SMEs did not fit the fund’s criteria because of small size, lack of management know-how, and poor financial records. However, Lundin made its first and only investment of Kenya Shilling (KES) 25,000,000 in Classic Foods in November 2017. Classic Foods is a milk processing business sourcing from more than 70,000 dairy farmers and employing 25 staff, including 14 women. This investment was classified as an agriculture investment as in addition to camel milk processing, the company also processes and sells animal feed to farmers. NKGC’s capital was used to finance the setting-up of a cow and camel milk processing plant in Isiolo. The investment, which was also matched by United States Agency for International Development (USAID) capital, is expected to double Classic Food’s processing capacity, enabling the company to produce an additional 5,760,000 litres of milk annually. To date, the camel milk processing operations have enabled farmers to process their milk and sell at a higher price in the local market. Before the processing plant, farmers received anywhere between KES 60 and 110 per litre, depending on the region. Since the plant commenced
operations, farmers are now able to charge a retail price between KES 160 and 200 per litre.

**Learning Question 3** – What are the common financing needs for Kenyan SMEs seeking private equity investment? What types of technical assistance are SMEs receiving?

![BPI Investment Purpose](image)

**Business Partners International East Africa**: The most common investment purposes for those investments approved and counted towards M-SAWA include working capital and construction for business expansion (accounting for 37% respectively – see Figure 4). Purchasing new and improved machinery was third with 15% of investments. For construction expansion, this was often cited as expanding to a new area. Working capital was cited for various reasons, but mostly to assist in purchasing raw materials (often linked to business expansion) and in Years 6 and 7, working capital was needed to recover from the negative effects of the COVID-19 pandemic.

When BPI EA was asked what their estimated success rate of SMEs applying for PEI was in the past year, they stated it was between 26-50%. This is attributed to five common requirements that SMEs lack in accessing finance identified by BPI EA:

1. **Security**: such as collateral. Women and youth are most affected because of cultural constraints (women don’t get wealth/assets passed down from their family – a sister may only get half of what her brother
gets). Additionally, if a married woman is widowed, her in-laws often inherit land instead of her. BPI EA mentioned a new concept of related to credit insurance from the government for individuals who do not have collateral through land ownership. This could de-risk financial institutions with land collateral requirements.

ii. **Well prepared financials:** better book-keeping skills are needed to pass due diligence.

iii. **Clear business plan:** BPI EA found that SMEs will sometimes pay a consultant to write their business plan, which is often boilerplate and does not reflect the actual business operations. These SMEs see the business plan requirement as just ticking a box and do not realize the importance of a solid business plan.

iv. **Purpose of funds:** Related to the point above, the purpose of the business funds is often not well defined.

Of the SMEs receiving investment from BPI EA, 77% also received technical assistance. This was slightly higher when looking at women-led SMEs whereby 85% received technical assistance (77% for men-led). The focus of technical assistance varied greatly between SMEs, but common examples include improving financial management systems, training on new machinery, marketing (building websites, improving brand), health and safety, and improving security systems.

**Lundin Foundation (NKGC):** Please see Learning Question 1 for more information on Lundin’s investment placed and their technical assistance facility.

When looking at the sector-specific financing needs of SMEs, BPI EA agrees these differ greatly. For example, some sectors are risker (e.g., agriculture) because businesses supply the National and County governments and have stricter protocols and certifications. This was also validated in discussions with Yehu who further stated clients working in agriculture have specific timelines for financing related to their harvest times.
5. LESSONS LEARNED AND RECOMMENDATIONS FOR FUTURE PROGRAMS

Based on the project documents and the KIIs conducted for this study, the following learnings and recommendations are offered for future programs:

- **Adaptive Management** – Being transparent with donors if impact is not being achieved and project activities need to be adjusted based on changes in content and the needs of clients. In the experience with Lundin, M-SAWA learned that SMEs in the LAPSSET are of Kenya were not investment ready and had an increased need for technical assistance and worked with its donor and partners to pivot. Collaborate with technical experts to propose a solution that addresses the underlying reason the impact is not being achieved as originally intended.

- **Sharia Compliance** – Working with financial institutions to become Sharia-compliant would greatly extend their reach to provide SMEs the financing they need in Muslim communities.

- **Investment Readiness** – According to BPI EA, only 26-50% of SMEs applying for private equity funding are approved. This represents a large gap of SMEs not receiving the investment funding needed to expand their businesses. Supporting SMEs to be investment ready through technical assistance is an important first step that can positively impact SMEs’ ability to access financing.

- **Designing for the specific challenges of women and youth-led SMEs.** Since MEDA was not directly involved in investment decisions at BPI, there was less potential to influence investment decisions and direct financing specifically to women and youth-led businesses. Partnering with an investment fund with a stronger focus on women and youth-led businesses and/or including specific activities related to gender in MEDA’s support offering to funds, can help identify and tackle issues specific to women and youth. It is important to note that MEDA has continued to learn more about the specific challenges for women to access finance in a separate USAID funded project called Second Chance Success. In this project MEDA also partnered with BPI EA and was able to leverage this project to build BPI EA’s gender capacity. Because of the heavy focus on gender lens investing (GLI) in Second Chance Success and overlap in implementation periods and partners, M-SAWA was able to indirectly
benefit from the increased capacity building in GLI within BPI EA’s Kenya portfolio.

• **Some challenges to placing investments are outside of the project’s control.** Year 6 and 7 saw a significant slow-down in investments placed in SMEs by BPI EA as the COVID-19 pandemic negatively affected many Kenyan SMEs. Being able to adapt and adjust project design was pivotal to meet the dynamic challenges SMEs faced during unprecedented times. In addition to the pandemic, the ripple effect of Kenya’s 2016 double election also delayed the pace of placing investments for BPI EA. The delay is largely a result of the lingering macroeconomic effects of the election and the Kenyan government’s interest rate cap. The capping of interest rates was implemented by the Central Bank and limited the number of eligible companies for credit because banks were unable to charge a higher interest rate for riskier clients.

• **Perceptions of Risk** – SMEs operating in the agriculture sector are often seen as riskier due to their market to National and County governments and need to meet strict production protocols. Since environmental protocols and regulations are required by law for an SME to operate, SMEs could benefit from learning about which certifications their business requires and how to acquire those certifications. This is an opportunity for MEDA to further examine and focus on as part of MEDA’s agri-food system strategy.

• **The issue of collateral is a major challenge for all SMEs.** Finding a solution is pivotal in helping SMEs to be seen as desirable for private equity funding. One solution could be exploring the concept of government issued credit insurance for individuals who do not have collateral through land ownership. This model has been launched in countries such as Jordan and Brazil and MEDA and its partners could benefit from learning more about this approach and its applicability to Kenya.
6. CONCLUSION

The Frontier Investment component of the M-SAWA project positively impacted SMEs operating in the project’s targeted regions. Through M-SAWA’s partnership with BPI EA, 43 SMEs (16 women-led) are receiving investment capital needed to grow and expand their business. This provides decent work opportunities for individuals and improves the livelihoods of the families and communities where the SMEs and their employees/suppliers reside. The investment component of M-SAWA helped MEDA gain a deeper understanding of the investment landscape in Kenya and the challenges SMEs are experiencing with access to finance which will be taken into account in future programming. Additionally, M-SAWA was able to overcome challenges in placing investments during difficult times (such as a pandemic and election period) and pivot its project activities to be aligned with the needs of project SMEs. Through partnerships with BPI EA, additional projects were able to be implemented (such as Second Chance Success) and valuable insights into the Kenyan SME landscape were discovered.
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