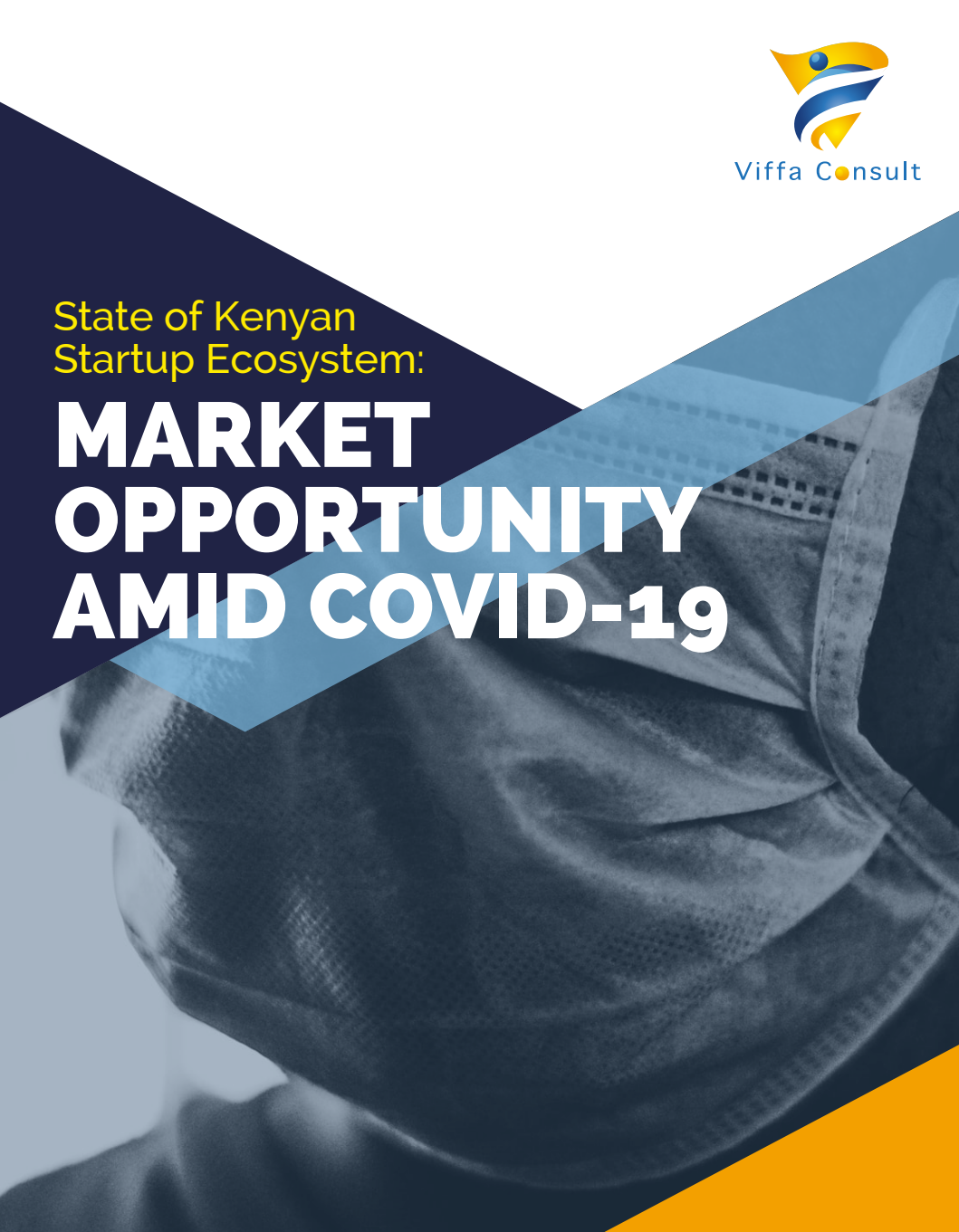




Viffa Consult

State of Kenyan
Startup Ecosystem:

MARKET OPPORTUNITY AMID COVID-19



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Acronyms

- VC4A** – Venture Capital for Africa
- ICT** – Information and Communication Technology
- KNBS** – Kenya National Bureau of Statistics
- KEBS** – Kenya Bureau Of Standards
- SME** – Small Medium Enterprise

