PROSPECT OF ESTABLISHMENT OF A VENTURE CAPITAL IN KENYA FINANCIAL MARKET

BY

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Project

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STUDENT DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

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Date: 10th May 2004

This project has been presented for examination with my approval as the appointed supervisor.

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ABSTRACT

Venture capital provides intermediate external investment to small, medium and start-up companies that offer the prospect of above average earnings growth coupled with above average levels of investment risks (Aylward 1997). The investment process consists of raising fund, then screening business proposals, selecting investment, structuring and monitoring the investment and finally exit from the investment.

The purpose of this study was to examine the prospect of establishing venture capital companies in the Kenyan financial market. The study set out to answer the following questions:-

a. What are the obstacles that a prospective venture capitalist is likely to encounter when establishing venture capital companies in Kenya?
b. What are the management and operational challenges faced by venture capitals in Kenya?
c. What are the factors that impede the growth of venture capital firms in Kenya?

The study adopted a survey research design. A census of all the 10 venture capital firms operating in Kenya were considered for the study however only five venture capital firms responded to the instrument used to collect data was a questionnaire which was divided into three sections that correspond with the research questions. The data findings were summarised and coded before being presented in frequency tables.

The following are the findings of the study:- The obstacle/challenges associated with starting a venture capital are:- raising funds, recruiting qualified staff, attracting clients/investee companies and tax and government regulation. The challenges associated with the management and operation of venture capitals are; employing and retaining experienced staff, making investment decisions, structuring deals and monitoring & supervision of investments.

The study established that venture capital financing is still a new concept of financing preferred in Kenya however the prospect of growth venture capital industry looks bright with the coming of the new government which has stated its intention to spur the growth of the industry by making
the economy competitive and has in place measures to deregulate the financial sector so as to attract more foreign investors.
CHAPTER ONE: INTRODUCTION

1.0 BACKGROUND INFORMATION

Venture capital provides intermediate external investment to small, medium and start-up companies that offer the prospect of above average earnings growth coupled with above average levels of investment risks (Aylward 1997).

Venture capital financing started in the early 19th century in America where wealthy individuals and families used to finance start-up companies through equity investment in the investee companies. Some of the most prominent venture capitalists then were: Rockefellers, Rothschilds, and Whelshys and Huririmans (Perez 1986). However Venture capital practise has evolved over the years with new idea being developed to improve the industry to even better. However focus still remains in funding small and medium size businesses as well as start up companies. A study commissioned by Robert C Perez (1984) shows that there were 500 venture capital firms operating in United States by the year 1983. The result is a clear indication that venture capital still remain a favourite form of investment.

In an early study on venture capital practices in Kenya carried out by Komora (1999) stated that majority of the venture capital firms operating in Kenya are not fully aware of the rules and regulation that govern operation the of venture capital industry. By the time the study was conducted there was no proper legislation on venture capital operation in the Kenya laws. He also pointed that many venture capitals firm in Kenya are subsidiary of development and commercial banks and only a few were privately independent venture capital firms. He further observed that most of the existing venture capitals companies in Kenya prefer to invest in specific industrial sectors and at later stage of business development i.e. expansion stage of investee companies.

1.2 Problem Statement

According to Gorper and Lerner (2001) the participation of venture capital firm’s investment in small-scale business sector has contributed a lot to economic growth and technological,
innovation and wealth creation in the US economy for the past thirty years, and in other
developed countries in Europe.

Hence venture capital firms can be a vital sub-sector of financial market in particularly in
shaping up economic landscape of any given country through wealth & job creation and
technology innovation.

However venture capital benefits in developing countries is not common among many investors
as has been observed in Kenya where there are less than fifteen venture capital companies in the
market according to the study conducted by Komora (1999). Thus a study on the prospects of
establishing a venture capital firm in Kenya will provide a good opportunity to see if the benefits
of venture capital can be replicated in Kenya.

1.3 Objectives of the study

The purpose of this study was to examine the prospects of establishing venture capital
companies in the Kenyan financial market.

1.4 Research Questions

1. What are the obstacles that a prospective venture capitalist is likely to encounter
   when establishing a venture capital companies in Kenya?
2. What are the management and operational challenges faced by venture capital
   companies in Kenya?
3. What are the factors that impede the growth of venture capital firms in Kenya?

1.5 Significance of the study

The importance of this study cannot be ignored considering the benefits of venture capitals in
creation of wealth, innovation and creation of employment in a country’s economy. More
importantly the study will provide an insight and valuable information on the prospects of setting
up venture capital firms in Kenya and the future outlook of venture capital companies. The
information will be useful for prospective venture capitalist, government and financial market
players and small & start-up companies who a will be the major players. The study will also be
useful for academicians for the purpose of further research in the field of venture capital and also
as a reference for their study.
1.7 Scope of the Study
This study will cover the following areas:-

1. The obstacles that a prospective venture capitalist is likely to encounter when establishing a venture capital in Kenya
2. The management and operational challenges faced by venture capitals in Kenya?
3. What are the factors that impede the growth of venture capital firms in Kenya?

1.8 Chapter Summary
Chapter one begins by introducing the topic and defining venture capital i.e. Venture capital provide intermediate external investment in small, medium and start-up companies that offer the prospect of above average earnings growth coupled with above average levels of investment risks (Aylward 1997). The introduction also included a brief history of venture capital and the findings of an earlier study of venture capital practice in Kenya conducted by Komora (1999). In addition the chapter looks at the problem statement, objective of the study, research questions, significance of the study and the scope the study.
CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction

Chapter two provides a comprehensive literature review of the venture capital practise. The chapter begins by giving background information about venture capital industry, types of venture capitals, stages of development, obstacles and challenges of starting and operating a venture capital firm and finally a look at the existing Kenyan legislations on venture capitals.

2.0 Background

Venture capital firms provide intermediate external investment into small, medium and start-up companies that offer the prospect of above average earnings growth coupled with above average levels of investment risks (Aylward 1997). The operational procedures for venture capital firms consists of fundraising, screening of the business plans submitted by the investee companies, selecting investment, structuring and monitoring of the investment and finally exit from the investment by selling off the investment and making capital gain from the investment.

Venture capital industry started in the early 19th century in America where wealthy individuals and families used to finance start-up companies through equity investment in the investee companies. Some of the most prominent venture capitalists in the early years of venture capital were: Rockefellers, Rothschilds, and Whelslys and Huririmans (Perez 1986). However, the industry has developed in response to the rapid changes of the industrial revolution in particular the technological breakthrough of the early 1950s coupled with the governmental support to small and medium size companies (Sagari and Guidotti 1992). By December 1990 the total capital under management by the 664 venture capital firms operating in USA was USD 36 billions (Sagari and Guidotti 1992).

