



# Sourcing2Equal Kenya

## Barriers and Approaches to Increase Access to Markets for Women-Owned Businesses

IN PARTNERSHIP WITH:



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June 2021

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## ACKNOWLEDGEMENTS

This publication *‘Sourcing2Equal Kenya: Barriers and Approaches to Increase Access to Markets for Women-Owned Businesses’* was produced by the International Finance Cooperation (IFC), with the generous support of the Women Entrepreneurs Finance Initiative (We-Fi) and the Government of Norway. The report contributes to IFC’s Sourcing2Equal Program which is helping private sector companies to develop gender-inclusive supply chains by sourcing goods and services from women-owned and led businesses.

This study was developed under the overall guidance of Mary Porter Peschka (Director, Environment, Social and Governance, IFC) and Henriette Kolb (Manager, Gender and Economic Inclusion Group, IFC); led by Heather Kipnis (Senior Operations Officer and Global Lead for Women’s Entrepreneurship and Inclusive Business, IFC) and Anne Kabugi (Senior Operations Officer and Africa Gender Lead, IFC); and supported by Anna Domingo Riu (Entrepreneurship Specialist, IFC), Angela Kariuki (Sourcing2Equal Kenya Project Coordinator, IFC), and Simbi Anzaya (Gender Analyst Sub-Saharan Africa, IFC).

We would like to thank several individuals who have contributed to this report. Our gratitude goes to the Invest in Africa (IIA) team: Sarah Ann Adomakoh, Samuel Gicharu, Winnie Itago, Daniel Mwangi Karinge, Terry Kinyua, Lilian Nyambeki Mogoah, Wangechi Muriuki, and William Pollen. Without their collaboration on the study design, data collection, and analysis, and their contributions in drafting this report, producing it would not have been possible. The authors would also like to thank the procurement teams of the 14 companies interviewed for this study, who generously contributed their time and expertise, and willingly shared their experience to add to the richness of this report. We are grateful as well to the organizations that provided access to their women-owned/led business databases for the surveys, including: the Association of Women Entrepreneurs Programme (AWEP), the Association of Women in Extractives Kenya (AWEK), IIA, Mennonite Economic Development Associates (MEDA), the Organisation of Women in Trade (OWIT), Women in Business Kenya (WIB), and authors are also grateful to the following World Bank Group colleagues for their review and suggestions: Sanola Alexia Daley, Mary Dominic, Aleksandra Liaplina, Anushe Khan, Despoina Kouria, Farzin Mirmotahari, Hanh Nam Nguyen, Charlotte Benedicta Ntim, Joanna Romero, Adam Rubinfeld, Shino Saruta, Jennifer Scott, Aida Mwajua Sykes, and Chieko Yokota. Editing was provided by Ann Bishop, and Beatriz Calvo Garro designed the report.

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## ABOUT IFC

IFC—a member of the World Bank Group—is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2020, we invested \$22 billion in private companies and financial institutions in developing countries, leveraging the power of the private sector to end extreme poverty and boost shared prosperity. For more information, visit [www.ifc.org](http://www.ifc.org)

## ABOUT IFC’S SOURCING2EQUAL PROGRAM

**Sourcing2Equal** is an IFC program developed in partnership with the **Women Entrepreneurs Finance Initiative** (We-Fi) and **Norway**. The objective by 2023 is to increase access to markets for at least 5,000 women-owned small and medium enterprises (WSMEs) through improving private sector procurement opportunities in four countries. **Sourcing2Equal Kenya** is the first country project under the global Sourcing2Equal program. The objective is to boost the growth of Kenyan WSMEs by increasing their access to corporate procurement opportunities, and building Buyers’ capacity in Kenya so that they increase their procurement spending on goods and services from Kenyan WSMEs.

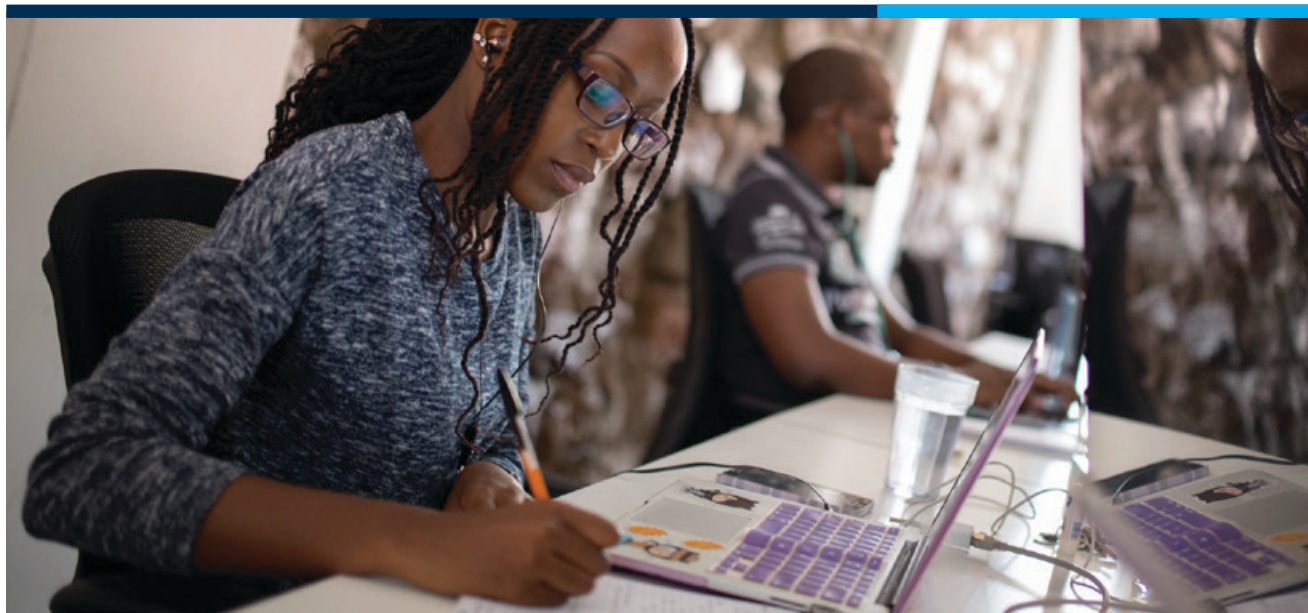
## ABOUT WOMEN ENTREPRENEURS FINANCE INITIATIVE (We-Fi)

The Women Entrepreneurs Finance Initiative (We-Fi) is a collaborative partnership among the 14 governments that have made financial contributions, six multilateral development banks that serve as implementing partners, and other public and private stakeholders. We-Fi was formally established in October 2017 as a Financial Intermediary Fund hosted by the World Bank. We-Fi invests in programs and projects that help unlock billions of dollars in financing to address the full range of barriers facing women entrepreneurs—increasing access to finance, markets, technology, and mentoring, while also strengthening policy, legal and regulatory frameworks. As one of the We-Fi Implementing Partners, IFC supports private sector clients with investment and advisory services to expand financial services and market access for women-owned/led firms, as well as increasing the capacity of women entrepreneurs to run high-growth businesses. For more information, visit [www.we-fi.org](http://www.we-fi.org)

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## Executive Summary

Small and medium enterprises (SMEs) make up a large part of Kenya's economy, accounting for approximately 98 percent of all businesses. SMEs are found in all sectors of the economy, they are estimated to contribute about 80 percent of total employment in Kenya, and they play a central role in Kenya's economic growth. Women's ownership of formal SMEs is low, comprising only about one third of registered SMEs. Women-owned and led SMEs (WSMEs) face structural barriers in growing their businesses due to their limited access to: finance, business networks and connections, and market information. Consequently, these barriers limit WSMEs' ability to access new markets, such as procurement contracts with private sector Buyers.

In 2020, IFC established Sourcing2Equal, a global program that aims to connect 5,000 WSMEs to private procurement opportunities by 2023. The first project under the program is in Kenya. This report examines the barriers that Kenyan SMEs face in accessing private procurement contracts, and if there are differences based on whether companies are owned by women, men, or owned jointly by women and men.

Analysis of survey data from 571 SMEs, and interviews with 14 corporate Buyers in Kenya, provide unique data on gender gaps in the participation of SMEs in corporate supply chains, and it reveals emerging practices that are aiming to increase the procurement of goods and services from WSMEs. The sample of formally registered SMEs was selected from a defined population in business membership organizations' databases, rather than from a national census dataset. Due to the potential risk of homogeneity in the sample, the statistically significant results of this study should not be assumed to be representative of the whole SME population.

The findings of this study take into account the recent impact of the COVID-19 pandemic. They will inform the design and implementation of [IFC's Sourcing2Equal Kenya Program](#) to support WSMEs in Kenya to become procurement ready and able to access contract opportunities. This study also suggests ways to diversify a corporate Buyer's supplier base so that it is more inclusive of WSMEs.

Insights gained in this study can also inform investors that are seeking opportunities to maximize their development impact by investing in private sector companies that are committed to procuring goods and services from WSME suppliers as a way to advance gender equality.



## Key Findings

### Gender Gaps in Private Procurement

**Gender gaps exist in the participation of SMEs as suppliers, but they vary by sector and the suppliers' tier (Tier 1 are direct suppliers to Buyers and Tier 2 are subcontractors to Tier 1 suppliers). WSMEs are primarily subcontractors (Tier 2).**

- There is a 9 percent gender gap in the participation of SMEs supplying directly to corporate Buyers (Tier 1 suppliers), with WSMEs receiving fewer contracts among the SME respondents in this study. With subcontractors (Tier 2 suppliers), the opposite is the case—13 percent more WSMEs than Male/Joint SMEs are suppliers to Tier 1 SMEs. This suggests that more WSMEs are helping Tier 1 suppliers to fulfil their orders with Buyers, and that with the right support, Tier 2 WSMEs could advance to become Tier 1 suppliers.
- The sectors that have more WSMEs as Tier 1 suppliers than Male/Joint SME suppliers, are agro-processing and services such as hospitality, restaurants, catering and events, and office support. Conversely, there are more Male/Joint SMEs suppliers than WSMEs as Tier 1 suppliers in agriculture and retail/wholesale/trade. WSMEs are also more numerous than their male counterparts as subcontractors in agriculture and agro-processing. For those WSMEs that already have a Tier 1 relationship with a Buyer in agro-processing, it appears that WSMEs are also subcontractors supplying other SMEs.

**The Buyers interviewed for this study stated that women entrepreneurs receive roughly 3 percent of their direct purchasing volume, and that women entrepreneurs predominate in the low-value procurement categories (for example, personal services such as health clubs, gyms, and catering; and business services that provide bulk printing, marketing materials, signage, and cleaning).** Buyer interviewees highlighted that the size and value of their procurement contracts with women suppliers are too small to make a large impact on a Buyer's total volume of purchasing, and are low in value in relationship to other Buyer procurement needs (e.g. cabling, construction, logistics, and distribution). This presents a challenge for Buyers that are trying to increase gender-inclusive sourcing.

## WSME Supply Side Challenges

**SME respondents stated that they face three main challenges in supplying goods and services to corporate Buyers. Gender differences are found within each barrier and by supplier tier.**

**1. Limited access to capital:** Both WSMEs and Male/Joint SMEs that directly supply Buyers stated that access to finance, and Buyers' payment terms are the largest barriers they face as suppliers. Overall, supply chain financing is an issue, regardless of the supplier's gender and tier; however, there are gender differences in the need for supply chain financing, which, presumably are due to the sector of operations. For example, more Male/Joint SMEs cited accounts receivable financing as a need than was the case with WSMEs, while both expressed a need for purchase order financing.

**2. Inadequate operational capacity and limited access to resources to improve skills:** Almost all the SMEs respondents stated that they had at least one capacity gap to address to be better positioned to secure contracts with corporate Buyers. Of the challenges cited, WSMEs prioritized the need for support to i) improve their business operations so that they comply with the quality, safety, and environmental standards set by Buyers, ii) identify and respond to Buyers' procurement opportunities, and iii) build their product development and innovation skills so that they meet Buyers' needs. Male/Joint SMEs also experienced these challenges, but they prioritized support to increase their knowledge about sales and marketing, and how to use social media to better market themselves to Buyers.

**3. Limited access to information and networks:** Both WSMEs and Male/Joint SMEs identified access to information and networks as a priority, but their lack of personal connections disproportionately affects WSMEs. While Male/Joint SMEs mostly leverage their personal networks, WSMEs access online platforms and classified ads to identify tender opportunities, which suggests that personal connections are more important to Buyers.

## Corporate Buyer Demand Side Challenges

**Corporate Buyer interviewees revealed several challenges that they face when trying to increase the volume of their purchasing from WSMEs.** These include: i) limited knowledge about best practices for gender-inclusive sourcing; ii) a lack of understanding of the financial and non-financial needs of WSMEs in comparison to Male/Joint SMEs, which would help Buyers to build the business case for targeting assistance to WSMEs; iii) inability to find eligible WSMEs for direct tenders; iv) corporate procurement policies and procedures, including contract terms and conditions, that create unintentional constraints, and particularly for new WSMEs, which must compete on an equal footing with large or existing suppliers, and v) the lack of standard corporate pre-qualification processes that are publicly available, which inhibits Buyers' from inviting potentially eligible WSMEs to participate in tenders. Of these five challenges, the limited operational capacity of WSMEs to deliver on contracts, and Buyers being unable to identify capable WSME suppliers were the most important challenges that Buyers face in trying to increase their purchasing from WSME suppliers.

**Despite the challenges they face, all of the Buyers stated they were taking action to procure goods and services from WSMEs.** While studies have documented that a diverse supplier base provides several business benefits, including lower procurement costs, lower risk of disruptions in supply chains, greater brand recognition, and increased innovation, this business case is not well known to most Buyers and does not appear to be the main driver for Buyers procuring goods and services from WSMEs. Instead, Buyer interviewees suggested that their motivations may be driven by company commitments to adhere to sustainability standards that include gender equality and/or they have been influenced by the Government of Kenya's policy to ensure that 30 percent of government procurement contracts are awarded to micro, small, and medium-sized businesses that are owned by women, persons with disabilities, and/or youth.

## Corporate Buyers' efforts to procure from WSMEs range from dedicated programs to informal ad-hoc support.

- Of the 14 Buyers interviewed for this study, only one company has a corporate-wide commitment to increase procurement from WSMEs as a way to advance gender equality in its supply chain, as well as a dedicated program with resources (budget and staff) for doing this.
- Most Buyers have not established the business case for supplier diversity, including gender-inclusive sourcing, and they do not collect sex-disaggregated data on their suppliers, which would enable them to determine how many suppliers are women-owned and led. Nor are Buyers able to set targets for achieving supplier diversity, and they do not have a budget for monitoring progress toward gender-inclusion in tenders.
- The informal ad-hoc actions taken by Buyers include providing technical assistance to the WSMEs that are bidding on tenders, such as advising them on how to market their products; feedback on what their bids/proposals might be lacking; or why they may not meet quality standards. Additionally, Buyers stated that they are finding work-arounds such as reducing the size of contracts to permit WSMEs to “get in the door”. While this increases the representation of WSMEs in supply chains, it does not impact the value of purchasing from WSMEs.
- Buyers' actions to support WSMEs in their supply chains are focused on supplier development, rather than on adapting procurement policies and procedures to address internal challenges. The pandemic has forced Buyers to assess the operation of their supply chains, and their suppliers so that they can respond to future supply shocks. For some Buyers, internal assessments have raised their awareness about the importance of having a diversified supplier base, and not relying on a single source of supply, which could expand opportunities for WSMEs.



