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## Financing Start-ups, the Need, Relevance, Facets and Constraints in Kenya Start-ups Ecosystem

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### Abstract

On daily basis a number of startups are founded all over the world, including in Kenya. However, a few live to celebrate their first birthday. Therefore, this article delves into the financing need, relevance, facets and the constraints facing startups in Kenya. There is evidence that the global financial situation has adversely affected not only the establishment and continuation of enterprises but also innovative incapability to access finance from conventional financial systems. This study was based on desktop review where secondary data was analyzed to ascertain the misapprehension surrounding financing start-ups in Kenya. The findings indicated that there is need for various stakeholders in the startup space to come up with relevance innovative startup financing options to overcome the constraints they experience from the funds provided for the MSMEs and from other conventional financing systems in the country. With proper financing the government can tap on the start uniqueness and ability to scale within a short time and provide solution to the larger unemployment rate in the county.

**Keywords:** Entrepreneurship, Startup Ecosystem, Startup Financing, Startup Infrastructure, Kenya

### Introduction

According to African Union (2020); Karitu et al (2022) a startup is defined as a company that focuses on offering cutting-edge technological answers to societal and commercial problems. These businesses are usually under 10 years old, and the services they deliver can be swiftly expanded in terms of the spatial coverage and use applications. Startup companies are brand-new companies that aim to grow beyond their lone owner. A start-up is indeed a company or undertaking that an innovator launches in an effort to identify, create, and build a viable business model. (Robehmed & Natalie, 2013). Philippon (2016) also suggested that by inventing novel ways to supply goods and services and so eliminating or reducing obstacles typical of conventional sectors, fintech might inspire a business revolution via the tech transformation. At first, Schmitt (2018), claims that while there is a degree of ambiguity and a frequent occurrence of mortality for startups, a small percentage do succeed and become

important. Monetary support ought to be accessible for newly established enterprises to prosper. start-ups provide a significant offering to the generation of employment and economic prosperity (Koh *et al.*, 2007). These contribute significantly more to employment than major corporations and serve as the potential economic backbone of many communities (Chin *et al.*, 2012).

Owing to well-known books on the subject, research in the area of technological entrepreneurship has increased recently like Feld's (2012) *Beginning Societies* and Isenberg's (2010) article in the Harvard Business School. The idea that a society and cultures might have a profound influence on the innovation process has become more widely accepted among innovative leaders and politicians as a result of these works. However, despite its popularity, scholars and practitioners still do not agree on a common definition of startup ecosystems. According to Muathe and Otieno (2022), African start-up business owners are unable to gain data access that they may use to uncover customers' needs which they are very much to fill, compared to those in Europe and Asia. Almost nothing, if any, money has been put into guaranteeing that start-ups have strong technological capabilities and product innovation abilities to produce quality products. The term's first element is innovation: a procedure for identifying, assessing, and seizing chances to develop new products and services (Schumpeter, 1934; Shane & Venkataraman, 2000). Creating new businesses is difficult to put it mildly, whichever nation one decides to travel to. It is particularly true in Africa, where there are a lot more uncertainty as well as the ecology that surrounds the efforts might not be as established (Iarossi, 2009). In these situations, it's critical to comprehend the setting up the ecosystem's support infrastructure, as well as how it's changing. Especially in a country like Kenya, where entrepreneurship is valued due to its capacity to address both societal and economic issues (BBC, 2013).