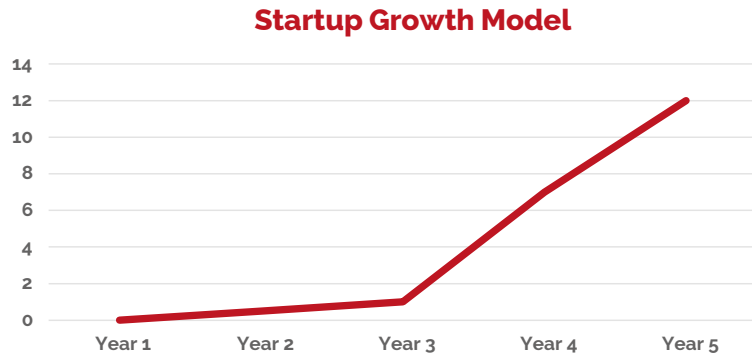
Introduction

Startup is generally associated with young innovative tech companies or new businesses that leverages on technology to solve a problem or pain point of a population segment.

Startups world over are increasingly playing a critical role to a country's socio-economic development through development of innovation as well as aid in optimization of current economic sectors.

On development of innovation, startups focus on solving problems focusing on new technology and cutting-edge innovation as compared to legacy institutions that focuses on incremental innovation or improving on existing technologies through improved efficiency. Further due to their unique rapid growth model (Illustration 1) over a short period of time, startups have a high capacity of quality job creation looking at Twiga foods and Sindy supporting over 20,000 people on their platforms.

Illustration 1 - Startup Growth Model



Analysis: Viffa Consult

Startups are also synonymous with creation of new markets as well as transforming old ones with Uber, Airbnb, Jumia, twiga among others providing good examples.

Similarly, especially in developing countries such as Kenya where startups are

yet to be recognized in law; innovation is currently categorized under ICT; a sector that has greatly contributed to economic development by acting as a support infrastructure to other economic sectors (KNBS 2019 Economic survey).

SMEs in Kenya form the backbone of the economy providing jobs to over 30 percent of the population, contributing 33 percent to GDP (KNBS 2016). Despite the commendable economic growth, it has not translated into poverty reduction, with Kenya having a lower poverty elasticity than countries such as Ghana, Tanzania, and Uganda. Holding all factors constant, Kenya will still have 24 percent of the population in poverty by 2030 (World bank 2012).

Further despite the impressive increase in the employment rate, Kenya is not producing sufficient jobs to keep pace with demographic change with an average 900,000 people entering the job market (World Bank 2012).

The coronavirus pandemic has further dampened economic growth with revised GDP estimates putting it under 2 percent in 2020 (Central Bank of Kenya 2020) with government struggling to stimulate economic growth through stimulus package.

A few African countries (Tunisia and Senegal) have seen the potential of start-ups to support rapid social-economic development and have gone ahead and enacted start-ups bills espoused to recognize and support innovation and start-ups activities in country (Disrupt Africa 2020).

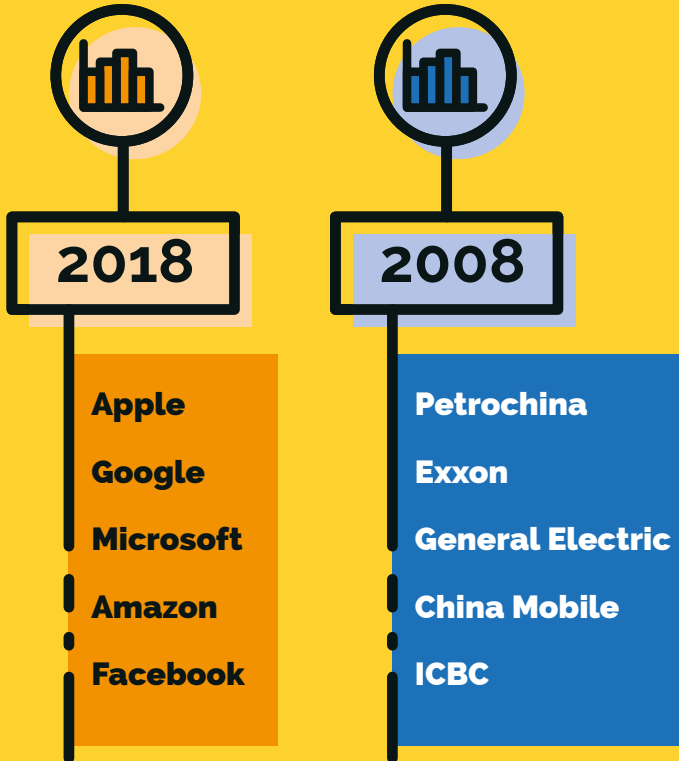
The start-ups bills of both countries have developed a criteria for identifying start-ups including but not limited to; technology based or founded, less than 10 years of existence, has or in process of registering intellectual property among others. Similarly, start-ups that qualify for the national start-ups badge qualify to receive support such as; access to de-risking fund, intellectual property support, tax breaks among others.