## Recommendations for Corporate Buyers

This study has helped identify areas where Buyers can focus their support for Kenyan WSMEs so that WSMEs can access new markets through private sector procurement opportunities.

### Opportunities to address supply side challenges for existing and prospective WSME suppliers:

1. **Partner with a local financial institutions to facilitate access to working capital, and adapt contract payment terms to help WSMEs maintain their cash flow.** Buyers in Kenya have started to provide solutions, especially during the COVID-19 pandemic, but there is still more to do. IFC research has found that few financial products or support services exist that are specifically designed to target WSMEs. The solutions that Buyers can implement include making payment terms more favorable such as paying suppliers sooner, establishing supplier finance facilities with local banks, and providing referrals to programs that offer financial and non-financial solutions for women in business.
2. **Implement supplier development solutions by partnering with local SME support organizations to enhance the delivery capacity of WSMEs. Tailor solutions to both sectors and supplier status (Tier 1 and Tier 2).** Capacity building solutions for WSMEs that already have Buyer contracts should focus not only at the firm level but also with their suppliers to improve business operations and quality, and provide guidance on pricing and product development. Support for WSMEs trying to secure their first contract with a Buyer should focus on demystifying the pre-qualification and tendering processes, clarifying Buyer standards, and increasing digital access and literacy.





3. **Enhance access to information and networks for WSMEs through greater outreach, and communicate tender opportunities in channels that WSMEs are most likely to access.** While Male/Joint SMEs leverage their personal and business networks to identify contract opportunities, WSMEs leverage tools such as digital platforms and classified ads for this. These findings indicate that if Buyers want to identify/reach out to potentially eligible WSME suppliers, they should improve WSMEs' access to information and networks by: i) publishing tenders through channels that specifically target or serve WSMEs (for example, mass media, local papers' classified section, and WSME support organizations); ii) increasing use of online platforms to post tender opportunities, iii) facilitating supplier-Buyer matchmaking events; iii) sharing supplier lists with other Buyers to improve WSMEs' access to tenders; and iv) encouraging existing and prospective suppliers to establish strategic supplier relationships and increase their competitiveness in responding to tenders.
4. **Utilize existing digital platforms to post tender opportunities, and ensure that both large and lower-value procurement opportunities are featured on Buyers' corporate websites.** While the costs for a Buyer to set up their own digital procurement portal may be prohibitive, Buyers could post tender opportunities on third party platforms. Not only could this scale up outreach efforts, it could also increase the transparency of procurement processes, and encourage WSMEs to bid on tenders. Using online platforms could also provide opportunities to collect sex-disaggregated data on potential suppliers in Kenya, and better inform Buyers about how they can improve supplier outreach and development approaches.

### Opportunities to address demand side challenges for Buyers:

1. **Obtain leadership support and formalize gender-inclusive sourcing processes.** Of the Buyers interviewed for this study, only one has a dedicated program for gender-inclusive sourcing. Buyers stated they are taking action to increase procuring from WSMEs, albeit they are doing so informally. Buyers need to gain visible support in their companies to set corporate policies and targets for gender inclusion, monitor these, and provide regular updates to senior leaders. Buyers should formalize their gender-inclusive sourcing ambitions by following global best practices, which include establishing the business case; setting key performance indicators for procurement from diverse suppliers; and embedding supplier diversity and inclusion in both corporate sustainability policies and procurement operations.

2. **Adopt a definition for women-owned and led businesses, determine the existing volume of procurement for WSMEs, and set targets for future purchasing.** Of the 14 Buyers interviewed for this study, three confirmed that they track data on WSME suppliers and other disadvantaged groups. To demystify the data tracking process, the first step is defining a woman-owned supplier. Internationally and locally accepted definitions are available for this. Once a definition is in place, Buyers can start collecting sex-disaggregated data on suppliers, including the number of women-owned and led businesses in their supplier base (both pre-qualified WSMEs and those with contracts); the number of contracts with WSMEs; and the volume of purchasing from WSMEs. Buyers that go through this process are in the best position to set targets, secure resources for achieving targets, establish action plans for meeting targets, monitor progress, and ultimately scale up gender-inclusive sourcing in their supply chain. IFC's Sourcing2Equal program provides tools and guidance for Buyers to help them define a WSME, collect data, set procurement targets, and identify priority actions that will help Buyers to advance gender-inclusive sourcing internally.
3. **Consider different approaches for identifying WSMEs for current tenders, and build a pipeline for future tenders.** **This study debunks the myth that there are no eligible WSMEs for tenders.** There already is a pool of WSME suppliers in Kenya, but most of these are subcontractors (Tier 2 suppliers). To identify potential WSME suppliers, Buyers should work with their Tier 1 suppliers to encourage them to subcontract to WSMEs. Buyers can also identify and include Tier 2 WSMEs in their supplier development programs, with the goal of building the eligibility of these WSMEs for Tier 1 tenders.
4. **Track purchasing from Tier 2 suppliers.** Buyers can potentially capture greater amounts of purchasing from WSMEs by going beyond tracking purchasing only from direct suppliers to tracking purchasing from indirect suppliers, starting with Tier 2. This requires additional efforts such as surveying Tier 1 suppliers to collect data on their Tier 2 suppliers, but this will provide a better picture of a Buyer's efforts to achieve gender-inclusive sourcing throughout their supply chain. By requesting prime Tier 1 suppliers to report on their diversity metrics, Buyers will not only deepen the economic impact of their efforts, but they will also strengthen their supply chain to reduce potential supply chain disruptions.



## 1. Overview

Small and medium enterprises (SMEs) make up a large part of Kenya's economy, accounting for approximately 98 percent of all businesses.<sup>1</sup> SMEs are found in all sectors of the economy, they provide about 80 percent of total employment, and they play a central role in Kenya's economic growth.<sup>2</sup> Men own the largest share of formal SMEs—about two thirds of them. Women own fewer SMEs because they face considerable barriers, which include limited access to finance; lack of business networks, supply chain connections, and market information; and women struggle to qualify for public and private sector procurement contracts.

To support the growth of women-owned SMEs (WSMEs), the Government of Kenya introduced a policy in 2015 to increase WSMEs' access to new markets. This policy reserves 30 percent of the value of government procurement opportunities for firms owned by women, youth, and people living with disabilities.<sup>3</sup> In their interviews for this study, some corporate Buyers suggested that the government's procurement policy has spurred private sector companies to also diversify their procurement, and purchase more goods and services from WSMEs. For example, in 2017, Kenya's leading telecommunications provider announced its commitment to ensure that 10 percent of its procurement goes to women.<sup>4</sup>

This report shares the findings of a study that was conducted in 2020 to understand the challenges that Kenyan SMEs face in accessing new markets through private sector procurement opportunities, and whether there are any differences in access, and outcomes if businesses are owned by women, owned by men, or jointly owned by women and men. This study also examined the challenges that WSME suppliers face, and the emerging practices of private sector Buyers to address WSMEs' challenges, and increase the procurement of goods and services from WSMEs. The study took into account the impact of the COVID-19 pandemic, and findings will inform IFC's [Sourcing2Equal Kenya Program](#), which supports WSMEs in Kenya in becoming procurement ready so that they can secure procurement contracts. In addition, the findings from this study advise the companies on how to diversify their supplier base to be more inclusive of women-owned and led businesses.

<sup>1</sup> ITC. 2019. "Promoting SME Competitiveness in Kenya: Targeted Solutions for Inclusive Growth".

<sup>2</sup> ITC. 2019. Ibid.

<sup>3</sup> OGP. 2018. "Kenya Design Report 2018–2020". Indeje. 2019.

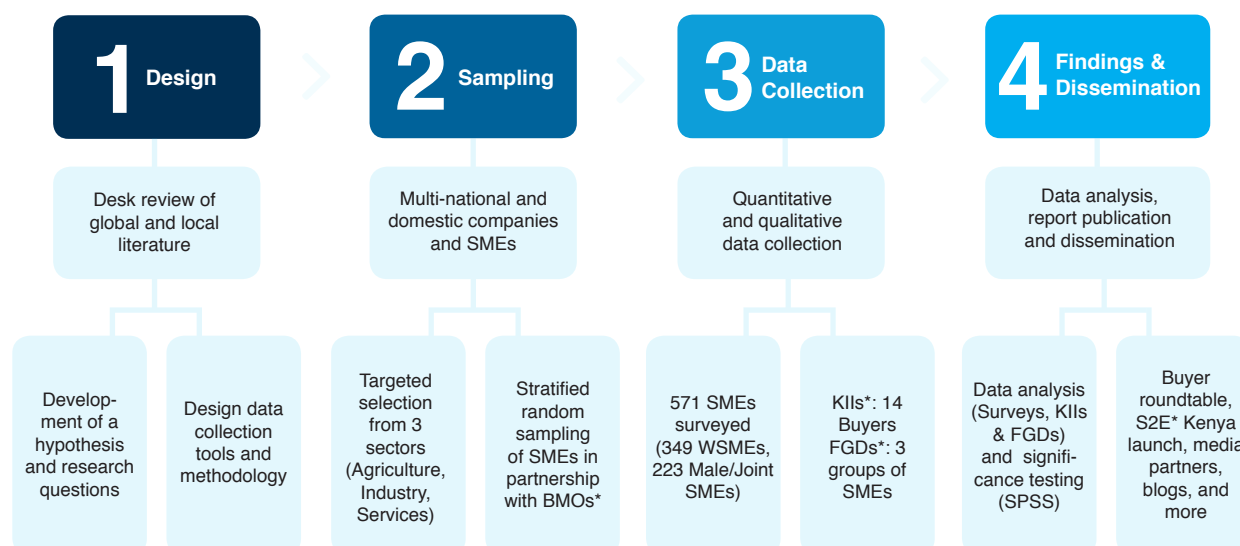
<sup>4</sup> "Safaricom Targets Up to 10% of High Value Women in Business by 2020."



## 1.1 Methodology

Data from SMEs and Buyers were collected through surveys, focus group discussions, and interviews. This combination of both qualitative and quantitative data collection and analysis, was conducted in four stages, as shown in Figure 1.

**Figure 1: Methodology: Mixed-Methods Approach**



\*BMO: Business Member Organization; KII: Key informant interviews; FGD: Focus group discussion, S2E: Sourcing2Equal





## 1.2 Corporate Buyers

The corporate Buyers who were interviewed for this study work for 14 companies that source goods and services within Kenya. Collectively, these companies employ over 17,000 individuals, and they operate in Kenya's key sectors: Agribusiness and Agro-processing (5 interviewees), Manufacturing (1 interviewee), Construction (2 interviewees), Fast-moving consumer goods (2 interviewees), Extractives (2 interviewees), Telecommunications (1 interviewee), and Packaging (1 interviewee). The 14 companies were selected based on these factors: i) it procures goods and services from SMEs in Kenya, ii) its sector contributes significantly to Kenya's GDP, iii) it is committed to diversity and inclusion or wider sustainability goals, iv) it is a member of the Invest in Africa network,<sup>5</sup> and iv) it expressed interest and willingness to participate in the confidential interviews. Approximately 30 companies were identified, and ultimately, Buyers from 14 participated in the study.



## 1.3 SME Respondent Demographics

A total of 571 SMEs participated in this study. All of the SMEs in the sample are formally registered businesses.<sup>6</sup> Of these, 61 percent (349 businesses) were identified as WSMes, based on the International Finance Corporation's definition—that at least 51 percent of the business is owned by a woman or women.<sup>7</sup> An additional 39 percent of the SMEs (222) were jointly owned (50:50) by a woman or women and a man or men; or a man or men owned 51 percent of the business. Throughout this report, jointly owned and Male-owned SMEs are designated as Male/Joint SMEs.

The study defined an SME by the number of employees, using the recognized definitions of: i) IFC, ii) the Women's Entrepreneurs Finance Initiative (We-Fi),<sup>8</sup> and iii) Kenya's national definition. Based on the We-Fi definition, 78 percent of the firms surveyed are WSMes, with five or more employees, and this was the case with 69 percent of the Male/Joint SMEs. The analyses throughout this report utilized the We-Fi definition, which defines an SME as having five or more employees, because there was not a statistically significant difference in findings when comparing results between the varying definitions.<sup>9</sup> For further details, see the Annex on Definitions.

The sample of SMEs was derived by combining the databases of a locally operated business development service (BDS) and business management organisations (BMOs) in Kenya.<sup>10</sup> These were the Association of Women Entrepreneurs Programme (AWEP), the Association of Women in Extractives Kenya (AWEK), Invest in Africa (IIA), Mennonite Economic Development Associates (MEDA), the Organisation of Women in Trade (OWIT), Women in Business Kenya (WIB). Using the combined database, 900 SMEs were randomly selected, and WSMes and Male/Joint SMEs were stratified by: i) the gender of ownership, and ii) the primary sector of operation, which aimed for proportions that reflect Kenya's national distribution across three broad sector categories: Agribusiness, Industry, and Services. Table 1 provides the list of subsectors for each of these categories, and how the sample compares with national distribution.

<sup>5</sup> As noted in the Acknowledgements, Invest in Africa collaborated with IFC on this study. Invest in Africa is a group of private companies, public bodies, and donor organizations that support local African businesses by improving their access to markets, skills, and finance. For more information, see Invest in Africa <https://investin africa.com/>

<sup>6</sup> The formally registered SMEs comprised: Limited liability companies – 56.4 percent (321), Sole proprietors – 25.5 percent (145), Limited liability partnerships – 2.6 percent (15), and Partnerships – 14.6 percent (83). The remaining 1 percent of the survey respondents were non-profits, membership organizations/societies, and foreign registered companies.

<sup>7</sup> IFC. 2021. "Definitions of Targeted Sectors".

<sup>8</sup> The Women Entrepreneurs Finance Initiative (We-Fi) is a collaborative partnership comprised of 14 governments that have made financial contributions, six multilateral development banks that serve as implementing partners, and other public and private stakeholders. We-Fi invests in programs and projects that help unlock billions of dollars in financing to address the full range of barriers facing women entrepreneurs—increasing access to finance, markets, technology, and mentoring, while strengthening policy, legal, and regulatory frameworks. The Sourcing2Equal Program is part of IFC's We-Fi Program. For more information, visit [www.we-fi.org](http://www.we-fi.org).

<sup>9</sup> Comparison of the findings were analyzed for businesses with fewer than five employees (micro), greater than five employees (very small), and greater than 10 employees (small and medium enterprise). The analysis throughout this report takes into account the data from the full sample of firms surveyed, including those with fewer than five employees. However the sample is referred to as SMEs because there was not a statistically significant difference in the findings when microenterprises were included, and these comprised less than 25 percent of the sample.

<sup>10</sup> BDS (Business Development Services) provide non-financial services, such as training, mentoring, advice to entrepreneurs at various stages of business growth. BMOs (Business Membership Organizations) bring together members that have a unifying objective, and they provide business support services, and a "voice" for members.

Similar to their national representation, the largest share of SMEs in the sample are those in the Services sector. Notably, there are more SME survey respondents in the Industry sector, compared to Industry's national representation. For example, Construction has more than double the amount of that sector's representation, nationally. This may be due to the concerted efforts of the partnering BDS and BMOs to increase procurement from SMEs, and particularly from WSMEs in the Construction sector. It is important to note that because all of the surveys were conducted with SMEs drawn from the databases of the organizations listed above, rather than from a national census dataset, the results of this study are not representative of the whole SME population.