A thorough awareness of the vitality of the startup ecosystem, notably the advantages plus disadvantages, facilitates the development of strategies that are primarily customized to improve investment portfolios, and heighten the efficiency of regional integration (Biest & Wyss, 2019). Government efforts to create provincial clusters Porter (1998); Feldman & Francis (2003), innovation policy Sternberg (2007) and venture creation ecosystems are evidence that government's view start-ups (including new technology-based firms) as significant drivers of public investment (Qian *et al.*, 2012). Stam (2015); Spigel (2017) Start-up ecosystems, which we will generally define as local organizations of individuals who start or support technology-based start-ups (Feld, 2012; Stam, 2015), are seen as a crucial component in fostering such regional entrepreneurship development. According to the MasterCard Foundation and International Finance Corporation (2018), Africa is recognized as a global fintech powerhouse because of the continent's extensive usage of digital technology for financial activities 2018. Therefore, financial technology start-ups receive the majority of the continent's support and foreign financing. Start-ups facilitate the quick flow of resources, foster the growth of material wealth, facilitate group learning, and motivate businesses to stay in a given area (Saxenian, 1996; Westlund *et al.*, 2014; Nieto & Gonzalez-Alvarez, 2016).

Kenya is a country in Eastern Africa, often referred to as the East African Community (EAC), which itself is composed of Burundi, Rwanda, South Sudan, Tanzania, Uganda, Burundi, as well as the Democratic Republic of Congo. According to the global startup ecosystem index of 2021, Kenya's economy is reported to be the driving force and is ranked second in Africa and in the top 100 developing ecosystems worldwide. It has established itself as the hub of Africa's start-up ecosystem. As the second-largest city in Kenya, Mombasa was included in the rankings for the first time (Muathe & Otieno, 2022). Since Kenya started creating the Silicon

Savannah in 2007, the transformation has been progressing (Dahir, 2017). According to Dahir (2017), Kenya has more than 50 tech hubs and just about 150 ecosystem-building organizations, and early investors and corporations are swarming to Nairobi in an effort to tap into the nation's rapidly expanding pool of digital talent. Kenya has the largest and fastest growing economy in the region which explains this. Others cite good governance and business regulations as motivators, which are obviously relative but truly exceptional to the environment.

### **Startup Funding**

According to statistics, there are many ways to finance startups in Kenya, including personal funds, money from friends and relatives, bank credit, small loans, private equity funds, equity finance, investment groups, Deposit - taking, Charity, and loan programs. (Mutiria, 2017). One of the important findings of contemporary economics is that financing can help (Start-ups function better 2006; Shariff et al., 2010; Beck & Demirguc-Kunt et al., 2008; Cecchetti & Kharroubi, 2012). To link borrowers and creditors and distribute wealth toward the most effective use, hence an economy needs intermediation (Cecchetti & Kharroubi, 2012). Studies have provided data to support the idea that financial development boosts start-ups' performance. Some of the active start-up funding initiatives in Kenya as of 2021 include the Youth enterprise development fund Women enterprise fund, Crowdfunding, Uwezo fund, Venture capitalists, Angel networks, Microfinance. Revenue-based lenders can assist new businesses by offering non-dilutive growth capital in exchange for a proportion of monthly revenue. However, these different findings appear not to address the startup uniqueness especially in their formative stages (Muathe et. al., 2022b).

According to Blank (2010), in interviews with German entrepreneurial ecosystem players, because of lower sales and fixed operating costs, startups face challenges with solvency and long-term sustainability. Funding is limited, and there is a need to incorporate environmental issues, but collaboration within innovation ecosystems is poor. This is due to the fact that several startups focus on raising funds from friends, relatives, and the owner's personal resources. Rarely are these resources sufficient to grow the company to a point where it is lucrative. Entrepreneurs must therefore search for various funding mechanisms. Banks appear to be a common source of financing for enterprises, but because of the high level of risk and unpredictability connected with start-ups, banks constantly impose limits that are far above their ability to pay, thereby making it difficult for them to obtain crucial funds. In the last decade, venture capital has grown in popularity in Kenya as a substitute funding mechanism because it is willing to assume the risks associated with start-ups (Njubi, 2018; Muathe et al., 2022b).