The leading region in the growth of venture capital firms is the United states followed by western Europe of which United Kingdom lead the other European countries with a total of USD12 billion invested by venture capital companies by December 1990 (Sagari and Guidotti 1992). It has also been noted that there has been a significant growth of venture capital practice in the Asian countries especially in countries like Japan, South Korea, Singapore, Malaysia and India.
According to a report by Financial Times of US, the amount actually invested in start-ups by American Venture capital funds rose sharply from $6.2 billions in the first quarter of 1999 to $22.7 billion in the first quarter of 2000 (Perez, 1986). While the total amount invested by investors in 1999 by Americans venture capital was $56 billion. The reason for the growth in ventures funds and venture-funded companies is attributed to its earnings and return to the venture capital (Akande 2000). However it should be noted that little research has been conducted regarding venture capital practice in Africa and more so in Kenya, hence most the information shared in the literature review is from research work done in US and other developing countries in the world.

2.1.0 Type of venture capital firms
A study conducted by Ayward (1998) which identified the following as the main type of venture capital firms in the developing countries; united partnership venture capital firms, independent venture firms, corporate venturing, affiliates/subsidiaries of financial firms and government & non-governmental sponsor venture capitals.

2.1.1 The United Partnership Venture Capital
Limited partnership venture capital firms receive most of the initial funds from wealth individuals, investors, pension funds, endowments, foundations and insurance companies who put large sums of money into limited partnership funds and become limited partners in the venture fund (Galante S P, 1999). The limited partners then appoint a general partner with the responsibility of protecting and managing the venture capital on their behalf through ventures financing.

2.1.2 Corporate venturing
Corporate venturing is defined as an in-house venture capital firm set-up by an organisation or corporation for the purpose of investing in firms, which have strategic benefits to the parent corporation and gain a “Window on innovation” (Groper and Lerner 2001). However the benefits of corporate venture will only be realised if the parent company is managed well to overcome challenges such as;-designing and implementing the planned investment in relation to the venture fund structure, partners’ compensation, the fund partners’ degree of autonomy and the management of investment of the corporate venture.
According to Groper and Lerner (2001) corporate ventures are faced with a tough trade-off when deciding on how to structure the venture fund and at the same time to ensure the success of the fund. This trade-off entail between tight control over the venture fund operation and the need to ensure that external credibility that comes with agreeing to limited partnership structure. However the best trade-off is to maintain the independence of the venture effort of firm while ensuring clear information flow to the corporation for the purpose of decision making.

Another factor that will lead to the success of corporate venture is the choice of investment by the parent corporation. A corporation should at least invest in industries that there are familiar with as to select the best possible portfolio firms and add value to the capitalisation process of the corporation.

2.1.3 Government and non government Sponsored Venture Capital firms
Government and non-government sponsored venture capital are mainly set up for the purpose of providing financial assistance to small business, start-ups and medium size business in a country’s economy. An example of government sponsor venture capital is the Small Business Investment Company (SBIC) of US, which provide venture finance to small and new independent business with the prospect of extraordinary gain in future (Guidotti and Sagari 1992).

SBIC makes a substantial capital gain or the investment when the companies they have invested in have grown large enough for public offering or being sold to another corporation. By 1984 SBICs had invested over $6 billion in some 70,000 independent businesses and for 27 years it has been in operation (William 1990). Other example are the ICDC, Agricultural Finance Corporation, International Finance Corporation, East African Development Bank e.t.c. which provide finances to small scale business, agricultural and other development sectors of the country.

2.2 Venture capital financing
Venture capital firms usually review the business proposal and plan of the prospective investee firms based on certain criteria set-up by the firm before they provide the finance as a measure to
ensure that the business venture will succeed in future. The business plan that will meet the venture capital investment portfolio strategy will be provided with the finances. The choice of investment portfolio strategy is based on the following; the size of the investment required to by business, the type of technology or industrial sector and stage of business Development.

2.2.1 Size of the Investment
Size of investment in venture capital firms involves the maximum and the minimum amount of money a venture capital can invest in a single business. In most cases venture capital companies will prefer to set a limit to the amount they can fund a company with, for the purpose of reducing risk in case the business fail to succeed. Different venture capital companies will have different limits of funds they can invest in one venture investment depending on the size of the venture capital firm itself and the availability of finance to invest in investee companies.

2.2.2 Industrial Sector Investment
A study conducted by Aylward (1998) shows that over 63% of the sample of his study on venture capital companies in developing countries prefers to invest in the agricultural manufacturing and real estate sector. Aylward points out that most venture capital in developing countries are risk averse thus they prefer the sectors mentioned above due to the low level of risk involved. This is in contrast to the United States, where many venture capital firms prefer to invest in the technological sector and biotechnology sector, which are considered to be of high risk but with, better returns. (Sagari and Guidotti 1992). However the choice of industry venture capital firms wish to invest in are largely determined by the management of the venture capital firms strategic choice and objectives.

2.3.3 Stages of Business Development
Perez (1986) identifies the following as the different stages of business development which venture capital companies prefer to invest:;-; early stage of the firm start up, expansion stage for small firms & medium firms and maturity level of the firm.
a) Early stage

*Seed financing*—Seed financing is the initial funding that venture capital firms provide to a business venture or entrepreneur for the purpose of research and development of the new products (Dublin, 1996). More importantly, seed financing focuses on product development rather than finances to operate a business.

*Start up financing*—Most start-up companies, which are less than one year in business and are in need of additional finance for product development and initial marketing of the new products or service. Thus venture capital firms that come in, play an important role by providing start-up finance entrepreneur or business at this stage. Before disbursement of any funds the venture capital firm will evaluate the business plan, which will include market plan and projected financial income to ensure the viability of the business and its future success (Galante 1999).

b) Financing at the Expansion Stage

*Second stage financing*

At this stage of financing, the venture capital firms will provide funds to companies, which have shown progress in the business development but have not yet made enough profit to sustain themselves for expansion and other business activities. The funds received by the investee companies from the venture capital firms will be used for mutual expansion of a company production, working capital, accounts receivables and purchase of inventories (McCarron, 1999).

