

High Tech in the Silicon Savanna: Nairobi Incubator Visits

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During a recent trip to Nairobi, Kenya, I had the opportunity to visit, and meet with the leaders of, two different business incubators. Unknown to many outside of Kenya, Nairobi has a tight-knit and vibrant community of technology entrepreneurs, hackers, and other technophiles. A growing group of tech-savvy young Kenyans is aggressively creating new ideas and tech solutions for the East African Market. The enthusiastic and optimistic atmosphere at these firms is readily apparent to this visitor.

An example of one of these creative tech-based solutions is [Ushahidi](#), a “non-profit tech company that specializes in developing free and open source software for information collection, visualization, and interactive mapping.” Their web site states that “Ushahidi”, which means “testimony” in Swahili, was ... initially developed to map reports of violence in Kenya after the post-election fallout at the beginning of 2008. The original website was used to map incidents of violence and peace efforts throughout the country based on reports submitted via the web and mobile phones.” It was also famously used in the aftermath of the 2010 earthquake in Haiti.

NaiLab

The first incubator I visited was [NaiLab](#), located in the Bishop Magua Center, a modern building located off of Ngong Road, a major artery in the western part of the city. The Center is a modern 5-story building. There are retail businesses and a restaurant on the bottom floors and a mixture of office space and retail business on the upper floors. High-speed Internet access is available as well as a robust back-up power supply, which is vital in present-day Nairobi where power outages are common.

There are several other “tech organizations” located in the building. Two of them are well known in the East African tech sector community. The first is [m:lab east africa](#) which is a “new incubation facility for entrepreneurs and innovators with a focus on mobile technology” funded by the World Bank. The second is [iHub](#), “an open space for the technologists, investors, tech companies and hackers in the area. This space is a tech community facility with a focus on young entrepreneurs, web and mobile phone programmers, designers and researchers. It is part open community workspace (co-working), part vector for investors and VCs and part incubator. Membership is open to those who are in the tech field-programming, design or research. Upon acceptance, one is given a special ID card that permits one entrance to the iHub for free.” In keeping with its Silicon Valley predecessors, there is a top notch coffee bar with the required, state-of-the-art espresso machine. In fact several people whom I met jokingly referred to the Bishop Magua Center as the “Silicon Building.” All three organizations have a very

close relationship and collaborate regularly. There is definitely an atmosphere of incredible creativity, drive, and optimism in this community.

NaiLab has been in operation since August of 2011. It was initially funded by [1%Club](#), an organization that through their web site has developed a “platform that connects smart development projects with people, money and knowledge around the world” as well as some foreign “angel-type” investors. The companies currently in “incubation” are technology solution companies.

I was fortunate to spend time with, and interview the founder of NaiLab, Sam Gichuru. Sam is quite an entrepreneur in his own right. He has been involved in several technology start-ups. In addition, to leading NaiLab, he serves as the Chairman of Alpha Centric Limited, an investment company founded in 2011 by a team of people who worked for a Kenyan Internet Service Provider Wananchi Online. He is also the co-founder of hizonotes.com, an innovative note sharing site for those in the academic community. He envisioned a concept like NaiLab and, in order to learn more about establishing this incubator (he prefers to call it an accelerator), he visited the famous [Y Combinator](#) established by [Paul Graham](#) in Silicon Valley. He has modeled his operation on many of the principles first established at Y Combinator.

Sam described NaiLab as a “virtual incubator.” Its companies have access to work space and share the cost of overhead such as printers and administrative support. Through his drive and personal network, he has established a team of mentors with specialized skills that is a resource to the businesses. These mentors volunteer their time. The goal is to get the businesses to the point at which they can “graduate,” or have enough revenue that they can move to their own office space but still be associated with NaiLab.

NaiLab wants to ensure long-term relationships and also develop strong relationships between the companies that grow out of the incubator. Samuel’s goal is to eventually grow his network to about 150 companies.

Sam explained that when NaiLab was established during the summer of 2011, it was announced in the local technological community that they were accepting applications for seed funding. 30 companies applied and 7 business plans were accepted for “incubation.” The typical loan at NaiLab is approximately \$30,000, so this is truly seed money. As stated earlier, most investors are foreign as local investors are very conservative and are hesitant to invest in tech start-up companies.

Small tech start-ups in Kenya face legal obstacles in addition to the challenges of accessing work space with a good reliable supply of power. Because the high tech sector is in its infancy, the legal system has not established adequate legal frameworks and Intellectual Property protections. The entire sector is slowly determining best practices for business structures and developing term sheets between investors and entrepreneurs.