Kenya Capital and Long-term funding is one of the private corporation capital organizations in Kenya that supports expanding businesses rather than new ones. According to Zavatta (2008), a large percentage of venture capital firms in the country are non-resident. Among the venture capital companies and investment managers registered with the Capital Markets Authority were Invested Capital Limited, and Acacia Fund Limited in 2015. (Capital Markets Authority, 2015). Other sources of startup financing include crowdsourcing, which is mainly conducted online and is a pretty modern fundraising method that may help tiny, start-up businesses overcome finance constraints (Van Wingerden & Ryan, 2011). The availability of finance is one of the most important aspects of any startup ecosystem; it must reach a critical mass. Shortages in funding indicate that new businesses will be unable to start, expand, or survive due to a lack of critical input (World Bank and OECD, 2013).

## Startups and Economic Development

On the other hand, Startups stimulate economic engagement, enhancing financial performance measures, such as a rise in the total GDP, high employment rates, growth of production facilities, high regional development, and an improved standard of living (Muathe, 2010; Muathe et al., 2013; Muathe & Muraguri-Makau, 2020). They likewise aid in a nation's economic expanding through the production of innovative goods and services. For example, Cytonn investments located in Westland Nairobi, Kenya, Wowzi was founded in 2019 in Kileleshwa Kenya, Imalipay was founded in 2020 in Nairobi, Kenya, Synnefa was founded in 2021 in Nairobi. Opibus Nairobi was founded in 2017 (startup stash, 2022). Through their ground-breaking merchandise and services, these advance a nation's economy.

Despite the presence of several entrepreneurship-supporting institutions and initiatives, the start-up ecosystem in many developing nations, notably Kenya, remains sluggish (Mubarak et al., 2019). Therefore, our study attempts to explain the myths and facts surrounding startup finance, guided by the following research objective: to clarify misconceptions surrounding start-up financing in Kenya. The subsequent sections explain the existing literature to confirm or disprove commonly held beliefs about capital availability, cost of capital, sources of finance, and variances in the financial structure of startups in Kenya; the methodology used to collect data in support of the topic, the findings, discussions, recommendations, and conclusions.

## Objective of the Study

- i. To analyze the need, relevance, facets and constraints in startup financing in Kenya Startups Ecosystem

## Literature Review

This section focused on analyzing both theoretical and empirical literature on the need, relevance, facets and constraints in startup financing in Kenya Startups Ecosystem

## Theoretical Framework

### Disruptive Theory of innovation

Karitu et al (2022) notes that the major force behind start-ups' expansion is innovation. The theory of disruptive innovation discusses innovations that start-up businesses have brought about. The introduction of novel, inexpensive items that satisfy consumer demand, the development of new markets, or the application of novel business models can serve as growth catalysts for startups.

According to the principle of disruptive innovation, innovative start-up businesses should develop fresh strategic plans, tap into emerging markets, make affordable products, and promote originality (Muathe et. al., 2022a). According to Alsaaty and Sawyer (2019), naming is a commercial tactic used to draw in a specific population segment to a location, a product, a company, or a start-up to achieve specific objectives. For start-ups to remain competitive and flourish, the topic of innovation in start-ups will be covered through the new product development hypothesis. According to Mom (2016), Nairobi, Kenya's wealth, has become known as the "Silicon Savannah" due to the country's digital innovation activities. Kenya has been recognized as Africa's "epicenter of innovation. Mobile phone-related inventions are the main focus of Kenya's tech innovation start-up sector. A sizable and thriving smartphone app development ecosystem has grown in Kenya since mobile operator Safaricom introduced the M-PESA mobile money application (app) in 2007. Numerous

startups use the M-PESA platform to create products for the fetch sector and related fields of online finance. (Nzomo *et al.*, 2020).

Costales (2013) notes that competitive advantage is established through ongoing innovation for new goods, services, or productive methods in three key areas: An assessment of the resources that include research and development projects, the use of new technology, production productivity, new productive investments, and growth into new markets or widening of the clientele. Development and regeneration of the business through investments, expansion, the opportunity for human resources to advance their careers, new hires, optimism, and a positive attitude. Business success depends on a positive brand image that draws in new clients, on having products that stand out from the competition, on constant improvement, and on preventing the competition from catching up.