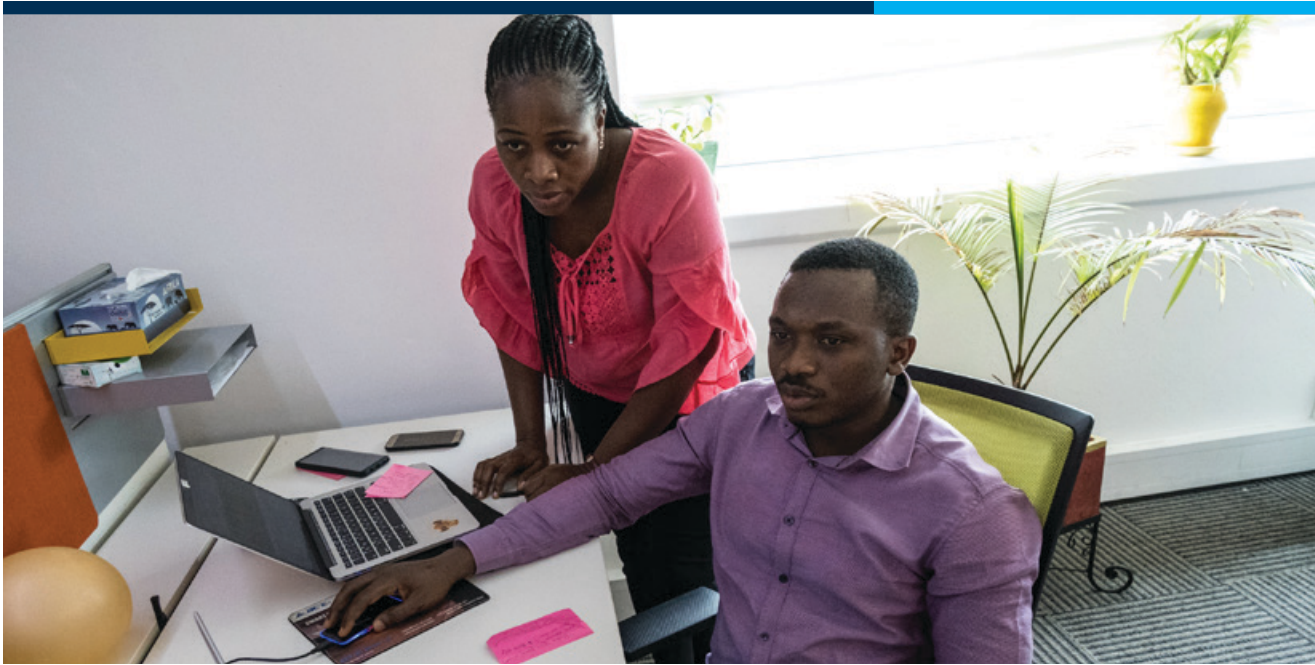
When compared by the gender of ownership, overall, there are no significant differences in the representation of WSMEs and Male/Joint SMEs across the three broad sector classifications. However, when comparing subsectors, there are more WSMEs in agriculture, agro-processing, business services, medical/pharmaceuticals, travel and tourism, and hospitality and catering. Conversely, there are more Male/Joint SMEs in construction and media/communication services.

Almost 70 percent of the SME survey respondents operate in urban areas. This is true for both WSMEs and Male/Joint SMEs. Also, more than half of WSMEs operate in more than one county in Kenya, and approximately 13 percent have operations in one or more countries in Europe, the United States, and West, East, and Southern Africa. This is important to note as exporting businesses tend to earn more, pay more, employ more people, and be more productive than firms that only operate domestically.<sup>11</sup>

**Table 1: Sector Classification and Sample Distribution**

Sector Category and Sub-Sector	National Distribution	SME N=571	WSME n=349	Male/Joint SME n=222
<b>Agriculture</b>	34%	35.9%	128 (37%)	77 (35%)
Agriculture & Agribusiness	34%	35.9%	128 (36.7%)	77 (35%)
<b>Industry</b>	16%	20.5%	71 (20%)	46 (21%)
Manufacturing		2.1%	10 (2.9%)	2 (0.9%)
Agro-processing	11%	6.1%	27 (7.7%)	8 (3.6%)
Construction	4%	8.9%	21 (6%)	30 (13.5%)
Transport & Infrastructure				
Extractives, Oil & Gas	1%	3.3%	13 (3.7%)	6 (2.7%)
<b>Services</b>	43%		150 (43%)	99 (45%)
Hospitality (Food and beverage) & catering (restaurants)	5%	3.7%	16 (4.6%)	5 (2.3%)
Wholesale, retail, trade, mechanical repairs	20%	3.9%	13 (3.7%)	9 (4.1%)
Tourism & tour operators	9%	2.9%	11 (3.2%)	4 (1.8%)
Media and communications, Marketing		7.4%	19 (5.4%)	24 (10.8%)
Medical, Health, Pharmaceuticals		2.3%	12 (3.4%)	1 (0.5%)
Business, Consulting, Education, Financial, Legal	9%	17.5%	56 (16%)	44 (19.9%)
Office support: business services, printing, cleaning		2.8%	12 (3.4%)	4 (1.8%)
Other - e.g. hairdressers, beauty, spa, etc.		3.3%	11 (3.2%)	8 (3.6%)

<sup>11</sup> ITC. 2015. "Unlocking Markets for Women to Trade".



## 2. Gender-Inclusive Sourcing Practices in Kenya

As noted above, in 2015, the Kenyan government introduced a policy to support WSMEs' greater access to government procurement opportunities. The policy also stipulates that 30 percent of the value of all government procurement contracts should be awarded to micro, small, and medium-sized businesses that are owned by women, persons with disabilities, and/or youth.<sup>12</sup> Several services have been introduced and expanded in Kenya to support progress toward this target. These include the establishment of a certification body to verify that businesses are owned by the disadvantaged groups articulated in the policy. For example, the Access to Government Procurement Opportunities Program (AGPO)<sup>13</sup> certifies SMEs as women-owned if the business can demonstrate at least 70 percent female ownership, and that the majority of the business' leaders are female.<sup>14</sup> This builds on an already thriving ecosystem of support services for SMEs in Kenya that range from business management training to targeted mentoring and coaching services for WSMEs, and tools such as digital platforms that list procurement tenders for SMEs. Additionally, many financial institutions have lending commitments to increase financing for women-owned and led businesses. For example, Stanbic Bank Kenya launched its Dare to Aspire, Dare to Achieve (DADA) value proposition in 2018 that provides women with customized financial and non-financial services, which can help them to grow their business (see Box 1: Private Sector Solutions Supporting WSMEs in Kenya).

<sup>12</sup> Government of Kenya. 2016. "Kenya Public Procurement and Asset Disposal Act No33 of 2015, Revised Edition 2016".

<sup>13</sup> Government of Kenya. 2015. "Access to Government Procurement Opportunities (AGPO)".

<sup>14</sup> This is a departure from the global definition for a women-owned business, which is 51% ownership.

### Safaricom

In line with the United Nations Sustainable Development Goals (SDGs), Safaricom launched its Women in Business (WIB) program in March 2017. Safaricom recognizes the significant impact that empowering women-owned businesses could have on society, and in reducing inequalities. As part of the WIB program, the company set an ambitious target of spending 10 percent of its total procurement to women-owned businesses. The WIB program focuses on supplier development, building the capacity of companies, and enabling them to eventually bid directly with Safaricom as Tier 1 suppliers. The program also enables women-owned businesses to participate in subcontracting opportunities with Tier 1 non-diverse suppliers, as well as with peer organizations. In the first year of the program (2018), Safaricom increased the number of women-owned businesses receiving business from the company from 17 to 46, and in the second year (2019), this number rose to 65. Moreover, the number of WIBs that are pre-qualified for bidding on future contracts has grown from 27 to 230, and this cuts across various procurement categories, including technology, consultancy, information technology, and corporate and commercial services. Safaricom continues to focus on capacity development through its dedicated supplier development program for WSMEs, promotion of its network through the mentorship program, as well as partnerships with financial institutions that provide women suppliers with financing. The company hosts an annual WIB event for women entrepreneurs and collaborates with thought partners in supplier diversity forums. Safaricom continues to increase its list of pre-qualified women-owned businesses so that when a specific need arises, they can be invited to tender as they are already prequalified.

**Source:** Safaricom. 2020. "[2020 Sustainable Business Report](#)."

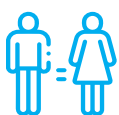
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### Stanbic Bank Kenya

Stanbic Bank Kenya is committed to empowering women in line with SDG 5 on Gender Equality. One of the ways the bank does this is by ensuring that it has a highly competent group of female staff. Currently (2021), the bank has a female/male ratio of 49 versus 51 percent. The bank focuses on gender inclusion and investing in women through the Dare to Aspire, Dare to Achieve (DADA) platform that aims to play a key role in women's holistic development and growth, and positively impact the lives of Kenyan women and their communities. As an inclusive platform, DADA provides financial and non-financial services for women to help them to launch and grow their business. The non-financial benefits include such as education, information, networking, rewards, and wellness activities. To date, Stanbic Bank Kenya has committed Kenyan shillings (Kshs) 20 billion (approximately \$185 million) to DADA to finance women, and more than 10,000 women are using the platform.

**Source:** Stanbic Bank Kenya. 2019. "[Stanbic Bank Kenya launch their sustainability report](#)."





## 2.1 Buyer Demand for Gender-inclusive Sourcing

As indicated above, 14 Buyers were interviewed to understand the current landscape of gender-inclusive sourcing in Kenya, and its relevance to their company's procurement needs. All Buyers reported that they were taking action to increase the participation of WSMEs<sup>15</sup> in their supply chain. Company efforts in this regard range from formal dedicated programs to the informal day-to-day actions of individuals who are committed to women's empowerment.

**Four of the Buyers interviewed were able to roughly estimate that WSMEs receive about 3 percent of their company's volume of direct purchasing, and that WSMEs are represented primarily in low-value procurement categories.**<sup>16</sup> This is a slightly higher percentage than the global estimate of 1 percent for both public and sector procurement from WSMEs.<sup>17</sup> Nevertheless, the figure is quite low, and Buyers expressed a sense of urgency to do more to increase the volume of purchasing from WSMEs.<sup>18</sup> Buyers that could not give an estimate stated that the contracts that do go to WSMEs tend to be for small, low-value tenders, which is consistent with global research.<sup>19</sup> The challenge in estimating the volume of procurement purchasing from WSMEs is, in part, because few companies have established an internal business case for supplier diversity, including gender-inclusive sourcing. Also, most companies do not collect sex-disaggregated data on their suppliers so that they cannot determine how many are women-owned and led. These factors make it challenging for Buyers to determine the amount of purchasing from WSME suppliers across their company's procurement categories. Moreover, Buyers are not yet able to set WSME procurement targets, they are unable to track and monitor progress, nor can they estimate the associated costs of their efforts to include WSMEs in company tenders.

<sup>15</sup> For the purposes of this report, insights gathered from Buyer interviews refer to women-owned and led enterprises as WSMEs. However, Buyers are not tracking data specific to WSMEs, and when they referred to women suppliers in their interviews, they were most likely SMEs, but this was not verified with data.

<sup>16</sup> The numbers quoted in this study are estimates informed by responses from four corporate Buyers.

<sup>17</sup> Although low, this is slightly higher than global observations, which range from 1 to 2 percent. Ernst & Young. 2009. "Scaling up. Why women-owned businesses can recharge the global economy"; and Vasquez and Frankle. 2017. "The Business Case for Global Supplier Diversity and Inclusion: The Critical Contributions of Women and Other Underutilized Suppliers to Corporate Value Chains".

<sup>18</sup> IFC. 2021d. "IFC Sourcing2Equal Kenya Corporate Roundtable Takeaways". January 2021. Internal document, available on request.

<sup>19</sup> ITC. 2015. "Unlocking Markets for Women in Trade."

**Of the 14 Buyers interviewed, only 3 confirmed that they track data on WSME suppliers and other disadvantaged groups.** Notably, one of these companies highlighted they do this tracking because they are a supplier to a multi-national corporation that requires data on supplier diversity. Of the other Buyers interviewed though, only one has a corporate-wide commitment and a dedicated program with resources (i.e. budget and staff) to increase procurement from WSMEs as a means of advancing gender equality in their supply chains. Nevertheless, the lack of a formal dedicated program does not mean that some of the Buyers interviewed are not taking action. Several Buyers stated that they are keen to see more WSMEs among their suppliers, and they have been informally taking steps to achieve this. For example, some Buyers stated that they are providing ad-hoc technical assistance to WSMEs to enable them to bid on tenders. This includes advice on how to market products, and feedback on why the WSME may not meet quality standards. Additionally, some Buyers stated that they are finding work-arounds such as reducing the size of contracts so that WSMEs can “get in the door”.

**Promisingly, this study’s interviews suggest that Buyers are increasingly committed to supplier diversity, including gender-inclusive sourcing.** While it has been documented in studies that a diverse supplier base provides several business benefits such as lower procurement costs, lower risk of disruptions in supply chains, greater brand recognition, and greater innovation, this business case (See Box 2) is not well known to most Buyers, and does not appear to be driving them to procure goods and services from WSMEs. Instead, Buyer interviewees suggested that their motivation is driven by their company’s commitment to adhere to sustainability standards that include gender equality; and/or that their company has been influenced by the Government of Kenya’s policy to award 30 percent of public procurement contracts to micro, small, and medium-sized businesses that are owned by women, persons with disabilities, and/or youth.

**The pandemic has revealed the importance of Buyers building diverse supply chains to mitigate the operational risk of dependency on a few suppliers.**<sup>20</sup> Many SMEs in Kenya have seen their incomes decline significantly because of COVID-19. According to a Central Bank of Kenya survey conducted in April 2020, due to their limited emergency reserves, about 75 percent of Kenya’s micro, small and medium enterprises were at risk of collapse.<sup>21</sup> An IFC study conducted in Sub-Saharan Africa in 2020 examined the ongoing effects of the pandemic and found that WSMEs lost over 50 percent of their revenue, which was a much greater decline than was the case with their male counterparts. Also, women were more likely to state that they cannot continue their business activities.<sup>22</sup> Supply shocks experienced during the pandemic, and the resulting absence of substitute suppliers, has contributed to severe business disruptions. **Thus, there is an opportunity for Buyers to minimize exposure to such shocks by diversifying their supplier base, and expanding opportunities for WSMEs.**<sup>23</sup>

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<sup>20</sup> Kipnis and Rana. 2020. “COVID-19 and Gender Equality: Six Actions for the Private Sector”.

<sup>21</sup> IFC. 2020. “KENYA: Supporting small businesses to withstand the shock of COVID-19”.

<sup>22</sup> IFC. 2021a. “COVID-19 and Women-led MSMEs In Sub-Saharan Africa: Examining the Impact, Responses, and Solutions”. Forty-five percent of W-MSME respondents versus 35 percent of M-MSMEs reported that they had lost 50 to 90 percent of their revenue. Seven percent of W-MSME respondents versus 4 percent of M-MSMEs reported that they had lost over 90 percent of their revenues.

<sup>23</sup> Lund et al. 2020. “Risk, resilience, and rebalancing in global value chains”.

There are several commercial benefits and value creation opportunities for Buyers that pursue supplier diversity and inclusion.