The study explores innovation through start-ups by examining past investment trends combined with emerging challenges in order to curate a list of investable sectors for entrepreneurs as well as provides recommendation for start-ups eco system stakeholders.

Global Topography

The global startup economy continues to expand with value created between 2016 to 2018 standing at 2.8 trillion USD (Startup Genome) with startups constituting the largest top companies in the globe (Illustration 2)

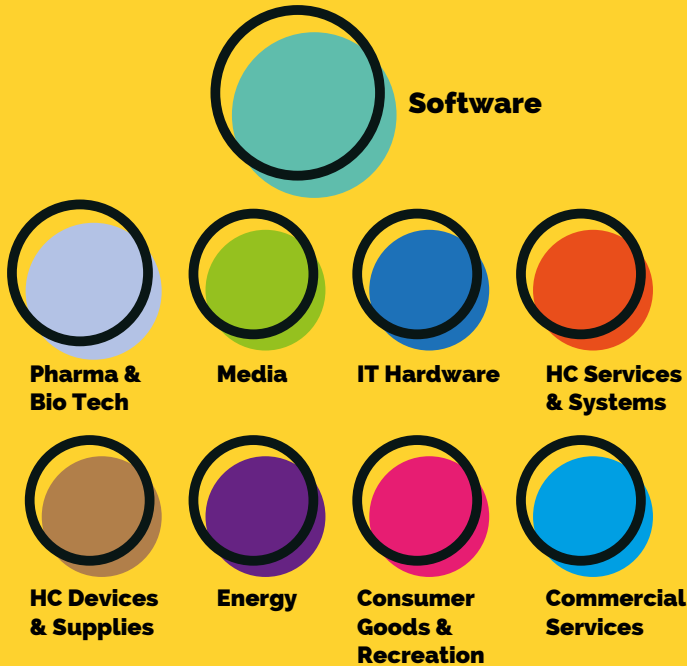
Illustration 2: Largest global companies in 2018 vs 2018



Source-Startup Genome-Global startup ecosystem report 2019 | Analysis: Viffa Consult

Globally software still dominates in terms of attracting venture capital funding (Illustration 3)

Illustration 3: Global funding by sector



Source: Global analysis of Venture funding, KPMG enterprises | Analysis: Viffa Consult

Global venture capital has gravitated on startups in logistics in the last 5 years with startups offering last-mile delivery services such as Delhivery, Instacart, Manbang, Flexiport, NewDada and Hivebox getting the bulk of the investments (Mckinsey)

Interest in logistics startups has spilled over to Africa. Kenyan logistics start-up Sendy raised \$20 million in January 2020 while agri-delivery startup Twiga

raised \$30 million in October 2019. Nigerian logistics startup also raised \$30 million in August 2019.

Similarly, rapidly growing startup sub sector between period 2011-2018 worth noting are; advanced manufacturing and robotics, blockchain, agtech and AI-Big Data and Analytics (Startup Genome)

The coronavirus pandemic has provided big tech companies an opportunity to capture more market value by facilitating the new normal through ecommerce, online settlement, online meetings among others.

Among the ten companies that have seen their market value expand from the beginning of the year are:



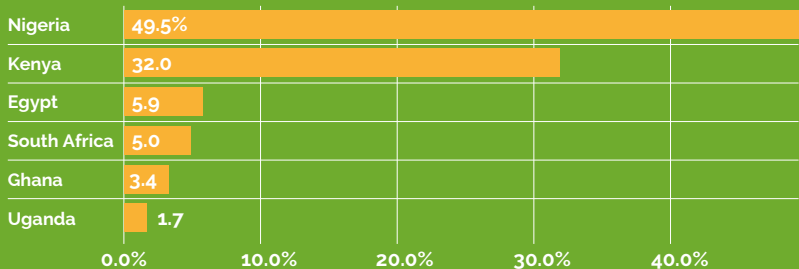
All the top gainers save for T-Mobile started as tech startups and are now global corporations with thousands of employees.