*Third stage and bridge financing*

Third stage financing is where the venture capital firms provide finance to entrepreneurs or business ventures for the expansion of the business (Guidotti and Sagari 1992). At this stage, most businesses are able to break even and the sales volume starts to increase. The venture capital firms therefore provide funds at this stage to enable the business to expand production capability, marketing, increase working capital and increase product line (Stanley 1989).

c) Financing for firms at other stages—Financing at this stage involves funding companies for leveraged buyout or acquisition of other businesses. The Venture capital firms may provide funds to management group for the purpose of acquiring a product line or a business venture in return of equity shares.
2.3 Procedures of accessing Funds from venture capitals

Venture capital firms formulate specific procedures and requirements that investee companies have to follow before they qualify to receive any funds. It will therefore be important for investee companies to set their priorities right and know exactly what kind of requirements are needed before applying for funds from venture capital firms to avoid regrets. The following are some of procedures that can guide investee companies in applying for funding from venture capital firms.

- When seeking funds, entrepreneur should carefully select a venture capital partner or companies with whom they share a common interest in the industry sector which he/she wants to start a business. As it has been noted, some venture capital firms prefer to invest in a specific industries sectors. In addition, not all venture capital companies invest in any region of the world therefore entrepreneurs should also apply for funds from venture capital firms, which invest and fund companies in that region.

- Secondly an entrepreneur should have a business plan, which he/she will present to the venture capital firms to assess before the funds are realized. The business plan should contain, an executive summary that has the business idea, detailed descriptions of products or service, management team biographies, market analysis, competitive analysis, historical financials including balance sheet cash flow and income statements.

- Thirdly and finally, the entrepreneur should state the amount of funding requested and how it will be used to convince the venture capital to agree to fund the business.

2.4 Exits mechanism of venture capital

The idea of most Venture capital firms is to invest in companies with the intention to exit from the investment once they receive a positive return on investment. According to a study conducted by Guidotti and Sagari (1992) most venture capital companies have an exit option, which is, in fact a timing option i.e. they can exit from an investment at the time of their choice. The longer a venture capital firm holds on to an investment, the higher the value of the exit option. Venture capital companies can exit from an investment using different methods and the following are the most commonly used methods by most venture capital: -
2.4.1 Initial public offering (IPO)

Initial public offering is the most profitable and preferred method used by most venture capital firms to exit from an investment. Initial public offering (IPO) involves selling the venture capital firm stake or investment through the stock exchange market when the investee companies goes public through stock market listing. As in most cases when a company is listed in the stock market for the first time the value of its stock is high thus venture capital firms are able to sell their shares at a premium.

2.4.2 Merger and acquisitions

Merger and acquisitions is another exit mechanism, which venture capital firms use to exit from an investment. In the case of an acquisition, the venture capital firm receives stock or cash from the acquiring company on its shares in the investee and this usually attracts a high price per share and the venture capital firm profit is the capital gain from the sale of the shares (Nairobi Stock Exchange report, 2000).

2.4.3 Sale of Equity Stake to other Shareholders

Lastly, venture capital firms exit from an investment by selling their shares to other shareholders in the investee companies at an agreed price or to other private shareholders. Such an arrangement will involve the venture capital and other partners in the business to agree upon on the asking and buying price. If they fail to agree, the venture capital can then sell the shares to any other shareholders outside the business venture (International Finance Corporation report discussion paper 36, 1998).
2.5 Challenges and obstacles faced by Venture Capitals

Establishing a venture capital company in Africa and more so in Kenya financial market is not as easy as establishing any other type of financial business. According to Aylward (1998) prospective venture capitalists in the developing countries have more obstacles and challenges to overcome than in the developed countries when starting, managing and operating venture capitals. As most economic condition in these area are unstable and unpredictable, the concept of venture capital finance in Kenya has not full developed hence the current legislation are not well developed to govern the operation of venture capital industry.

The obstacles and challenges are mostly in the management and operation of venture capital and in setting up or starting a venture capital company. The obstacle/challenges associated with starting a venture capital are:- raising funds, recruiting venture capitalist staffs, attracting clients/investee companies and tax and government regulation. Meanwhile, the challenges associated with management and operation of venture capitals are; employing and retaining experience staff, making investment decisions, structuring deals and monitoring & supervision of investments.

2.5.1 The obstacle/challenges encountered when starting a venture capital

(a) Raising Funds

Raising the initial capital is also a great challenge to venture capitalist as the many potential investors in the country are not willingly to invest in risk invest undertaken by venture capitalist. It become even difficult for the first-time venture capitalist to raise funds as most the new venture capitalists lack a truck record to prove to the investors their ability to manage the funds effectively. Most investors are very sceptical on how their funds are going to be used since venture capital finance is a risk type of investment (Gomper and Lener).

However the established venture capital firms, which have been in operation for some years, are able to produce the past financial statement to prove their credibility.

Some of the ways first-time venture capitalist can use to raise funds are by establishing a partnership with an existing institution such as investment banks or commercial banks or another venture capital to provide the funds and another way is by recruiting a led investor in the country
to contribute a significant percentage of the capital towards the fund and become a limited partner.

(b) Recruitment of staffs
A study conducted by Aylward (1998) shows that there are very few experienced and competent staff in developing countries with skills to manage and operate venture capital firms. The study clearly points out that a prospective venture capitalist in Kenya will have some difficulty in recruiting staff with the skills required to operate a venture capital. For a venture capital firm to maximise return on investment, the management will be required to have a mixture of excellent financial skills, management experience and a deep and detailed knowledge of investee industry, markets and changing technology. All these require a well-trained and experienced staff with skills in operating a venture capital.

(c) Attracting the right Clients/investee Companies
Venture capital firms need to attract clients / investee companies, which show prospect of growth and profitability. However attracting these types of businesses is indeed a great challenge as most businesses in Kenya have traditionally been seeking funds from banks, families but not Venture capital companies. Therefore the challenge will be in attracting client such as traditionally start-up companies in the JuaKali industry, small and medium companies which have tradition been raising capital from banks and family.

(d) Tax and government Regulation.
Prospective venture capitalist in Kenya have a tough time in understanding and interpreting the poorly structured laws, which guide the operation of venture capitals industry in Kenya. The laws do not clearly explain matters relating to taxation and investment policy that govern the operation of venture capital firms. However in 1997 the government introduce inadequate laws which failed to properly address the issues such as tax levies on capital gain entry, liquidation of investee companies and how to handle disputes between venture capital companies and investee companies. (Karithi, 2003).
2.5.2 Management and Operation Challenges of Venture Capitals

The following are some of the challenges associated with management and operation of venture capitals in Kenya; employment and retention of experience staffs, making investment decisions, structuring of deals and monitoring & supervision of investments

(a) Employment and Retention of experience staffs

As noted earlier in a previous paragraph, recruitment of venture capital specialists is difficult and a challenging task in most developing countries including Kenya. This poses a big challenge for a venture capital company as operation of a venture capital requires highly skilled and experienced employees with a mixture of excellent financial skills, management experience and a deep and detailed knowledge of investee industry, in the area of financial matters, business skills and investment.