**GREATER RETURN ON PROCUREMENT INVESTMENTS.** Companies that prioritize supplier diversity have a 133 percent greater return on procurement investments, and spend 20 percent less on their buying operations.<sup>24</sup> Buyers interviewed in this study found that diversifying their supplier base increased competition, and led to better pricing.

**LOWER RISK.** Increasing the number of diverse suppliers enhances supplier availability and security.<sup>25</sup> A diverse supplier base can mitigate the potential operational risk of being too dependent on a few suppliers. This is especially so when facing a demand shock such as the COVID-19 pandemic, a natural disaster, or an economic downturn. This also allows companies to procure small orders, specialized products, or critical services more quickly.<sup>26</sup>

**BETTER QUALITY.** Increasing the pool of potential suppliers or improving the capacity of existing suppliers through supplier development programs promotes competition among suppliers, which can improve product quality and drive down costs.<sup>27</sup>

**GREATER INNOVATION.** Supplier diversity improves a Buyer's ability to innovate and better respond to customers' needs.<sup>28</sup> Innovation often comes from small businesses, and incorporating these in the supply chain becomes a critical factor for companies in bringing new solutions to their procurement needs. Diverse suppliers can reflect diverse customers' needs and views, and can introduce new products, services, and solutions.<sup>29</sup> Innovation can also be increased by simply improving communication with suppliers.

**GREATER BRAND RECOGNITION.** Inclusive procurement policies enhance a company's reputation and brand awareness among internal and external stakeholders, including employees, clients, shareholders, and the community, and inclusiveness also enhances customer loyalty.<sup>30</sup> One of the interviewed Buyers mentioned that being recognized as a company that supports diversity significantly increased their brand's reputation, and improved their connections with the community. Another Buyer mentioned that engaging with a WSME public relations agency led to more creative company messaging, which subsequently enhanced the brand's reputation.

<sup>24</sup> The Hackett Group. 2006. "Supplier Diversity Performance Study". Cited in Chin. 2017. "The Power of Procurement: How to Source from Women Owned Businesses: A Corporate Guide to Gender-Responsive Procurement".

<sup>25</sup> Chin. 2017. Ibid.

<sup>26</sup> Bateman, Barrington, and Date. 2020. "Why You Need a Supplier Diversity Program"; Suarez. 2019. "Supplier Diversity: A Competitive Advantage? You Bet".

<sup>27</sup> IFC. 2015. "Putting Gender Smart Commitments into Practice"; Bateman, Barrington, and Date. 2020. Ibid; Suarez. 2019. Ibid.

<sup>28</sup> IBM. 2021. "Supplier Diversity: A diverse supplier base is integral to company profitability and strategic objectives".

<sup>29</sup> Shah, Ward, and Picari. 2019. "Supplier Diversity: Unlocking Innovation, Driving Competitiveness and Enhancing Reputation".

<sup>30</sup> Chin. 2017. "The Power of Procurement. How to Source From Women-Owned Businesses"; and Vasquez and Frankle. 2017. "The Business Case for Global Supplier Diversity and Inclusion: The Critical Contributions of Women and Other Underutilized Suppliers to Corporate Value Chains".



## 2.2 Types of Buyer Procurement from SME Suppliers

Buyer interviews provided insights on the types of goods and services they are sourcing from WSMEs. Overall, WSMEs are largely found in lower procurement value categories, where the quantities purchased are too small to make an impact on procurement spending, or the costs of the type of procurement (for example, corporate services and personal services such as a health club, gym, catering, and business support services such as bulk printing, marketing materials, signage, cleaning services) are low in relationship to other Buyer procurement needs (e.g. cabling, construction, logistics and distribution – see Table 2). In sectors such as agro-processing where WSMEs are prevalent as both direct and subcontracted suppliers, Buyers stated that WSMEs are able to contribute significantly as suppliers of raw materials. Notably, among Buyers purchasing from the agro-processing sector, most of their purchasing volume is from local businesses, which means that this sector has a higher potential of procuring goods and services from SMEs, including WSMEs, versus other sectors such as corporate services.

The majority of Tier 1 WSME suppliers are delivering some type of corporate service. Not only do these tend to be low-value contracts, they are the most vulnerable type of contracts for WSMEs as Buyers reported that they have cancelled these contracts during the pandemic. This presents a challenge for Buyers in their efforts to increase gender-inclusive sourcing. The Buyers interviewed for this study suggested that offering a first contract to a WSME can require lowering contract sizes to support “getting women in the door”; however, this does not have a large impact on the volume of procurement purchases. Alternatively, Buyers are starting to explore other solutions to increase the volume of procurement from WSMEs by (i) targeting supplier outreach support to WSMEs that are breaking into higher value, male-dominated sectors such as construction and extractives; and (ii) supporting WSMEs, which as a result of COVID-19, are changing their business to services such as transport and distribution.



**Table 2: Examples of Goods and Services Purchases from SMEs in Kenya in Selected Sectors**

 <p><b>Manufacturing</b></p>	<ul style="list-style-type: none"> <li>• Corporate services: business supplies, catering, general business support services, event management, local transport, information and communications technology (ICT), marketing and media, office cleaning, stationery, and food deliveries</li> <li>• Packaging</li> <li>• Personal protective equipment</li> </ul>
 <p><b>Food Manufacturing Agroprocessing</b></p>	<ul style="list-style-type: none"> <li>• Corporate services: branding, design, and marketing</li> <li>• Packaging</li> <li>• Raw materials sourced from horticulture, raising livestock, or growing vegetables to make products such as cosmetics, teas, herbs, spices, vegetable produce, dairy, and meats</li> </ul>
 <p><b>Infrastructure</b> (Telecom, Energy and Extractives)</p>	<ul style="list-style-type: none"> <li>• Corporate services: business supplies, catering, general business support services, event management, local transport, information and communications technology (ICT), marketing and media, office cleaning, stationery, and food deliveries</li> <li>• Quality parts sourced from original equipment manufacturers (OEM) e.g. cabling</li> <li>• Steel/metal: Scrap that is cleaned, melted, and used to make different products</li> <li>• Other Services: Logistics and distribution, cabling, and construction</li> </ul>



## 2.3 Buyer Challenges and Approaches to Procuring from WSMEs

### Five Main Challenges

**1. Limited information on best practices for gender-inclusive sourcing.** Buyers stated that they have little access to information on regional and local best practices for gender-inclusive sourcing. Although several Buyers in Kenya are making efforts to increase sourcing from WSMEs, no information is publicly available on what steps companies have taken, and what is effective in Kenya or the East African Region. Literature on corporate best practices is limited, and has mainly focused on developed markets and large multi-national corporations (see Box 3).

Successful supplier diversity policies and programs, including those focused on WSMEs, implement six common practices:<sup>31</sup>

#### 1. SECURE MANAGEMENT SUPPORT AND COMMITMENT TO SOURCE FROM WOMEN-OWNED BUSINESSES

Companies with successful gender-inclusive sourcing policies and practices have their leaders' support and commitment to source from WSMEs. The commitment and support of a chief executive officer and senior managers should be the first step toward developing a sustainable program, otherwise it can be very difficult to convey the call to action on inclusivity throughout the company, or influence actions that contribute to gender-inclusive sourcing.

#### 2. MAP THE SUPPLIER BASE AND SET SMART GOALS AND TARGETS

Supplier base mapping is the process of sex-disaggregating data on suppliers to establish a baseline and target for gender-inclusive sourcing. This includes identifying the share of suppliers that are women-owned, the share of spending allocated to WSMEs, overall, and also WSMEs' by procurement category. Targets and goals need to be SMART (Specific, Measurable, Attainable, Relevant, and Time-bound), and resources (human and economic) should be allocated to record, monitor, and evaluate performance on an ongoing basis.

#### 3. BUILD INTERNAL AWARENESS AND CAPACITY OF STAFF

Internal awareness and capacity building will help employees to better understand the purpose and benefits of a gender-inclusive sourcing program and its activities, and enable employees to align their individual goals to the program, whenever possible. As a result of internal awareness and capacity building activities, some staff may show interest in actively supporting the initiative. These staff can then be appointed as supplier diversity champions or leads across the business.

#### 4. CONDUCT SUPPLIER OUTREACH AND MARKET ASSESSMENTS

Many Buyers have successfully increased the number of their diverse suppliers by conducting supplier market assessments and outreach activities such as information sessions on procurement processes, and promoting opportunities to potential WSME suppliers. The aim of these sessions is to overcome WSMEs' limited access to information and Buyer networks. Participation in supplier/buyer matchmaking sessions is also a well-established way for Buyers to meet potentially eligible WSME suppliers.

<sup>31</sup> These practices have been collected from IFC desk research and roundtable discussion in the Andean Region, Bangladesh, India, and South Africa. (IFC. 2021b. "COVID-19 Response: Corporate Strategies for Supporting Small and Medium Enterprise Suppliers in the Andean Region"; IFC. 2021e. "Learning Brief: Key Steps to Increase Gender-Inclusive Sourcing Among Corporations in Bangladesh"; IFC. 2021. "Strategies to Increase Access to Markets for Women Entrepreneurs in India"; IFC. 2019. "Strategies to Increase Access to Markets for Women-owned Small and Medium-sized Enterprises in South Africa"). Additionally, publications on supplier diversity have informed this list of best practices from organizations and companies that work in this space such as WEConnect International, UN Women, CVM, Minority Supplier Development UK, Diversity Best Practices, The Chartered Institute of Procurement and Supply, The Hackett Group, Ernst & Young, IBM, and Intel.

## 5. ENHANCE SUPPLIERS' PERFORMANCE THROUGH DEVELOPMENT PROGRAMS

Supplier development is the process of supporting suppliers in developing a new capability or competency that benefits both the Buyer and suppliers. Buyers can achieve a competitive advantage by promoting innovation, reducing costs, improving quality, and better aligning suppliers with company needs. Supplier development includes enhancing suppliers' capacity through training, mentoring, access to information, access to networks, access to capital, and so on. Any large company that encourages diversity in its supply chain should consider the provision of such support, either directly or through partnerships with SME capacity-building organizations.

## 6. TRACK PROCUREMENT FROM TIER 2 SUPPLIERS

Tier 2 tracking is an essential best practice for a mature supplier diversity program.<sup>32</sup> Greater tracking of Tier 2 procurement will improve progress toward a Buyer's commitment to supplier diversity, and it provides additional opportunities to communicate information internally and externally on supplier diversity efforts.<sup>33</sup> Buyers can also encourage and support their Tier I suppliers in engaging more WSMEs in their supply chains.

**2. Limited understanding of the financial and non-financial needs of WSMEs and how to consider these with regard to procurement eligibility requirements.** In their interviews, Buyers demonstrated that they are aware of the financial and non-financial challenges that WSMEs face in participating in corporate procurement processes; however, most information on this was anecdotal, and not based on suppliers' data. Moreover, there is a perception that WSME suppliers have less capacity to meet delivery requirements due to their limited access to capital, and quality control issues with their Tier 2 suppliers. Almost all Buyers mentioned access to finance as the main challenge that WSMEs face, however, only one Buyer mentioned access to information and networks as a constraint, which was one of the top three barriers identified by the SME respondents in this study. A few Buyers mentioned that they do not perceive WSMEs as having different challenges from their male counterparts. Even if some of the challenges were known by most of the Buyers interviewed, only a few had implemented measures dedicated to make procurement opportunities more accessible to WSMEs.

**3. Difficulties in identifying eligible WSME suppliers that can meet procurement needs and comply with Buyers' qualification requirements.** Buyer interviewees confirmed that WSMEs tend to be unable to meet the standards and certifications required to be eligible to bid on tenders. Buyers also revealed that identifying WSMEs that meet procurement needs is one of the main challenges they face in increasing gender-inclusive sourcing. Sourcing from WSMEs is even more difficult in male-dominated sectors such as manufacturing, but easier to achieve in sectors that are dominated by women such as services, which includes advertising, cleaning, marketing, and others. Little information is publicly available on the Kenyan WSMEs that could be eligible for tenders. Compounding this challenge in finding suitable WSME suppliers is the fact that procurement teams are not aware yet of how they could collaborate with, and leverage the BDS and BMOs that could provide support.

**4. Standard corporate procurement policies and procedures that have been set up to manage risk and reduce costs unintentionally deter WSMEs.** Buyers apply procurement policies and procedures that tend to favor large or existing suppliers, marginalizing WSMEs. For example, when offering tenders, given the amount of information and time it takes to collect

<sup>32</sup> Hill. 2019. "Boost MWBE Spend through Tier 2 Diversity Initiatives".

<sup>33</sup> Diversity Best Practices. 2016. "Member Poll: Supplier Diversity Best Practices".



and verify new suppliers' information, Buyers tend to prefer their existing suppliers. This practice was highlighted in the Buyer interviews when three out of 14 Buyers said that they tend to work with, and prefer to use the same suppliers, as the cost of assessing the capabilities of new suppliers and conducting due diligence is very high.

In addition to limited information on tender opportunities, lack of transparency about procurement policies and procedures makes it difficult for new suppliers to determine if they meet the qualifications. Four of the Buyers interviewed stated that they mainly use closed tenders with existing suppliers. Another three Buyers stated that they do not have a standard process for communicating tender opportunities. Given that access to information is one of the main barriers for WSMEs becoming suppliers, the wide distribution and/or publication of opportunities in channels that specifically target or serve WSMEs (e.g. digital media, local press, WSME support organizations, and so on) is key to enabling WSMEs to submit bids. Regarding advertising tenders, only one Buyer has an online procurement portal where tenders are listed. Although it is common practice for companies to use specialized third party online tender portals, newspapers, and online classifieds to advertise tenders, these methods of advertising are mainly used for high value contracts.

**5. Buyers rarely have standard pre-qualification processes that are publicly available, which inhibits potentially eligible WSMEs from participating in tenders.** Pre-qualification is the process that Buyers use to identify and approve potential suppliers in a specific procurement category. The objective of pre-qualification is to ensure that the invited bidders meet key criteria (for example, they are formally registered companies and they pay taxes), and they meet the minimum quality and capacity requirements to fulfill the contract in a satisfactory manner. Pre-qualification also provides Buyers with a readily accessible pool of potential suppliers that can quickly be engaged when needs arise. Fewer than half of the Buyers interviewed confirmed that they have a process to pre-qualify suppliers, and that they use this on a regular basis. However, of those Buyers that do pre-qualification, only a few were able to describe the process, which suggests that most Buyers do not have standard written procedures that are well known, internally, and can be easily found, externally. This makes it difficult for WSMEs to find out how to qualify as a prospective supplier. Of the 14 Buyers interviewed, only two had information published on their website regarding their pre-qualification process and requirements. The few Buyers that were able to provide more details explained that pre-qualification comprises a questionnaire or a checklist that prospective suppliers need to complete and submit, along with documentation to support their application. See Box 4 for the types of documents that Buyers commonly request in the pre-qualification process.



**Company profile:** contact details, structure, tax registration number, value-added tax (VAT) registration number, business license, articles of association, information on all the directors and partners (which may include their identity cards or passports, and personal identification numbers), Company Registration (CR12), copies of utility bills, and so on. This information is reviewed to ensure that the potential supplier is operating legally, and that its directors and partners are not engaged in activities that could pose a reputational risk for the Buyer. During interviews for this study, two Buyers mentioned that some small businesses that apply for pre-qualification are not registered businesses, and consequently the Buyer cannot contract with them.