Africa Topography

2019 was a bumper year for African startups by many standards – number of deals, total investments and growth in the number of companies that received investments. WeeTracker African Venture Capital Report and Partech report showed that startups in Africa attracted over US\$1 billion in investment, crossing this watershed for the first time. Nigeria (US\$663m) and Kenya (US\$428m) took the lion's share of startup investment accounting for 81.5 percent of investment (Illustration 4). For the first time, Egypt entered the top three-tier with a record 88 Egyptian attracting investments as South Africa dropped to fourth on slowing investor appetite.

Illustration 4: Share of African Venture capital Investment 2019

Share of African venture capital investment in 2019, by country













Quartz | oz.com | Data: WeeTracker

Another report by Disrupt Africa, which excluded mergers and acquisitions, and other deals, showed that African startups attracted a US\$491.6 million worth of investment going to 311 companies, a 50 percent increase compared to the previous year.

The fintech sector remained the most popular vertical although it shaved its total share from 39.7 percent in 2018 to 21.8 percent in 2019. 77 fintech startups raised a combined US\$107 million while other categories such as logistics, transport, e-commerce, agri-tech and e-health enjoyed bumper years.

Nigeria's payment processor company, Interswitch became the first African unicorn after Visa paid US\$200 for a 20 percent stake in the fintech firm.

TOP 10 VENTURE DEALS IN AFRICA - 2019

COMPANY	DESCRIPTION	SECTOR	FUNDING	INVESTORS
 Interswitch	Payment Processing Company	FINTECH	200 Mln	Visa
 P City	Mobile Money & Payment Services	FINTECH	120 Mln	Methan Okpang, GaoHong, Source Code Capital, Softbank Ventures Asia, BA, Redpoint, IDG Capital, Sequoia China and GSR Ventures.
 Andela	Software Developer Training and Outsourcing Company	EDTECH	100 Mln	Generation Investment Management, Spark Capital, GV, CRE Venture Capital and the Chan Zuckerberg Initiative
 branch	Micro Lending and Loans	FINTECH	70 Mln	Foundation Capital, Visa, B Capital, Andreessen Horowitz, Formation 8, Trinity Ventures
 P City	Mobile Money & Payment Services	FINTECH	50 Mln	IDG Capital, GSR ventures
 b energy	PAWG Renewable Energy Provider	CLEANTECH	50 Mln	Mitsubishi
 carepay	Mobile Health Finance Platform	HEALTHTECH	45 Mln	IPHA-IL, Elms Investments, Dutch Ministry of Foreign Affairs (via PharmAccess Group)
 SWL	On demand Bus Hailing Services	RIDE HAILING	42 Mln	BECO Capital, Endavor Catalyst, MSA and Vostok Ventures, OTF, Jassor Ventures, Sarsnet ventures, Azcan VC, Skatstone, Autotach, Michael Lohyani
 palmpay	Mobile Money & Payment Services	FINTECH	40 Mln	Transaction (Tecno)
 LORI	Aggregator for cargo and truck owners	LOGISTICS	30 Mln	Hillhouse Capital, Crystal Stream Capital, EchoVC Partners

Source: Weetracker African Venture Report 2019

By June 2020, fintech startups in Africa had attracted US\$ 188 million. Business to Business digital payments infrastructure and customer to customer payments have taken the lead in attracting investment in this category.

A number of health and agriculture startups have received substantial investment during the pandemic from a mix of impact and venture investors.