(b) Investment Decision

Another challenging task of a venture capital in Kenya is in making investment decisions as the economic environment for the past decade has experienced little growth in terms of investment opportunities. Thus, the decade has experienced a lot of business failure and closure making it difficult for the venture capitalist to invest in companies for fear of the collapse of investee companies. In addition, the lack of financial information of most businesses will make it even difficult and challenging for the venture capital companies to assess the risks and prospects of the investee company to grow.

(c) Structuring of Deals

Structuring of deals in venture capital companies means choosing the method of financing an investment and exit mechanism employed by the venture capital companies. Aylward (1998) conducted a study which shows that there are two ways in which a venture capital companies in developing countries can choose to finance an in investment in an investee companies i.e. debt finance and equity investment or both. The following are the exit mechanisms that can be employed by a venture capital firm to exit an investment; initial public offering, Merger and Acquisition and sale of shares from an investment. Thus the challenge to the management team
of a venture capital is in structure of investment deal, which will maximize the return on investment.

(d) Monitoring and supervision of Investment
Monitoring and supervision of investment involves the participation of the venture capital companies in monitoring the progress of the investment made in the investee companies. Monitoring and supervision of investment is a challenging task for most venture capital firms as it involves getting regular updates of the investee company progress, which may be difficult as most investee companies may be reluctant in providing the company progress. Other ways in which a venture capital firm can monitor the progress of the investee companies is through board representation at the investee companies however this type of monitoring has proved to cause a lot of tension when it comes to board decision making process according to a study conducted by Perz (1986).

2.6 Role of the government in the development of the venture capital markets
Both government and private sector have a pivotal role to play in the development of venture capital market in the country for mutually benefit to all parties. The role of government is always instrumental in assisting and developing market driven environment that will allow venture capital companies to operate, benefit and thrive in their operations. The government role will be confined in; setting up public venture funds, enacting proper legislations and legal framework of the operation of the venture.

(a) Setting up of publicly managed funds
The Small Business Investment Company (SBIC) of United States is a good example of a public managed fund that the Kenya government can emulate to enable it to provide venture fund to the small and start-up companies in the country. The public managed fund will set clear objectives and goals, geared towards funding the small business and also supporting small venture capital firms. The major source of this public venture fund will be from the government and support from the international donors (Olufemi, 2000). The fund should also be professionally managed by venture capitalist with experience and the necessary skills, and should operate with minimum state interference in its management and operation.
(b) Enactment of legislation governing Venture Capital Industry

In 1997 the government of Kenya enact inadequate laws and regulations that govern the venture capital industry in the country however the laws which fell short in address matters relating to operation of venture capital e.g. conflicts between the venture capital firm and investee companies, taxation of capital gain made from sale of shares by the venture capital firms. However the proper legislation that clearly addresses all the matters concerning the operation of venture capital can help to attract more venture capital participants and develop the venture capital industry.

(c) Establishing a Public and Private Managed Venture Capital Firm

The establishment of a Public and Private Managed Venture Capital company by the government can play a great role in developing venture market in Kenya. The government can direct provide fund through the ministry of Trade and industries or facilitate the listing of the venture capital company in the stock exchange to attract more funds.

The venture capital company will operate as a limited partnership venture capital between the government and the private sector that will employ professional managers and venture capital specialists to manage the fund, and invest in companies that are registered in the country and invest in small and start-up companies, and fund other venture capital companies and industries which are productive in the country’s economy with less restriction.

2.7 Venture Capital Regulation in Kenya

According to the Kenya Company Act, activities and operations of venture capitals in Kenya are regulated under the income tax rule and venture capital company rules 1997. The following is a copy of the income tax 1997:-
THE INCOME TAX (VENTURE CAPITAL COMPANY RULES) 1997

Citation and commencement:
1. These rules may be cited as the income tax (venture capital Company) rules, 1997 and shall be deemed to have come into operation on 1st September 1996.

Interpretation
2. In these rules, unless the context otherwise requires:
   "Eligible activities" means activities other than those listed in rule 4 of the Rules.

Cap. 485A.
"Fund manager" means, a person licensed by the capital markets authority under the provisions of the capital markets authority act for the purpose of managing a venture capital company.

"Venture capital Company" means a company incorporated in Kenya for the purpose of investing in a new or expanding venture company.

Registration of venture Capital companies
3. A venture capital company shall, upon application Under rule 5, be registered by the commissioner for the purposes of this act if the commissioner is satisfied that:-
   a) It is incorporated in Kenya; and
   b) It is incorporated for the purpose of investing in new or expanding venture companies; and
   c) It is approved by capital markets authority; and
   d) It is managed by a fund manager; and
   e) Seventy five percent or more of its portfolio of investable funds is invested in the equity shares of venture companies; and the Income Tax (Venture Capital Company) Rules, 1997
   f) The primary activities of the venture company in which it has invested are approved activities.

Prohibited activities
4. The primary activities of a venture company shall not include:
   a) Trading in real property;
   b) Banking and financial services; or
   c) Retail and wholesale trading services.


Registration procedure

5 (1) An application for registration of a venture Capital company under rule 3 shall be made in writing and shall be accompanied by:

a) Two copies of each of the company's:
   i. Memorandum and articles of association
   ii. Certificate of incorporation
   iii. Certificate of approval by the capital markets authority
   iv. Personal identification number card.

b) The fund manager's license under the capital market authority act

c) Any other information as may be required by the commissioner.

2) The commissioner shall, as soon as practicable after considering the application, notify the fund manager in writing whether the venture capital company is acceptable for registration, and the same notification shall specify either:-

   a) the reason thereof, if it is not acceptable; or

   b) the year of income in respect of which the registration is first to take effect, if it is so acceptable.

Withdrawal of registration:

6) (1) The commissioner may at any time, by notice in writing to the fund manager, withdraw the registration of a venture capital company if in the opinion of the commissioner that Venture Capital Company no longer qualifies for registration under these rules.

2) A withdrawal of registration under this rule shall take effect from the beginning of the year or income in which the grounds for that withdrawal arose or such later time as the commissioner may determine.