When compared to projects or systems, measuring innovative performance at the corporate level has received less attention. Studies done at the project level provide a more inclusive accepting of the mechanisms underpinning innovation and its effects on the startups in question. The majority of these studies don't take into account the power managers have to deal with unpredictable and changing surroundings. The differences across the studies have resulted in a start-up-level shared set of metrics or a generally regarded innovation performance indicator (Parker, 2012).

Many authors view creativity as a crucial component in enabling business change in the corporate world. According to Huang *et al* (2009), creativity is the entire process by which ideas are generated, expanded upon, and turned into valuable assets. Innovation and entrepreneurship, as they are typically understood, are part of creativity. Giving credit to each person independently in a creative endeavor is typically challenging (Sutton and Hargadon, as quoted in (Drazin *et al.*, 1999). They contend that the process of creativity involves different people interacting with the group, working out problems on their own, and then coming back to the group to refine and expand their ideas.

According to the research carried out in Kenya by de Vries (2019), Startups and micro - enterprises (SMEs) are universally understood as being significant sources of creativity and development in emerging markets as well as in mature industrialized nations. They significantly impact innovation, productivity, and a country's economic growth by creating the majority of new net jobs in nations. A recent study by the International Finance Corporation (IFC) identified four primary ways that finance contributes to the development of jobs. Financing facilitates indirect employment generation through supply and distribution chains, helps businesses launch new ventures, helps them make greater investments, and provides them with liquidity (Chirchietti, 2017).

Schlicher (2006) argues that the ability of the SME sector to increase investment per worker and hence enhance productivity and wages is severely hampered if it lacks access to external capital for investment (Schleicher, 2006). Due to their significant employment share and role in advancing these developing countries' economies, startups in African economies play an even more significant role in the creation of job opportunities.

### **Schumpeter's Theory of Innovation**

Hagedoorn (1996) discussed the importance of improvement in the performance of selected firms, noting that innovation produces wealth when old market systems are deconstructed by the launching of commodities and facilities onto the marketplace. The demise of existing businesses causes resources to be transferred from old to new firms,

allowing new enterprises to thrive. Schumpeter recognizes that creativity or innovation is an important component in the field of specialty of entrepreneurship startups.

Entrepreneurs, according to Schumpeter, help to expand an economy by introducing new goods, services, production processes, markets, and new sources of raw materials; this is because entrepreneurs are creative, imaginative, and foresighted. According to Schumpeter, development is a process that is aided by actors in an economy and so is not automated. Entrepreneurs are the agents who help the growth process. Schumpeter identified creativity and knowledge as a stimulus for the entrepreneurship ecosystem (Policy, 2008; Muathe, 2010).

However, this theory has significant flaws, such as the fact that it ignores the reality that entrepreneurs take risks and that it only applies to large enterprises, even though the state of the economy compels small business owners to copy successful models rather than come up with original ideas. In this study, Schumpeter's theory of innovation is employed since it discusses the role of innovation in entrepreneurship to assist the work of potential entrepreneurs and improve their performance.

### **Empirical Review**

Latest events in entrepreneurship research point to a shift in emphasis from viewing as individuals with particular behaviors and characteristics to gaining a comprehensive understanding of how commencement activities are occurring in various regions. Identifying the systemic roots of starting a business looks to be a crucial objective of research on this subject, given the significance of entrepreneurship in economic growth. Due to the increased emphasis on the local context in which individual entrepreneurs search for their possibilities, recognizing that both "individual's entrepreneurial activity" and "situational constraints" matter for businesses helps to build a more holistic understanding (Park *et al.*, 2021).

The majority of research papers in this field describe "start-up" as the creation of new enterprises by business people (Sangwa, 2022). As a result, start-ups and the businesspeople who founded them are frequently the key players in the environment. In particular, Wiesenberg *et al* (2020) observed that it was noted that prior research on ecosystem functions tended to concentrate on "high-growth start-ups" rather than more conventional definitions of entrepreneurship such as "self-employment" or "small businesses," with the justification that it is this type of wealth creation that helps foster, efficiency, and work opportunities.