**Experience and references:** past experiences and reference letters with contact details. Some Buyers emphasized that they always check references to find out whether the referees were satisfied with the supplier. These Buyers said that references carry a great deal of weight in supplier selection since they indicate whether the supplier is reliable. This requirement for references is a barrier for non-suppliers (those businesses that do not have a direct or subcontracting relationship to a Buyer). In fact, in this study's survey, the number of WSMs that were non-suppliers was greater than the number of Male/Joint SMEs, which suggests that is harder for WSMs to secure that first contract.

**Financial information:** latest audited financial accounts; bank account statements, stamped and signed by the bank; trade references, stamped and signed by references. All Buyers ask for financial information from prospective suppliers as this is a key area that indicates financial capacity to deliver. A couple of Buyers mentioned that sometimes prospective suppliers submit fake accounts, which inflate their earnings to demonstrate greater capacity.

**Quality, health, and environmental certificates** such as those from the Kenya Bureau of Standards, Department of Health and Safety, and so on, which vary with the type of goods/services being sought. Corporates that procure food products also ask for samples of products which are analyzed in the Buyer's laboratory to check on quality. Sometimes prospective suppliers of agricultural products lack the equipment necessary to test their products for toxins, such as pesticides, which prevents their pre-qualification.

**Litigation history.** Some Buyers look at the litigation history of a potential supplier, and also check databases such as that of Dow Jones to identify suppliers that could be a potential risk.

Lastly, as part of pre-qualification, a Buyer will visit the offices of a potential supplier.

As a result of the COVID-19 pandemic, companies are assessing the efficiency of their internal business operations, with an emphasis on procurement. This assessment is crucial given the disruptions that COVID-19 has caused in corporate supply chains (for example, delays in shipping due to border closures and curfews/lockdowns, suppliers unable to source their raw materials from subcontractors, and so on).

Some of the Buyers interviewed mentioned that they carried out procurement risk assessments to mitigate issues such as delays in receiving supplies. These included supplier base mapping and market analysis to identify current sources of supply and existing alternatives; and assessments of inventory management to ensure that minimum supplies are in place so that delays will not affect production. Buyers that performed these internal assessments were able to identify areas to improve in their procurement processes, and **the assessments also raised awareness about the importance of having a diversified supplier base, and not relying on single source of supply**. These assessments revealed the benefits of leveraging technology to maintain regular communication with suppliers. Buyers also mentioned that price is often no longer the key factor in certain strategic procurement, as suppliers' quality, availability, and reliability have become more important.

Buyers agreed that COVID-19 has created the impetus to seek out, and develop more local sources of supply. SMEs are the main local suppliers for most of the companies included in this study, and comprised from 30 to 95 percent of their procurement. Buyers also mentioned several advantages of working with local SMEs versus large companies. These include: i) more flexibility and reliability in cases of emergency (SMEs are able to respond more quickly to changes in procurement needs); ii) faster decision making, as SMEs' managers are more approachable due to minimal hierarchy (for example, agreeing on contract terms and putting these in writing is faster and less tedious when working with an SME); iii) ability to adapt and innovate to fulfil very specific procurement needs; and iv) ability to provide a more customized service than is possible with a large company.

## Buyer Approaches to Source from WSMEs

Buyers were asked what measures they are taking to support existing and potential WSME suppliers. The approaches Buyers highlighted address the same capacity gaps that the SMEs surveyed in this study also identified as the key barriers to their securing and delivering on contracts. These approaches were:

**a. Helping WSME suppliers to access working capital.** All of the Buyers interviewed for this study indicated that they are aware that accessing working capital is a key challenge for WSMEs, and while most Buyers are taking steps to ease this challenge, more scalable and accessible solutions for WSMEs are needed. Some of the measures that Buyers have adopted to help WSMEs include loans (for example, for farmers to hire labor to harvest their products); guarantees; local purchase order financing; faster payment than is the case with big suppliers; advance payment (this was mentioned by Buyers in the agriculture sector); and giving a reference letter to a supplier so that their bank will provide financing.



**b. Building the capacity of an existing or potential WSME supplier so it meets the Buyer's requirements.** Measures undertaken by Buyers to ease capacity constraints include: i) providing training on business management skills, and assessing the quality and operational processes of WSMEs to identify inefficiencies and reduce production costs. Some of the training is specific for WSMEs, and is offered in partnership with women's support organizations. In addition to improving the capacity of WSMEs, training is also intended to increase the number of WSMEs in industries that are male dominated (e.g. manufacturing); ii) facilitating farmers' access to machinery and technology through programs financed by development organizations; iii) mentoring programs provided by successful WSMEs; and iv) regular communication with suppliers to ensure that they are updated on Buyers' expectations, lead times, and so on, so that Buyers can identify and work together with suppliers to overcome any issues that could delay the supply of products/services. One Buyer mentioned that they sometimes reduce the size of contracts to make them more manageable for WSMEs. Buyers also mentioned that once a WSME has proven itself with regard to delivering on quality, over time, the contract size can be increased. Helping WSMEs to overcome their quality constraints appears to be a major priority for Buyers that express interest in increasing their WSME suppliers.

**c. Facilitating WSMEs' awareness about tender opportunities and guiding them through the pre-qualification process.** The Buyers interviewed were less aware of the challenges that WSMEs face in accessing information about tenders from business networks. However, two Buyers have measures in place to support the pre-qualification of WSMEs, which include: i) recommendations about, and links to other companies that are able to provide business opportunities, ii) links with Tier 1 suppliers that are willing to subcontract to WSMEs, as well as build their capacity to take on bigger contracts, and iii) support to help WSMEs pre-qualify for the Buyer's database, including providing WSMEs with help in submitting the required documentation.



## 2.4 SME Participation in Kenyan Supply Chains

### Supplier Tiers

SMEs in the survey were asked to state their supplier status, and whether they are directly or indirectly supplying to corporate Buyers. Tier 1 suppliers supply directly to at least one Buyer. Tier 2 suppliers supply to other SMEs to help these Tier 1 suppliers to fulfil their orders for Buyers, but they do not supply Buyers directly. See Table 3 for a breakdown of supplier status by gender of ownership.

**Table 3: Supplier Status by Gender Ownership**

	Male/Joint SME	WSME	Total
<b>Total SMEs</b>	222	349	571
<b>Non Supplier</b>	28 (12.6%)	33 (9.5%)	61 (10.7%)
<b>Tier 1 (Direct)</b>	92 (41.4%)	111 (31.8%)	203 (35.6%)
<b>Tier 2 (Sub-contractor)</b>	101 (46%)	205 (59%)	307 (54%)
<b>Both Tier 1 and Tier 2</b>	85 (38.3%)	97 (27.8%)	182 (31.9%)



Of the total sample, 35.6 percent (203) of SMEs stated they have a Tier 1 supplier relationship with at least one Buyer. Of these, **9 percent fewer WSMEs have a direct supplier relationship with corporate Buyers than is the case for Male/Joint SMEs.**

SMEs that stated that they have a Tier 2 supplier relationship, comprise over half of the respondents. **WSMEs are more commonly subcontractors (i.e. Tier 2 suppliers) than is the case with Male/Joint SMEs.** Approximately 13 percent more WSMEs than Male/Joint SMEs are suppliers to Tier 1 SMEs.

Notably, the majority of Tier 1 suppliers (89 percent – 182 SMEs) also act as subcontractors, supplying products to other SMEs to help them fulfil their orders with corporate Buyers. This was similar for both WSMEs and Male/Joint SMEs, and this means that the **majority of SMEs that already have a direct relationship with a Buyer are also Tier 2 suppliers for other SMEs.**

These data suggest that a sizeable number of SMEs are selling goods and services “business to business”. Only 11 percent of SMEs (61 SMEs) reported not being a supplier. This also supports the hypothesis that WSMEs are operating in the lower tiers (Tier 2) of Buyers’ supply chains. This presents an opportunity for Buyers that are interested in demonstrating that their supply chain includes WSMEs. **Buyers can potentially reach more WSMEs by supporting their Tier 1 suppliers to increase their procurement from WSME subcontractors. Potentially, this would allow Buyers to demonstrate that they have a greater volume of purchasing from WSMEs.** Buyers that can, and do, track the volume of their procurement from WSMEs, typically only track direct purchases. Tracking procurement from Tier 2 suppliers, including WSMEs, requires more work, such as surveying Tier 1 suppliers to collect data on their Tier 2 suppliers, but provides a better picture of a Buyer’s efforts to achieve gender-inclusive sourcing throughout their supply chain. This can also enable Buyers to examine their supply chains in more depth, which should enable them to manage supply chain disruption more successfully (see Box 2).

**In addition, these data suggest that there already is a pool of WSME suppliers with the potential to supply Buyers directly.** This observation calls for greater attention to be given to strengthening the capacity of Tier 2 WSME suppliers so that they become eligible for direct contract opportunities with Buyers. Buyers, business management organizations, and other stakeholders in Kenya should follow global best practices (see Box 3), and target WSME suppliers with programs that develop their procurement readiness.

## Sectors of Operation

### Tier 1 Suppliers

The distribution of Tier 1 WSMEs and Male/Joint SMEs varies by sector, with more WSMEs serving as direct suppliers in agro-processing and services, and more Male/Joint SMEs serving as direct suppliers in agriculture and retail/wholesale/trade (see Figure 2).

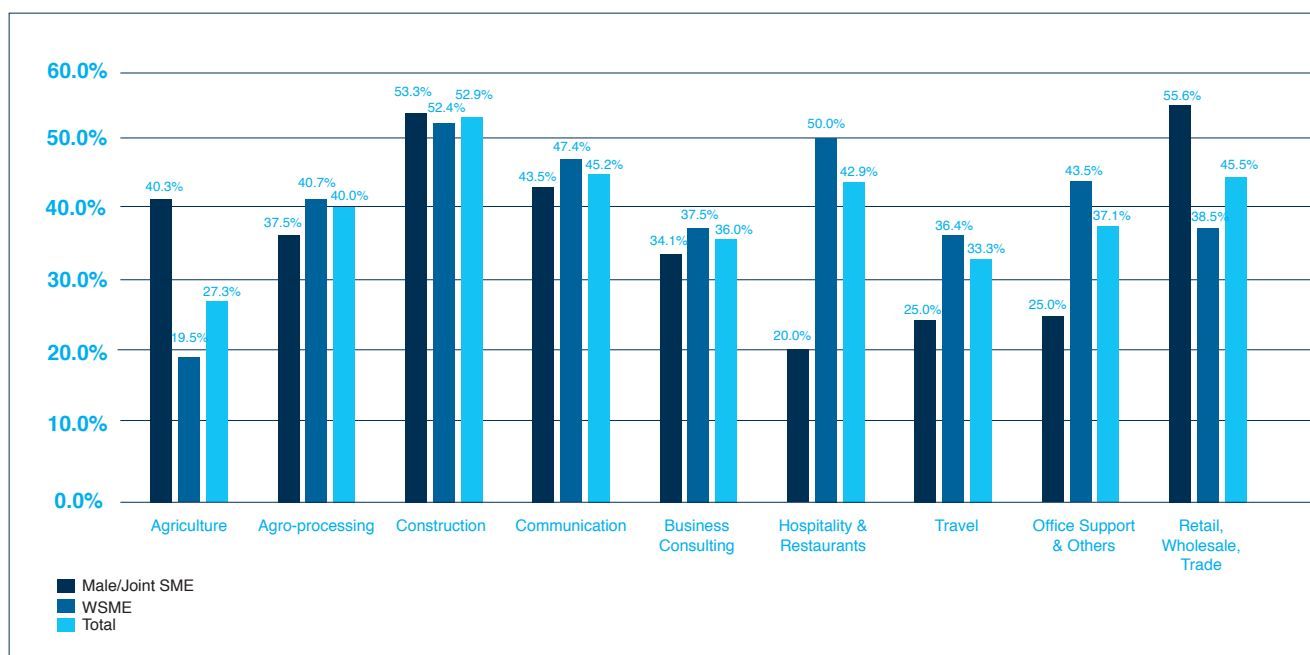
The sector with the largest gender gap is agriculture, where fewer than 20 percent of WSMEs stated that they are direct suppliers versus 40 percent of Male/Joint SMEs. This differs from agro-processing (see Table 2 for types of goods/services), where there is a greater percentage of WSMEs supplying directly to Buyers (approximately 41 percent), than is the case with Male/Joint SMEs (approximately 38 percent). In the services sector, businesses categorized as wholesale/trade/retail have a higher percentage of Male/Joint SMEs (55.6 percent) as Tier 1 suppliers versus 39 percent for WSMEs. Interviews

with Buyers indicated that their perception of WSMEs' participation differs from the SME survey's findings, whereby Buyers indicated that increasingly more WSMEs are participating in the services sector as Tier 1 suppliers, but only after they have been awarded their first contract.

In the restaurant and hospitality sectors, WSMEs are significant participants, with 50 percent participating as Tier 1 suppliers versus 20 percent for Male/Joint SMEs. However, as a result of lockdown measures implemented due to COVID-19, this sector has experienced major contract and revenue losses. Most of the interviewed Buyers confirmed that as a result of the pandemic, they had shut down internal corporate contracts for events, catering, and hospitality, which resulted in cancelling the contracts for these. WSMEs also were significant providers of office support services, with 44 percent serving as Tier 1 suppliers versus 25 percent of Male/Joint SMEs.