2.8 Chapter Summary

The objective of this chapter was to provide a theoretical background and a comprehensive literature review on prospective of establishing venture capital companies in Kenyan financial market.
CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction

This chapter describes the methods and procedures used to carry out the study. The chapter is organized to include the following subsections: research design, population and sample, data collection method, data analysis method, research procedures and chapter summary.

3.1 Research Design.

The research design adopted for this study is a survey design. According to the Royal Windsor society for Nursing Research (2002) survey design is a generalized means of data collection through the use of interviews or questionnaires. There are no typical formats for a survey: they are designed or modified to meet the needs of the researcher or fit the topic of research.

The survey was conducted by sending questionnaires with structured and unstructured questions in annex to the respondent. In addition, appointments to meet the respondent were arranged to make any clarification and at the same time to have a chance to ask any prompt questions.

3.2 Population and Sampling

The population for this study consisted of a census of all the ten venture capital companies operating in Kenya. According to a Nairobi Stock exchange publication of year 2003, there are ten venture capital companies operating in Kenya are ten. These venture capital companies consist of government and non-governmental organisations i.e. private companies.

3.3 Data Collection

The data was collected from primary and secondary sources. The secondary sources consisted of company catalogues, brochures and manuals provided by the respondents, while primary data was collected by use of questionnaires, which were sent in annex to the respondents for filling. Furthermore, the researcher met with the respondent for any clarifications of the questionnaire and also asked prompt questions that were useful in providing an additional data for the study. The questionnaires consisted of both structured and unstructured questions, which were self-developed and consisted of three sections.
3.5 Research Procedure
The research began by conducting a pilot test of the questionnaires so as to ensure the effectiveness of the research questionnaire, the pilot test was carried out to two staffs of Nairobi Stock Exchange and MBA students.

The second step was to send the questionnaires to the respondent to gather data for analysis. The questionnaires were sent in annex to the respondent, and personal interviews were arranged with the people in the senior positions in the companies of the respondents to ask any prompt questions.

3.6 Data Analysis
The method used for data analysis was qualitative analysis technique. According to Van Machn (1983) qualitative method is an array of interpretive technique, which seeks to describe, decode, translate and otherwise come to terms with the meaning, not the frequency of certain more or less naturally occurring phenomenon. The use of qualitative analysis provided a more open approach to data analysis, which was particularly good in dealing with transcript answers from unstructured questions and in-depth data material provided by the respondents. In addition, Qualitative methods played an important role in impact evaluation by providing information useful to understand the processes behind observed results. The answers from the unstructured question were coded, labelled and numbered for analysis.

The findings were summarised and coded before being presented in frequency distribution tables.

3.7 Chapter Summary
This chapter set out to describe the methods which were used to collect data. The chapter discussed the research design, the population and the sample of the study, methods used to collect data, research procedures and method used to analyse data before presentation in chapter four
CHAPTER FOUR: DATA ANALYSIS

4.0 INTRODUCTION

This study sets out to determine the prospects of establishing venture capital firms in the Kenyan financial market. The target population consisted of all the ten operating venture capital firms i.e. including the development bank, which operates corporate venture companies. Out of the ten firms only five Venture capital companies responded to the questionnaires. Most of the venture capital firms, which did not respond to the questionnaires, explained that their company policies does not allow them to give any information to outsiders. The five venture capital firms, which participated in the study, wanted assurance that their company names would not be mentioned in the report or used as examples.

The discussion in this chapter is organised into three sections. Section one discusses and provides the background information of venture capital firms in Kenya. The second section deals with the findings on the obstacles and challenges of starting a venture in Kenya. Section three reports on the challenges of operating and managing a venture capital in Kenya and the factors that impede the growth and development of venture capital firms.

The respondent cited the following as the major sources of capital or funds for the venture capital in Kenya: pension funds, government funds, own source/ private investor, borrowing from banks, oversees finance provided by non-governments. According to the respondents, most venture capital firms in Kenya provide both equity and debt financing.
4.1 BACKGROUND

The data needed for this study was collected from a total of five venture capital companies. Among these respondents three were government backed venture capital firms, one venture capital is listed in the stock market while the other one is a privately owned venture capital firm.

The table below shows the sources of finance for the venture capital in Kenya as presented by the respondents.

*Table 1.0 source of finance for venture capital in Kenya*

<table>
<thead>
<tr>
<th>Source of Finance</th>
<th>No of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension funds</td>
<td>1</td>
</tr>
<tr>
<td>Government</td>
<td>3</td>
</tr>
<tr>
<td>Own source of finance</td>
<td>2</td>
</tr>
<tr>
<td>Borrowing / private investors</td>
<td>2</td>
</tr>
<tr>
<td>Overseas finance</td>
<td>3</td>
</tr>
<tr>
<td>Local investors</td>
<td>1</td>
</tr>
<tr>
<td>Banks</td>
<td>1</td>
</tr>
</tbody>
</table>

The above table shows that the source of finance for the venture capital varies from one venture capital to another, with government and overseas finance being the main source for finance in many venture capital companies. However this is so because three of the venture capital companies are government-backed. Other sources are; own finance, private investors and borrowing as main source of finance.
Table 1.1: The number of years the venture capital firm have been in operation

<table>
<thead>
<tr>
<th>Time (year)</th>
<th>No of Respondents</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>0 – 5</td>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>6 – 10</td>
<td>1</td>
<td>20%</td>
</tr>
<tr>
<td>11 – 15</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>over 15</td>
<td>3</td>
<td>60%</td>
</tr>
<tr>
<td>Total</td>
<td>5</td>
<td>100%</td>
</tr>
</tbody>
</table>

The table above shows the number of years the venture capital firms have been in operation in Kenya. Three (60%) of the venture capital companies have been operating for more than 15 years.

When asked to mention the investment policy or valuation methods used to value an investment before committing finance in any business, the respondents gave the following methods of financial valuation.

Table 1.2: Investment policy and investment valuation method

<table>
<thead>
<tr>
<th>Method</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Due diligence</td>
<td>2</td>
</tr>
<tr>
<td>2. Tradition finance method i.e. NPV, IRR, ROE</td>
<td>5</td>
</tr>
<tr>
<td>3. Investor share capital</td>
<td>3</td>
</tr>
<tr>
<td>4. The quality of management team</td>
<td>2</td>
</tr>
<tr>
<td>5. The ability of venture capital to add value to the firm</td>
<td>2</td>
</tr>
</tbody>
</table>
As noted in the above table, most respondents indicated that the most commonly used investment evaluation methods are the traditional finance methods i.e. NPV, IRR, ROE. In addition other used are investors share capital and due diligence.

The table below presents the business development level at which venture capital firms in Kenya start to fund the business. The most notable level at the expansion of business and also the venture capital provides seed financing.

