



# Transforming the East African ICT Sector by Creating a Business Engine for SMEs

*The information and communications technology (ICT) sector has been the major driver of economic growth in East Africa over the last decade growing on average by as much as 40%. To date, growth has largely come from world-class innovation by large multinational and local enterprises. Small and medium-sized enterprises (SMEs) are poised to play a bigger role in the next phase of industry growth. However, they face a multitude of system-wide challenges that must be overcome in order for them to succeed. To understand the interventions required, a consortium comprising of members from InfoDev, UKaid and Hivos conducted a detailed on-the-ground study of the ICT SME landscape in East Africa. This study performed by the Excelsior Firm, a US and Africa based advisory firm engaged over 100 policy makers, investors, academics, donors and entrepreneurs. The findings suggest that the vision of a robust and dynamic ICT sector driven by SMEs that create jobs and world-class innovation is possible, and the likelihood of this outcome can be improved with a few targeted interventions. The five proposed interventions consist of the development of a fully connected SME network, filling the skills gap in advanced business and technical knowledge, providing start up and early stage funding for companies, enabling job creation for knowledge workers and upgrading the business environment. Together these interventions form the components of a potential East African ICT Business Engine that could boost performance, not only within the ICT sector, but also continue to expand the economic development of the region.*

## Executive summary

Over the past decade the Information and Communications Technology (ICT) sector has been among the major drivers of economic growth for Sub-Saharan Africa. This sector has witnessed an annual compounded growth rate of 40% within the last five years, the fastest globally. In Kenya, for example, the ICT and mobile sectors have outperformed all other segments of the economy, growing on average by over 20% annually over the last 10 years. It is no surprise then that the ICT sector in Africa continues to garner close attention as a potential driver of fundamental change within the continent. Within the sector, mobile telephony dominates, far outstripping any other mode of connectivity excluding, perhaps, radio, and newspapers. On the other hand Africa has the lowest computer and Internet usage rates of any region, with only 10% of the continent's population having access to the Internet – suggesting a reservoir of untapped market potential.

East Africa is a region that has globally recognized success in building technology-based local enterprises and developing world-class innovation. Safaricom, a Kenyan company, has seen the market penetration of its M-Pesa money transfer product grow to over 15 million users within 3 years of launch. Mobile service penetration in East Africa is as much as 5 times higher than internet penetration, such that many applications that are available over the internet in other parts of the world are available via mobile networks. This is true in spite of the limited computing and transmission capacity. The launch of three underwater cables in the region is only expected to enhance the availability of bandwidth and decrease prices, though progress has been somewhat slower than expected. Aside from mobile telephony, other emerging areas of interest and investment include technology infrastructure and broadband, software development, local content development, and BPO centers.

Much of progress in the ICT sector in East Africa has been driven by larger corporations due to scale requirements that necessitate significant upfront capital expenditure. While this is laudable, the growth of a viable SME segment is fundamental to the long-term sustainability of the ICT sector and for addressing areas of unmet need that may not be lucrative enough for larger corporations.

SMEs in the ICT sector, however, face a set of daunting challenges including access to business and technical skills, access to regional and global markets and limited early stage financing. In addition, these organizations must deal with a complex and immature regulatory environment. Despite these challenges, it is evident that SMEs stand to contribute to several new segments of growth for example value-added locally relevant content, as well as software and mobile applications. The private sector, donors and governments have all instituted several initiatives to address the needs highlighted above. For example, the private sector has partnered with universities in the region to enhance skill-building for entrepreneurs. Donors on the other hand, are channeling their support towards networking havens such as iHub in Nairobi which is funded in part by Hivos, and the infoDev-supported Mobile Monday for East Africa. Finally, governments are also making significant contributions in the development of the sector. The Rwanda government has focused

on streamlining the business registration process, for example, while Kenya's ICT Board has offered grants to SMEs to develop innovative content.

Given the current state of the EAC ICT landscape and the challenges facing SMEs, what interventions are necessary to strengthen the emerging SME sector and boost their participation in economic development?

To address this question, infoDev, Hivos and UKaid commissioned an intensive study of SMEs within the East African ICT sector. The work was conducted by the Excelsior Firm, a US and Africa based advisory group. Rigorous in its approach, the study centered on direct and primary participation of over 100 entrepreneurs, policy makers, donors, investors, and experts in order to understand the interventions and partnerships required

to create a favorable environment for SME growth.

The results of this study show that five key interventions are required in order to enable SMEs overcome the challenges they face. These interventions include the development of a fully connected SME network, filling the skills gap in advanced business and technical knowledge, providing early stage funding to companies, enabling job creation for knowledge workers and upgrading the business environment. Together these interventions form the components of a potential East African ICT Business Engine that, if diligently implemented, could boost performance within the ICT sector and support the economic development of the region. While focused on East Africa, the lessons elicited are applicable to other developing regions globally.



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