International Finance Corporation Small and Medium Enterprise (SME) Solutions Center (IFC SSC)

The second incubator I visited was the [SME Solutions Center](#) sponsored by the IFC. I met with Kiragu Maina, the IFC's Program Manager. This Center "delivers an integrated package of small business-focused services under one roof. They support small and medium sized enterprises at different stages of business development to enable them to improve their business processes, human resources, structures, and products and services. As part of this process, participating enterprises graduate to a point where they are able to access finance through the SME Solutions Centers and, ultimately, from existing traditional financial institutions." This incubator has a slightly different model likely because of the sponsorship of a non-governmental organization. This incubator tends to focus more on established businesses than start-up companies. The IFC SSC is also located in the western part of Nairobi, in this case, the [Upper Hill](#) area of the city. The Center is located within a modern office building that is mostly occupied by the [Africa Reinsurance Corporation](#). The Center has been in operation for 6 years and was founded by the IFC in an attempt to attract more risk capital into the African market. The SSC is the only incubator that the IFC has established in Africa. Kiragu explained that it's a fairly expensive model. The IFC has recently established a center in Rwanda but with a slightly different model. The Rwanda center does not facilitate direct incubation.

A main difference between the SSC and NaiLab is that the IFC solely acts as a facilitator. The IFC raised a fund from Development Finance Institutions (example of these are the [African Development Bank](#), [FMO](#) from the Netherlands, and [DEG](#) from Germany) and other fund and asset managers. The overall fund manager is independent. The IFC facilitates the relationship between the SME and the fund manager and supplies expertise and assistance as needed.

Kiragu explained that medium sized enterprises in Kenya (typically 50-300 employees and revenue between \$5M - \$15M (US)) have decent access to capital so the IFC incubator focuses on the smaller enterprises. The SSC targets loan in the range of \$50,000 to \$500,000. The investment committee ensures that the prospective businesses have the ability to scale up and make an impact both economically and socially. The screening process also includes an analysis of the companies' financial statements and other governance indicators. Kiragu also mentioned it is important that the investors have the ability to take an equity stake. Terms are customized for each specific business.

The IFC incubator has capacity for 30 firms at time and has already "graduated" 30 companies. All available funds have been invested in approximately 100 companies. These companies tend to be technology and service oriented based on the "type of space" in the IFC Center. (The space is not conducive to manufacturing.) The average loan has been about \$180,000 to \$200,000. Out of these 100 companies supported,

only 2 have not become viable businesses. Incredibly, Kiragu stated that the Internal Rate of Return (IRR) on these investments is averaging between 18% to 30%.

At the IFC SSC, businesses pay rent for their space and also pay for other services such as mentorship and technical assistance, back-office and front-office support, required training, and project plan assistance. The companies can borrow from a technical assistance fund, which supplies no-interest loans to cover these costs. Additionally, the IFC has an innovative and top-notch [SME Toolkit](#) that is available online. This toolkit has many resources as well as an online training program.

Other Organizations

During this visit to Kenya, I also learned that the Kenyan government had established at least two incubators: [KenInvest](#) and KeKoBI. Several entrepreneurs mentioned that these incubators have had significant challenges but their mere presence is another indicator of the vibrant start-up culture in Nairobi. Many government efforts to support business focus on exporting goods and services. The government has also established Industrial zones with incentives for businesses that export. (Interestingly, the Ghanaian government has established a similar program.) These efforts might be important but it are also a bit shortsighted. The middle class is exploding in Kenya and the domestic market cannot be ignored; too many opportunities exist.

Another important initiative is an ambitious government-envisioned \$7B project: [Konza Technology City](#). The plan is to develop a 5,000 acre high-tech city situated 30 miles from the Kenyatta Airport. This project intends to set aside space for a university, firms that outsource business processing, call centers, and other technology and service based companies. The goal is to establish this city by 2030. Some have dubbed this plan the “Silicon Savannah.”

There are many challenges facing a “tech-savvy” entrepreneur in Kenya including the uncertainty of the upcoming national elections (and the associated uncertainty of underlying ethnic tensions), al-Qaeda-linked terror threats, local security issues, as well as local infrastructure challenges. Despite these challenges, there is an amazing hi-tech community that is spawning groundbreaking innovative ideas with a unique “Kenyan twist.” The optimism in this environment is infectious and innovative organizations like NaiLab and the IFC SME Solutions Center are key players in this very important movement.