**Table 1.2 Stage of business development finance**

<table>
<thead>
<tr>
<th>Business development stage</th>
<th>Number of Respondant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Early stage – seed finance</td>
<td>4</td>
</tr>
<tr>
<td>Financing at the expensive stage</td>
<td>5</td>
</tr>
<tr>
<td>Third –stage financing for leverage, buyout and acquisition</td>
<td>3</td>
</tr>
</tbody>
</table>

4.2 Obstacles and Challenges in Starting Venture Capital Firms

In this section the respondents were requested to provide answers to the questions on the obstacles and challenges of starting, operating and managing a venture capital firm in Kenya.

The responses are reported below:

In response to the question regarding the obstacles and challenges faced by venture capital in raising fund for venture capital, the majority of venture capital indicated that lack of government financial support by the venture capital firms, are partly owned by the government as their biggest challenge. Also lack of the government guarantee to international and overseas support is
another challenge that venture capital companies have to overcome as most overseas donors would require the government to guarantee any financial support advanced to venture capital, which are partly owned by the government. Prospective venture capitalist is also likely to face the challenge of raising funds from the local investors in the country as most local investors have little knowledge of the venture capital concept and its operation. In addition, most Kenyan investors are risk averse while venture capital investments are high investments with high returns. Other challenges are presented in the table 2.0

Table 2.0 Obstacles / challenges in raising funds for Venture Capital

<table>
<thead>
<tr>
<th>Obstacle / challenge</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Limited government support in providing the funds</td>
<td>5</td>
</tr>
<tr>
<td>2. Limited funds available from the local market to raise for venture capital investment</td>
<td>5</td>
</tr>
<tr>
<td>3. Poor return from invested resources in most business ventures</td>
<td>5</td>
</tr>
<tr>
<td>4. Poor infrastructure of raising funds in the country</td>
<td>4</td>
</tr>
</tbody>
</table>

The obstacles and challenges faced by venture capital firms in raising funds are: limited government support in providing funds, limited funds available from the local market to raise for venture capital investment, poor return from invested resources in most business ventures and poor infrastructure of raising funds in the country as cited by most respondents.
The table below presents results on the question of challenges facing venture capital firms in recruiting, training and retaining staff by the respondents.

**Table 2.1 Obstacles and challenges in recruiting employees**

<table>
<thead>
<tr>
<th>Obstacle / challenge</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. No challenges in recruiting staff</td>
<td>4</td>
</tr>
<tr>
<td>2. Challenge in recruiting qualified venture capitalist staff.</td>
<td>4</td>
</tr>
<tr>
<td>3. Lack of training institutions to help in training staff and improve their skills.</td>
<td>2</td>
</tr>
<tr>
<td>4. Remuneration and employee salaries and perks</td>
<td>4</td>
</tr>
</tbody>
</table>

From the above table, the most notable challenges in recruiting employees by venture capital firms in Kenya are; challenges in recruiting qualified venture capitalist staffs and remuneration and employees salaries and perks.

In response to the question on challenges in attracting clients or investor companies, the following opinions were given on table 2.2 next page:-
Table 2.2 Challenges in attracting clients / investors companies

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Political stability scare away entrepreneur from taking risk and long term business ventures</td>
<td>2</td>
</tr>
<tr>
<td>2. Attracting Risk averse clients and entrepreneurs</td>
<td>5</td>
</tr>
<tr>
<td>3. Availability of funds at any given time to finance business operation.</td>
<td>2</td>
</tr>
<tr>
<td>4. No challenges in attracting clients</td>
<td>5</td>
</tr>
<tr>
<td>5. Fund size required by clients varies from small amount to large which in some cases the venture capital can provide.</td>
<td>5</td>
</tr>
<tr>
<td>6. Uninformed business society on activities and benefits of venture capital finance.</td>
<td>4</td>
</tr>
<tr>
<td>7. Lack of credible entrepreneurs who are committed to the success of business venture.</td>
<td></td>
</tr>
</tbody>
</table>

From the table above, we are able to note that the major obstacles in attracting clients or investee companies cited by most respondents are; availability of funds at any given time to continuously finance business ventures, fund size required by clients varies from small amount to large which in some cases the venture capital can provide, uninformed business society on activities and benefits of venture capital finance.
4.3 Obstacles and Challenges of Operating and Managing a Venture Capital Firm

The table below presents the challenges of making investment by venture capital firms

Table 3.0 challenges in making investment decisions

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Ability to assess and predicate future business risk</td>
<td>2</td>
</tr>
<tr>
<td>2. Availability of up to date information for the purpose of decision making</td>
<td>3</td>
</tr>
<tr>
<td>3. Credibility of information supplied by investee companies and entrepreneurs when submitting business plans</td>
<td>4</td>
</tr>
<tr>
<td>4. Portfolio structuring to maximize returns and minimize risk</td>
<td>5</td>
</tr>
<tr>
<td>5. Company investment policy and guidelines</td>
<td>5</td>
</tr>
<tr>
<td>6. Limited choice of business available to invest the venture funds</td>
<td>3</td>
</tr>
</tbody>
</table>

As shown in the above table, the most cited challenges and obstacles in making investment decisions by venture capital firms are; credibility of information supplied by investee companies and entrepreneurs when submitting business plans and its accuracy to enable it to make sound investment decision, investment portfolio structuring to maximize returns and minimize risks, company investment policies which guide all decisions concerning investment decisions.
The table in the next page gives a summary of challenges faced in structuring of investment deals by many venture capital in Kenya.
<table>
<thead>
<tr>
<th>Challenges</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-realization of projected returns</td>
<td>5</td>
</tr>
<tr>
<td>Ability to determine Unrealistic assumption made by the investee such as future expected returns at the time of applying for funding</td>
<td>5</td>
</tr>
<tr>
<td>Monitoring the management activities</td>
<td>4</td>
</tr>
<tr>
<td>Ability to continuously assess risks exposed to businesses</td>
<td>4</td>
</tr>
<tr>
<td>Ability to understand technical business details and activity of the investee companies</td>
<td>2</td>
</tr>
<tr>
<td>The ability to understand technical business details and activities</td>
<td>2</td>
</tr>
<tr>
<td>The ability to predicate future industry and economical conditions and trends</td>
<td>5</td>
</tr>
<tr>
<td>The ability for the venture capital to exit in investment once made</td>
<td>3</td>
</tr>
<tr>
<td>The challenge to choose a standard pricing model to evaluate an investment</td>
<td>3</td>
</tr>
<tr>
<td>The availability of wide range of investment opportunity and exit mechanism from an investment</td>
<td>4</td>
</tr>
</tbody>
</table>
The following are some of the challenges faced by venture capital mentioned by the respondent in structuring deals; projection of expected returns on investment, ability to determine unrealistic assumption made by the investee.