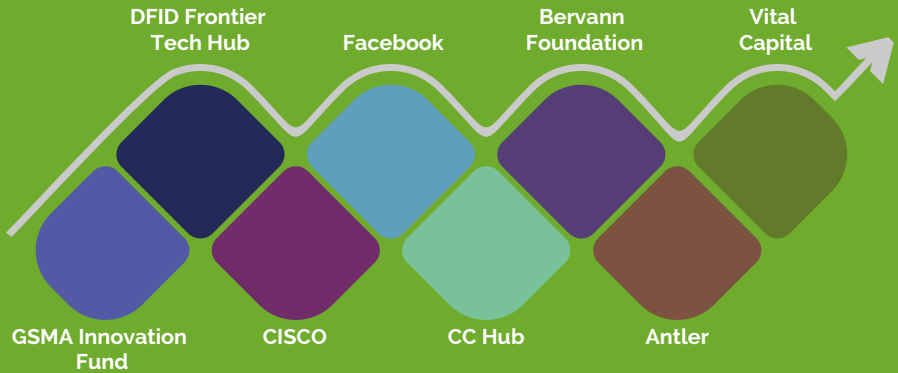
	Startup/Country	Sector	Investment	Impact investors
Apr, 2020	54 Gene, Nigeria	Health	\$15 million	Adjuvant Capital/Bill & Melinda Gates Foundation, Novartis, IFC
May, 2020	East Africa Foods, Tanzania	Agriculture	\$2 million	Goodwell Investments, FINCA Ventures, elea
May, 2020	Tomato Jos, Nigeria	Agriculture	\$4.2 million	Goodwell Investments, Alitheia Capital, Acumen Capital, VestedWorld
May, 2020	mPharma, Ghana	Health	\$17 million	CDC Group UK, Novartis

Quartz | oz.com | Data: Quartz Africa

Source: Quartz

A number of organizations have established financial and grant support initiatives to support startups offering solutions aligned to covid 19 (Illustration 5)

Illustration 5: Organizations offering Startup finance and grant support amid covid-19



Source: ASSEK-UK Kenya Tech Hub open sheet | Analysis: Viffa Consult

Kenya Topography

A healthy start-up ecosystem requires; talent, high number of start-ups, entrepreneurial culture, capital and conducive regulatory environment (Start-ups Genome). Kenya lacks the fifth and most critical driver of conducive start-up regulatory environment similar to Tunisia and Senegal.

Kenya's start-ups ecosystem is projected to grow above the continent's average underpinned on the following critical factors:

1. Kenya was ranked number 56 globally in 2019. Improvements in global rankings are intended to increase the level of efficiency for businesses and increase the level of both local and Foreign Direct Investment which has a positive impact on Job creation. (World Bank).
2. Kenya has the 8th largest economy in Africa and 1st in East Africa. This is despite Kenya not having significant natural resources such as gold and precious metals (IMF).
3. Kenya is ranked third most innovative country behind South Africa and Mauritius (Global Innovation Index).
4. Kenya is ranked number three in Africa in the Human Capital Index 2019, the World Bank ranked Kenya behind Seychelles, Mauritius and Algeria. Globally, Kenya was ranked 94 with a Human Capital Index (HCI) score of 0.52.
5. The Jomo Kenyatta International Airport is ranked Number 1 in Africa and 38th globally according to Airhelp.

ICT sector continues to lead Kenya's venture funding followed by retail and manufacturing (Illustration 6)

Illustration 6: Kenya's top start-ups sector 2018



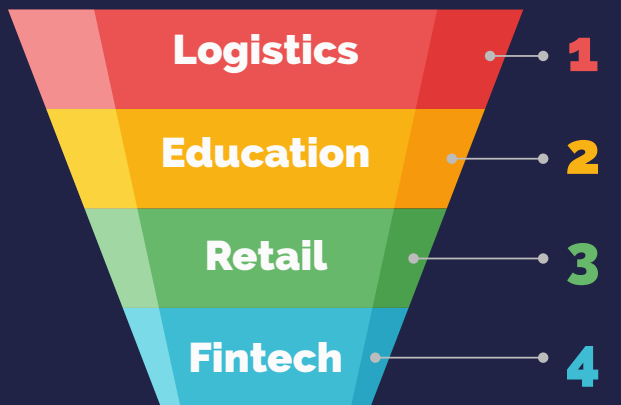
Source: Kenya venture overview per sector in 2018 – VC4A | Illustration: Viffa Consult

Due to the movement and social restrictions and interruptions put in place to mitigate the spread of Covid-19, some startups have gained prominence while others are contending with adverse effects. A report by Kenyan digital research firm Nendo showed delivery and logistics firms have seen an increase in demand for their services as more people now use delivery services. Startups such as Sendy, Copia, Safeboda, Uber eats, Jumia Food, Glovo, MyDawa, Dial a Delivery and other apps are experiencing increased demand.