The SMEs surveyed for this study were asked to name at least one Buyer which they are supplying with goods or services. The Buyers named by WSMEs included Safaricom (21 percent), Co-operative Bank Kenya (15 percent), KCB Bank (11 percent), Naivas Supermarkets (18 percent), and Farmers Choice (11 percent). This is not surprising as Safaricom has publicly set targets to increase gender-inclusive sourcing. Also, KCB Bank has a policy "to ensure equitable distribution of work to their suppliers." In addition, the bank emphasizes both micro and SMEs as enterprises of special interest as these fall under the Government of Kenya's diverse procurement policy, which was discussed earlier in this report (the enterprises owned by women, youth, and persons with disability).<sup>34</sup>

**Figure 2: Tier 1 Suppliers by Sector<sup>35</sup> and Gender of Ownership**



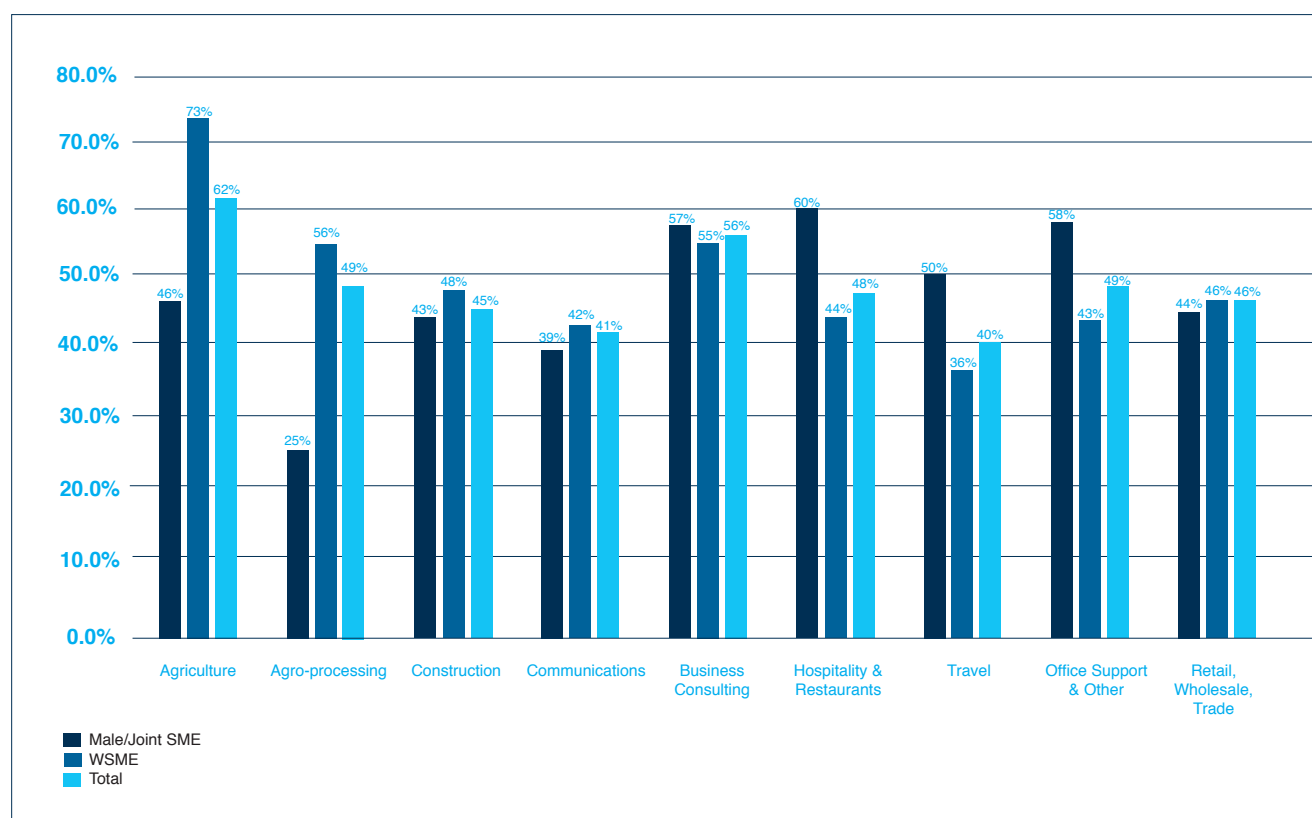
<sup>34</sup> KCB. 2020. "KCB Integrated Report and Financial Statements 2020".

<sup>35</sup> Figure 2 only shows the top sectors where SME respondents reported that they supply to Buyers. Sectors with few or no SME suppliers in the sample were omitted. These included Manufacturing and Extractives.

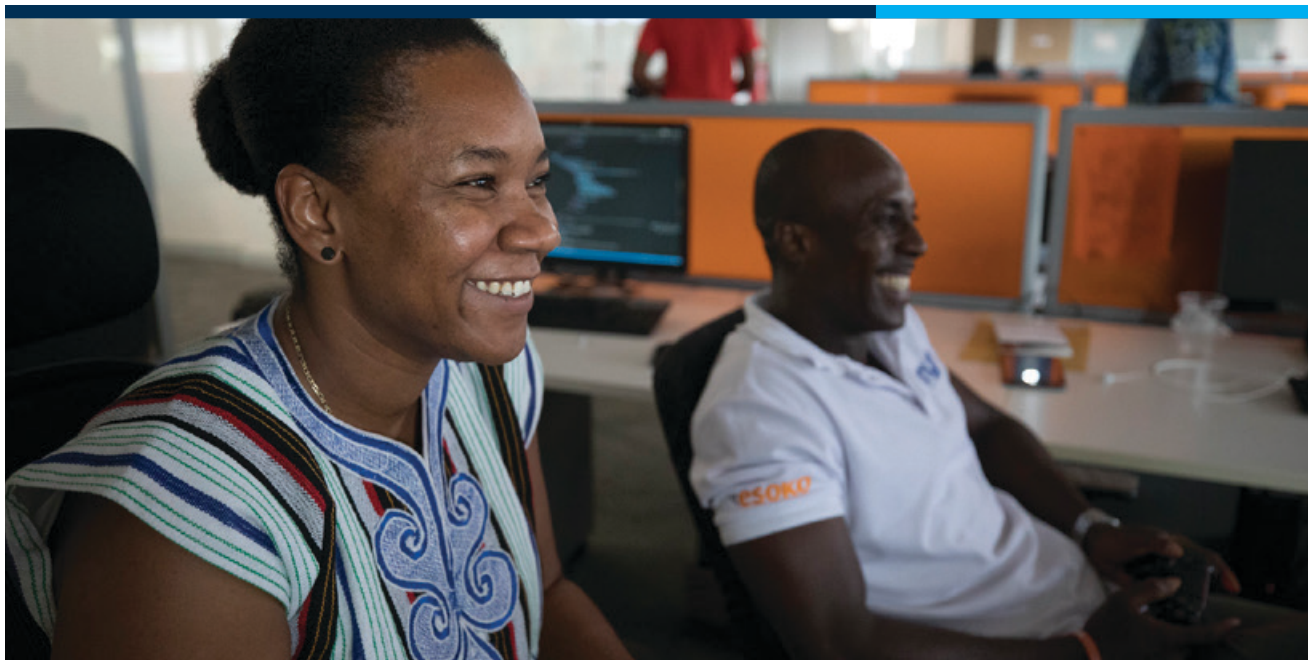
## Tier 2 Suppliers

Similar to the Tier 1 suppliers, gender gaps in the sectors of operation for Tier 2 suppliers were largest in agriculture and services (see Figure 3). WSMEs were more represented as subcontractors in agriculture (73 percent) versus Male/Joint SMEs (46 percent). In agro-processing, WSMEs were also more represented as subcontractors (56 percent) versus Male/Joint SMEs (25 percent). Within the services subsectors, Male/Joint SMEs had greater representation as subcontractors. A key challenge that Buyers cite is their inability to find potentially eligible WSMEs for direct tenders. **These data suggest that to increase their sourcing from WSMEs in relevant sectors in Kenya, Buyers should look to their Tier 2 suppliers, as these are more likely to be subcontractors to Tier 1 suppliers.**

Figure 3: Tier 2 Suppliers by Sector<sup>36</sup> and Gender of Ownership



<sup>36</sup> Figure 3 only shows the top sectors where SME respondents reported that they supply to Buyers. Sectors with few or no SME suppliers in the sample were omitted. These included Manufacturing and Extractives.



## 2.5 SME Barriers and Approaches to Access Contracts

SME respondents stated they face three main barriers in supplying goods and services to corporate Buyers: i) limited access to capital, ii) inadequate operational capacity and access to resources to improve their skills, and iii) limited access to information and networks to find tender opportunities. Gender differences were observed for each barrier, and across supplier tiers. Buyers' perceptions of SMEs' challenges align with the barriers cited by SMEs, with some Buyers already implementing solutions, albeit on a small and informal scale.

### Key Barrier 1: Access to Capital

**SMEs cited access to finance and Buyers' payment terms as their largest barriers in being able to consistently supply to companies.** When looking at supplier tiers, both Tier 1 WSMEs and Male/Joint SMEs reported that their limited access to capital to fulfil supply quotas is a significant challenge in securing and delivering on contracts. For example, over a quarter of Tier 1 WSMEs and Male/Joint SMEs stated that insufficient cash flow is a formidable challenge in securing contracts. In the services sector, this was more pronounced for Tier 1 WSME respondents versus with Male/Joint SME respondents. When it comes to Buyers' payment terms, SMEs reported that these were unfavorably long, which negatively impacted their cashflow. Again, this challenge was reported more by WSMEs, with almost half of Tier 1 WSMEs reporting this versus 38 percent of Male/Joint SMEs. For subcontractors that are Tier 2 suppliers, the reverse was found where more Male/Joint SMEs than WSMEs (44 percent versus 35 percent) cited lack of access to capital as a major barrier to accessing procurement opportunities. When it comes to non-suppliers (those that do not have a direct or subcontracting relationship to



a Buyer), both WSMEs and Male/Joint SMEs cited lack of access to credit to meet their contract's supply requirements as a key issue. These data suggest that lack of access to credit and long Buyer payment terms are challenges faced by SME suppliers, in general, but based on this study, these problems disproportionately affect WSMEs.

**When asked about financing needs, the top issues cited by SME respondents were accounts receivable financing (53 percent), access to timely credit to purchase raw materials and other supplies (41 percent), and local purchase order (LPO) financing (39 percent).**<sup>37</sup> Overall, more WSMEs (11 percent) than Male/Joint SMEs (8 percent) stated that they did not face constraints (see Figure 4). Notably, 60 percent of Male/Joint SMEs cited accounts receivable financing as a need versus 48.7 percent of WSMEs. Focus group discussions indicated that fewer WSMEs than Male/Joint SMEs cite receivables financing is a need. However, this should not be attributed to WSMEs having less interest in this type of supply chain financing product; instead two hypotheses could be considered.

*Supply Chain Financing is an interest regardless of gender and supplier tier; however, there are gender differences in the needs for supply chain financing products, presumably due to sector of operations.*

First, this may be because WSMEs are already accessing this type of financing as they operate mainly in the services sector where receivable financing is more available, and it can be easier to access in smaller amounts.<sup>38</sup> Based on Buyers' interviews, WSMEs tend to have smaller contract sizes, which are smaller invoices to finance. Alternatively, WSMEs have less awareness of such solutions. When it comes to LPO financing, almost 40 percent of both WSME and Male/Joint SMEs expressed a need for this.

There were notable differences in needs by supplier tier, which were presumably due to the sector of operations. Among Tier 1 Suppliers, more WSMEs (49 percent) expressed the need to access timely credit to purchase raw materials than was the case with Male/Joint SMEs (37 percent), and more WSMEs (48 percent) cited LPO financing as a need versus Male/Joint SMEs (43 percent). This differs for receivables financing, with more Male/Joint SMEs (69 percent) citing a need for this than WSMEs (61 percent). Among Tier 2 suppliers, fewer WSMEs (40 percent) require access to timely credit to purchase raw materials versus Male/Joint SMEs (48 percent), and fewer WSMEs stated a need for receivables and LPO financing.<sup>39</sup> This was a surprising finding, given that formal WSMEs in Kenya tend to have a higher unmet need for credit, which suggests that **there is limited understanding and awareness of financing opportunities for WSMEs operating as Tier 2 suppliers.**

**Buyers' interviews revealed that a key challenge they face when working with SMEs, overall, is supply delays due to SMEs financial constraints. The Buyers also indicated that this impacts their ability to source the quality products and materials that they require from SMEs.** Additionally, Buyers observed that WSME suppliers have less access to adequate working capital than is the case with male suppliers. Consequently, it is more difficult for WSMEs to show that they have the ability to deliver on contracts as they lack access to sufficient capital, and they experience cashflow shortages that threaten the sustainability of their business, and indicate that they will not be able to manage supply delays. Both of these factors make it difficult for Buyers to award contracts to SMEs, and even more so to WSMEs.

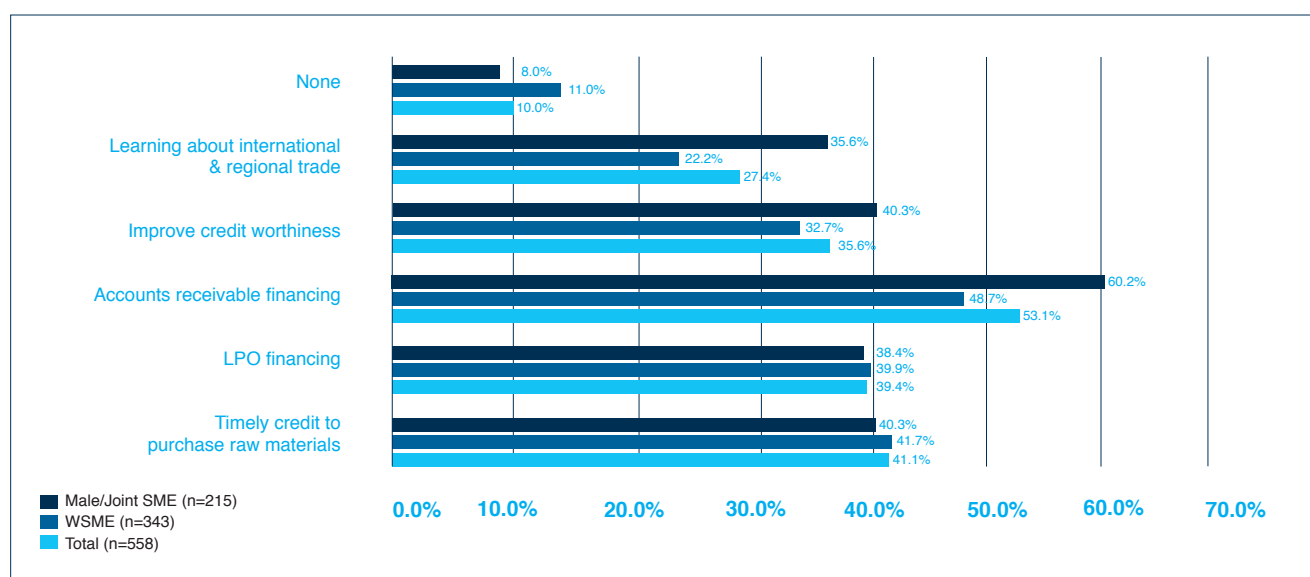
<sup>37</sup> Receivables financing and purchase order financing are two types of supply chain financing. For more information on these types of financing products, see IFC. 2014. Supply Chain Finance Knowledge Guide.

<sup>38</sup> Diffen. 2021. "AR Financing vs. PO Financing".

<sup>39</sup> 58 percent of Male/Joint SMEs versus 38 percent of WSMEs cited receivable financing as a need; 42 percent Male/Joint SMEs versus 38 percent WSMEs cited LPO financing as a need.