According to the study carried out in Kenya by Muathe *et al* (2022b), With programs such Nairobi Technology Week, Nairobi Tech Week, and Sankalp, among others, Kenya's ecosystem can be of assistance for entrepreneurs has experienced extraordinary success in promoting innovation. For instance, between 2015 and 2020, investments rose in the nation to KSh26 billion (\$191.4 million), reflecting a 27.3% rise over KSh20.8 billion (\$191.4 million), which was the entire amount invested on the continent. 59 Kenyan start-ups got cash, up from 18 in 2015, making this the biggest funding ever obtained by a single nation. African start-ups raised \$1.3 billion in 2021, and Kenyan start-ups raised \$156 million, or 12% of all subsidy in Africa, for 56 start-ups. Behind South Africa and Nigeria, Kenya continues to rank third on the continent. Kenya is ranked 61st globally due to its improved business environment.

The Kenyan start-up environment, however, has fragmented due to widespread replication. Participants in the government and industry are able to establish new centers and programs before making the most of the available facilities and capital. By avoiding

opportunities for collaboration in favor of program duplication, funds that should eventually help entrepreneurs are dispersed thinly. Nairobi is the center of a lot of activity, which causes inequality throughout the nation. Additionally underrepresented in start-ups and the ecosystem generally are women and people with disabilities (Otieno & Muathe, 2022).

According to the study carried out by Rijal *et al* (2021) in Myanmar, start-ups have been working on legislative and administrative changes for start-ups. Poorly developed infrastructure, a cumbersome bureaucracy, opaque rules, a scarcity of trained labor, some of the issues that Myanmar enterprises face include limited market access and limited technological progress. According to Park *et al* (2017); Rijal *et al* (2021); Wiesenber *et al* (2020), 89 percent of setup in Myanmar based on personal or familial savings or assets for beginning investment, while only 17 % of the entrepreneurs depended on credit facilities from the beginning, and % had not implemented for a mortgage in the two years prior to the establishment the enterprise.

Many African countries, including Ethiopia, Angola, and Chad, are rated among the world's least developed. Start-ups in those African nations encounter difficulties as a result of market and production globalization, a shortage of funding, inadequate facilities, global expansion, and policy aid. According to recent London Stock Exchange Group (2018) statistics, one of the most significant challenges for entrepreneurs is a lack of finance.

With globalization, in order to compete with large firms in emerging markets such as China and Brazil, which can produce products that are both cheaper and of superior quality, African start-ups have found it difficult. A lot of startups in these African nations do not have access to basic basics like energy, transit, internet, and the Website. Because they are based in countries with a bad reputation for producing subpar goods, some start-ups cannot expand and prosper abroad. They find it challenging to join global supply chain platforms because of current regulations (Rijal *et al.*, 2021).

Zajko (2017) consists of the following critical areas of decision-making in the firm's ability to scale procedure: employees, plan, implementation, and finances. Author also proposes a set of innovative one-page tools that over 40,000 businesses around the world have utilized to successfully grow their businesses. Sutton Rao and Rao (2014) outline the primary scaling problems encountered by each company and provide commerce-offs between personalized techniques adapted to local demands and ways previously established in the organization (Zajko, 2017). He examined the elements that contribute to premature scaling, which is the leading problems during move and complexity, and provided solutions to avoid it. He underlined the need for developing both beginning and complexity environments.

According to Nathan *et al* (2004), A sized businesses is a business that has shown its manufacturing fit and has shown significant evidence of commercial traction as indicated by appropriate sector measurements, such as revenue. A. Onetti's definition of a sized businesses is an increased market-focused consulting firm that wishes to broaden its trade liberalization. Revenue, and personnel count by discovering and exploiting win-win opportunities for partnerships with existing enterprises. A scale-financial start-up's aim, like that of any capital-intensive firm, is to repay its investors.