The following table presents the challenges in monitoring and structuring of investment

*Table 3.3 Challenges in monitoring and structuring of investment*

<table>
<thead>
<tr>
<th>Challenges</th>
<th>Number of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>No challenge</td>
<td>1</td>
</tr>
<tr>
<td>The ability of the venture capital firm in participating in day to day running of the business</td>
<td>4</td>
</tr>
<tr>
<td>Proper Board representation</td>
<td>4</td>
</tr>
<tr>
<td>Ability to receive accurate and timely proper information for decision making</td>
<td>5</td>
</tr>
<tr>
<td>Availability of Finance reports statement</td>
<td>5</td>
</tr>
</tbody>
</table>

The table above presents obstacles and challenges a prospective venture capitalist is likely to encounter when operating and managing a venture capital firm in Kenya. The most noted challenge is in the ability to receive accurate and timely proper information for decision-making and availability of finance reports statement.

Finally the respondents were asked to identify the reasons, which impede the growth and development of venture capital. The table below shows some of the reasons that impede the growth of venture capital firms in Kenya as provided by the respondents.
### Table 3.0 Factors that impede growth and development of venture capital in Kenya

<table>
<thead>
<tr>
<th>Reasons</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited funds available to financial venture capitals</td>
<td>5</td>
</tr>
<tr>
<td>Lack of information on the operation of venture capital companies..</td>
<td>4</td>
</tr>
<tr>
<td>Lack of proper developed financial infrastructure to raise funds</td>
<td>5</td>
</tr>
<tr>
<td>Limited choices of investment opportunity in which venture capital firms can finance</td>
<td>3</td>
</tr>
<tr>
<td>Highest interest rate charged on loans and taxes on business</td>
<td>5</td>
</tr>
<tr>
<td>Lack of entrepreneurs are risky takers</td>
<td>3</td>
</tr>
</tbody>
</table>

#### 4.4 Chapter Summary

The findings of this study are based on the research questions presented in chapter one. The findings highlighted the obstacles and challenges of starting, operating and managing a venture capital firm in Kenya. The findings also indicated factors that impede the growth of venture capital firms in Kenya.
CHAPTER FIVE: DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

Chapter five presents discussion of the findings, the conclusion of the study, limitations of the study and provides recommendations for further studies.

5.1 Summary

The purpose of this study was to examine the prospects of establishing venture capital companies in the Kenyan financial market. Specifically, the study set out to determine:-What are the obstacles that a prospective venture capitalist is likely to encounter when establishing a venture capital firm in Kenya? What are the management and operational challenges faced by venture capitals in Kenya? What are the factors that impede the growth of venture capital firms in Kenya? The research adopted a survey research design. A census of all the 10 venture capital firms operating in Kenya was used as the population of the study. The data was collected by administering questionnaires and then the data summarised and coded before being presented in frequency distribution tables.

First and foremost, the venture capital industry in Kenya has very few players. According to the Nairobi Stock Exchange 2002 annual report, there are only two full registered venture capital companies operating in Kenya namely Industrial Commercial Development Corporation (ICDC) and the Kenya Capital Partners. However, there are some development banks and investment management firms, which engage in venture financing activities such as East African Development Bank, Industrial Development Bank, which are government owned by East African Countries and Kenya government respectively.
The success or failure of a venture capital firm in Kenya will depend on four key issues: its ability to raise funds, ability to attract clients, its approach to investment decisions, structuring of deals and its ability to supervise investments as revealed by the study and also by the comment made in the conclusion.

5.2.1 Obstacles and Challenges of Starting a Venture Capital firm

A prospective venture capitalist in Kenya should anticipate obstacles and challenges when starting a venture capital in relation to; raising funds, recruiting employees who have skills in operating and managing a venture capital and attracting clients/investors companies. Some of the challenges cited by the respondents regarding the above mentioned obstacles are: issues concerning raising of funds:- limited funds from the government in supporting the venture capital firms, lack of government guarantee on overseas financing, limited funds available from the local market to be raised, venture capital firms to invest and fund prospective applicants, poor rewards from invested resources and poor infrastructure of raising funds. On the issue of recruiting employees, the challenges that a prospective venture capital encounters are: - most respondents noted that there are no problems in recruiting staff, however, the problem lies on recruiting skilled and experienced venture capitalists in operating and managing venture capital firms. Another likely obstacle is lack of training institutions to help in training staff and improve their skills and finally remuneration of employees according to their skills and experience.

Other obstacles in relation to attracting clients or investee companies mentioned by most respondents are; availability of funds at any given time to continuously finance business
ventures, fund size required by clients varies from small amount to large which in some cases the venture capital can provide, uninformed business society on activities and benefits of venture capital finance. Another obstacle that is of great concern to a prospective venture capitalist in Kenya is nature of entrepreneurs in taking risk. One respondent stated that through research their firm had conducted on the ability of entrepreneur in Kenya in taking risk was that most of the entrepreneurs in Kenya are risk averse. Hence attracting such a huge pool of potential entrepreneurs and convincing them to take risk in other unproven business has also been cited as a big challenge to venture capital firms.

5.2.2 Obstacles and Challenges in Managing and Operating Venture Capital firms
The obstacles and challenges relating to management and operating Venture companies in Kenya such as structuring investments deals, monitoring and supervision of investments and making decisions are challenges a prospective venture capitalist is likely to encounter Kenya according to the findings in this study: Non-realization of projected returns i.e. most venture capitalist who participated in this study noted that they have a difficulty for realising return on the investment within the expected time frame. Secondly, the ability to determine unrealistic assumption and estimation of returns and success of the business made by the investee firms when applying for funding from the venture capital has always been a challenge to most venture capitalists in Kenya.

Finally, factors most considered to be contributing to or impeding the growth and development of venture capitals mentioned by most respondents are: limited funds available to financial venture capitals, lack of information of venture capital operations to investors and investee companies and exposes to the venture finances, lack of infrastructure and vehicles to
raise funds, limited choices of investments/ innovation availability for venture capital, high interest rates charged on loans by financial institutions and also high taxes by the government, nature of Kenya entrepreneurs who are risk averse.

Most respondents expressed satisfaction on the already existing legislations regulating the venture capital industry. However, they expressed fear that the current laws need to be updated to the changing business development. The concern is also in the formation of a professional and regulatory body, which will advise the government and control the venture capital industry.