**Figure 4: SME Financing Needs to Secure and Deliver on Procurement Contracts**



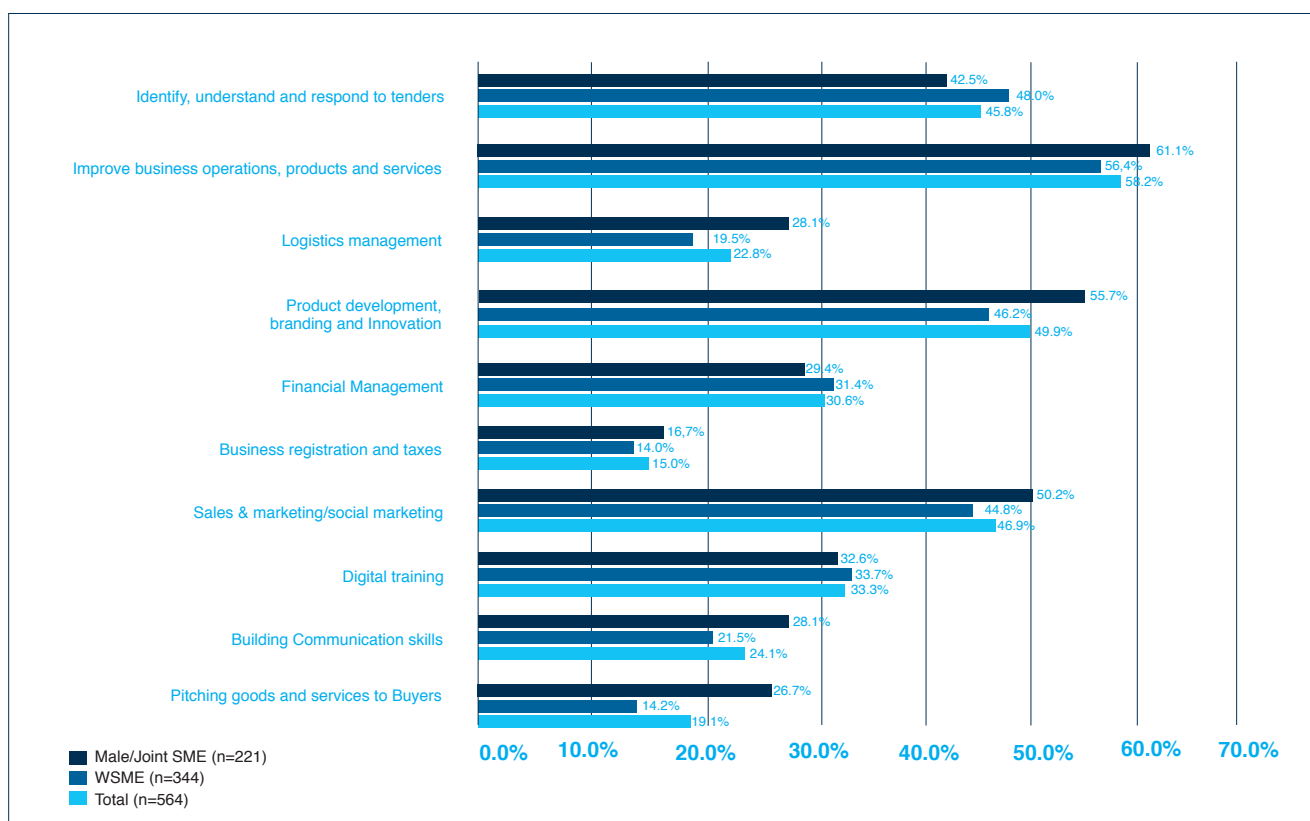
To tackle these challenges, Buyers in Kenya are providing solutions to help SMEs, including WSMEs, to maintain their cash flow and working capital. For example, in order to help SMEs to meet their financial obligations during the COVID-19 pandemic, Absa Bank has committed to paying all of its suppliers' invoices within 14 days, and for all invoices of KShs 1 million (\$9,300), and below, paying within seven days.<sup>40</sup> Other Buyers have taken similar actions with their local suppliers, including reducing payments terms from 60 to 30 days.

<sup>40</sup> Absa Bank. 2020. "Absa Bank Kenya PLC FY 2019 Normalised Profit after tax up 15% to Kshs 8.5 billion".

## Key Barrier 2: Delivery Capacity

When asked about their ability to meet Buyers' quantity, quality, and certification requirements, almost all SMEs (96 percent) responded that they had at least one capacity gap to address so that they are better able to secure contracts with Buyers. While both WSMEs and Male/Joint SMEs reported that they had capacity gaps, there were gender differences in the types of capacity gaps reported. WSMEs prioritized a need for support to: i) improve business operations to comply with the quality, safety, and environmental standards set by Buyers, ii) understand how to identify and respond to Buyers' procurement opportunities, and iii) build product development and innovation skills to meet Buyers' needs. This was slightly different for Male/Joint SMEs who cited a need to develop greater knowledge about sales and marketing and using social media so that they could market themselves better to Buyers (see Figure 5).

**Figure 5: SME Capacity Needs by Gender of Ownership**



**SMEs' Capacity Development Needs Differ by Supplier Tier and Gender of Ownership.** Both Tier 1 and Tier 2 SME suppliers reported almost the same top three capacity development needs; however Tier 2 SMEs want more support so that they can move up from subcontracting to directly supplying Buyers, while Tier 1 SMEs want more support to help them scale up their existing activities so that they can secure additional and/or larger contracts.



As part of improving business operations, Tier 1 Male/Joint SMEs (34 percent) reported greater interest than Tier 1 WSMEs (27 percent) in logistics management related to the delivery of goods. This may be because more WSMEs operate a services business. For Tier 2 suppliers, WSMEs reported less interest than Male/Joint SMEs across every need except with regard to understanding how to identify and respond to Buyer procurement opportunities. This suggests that Tier 2 WSMEs are focused more on securing a contract versus Male/Joint SMEs, which are focused on delivering on contracts that they secure. Additionally, more Tier 2 SMEs expressed the need for training and access to digital technology. Notably, in both supplier tiers, WSMEs expressed a greater need for training and access to digital technology than was the case with Male/Joint SMEs.

*Interventions to build linkages between WSMEs and Buyers require different approaches across supplier tiers.*

**These findings suggest that interventions to build linkages between WSMEs and Buyers require different approaches across both supplier tiers.** Capacity building solutions for WSMEs that already have Buyer contracts should focus on improving business operations, supplier quality, and product development, not only at the firm level, but also with their suppliers. Approximately one third of Tier 1 SMEs reported that their suppliers do not achieve the quality requirements of their Buyers. This makes it difficult for SME suppliers to guarantee good quality products, which hinders their access to procurement opportunities. Support for Tier 2 WSMEs trying to secure their first contract with a Buyer should focus on demystifying the tendering process and clarifying the Buyer's standards. Also, increasingly companies are moving their procurement online through the use of portals, and this presents an opportunity to address the digital access and digital literacy needs of the Tier 2 WSME suppliers, as well as making efforts to increase WSMEs understanding of how to respond to Buyers' tenders.

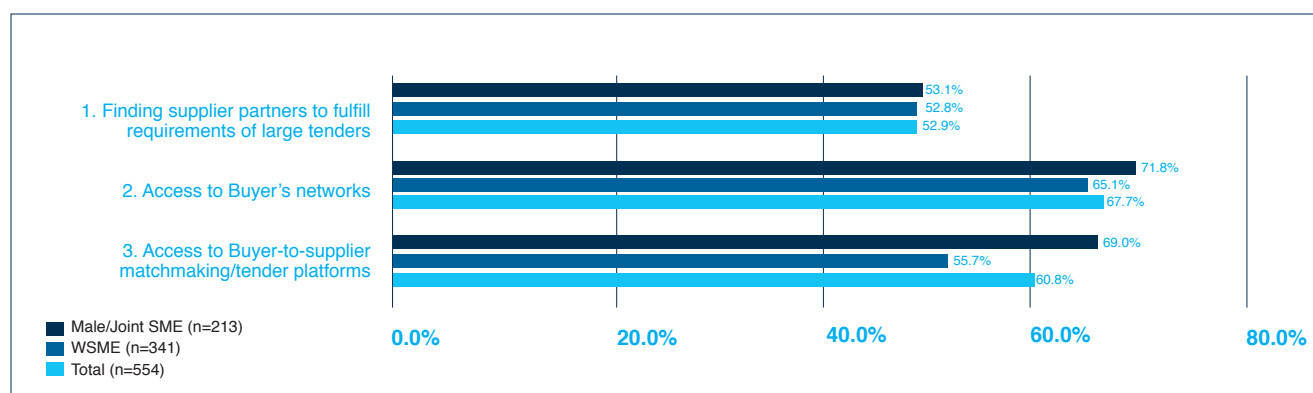


## Key Barrier 3: Access to Information & Networks

SME respondents stated that limited access to information and business networks hindered several critical business development activities undertaken to access procurement contracts. These activities include: developing an awareness of how to find tender opportunities, cultivating an understanding of Buyer needs and, subsequently how to position their business to meet Buyer requirements and submit competitive bids. While both WSMEs and Male/Joint SMEs reported that access to information and business networks is a priority, this barrier disproportionately affects WSMEs. Focus groups with SMEs also revealed that women know little about the business networks they could join, they doubt the usefulness of these networks, and if they join these networks, they experience sociocultural barriers. Instead, women seek business advice from informal sources, such as their spouse, family members, and church members, or they address the challenges on their own. In comparison, men belong to both formal and informal networks with other business owners, suppliers, and customers.<sup>41</sup> Expanding women's access to networks could address the business priorities that WSMEs listed in the survey, including access to finance. Also, participation in a network could boost women's confidence; provide vital business exposure, support, and advice; and lead to positive impacts on business performance.

In order to find more procurement opportunities, both WSMEs and Male/Joint SMEs expressed interest in accessing Buyer networks<sup>42</sup> (68 percent), Buyer-matchmaking platforms (61 percent), and securing supplier partners to fulfill requirements on larger contracts (53 percent). Despite the above mentioned network constraints of WSMEs, Male/Joint SMEs expressed a greater need to access Buyer networks and Buyer-matchmaking platforms (see Figure 6).

**Figure 6: SME Needs to Access Relevant Networks by Gender of Ownership**



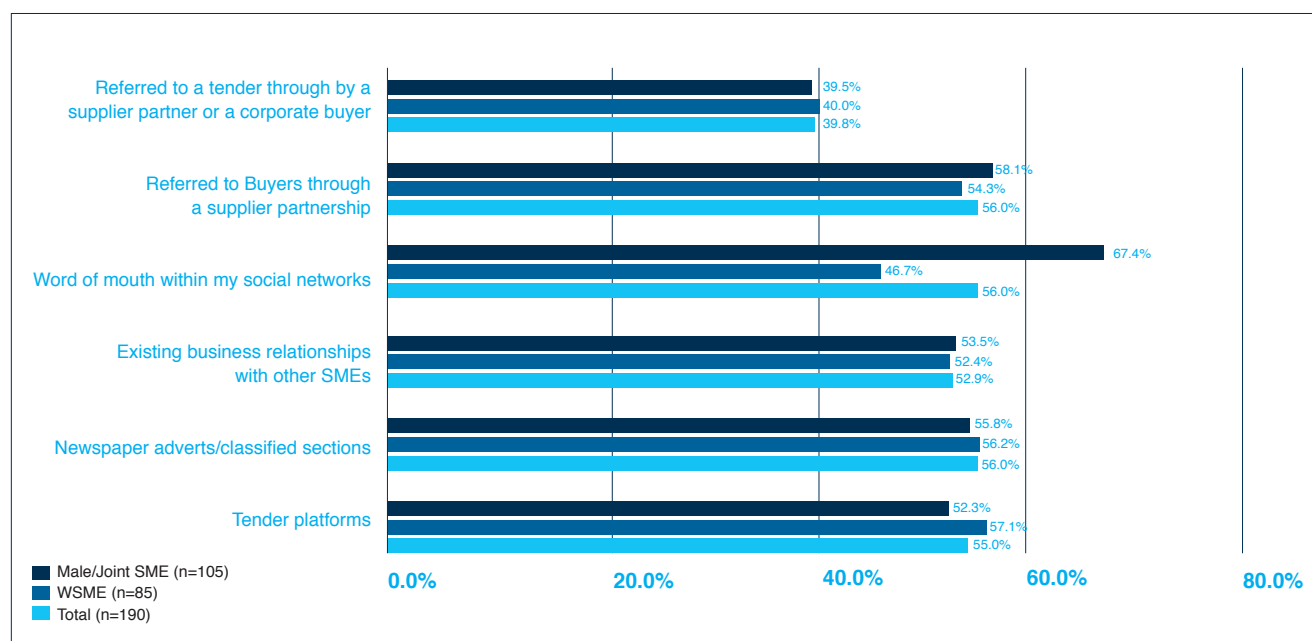
Analyzing these data by supplier tier revealed notable information (see Figure 7). When Tier 1 suppliers were asked how they accessed contacts or identified opportunities, WSMEs appeared to have less access to networks that they could connect with “through word of mouth”. Male/Joint SMEs stated that their top three tactics were “word of mouth” in their social networks (67.4 percent), referrals through supplier relationships (58.1 percent), and searching classified/ newspaper advertisements (55.8 percent). WSMEs differed in their top three tactics, which were to directly access tenders through a tender platform (57.1 percent), searching classified/newspaper advertisements (56.2 percent), and leveraging supplier relationship to get

<sup>41</sup> World Bank Group. 2019. “Profiting from Parity: Unlocking the Potential of Women’s Business in Africa”. Washington, DC: World Bank Group.

<sup>42</sup> A Buyer network aims to improve the Buyer-supplier engagement process, and remove information asymmetries in the procurement process. These networks can take various forms such as a digital matchmaking platform or a dialogue-coordinating mechanism through which Buyers meet intermittently.

referrals (54.3 percent). Only 46.7 percent of WSMEs listed accessing contracts through personal networks. This suggests that more Male/Joint SMEs are leveraging personal networks than is the case with WSMEs, and that information flows are largely informal, and through local social and business networks that WSMEs may not know about, or have access to. This emphasizes the importance of WSMEs expanding their networks so that they can find tender opportunities. However, that data show that more WSMEs are accessing online platforms to find tender opportunities. Notably, Buyer interviews revealed that the majority of Buyers in Kenya do not fully use online platforms yet to advertise tenders, and at times they publicize tenders in the classified sections of newspapers. For Buyers that do post tenders on digital platforms, WSMEs are leveraging them more than is the case with Male/Joint SMEs. This is also evident from the names of the top Buyers that are sourcing from WSMEs through Safaricom, which makes tenders and the qualifications required accessible online.<sup>43</sup>

**Figure 7: How Tier 1 Suppliers Learn of Buyer Tenders by Gender of Ownership**



The Buyers interviewed for this study were asked if they would source more from WSMEs if there was a platform that had a strong pool of suppliers who met their criteria. Buyers said that they would consider using such a platform, especially if it connects them to eligible WSMEs. Two Buyers said that they already have their own digital platforms, and some others suggested using platforms such as [Tenders Kenya](#) and [Biashara.Now by Invest in Africa](#). These findings have implications for Buyers that are seeking to reach potential WSME suppliers, as the use of tools such as digital platforms and classified ads should be considered as part of their supplier development and outreach strategies. Since digitizing procurement processes can be quite costly, Buyers should explore digitizing their outreach to WSMEs by posting tenders on existing platforms that have WSME members. Additionally, interventions to support WSMEs' greater access to tenders could include virtual supplier-Buyer matchmaking events to improve a Buyer's visibility and nurture relationships with potential businesses.

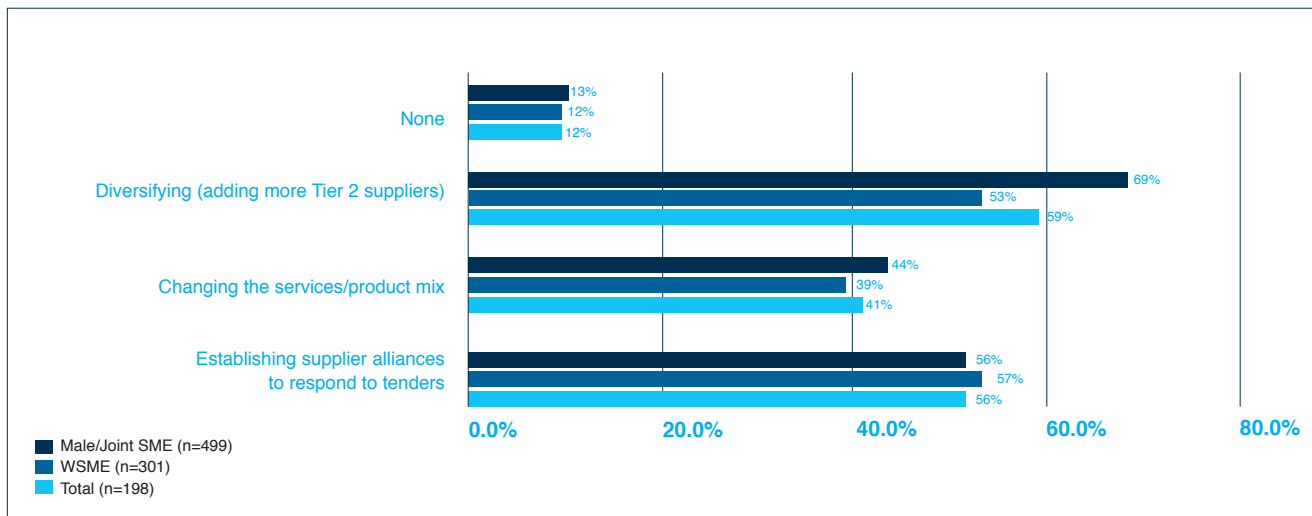
<sup>43</sup> Safaricom. 2021. "Pre-Qualification for Women-Owned-Businesses".