According to Lounsbury and Glynn (2001), A magnitude is a business that has proven its process was carried and demonstrated significant market momentum, as evidenced by appropriate industry measurements. The resource acquisition domain is concerned with the extent to which communication may be utilized to supply both financial and human resources for a start-up. Start-up enterprises in the early phases of development are frequently dependent on external investors and supporters due to a lack of financial resources.



Due to their role as growth-promoting factors, start-up traits become vital to business performance. They contribute to the development of inventive businesses that serve as the cornerstone for boosting competitiveness. Capital at risk is necessary for business formation. The growth of entrepreneurship is aided by venture capitalists, who also supply risk financing. This comprises venture capitalists as well as angel investors, incubators, and accelerators. Even though undertaking financiers are undoubtedly more suited to speaking about offering to startups, it is often believed that despite the sizable number of start-ups, venture capital investors struggle to finance start-ups and SMEs. Furthermore, start-ups control economic activity and contribute significantly to GDP (Zajko, 2017).

The reasons given by Mhatre *et al* (2014) for venture capitalists' reluctance to lend to start-ups include the following Start-up capital investors are too cautious to make an investment due to the lack of a reputable networked environment, such as a credit reference bureau for tracking defaulters, loss of the ability of start-up securities firms to evaluate the creditworthiness of potential of start-ups, a limited department connections, a limited range of investment products and lending conditions, investors' risk-averse behavior, preference for Treasury bills as investment opportunities, lack of non-performing assets.. Poindexter's research has shown via many studies that start-up capital is quite worried about whether the predicted revenues from a savings in a project will be enough to justify the funding of a venture. According to research, venture capitalists (VCs) are less likely to believe entrepreneurs' "over-optimistic" estimates of their future profits and instead focus more depending on the rate of growing market and if a supply satisfies consumer need (Influence, 2011).

Before investing in start-ups' capital, according to research (Gupta & Rubalcaba, 2021; Influence, 2011), their prospective exit strategies Since VCs' funds often only last up to 10 years, they worry about whether they will be able to dispose of their investment promptly. Consequently, start-up capital's decision to invest in a venture depends on their estimations of the probabilities and timing of specific planned departure options (Brattström & Jordan, 2018).

Investors in venture capital are drawn to startups with strong growth potential, competitive barriers to entry, competent and ambitious management teams, and exit opportunities that will reward investors for their risk with profits (Psychalis, 2020). Lewandowski (2015) found that management experience, networking, high risk, information asymmetry, and high operating costs are the most significant particular classification to accessing startup finance. He conducted this study to determine the factors that affect startups' access to equity and venture capital in the Kenyan information and technology industry. Limited access, business size, the legal system, and strict requirements are further outside issues he mentioned that impact access to equity and venture funding.

## **Methodology**

The data was collected from secondary sources which were existing from various publications from international and local organizations for example world bank, and African local government directives. According to Melissa (2013), ancillary investigation is a comprehensive, methodical process with technical and diagnostic elements that can be applied in a variety of ways. Therefore, the study mainly used desktop review to collect existing relevant literature, analyze secondary data, and formulate conclusion and recommendation. The widely accessible substantial and dependable data is the main motivation for adopting this research methodology. This enabled the authors to identify

previously completed research, eliminating repetition replication while also imparting knowledge about techniques and strategies used.

## **Findings and Discussions**

### **Prevailing Government Policies, Registration process & Regulation**

Government bureaucracy in Kenya remains a difficult impediment to entrepreneurs. There are unclear government policies merged with short term start-up support program interventionism efforts based on prevailing conditions. The existing initiatives are found in different departments in different ministries sometimes with contradictory priorities and working at cross purpose. During periods of economic crisis, a supportive environment and focused legal structure will help in reducing the risk net for start-ups.

Furthermore, the devolved system of governance in Kenya (County governments) at times adds more tax levies and regulatory burdens to businesses (Mugure & Gachunga, 2014). This structure has also led to duplication of roles, legislation and implementation between the national and county governments. This has led to a creation of a difficult operating environment for startups and SMES (Mwangemi et al., 2017). Clear definition of roles between the 2 governance structures is important to ensure an optimal business environment for startups.