5.4 Conclusion

The purpose of the study was to examine the prospects of establishing venture capital firms in the Kenyan financial market. The findings are based on the results of questionnaires sent to venture capital companies in Kenya, brochures and prompt questions asked to senior managers of the venture capital during the follow up interviews.

Venture capital practice started in Kenya in the early 1960s when the government founded several development agencies for purpose of funding small businesses and encourages local investment such as ICDC, African Development Bank, and East Africa Development Bank. However, professionally managed venture capital companies in Kenya are not well developed as in many other developing countries like India, Malaysia, Indonesia and South Africa.

Generally, the survey identified some of the obstacles and challenges encountered when starting, managing and operating a venture capital in Kenya. However the obstacles vary from one respondent to another but the survey revealed that venture capital activities are still a new concept of business financing in Kenya.
Other conclusions that can be drawn from the study and findings are that there is lack of interest from the players in the financial sector to address the issue of developing venture capital industry in Kenya. Majority of the venture capital companies which participated in this study stated that most of the challenges and obstacles that they are facing are avoidable if all market participants such as the government, Capital Market Authority, Nairobi Stock Exchange and the most established venture capitals firms take a leading role in promoting venture capital concepts to the local entrepreneurs and business community in the country. The entrepreneurs need education on the merits of venture capital. Many small businesses in Kenya enjoy the independence of a small privately owned company and do not intended to share investment and running of their business with outside parties. The loss of control and showing of potential future profits discourages them from obtaining venture capital. Therefore it is upon the financial sector players themselves, if they want the industry to grow, to take the initiative of promoting the benefit of venture capital throughout the country in a way that is transparent and attractive to the market.

More importantly, the greatest challenge and obstacle of venture capital in Kenya lies in raising funds and on the technical aspect of operating and managing of Venture Capital. New venture capital companies will often find it difficult to raise finances from the local investors in Kenya, as most investors in the country are not accustomed to investing funds which are managed professionally by fund manager. This is even made difficult when the money is invested in small and risky enterprises. Venture capital just like any other business needs to maximise on wealth creation by making profitable investments and they also need to have a better understanding of management skill and financial skills to achieve better financial results.
To achieve these goals, the venture capital companies need to make investment decisions and investment choice that will maximize returns and minimize risks for it to make positive returns and in the case of Kenya financial market most venture capital firms will prefer to invest in proven business venture and in already established business.

As for the case of raising funds when starting venture capital firms in Kenya, most venture Capital firms cited that the ability to raise funds from the local investors is hampered by lack of interest from the local investors to invest in venture capital firms. The most successful venture Capital firms in Kenya such as I.C.D.C., East African Development Bank and Industrial Development Bank have been able to raise funds from the governments contributions, International Organisations through overseas finances, institution investors and through the stock exchange while others receive funds from overseas sources. Therefore, it will be important to note that the type of venture capital firm to start in Kenya will greatly determine the success and ability to overcome the challenges of raising funds to start a venture capital.

It is also important to note that the Kenyan financial infrastructure is not well developed to have up to date information systems that will allow flow of information necessary in making decision on matters such as structuring investment composition.
Finally, conclusion drawn from the study and the analysis of prospects of establishing a venture capital in the long-run looks bright due to the fact that the current government is looking into ways of making the economy more competitive by deregulating the financial sector and make enact legislation that will enhance the growth of venture capital industry. In addition the type of venture capital company one intends to establish in the Kenyan market will greatly influence the success.
5.4 Limitations of the Study

The small number of participants in the study prevented an observation of widely varied results. The literature review lack Kenya examples on venture capital, as there have been little research that has been done on venture capital in Kenya. Hence the literature review may have a bias on US examples.

Most of the firms, which participated in the study, wanted assurance on the confidentiality of the information they provided and insisted that their companies' names should not appear on paper, which in itself posed many questions on, whether there was other information, which the respondents could have provided.
5.5 Recommendation for Further Research

Further research on venture capital can be done on the following areas:-

Research can also be done on ways of attracting and encouraging Kenyan entrepreneurs to sources of finances from the venture capitals companies.

Further research may also be carried out on how to attract funding for the venture capital companies in Kenya.
REFERENCE


Nairobi Stock Exchange Publication 2003


http://www.kelcom.igs.net- Royal Windsor society for Nursing Research

QUESTIONNAIRES

QUESTIONNAIRE FOR THE STUDY OF PROSPECT OF ESTABLISH A VENTURE CAPITALS IN KENYA.

Please provide the answer in the questionnaire where applicable by writing in the space provided. The main purpose of this survey is to obtain information for the purpose of class project concerning the prospect of establishing a Venture capital in Kenya Financial Market.

1. Provide the name of your venture capital firm?

2. How long have you been in operation?

3. What are the sources of finance for your venture capital company?

4. Which of the following method do you use for financing in investee companies:
   (a) Equity Financing
   (b) Debt Investment
   (c) Both Equity and Debt Financing

5. How many companies do you finance in a year many have you finance in total since your company started?

6. Please if possible indicate your revenue in the following years?

<table>
<thead>
<tr>
<th>Year</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
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</thead>
</table>

7. What is the total number of employees in your organization?
8. What criteria are used to value a company/financial plan before funding?


9. At which of the following business development stage does your Venture capital provide finance? Please tick any

(a) Early Stage Seed financing and Start –Up Stage
(b) Financing at the Expansion Stage
(c) Third state – financing for leverage buyout and acquisitions.

10. Which of the following exist mechanism do your venture capital use to pull out form an investment?

(a) Initial Public offering (IPO)
(b) Merger and Acquisitions
(c) Exist by sales of equity holding in the Investee company

Section B
B) Please list down the obstacles and challenges when starting a Venture Capital in Kenya in relation to the following aspect?

(i) Raising funds when starting a venture capital company


(ii) Recruiting venture capitalist staffs to operate the venture fund


(iii) Attracting clients/investee companies

(iv) Tax and government regulation on venture capital operation

Section C

C) Please list down the distance and challenges when managing and operating a Venture Capital in Kenya in relation to the following aspect?
(i) Employing and retaining experience staffs

(ii) Making investment decisions
(iii) Structuring of deal i.e. decision on type of financing investment and exit mechanism from an investment

(iv) Monitoring & supervision of investments in investee companies

Section D

1. What's, in your opinion are the factors that impede the growth and development of venture capitals in the country?

2. Who are the key players that you think should be taking a leading role in the process of establishing venture capitals in the country?