Other categories of companies that are growing because of the pandemic are education and entertainment digital platforms such as Eneza, Viusasa, Kytabu, Longhorn Publishers, Viusasa and Ubongo Kids.

Digital e-commerce and payment platforms will also see an upsurge in usage as the government discourages cash transaction and enforcement of social distance. The likes of Jumia, Sky Garden, Kilimall, Pesapal and iPay, and the international players like Visa and Mastercard will experience growth in during the pandemic. Illustration 7 gives a summary of sectors that have been doing well during the covid 19 pandemic and are expected to continue to do well moving forward as consumer trends crystalize based on the new normal.

Illustration 7- Top performing startup sectors amid covid-19

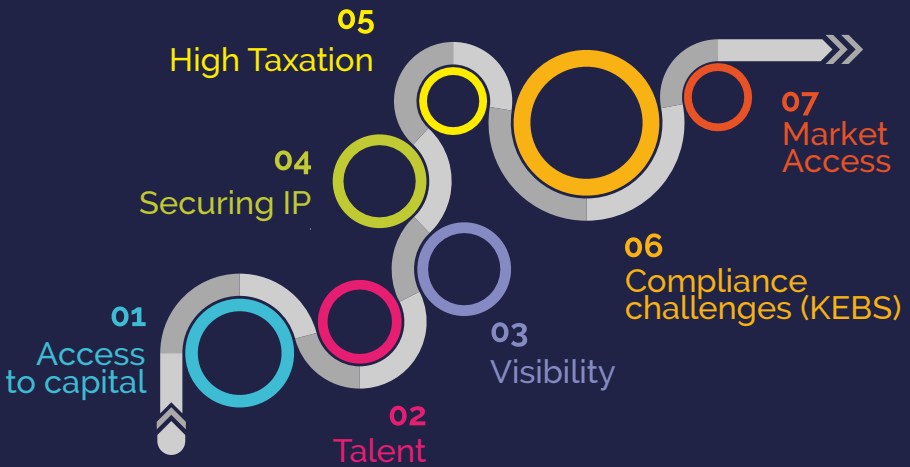


Source: Kenya venture overview per sector in 2018 – VC4A | Illustration: Viffa Consult

Challenges faced by startups in Kenya

Kenyan startups face a variety of challenges that impedes the rapid growth of the sector hence social economic growth of the country with lack of supporting regulation leading (Startup Genome) a critical factor to a healthy startup ecosystem. Other challenges faced by startups based on various studies including Viffa are as per illustration 8.

Illustration 8: Challenges faced by Startups



Analysis: Viffa Consult

Kenya's startup Outlook

A survey by Genome reveals that a majority of tech startups, like all sectors, are staring at a significant loss of revenue as the Covid-19 pandemic continues. Though most startups have quickly adapted to the new norm of remote working that has kept operations flowing, the market and finance conditions have been hit by the effects of the pandemic. Other startups, such as Daktari and Care-pay are providing remote telemedicine and health emergency logistics that has eased the challenges of accessing medical facilities in a time of limited mobility.

Of the 1,070 startups surveyed in 50 countries, 65 percent have been significantly affected while about a quarter have seen improved revenues. B2B and enterprise-focused startups have bore the brunt of the economic effects of the virus while consumer facing startups are three times more likely to see growth due to the pandemic.

Forester Research sees demand growing for cloud infrastructure as people continue working from home, and increased spending on specialized software, communications equipment, telecom and data services, and tech education firms as classes move online.

Recommendations

1. SMEs and entrepreneurs can find and explore gaps in the last-mile connectivity space. Efficient delivery of goods to homes or offices remains a pain point for many companies. This can be done in partnership with vendors and transporters such as boda boda and cab drivers. At the on-set of the pandemic in Kenya, we saw logistic startups partnering with retailers to deliver goods to customers.
2. With more people working from home, there has been an upsurge in the consumption of digital content from international and local creators. Media startups have an opportunity to create unique content or provide support for content creators.
3. Providing digital payment platforms will be an ongoing opportunity for SMEs as more companies and individuals look for ways of seamlessly integrating delivery and payment.
4. We are likely to experience an increase in outsourced services as people continue to work from home

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