## SME Approaches to Overcome Capacity Constraints

SMEs were asked which actions they are taking to overcome the barriers they face in securing Tier 1 contracts with Buyers. The response rate was 87 percent (499 out of 571) of SMEs reporting one or more measures, which indicates that while there were only 203 Tier 1 suppliers in this study, a significant proportion of Tier 2 SMEs are seeking Tier 1 contracts, but have yet to secure any. Overall, Male/Joint SMEs were taking greater action, which suggests that WSMEs may be more constrained in seeking Tier 1 contracts (see Figure 8). In order to reduce potential disruptions, more Male/Joint SMEs prioritized diversifying their supplier base with additional Tier 2 suppliers than was the case with WSMEs (69 percent versus 53 percent). Also, more Male/Joint SMEs reported adapting their product/service offering to meet customer needs than was the case with WSMEs (44 percent versus 39 percent). Notably, 56 percent of both WSMEs and Male/Joint SMEs reported that they are pursuing supplier alliances so that they can better respond to, and/or fulfill tenders.<sup>44</sup> One measure that SMEs do not appear to be pursuing yet is building the capacity of their own suppliers, and especially with regard to quality control. The interviews with Buyers revealed that a key challenge they face when sourcing from SME suppliers is the inability of SMEs to guarantee the quality and traceability of the goods they produce. This is because SMEs are not sufficiently trained to test the quality of goods, and are unable to afford certification, which would show that they comply with the standards required by Buyers.

**Figure 8: Actions SMEs are Taking to Pursue Tier 1 Buyer Contracts**



When comparing sectors of operation, WSMEs lagged behind Male/Joint SMEs in agriculture. Although WSMEs prioritized pursuing supplier alliances to build their delivery capacity, WSMEs pursued alliances much less than was the case with Male/Joint SMEs. Male/Joint SMEs prioritized diversifying their supplier base significantly more than WSMEs (72 percent versus 37 percent). In the Industry and Services sectors, the reverse was observed. WSMEs prioritize diversifying their supply base and establishing supplier alliances versus their Male/Joint SME counterparts who prioritize adapting their product/service. These differences suggest that solutions to support SMEs in adapting their delivery capacity should consider the sector of operations as well as gender differences.

<sup>44</sup> A supplier partnership/alliance is a strategic coalition of two or more firms in a supply chain that facilitates joint efforts, and collaboration on one or more core value-creating activity such as research, product development, manufacturing, marketing, sales, and distribution.



### 3. Recommendations

This study has identified areas where Buyers in Kenya could focus their support if they want to help WSMEs to access new markets through private sector procurement opportunities. This study has also highlighted areas that Buyers could consider within their own procurement operations in order to advance gender-inclusive sourcing. Below are nine recommendations that Buyers can consider implementing. These build on the global best practices that were listed in Box 3.

#### Opportunities to address supply side challenges for existing and prospective WSME suppliers:

**1. Partner with local financial institutions to facilitate WSMEs' access to working capital, and adapt contract payment terms to help WSMEs maintain their cash flow.** Buyers in Kenya are providing solutions, especially during the COVID-19 pandemic, but there is more to do. IFC research found that few financial products or support services are available in Kenya that specifically assist WSMEs.<sup>45</sup> These include making payment terms more favorable such as paying all supplier invoices within 14 days. Some Buyers target their payment approach based on the size of invoice, and now pay suppliers within seven days if their invoices are worth KShs 1 million (\$9,300) or less. In some cases, Buyers prioritize local suppliers. Other Buyers are offering WSME suppliers working capital solutions, such as financing for receivables; establishing supplier finance facilities with local banks; and providing referrals to programs that offer financial and non-financial solutions for women in business.

<sup>45</sup> IFC. 2021a. "COVID-19 and Women-Led MSMEs in sub-Saharan Africa. Examining the Impact, Responses, and Solutions".



**2. Implement supplier development solutions by partnering with local SME support organizations that can improve WSMEs' capacity to deliver on contracts, and tailor their solutions to suppliers' sectors and status (Tier 1 and Tier 2).**

Capacity building solutions for WSMEs that already have Buyer contracts should focus on improving WSMEs' business operations and quality, and provide guidance on pricing, and on product development—not only at the firm level, but also with WSMEs' suppliers. Support for WSMEs trying to secure their first contract with a Buyer should focus on demystifying the prequalification and tendering process, clarifying Buyer standards, and increasing digital access and literacy so that WSMEs can access tenders that are listed on digital platforms. This study revealed that most WSMEs are operating as Tier 2 suppliers, which calls for giving greater focus on strengthening the capacity of Tier 2 WSME suppliers to enable them to become eligible for direct contract opportunities with Buyers. Buyers, BMOs, and other stakeholders in Kenya should follow global best practices in supplier development initiatives, and target WSMEs.

**3. Enhance access to information and networks for WSMEs by increasing outreach, and communicating tender opportunities in the channels that WSMEs are most likely to access.**

This study revealed that WSMEs have limited awareness of what business networks exist, they doubt the usefulness of networks, and they experience sociocultural barriers if they join networks. This study also revealed that Male/Joint SMEs leverage their personal and business relations to identify contract opportunities, while WSMEs leverage tools such as digital platforms and classified ads. These findings have implications for Buyers that are seeking to reach/find potential eligible WSME suppliers. Interviews and focus group discussions revealed some of the tactics that Buyers are implementing, or are interested in implementing. These include virtual supplier-Buyer matchmaking events to improve a Buyer's visibility and nurture relationships with potential WSMEs; sharing tenders with organizations that support WSMEs in order to increase WSMEs' awareness about contract opportunities and the qualifications required; sharing supplier lists with other Buyers to support WSMEs' access to new contracts; encouraging existing and prospective suppliers to establish strategic relationships with successful suppliers, which would increase their competitiveness in responding to tenders.

**4. Utilize available digital platforms to post tender opportunities and ensure that both large, as well as lower-value procurement opportunities are featured on the Buyer's corporate website.**

This study revealed that corporate Buyers are relying on their existing relationships/networks more heavily in the procurement process, which can disproportionately affect WSMEs as this study shows that WSMEs have more limited networks than Male/Joint SMEs. While the cost for Buyers to set up their own digital procurement portal may be prohibitive, Buyers should leverage third party platforms to post their tender opportunities. Not only could this scale up outreach efforts, but this could also enhance the transparency of procurement processes and encourage WSMEs to bid on tenders. Online platforms could also provide sex-disaggregated data on potential suppliers in Kenya, which would help Buyers that want to improve their outreach to potential WSME suppliers, and develop WSMEs' capacity.

**Opportunities to advance gender-inclusive sourcing internally include the following:**

**1. Obtain leadership support and formalize a gender-inclusive sourcing process.** Of the Buyers interviewed for this study, only one has a corporate-wide commitment to increase their procurement from WSMEs as a means of improving gender equality in their supply chains, and a dedicated program with resources (i.e. budget and staff) for this. Although some Buyers stated they were personally taking action to source from WSMEs, their company lacked a formal policy that strategically supports gender-inclusive sourcing. Buyers should follow global best practices (see Box 3) and embed supplier diversity and inclusion practices in their corporate sustainability policies, and their procurement operations. Some Buyer's companies have even embedded a commitment in their contracts to source from diverse suppliers, including WSMEs.

**2. Adopt a definition for women-owned and led businesses, determine the company's current volume of procurement from WSMEs, and set a target for increasing this.** Out of the 14 Buyers interviewed for this study, three confirmed that they track data on WSME suppliers and other disadvantaged groups. These Buyers also estimate that less than 3 percent of their corporate spending is with women suppliers. Spending estimates are perceived as difficult to gather, and many of the Buyers interviewed did not know exactly how much of their procurement spending is going to WSME suppliers. To demystify the process, the first step is establishing a definition for a woman/women-owned supplier. Global best practice is at least 51 percent of the business is owned by a woman/women. Once the definition is in place, Buyers can start collecting sex-disaggregated data on suppliers. Buyers that go through the process of establishing a definition are in the best position to set targets, establish action plans, secure resources, track progress toward achieving targets, and ultimately scale gender-inclusive sourcing in their supply chain.

**3. Consider different approaches to identify WSMEs for current tenders and build a pipeline for future tenders.** This study debunks the myth that no WSMEs are eligible for Tier 1 tenders. There is an existing pool of WSME suppliers in Kenya, but most are subcontractors. In relevant sectors in Kenya, as part of supplier outreach, Buyers could engage with their Tier 1 suppliers to encourage them to subcontract from WSMEs, and help them to do this. Buyers could target Tier 2 WSMEs to include them in supplier development programs that will build WSMEs' eligibility for Tier 1 tenders. Additionally, since pre-qualification is often overlooked as a key step in building a pipeline of eligible suppliers, Buyers could post information on the pre-qualification process and requirements on their company's website.

**4. Track spending with Tier 2 suppliers.** This study suggests that WSMEs are primarily subcontractors. This presents an opportunity for Buyers that are seeking to demonstrate that their procurement purchasing includes WSMEs. Buyers can potentially capture greater amounts of purchasing with WSMEs by going beyond only tracking their spending with direct suppliers, to tracking their spending with indirect suppliers, starting with Tier 2. This requires more effort but provides a better picture of a Buyer's efforts toward gender-inclusive sourcing throughout their company's supply chain. A global best practice is asking Tier 1 suppliers to report on diversity metrics, which shows that Buyers are not only increasing their company's economic impact, but they are also strengthening their supply chains to avoid potential disruptions<sup>46</sup> such as those that have occurred during the COVID-19 pandemic.

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<sup>46</sup> CVM Solutions. 2021. "3 Tools Needed for Your Second Tier".



## Conclusion

This study shows that Kenyan WSMEs are significantly underrepresented among as suppliers to corporate Buyers in Kenya. Although one-third of registered SMEs, globally, are estimated to have been created by women, large corporations and governments spend less than 1 percent of their procurement budgets on WSMEs.<sup>47</sup> This study shows similar findings as the Buyers who were interviewed estimated that the volume of private sector procurement from WSMEs in Kenya is only 3 percent of their total procurement budget. WSMEs face considerable structural barriers in accessing procurement opportunities as they lack access to financing, they have limited business networks and connections, they lack access to information on tenders, and they lack knowledge about how to meet Buyers' procurement requirements. Limited access to procurement opportunities limits the potential of WSMEs to expand, create more jobs, and make a greater contribution to Kenya's economy. Also, for Buyers, building a diversified supply chain is crucial for their company's sustainability and growth.

Increasing the representation of WSMEs in their supply chains, and the volume of procurement purchasing from WSMEs requires Buyers to make a concerted effort. This begins with Buyers making a long-term commitment and setting targets to increase the proportion of purchasing allocated to WSMEs. Senior leaders in the company must support such a commitment, should share this commitment publicly, and build accountability throughout the company to achieve WSME supplier targets. Buyers can make sure that gender-inclusive sourcing is important, internally, if they collect and report sex-disaggregated data on suppliers on recurring basis, and they communicate the results of gender-inclusive sourcing, both internally, and externally.

For the first time in Kenya, this study provides data on gender gaps in the supplier tiers of companies in Kenya. These data can support Buyers not only in prioritizing and targeting efforts toward gender-inclusive sourcing in their supplier base, but the data also illustrate how Buyers can analyze their own supplier data to identify gaps and opportunities. The authors of this study encourage the Buyers that procure goods and services in Kenya to use this report to inform, and scale up their own efforts to source from WSMEs.

The reality of today's gender imbalance in Kenya's supply chains is concerning. To improve this, this study was carried out to inform IFC's Sourcing2Equal Kenya program, which will work with 10 companies across a number of key sectors in Kenya to advance gender-inclusive sourcing in their supply chains. Gender-inclusive sourcing will not scale up overnight, but the actions taken today will help women-owned and led businesses to access new markets, which will help these businesses to grow, and will support improvements in Buyers' productivity, sustainability, and innovation.

<sup>47</sup> Vazquez and Frankel. 2017. "The Business Case for Global Supplier Diversity and Inclusion: The Critical Contributions of Women and Other Underutilized Suppliers to Corporate Value Chains".

# Annex

## Definitions

Figure 10: Definitions and sample distribution

IFC MSME Definition <sup>48</sup>							
An enterprise qualifies as a micro, small or medium enterprise if it meets two out of three criteria of the IFC MSME Definition (employees, assets and sales), OR if any loan provided to it falls within the relevant MSME loan size proxy.							
Size	EMPLOYEES	SAMPLE (n=571)	WSME: (n=350)	ANNUAL SALES US\$	SAMPLE (n=562)	WSME: (=350)	TOTAL ASSETS US\$
Micro	< 10	50.1%	46.9%	<\$100,000	72.6%	68.3%	<\$100,000
Small	10 – 49	45.5%	49.1%	\$100,000 to < \$3 million	27.5%	31.7%	\$100,000 to < \$3 million
Medium	50 – 300	4.6%	4%	\$3 million to \$15 million	None	None	\$3 million to \$15 million

We-Fi Definition							
The We-Fi definition follows IFC's definition, but focuses on Very Small and Small and Medium Enterprises. Enterprises need to meet only one out of three criteria. Similarly, a loan (financing) size proxy between \$5,000 and \$1 million can be used.							
Size	EMPLOYEES	SAMPLE (n=571)	WSME: (n=350)	ANNUAL SALES US\$	SAMPLE (n=562)	WSME:	TOTAL ASSETS US\$
Very Small	5 – <10	25.9%	22.3%	\$50,000 – < \$100,000	72.6%	68.3%	\$50,000 – < \$100,000
		24%	24.4%				
Small and Medium	10 – 300	45.5%	49.3%	\$100,000 – \$15 million	26.8	30.8%	\$100,000 – \$15 million
		4.6%	4%				

KENYA NATIONAL MSME Definition <sup>49</sup>				
An enterprise qualifies as a micro, small, or medium enterprise if it meets the clear definitions of employee numbers.				
Size	EMPLOYEES	SAMPLE (n=571)	ANNUAL SALES US\$	SAMPLE
Micro	< 10	50.1%	< KShs 500,000 (e.g. US\$4,5912)	Survey data were not collected in this KShs range stratification
Small	10 – 49	45.5%	KShs500,000 to KShs 5,000,000 (e.g. US\$4592 to US\$45,915)	
Medium	50 – 99	3.6%	KShs 5,000,000 to KShs 800,000,000 (e.g. \$45,915 to-\$7,346,420)	

<sup>48</sup> IFC. 2021c. "IFC's Definitions of Targeted Sectors".

<sup>49</sup> KNBS. 2016. "National Micro, Small and Medium Establishment (MSME) Survey: Basic Report".



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