### **Infrastructural Support Facilities**

The availability of infrastructure facility support has been shown to have a net positive link with the creation and growth of technology-based start-ups. Access to these hubs has a direct link to start-up's launch, survival and growth. As such, areas with poor access to these hubs and prevailing benefits lag behind in startup creation, survival and growth. (Njau, Mwenda & Wachira, 2019).

### **Business development support services**

While difficulties abound, Business Development Service Providers (BDSPs) perform a key role of giving substantial support to start-ups in Kenya. However, Otieno et al. (2013) note that the effectiveness of BDSPs in this role is hindered by a prevailing weak regulatory framework. As a result, they are restricted from availing startups with non-financial solutions: These include promotional assistance, lobbying, training, facilities, consulting, and access to modern business practices.

### **Mobile Money Transactions & Agency Banking Services Cryptocurrencies**

The growth of mobile money transactions in Kenya and its effect of creation and survival of start-ups cannot be ignored. The growth and expansion of MPESA (Safaricom) services in Kenya to millions of Kenyans provides a cheaper and more widely used method of money transfer for both personal and business use (Schachter, 2019). Startups have to ensure this is widely available to customers since they ease business operations.

### **Access to Finance & Cost of Doing Business for Entrepreneurs**

The availability of capital to start a business is a key factor in setting it up. Microcredit finance is very difficult to obtain. In cases where it is available, it has been seen to increase indebtedness to recipients, increasing their already precarious economic situation (Banerjee and Jackson, 2017) thus adding financial difficulties on startups.

Most startup entrepreneurs are poor and require financing from other institutions. Microfinance institutions in Kenya require proof of the entrepreneur's credit worthiness before they can lend money to them (Dushime et al., 2022). This is very difficult to achieve.

### **Conclusion and Recommendation**

Start-ups have become one of the key pillars for the country's growth because they promote innovation, quicken institutional and structural change, increase productivity, and bring new goods and services to market, all of which contribute to regional development. Currently, given the effects of the recent economic crisis as a result of covid-19, and the war in Ukraine fostering and promoting start-up business is even more crucial. Access to funds is however, considered one of the most important elements in the startup ecosystem hence start-ups' growth and viability are put at risk due to a shortage of funding and their heavy reliance on personal capital. The study recommends a need for innovation startup financing options which are relevant and address the specific requirement of the startup ecosystem. Moreover, it was noted that there are unclear government policies supporting the startup ecosystem in Kenya, although attempt have been made how the current policies don't address the need of startups in the ecosystem. This led resulted to challenging business climate for startups and MSMEs. Long-term initiatives with clearly defined goals are required to inform and increase the knowledge of intellectual property rights among start-ups. In order to minimize the risk capital involved with start-ups throughout their early stages, the central government must provide corresponding incentives to contributions made by organizations, donors, and enterprises.

### **Contribution of this Research**

This research has a beneficial effect on the development and scaleup of startups, particularly in Kenya where various fintech businesses are seen to be flourishing. As a result of the various findings in this research, entrepreneurs and startup proprietors are in position to understand the advantages of innovation. Disruptive technology is also seen as a crucial component for successful start-ups due to the volatility associated with the entrepreneurial ecosystem, and this article clearly elaborates the value of technology-based businesses that are significantly boosting Kenya's economy.

This research also significantly indicates the role of the government in support of startups and this contributes to the growth and development of economies in developing countries as it enables governments to identify viable and profitable startups in their countries and assist them financially hence resulting into continuous scaling up. This reduces on the rate of unemployment.

In contribution to the existing literature, this research will also reecho on the awareness of the existing myths and realities around the Kenyan startup ecosystem, given the vitality of entrepreneurship, constant knowledge should me be made available for easy accessibility by researchers hence making the research to be of great significance.

### **Future Research**

There is a need for future research to do a comparative start on startup financing in East Africa member states and established financing needs, relevance and constraints in those countries. Future should also consider using primary data to triangulate the current study.

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