



Kenya

Impact Investment Landscape

May 2019



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ABOUT GSG

The Global Steering Group for Impact Investment (GSG) is an independent global steering group catalysing impact investment and entrepreneurship to benefit people and the planet. The GSG was established in August 2015 as the successor to, and incorporating the work of, the Social Impact Investment Taskforce under the UK presidency of the G8. The GSG currently represents National Advisory Boards in 21 countries plus the EU as members. Chaired by Sir Ronald Cohen, the GSG brings together leaders from finance, business and philanthropy to ensure measurable impact is considered in every investment and business decision. Our mission is to harness the energy behind Impact Investment to deliver impact at scale.

ABOUT INTELLECAP ADVISORY SERVICES

Intellectap is a pioneer in providing innovative business solutions that help build and scale profitable and sustainable enterprises dedicated to social and environmental change. Intellectap Advisory seeks to build institutional capacity and channel investments into the development sector through consulting services, investment banking services, and knowledge and information services. Our work includes innovative and focused initiatives such as capital advisory services, intermediating impact investment capital, innovation management, strategy design, market research, stakeholder engagement and policy advocacy.

Founded in 2002, the Aavishkaar and Intellectap Group have directed USD 600 Million of capital to entrepreneurs working on such challenging problems sustainably through equity funds, venture debt vehicle, microfinance lending or investment banking intermediation.

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ABOUT IMPACT INVESTMENT AND IMPACT ECONOMY

To navigate the complexity of achieving a future where no one lives in poverty and the planet thrives, we need a simple unifying principle: that it is the role of all actors in society to examine how their actions affect the people and the planet.

Impact investment optimizes risk, return and impact to benefit people and the planet, by setting specific social and environmental objectives alongside financial ones, and measuring their achievement. Impact management is a critical practice to reach this potential.

As more people and organizations get involved and become more successful in impact investing, there is a cumulative effect. A vibrant and growing impact economy can develop where businesses, investment and activity deliver tangible improvements in outcomes for people and the planet and people have choices. In the impact economy, businesses use their capabilities to optimize both their positive impact on the world and their financial return. Investors use their resources to optimize business impact, adding and creating value beyond what would otherwise be achieved. The momentum of more positive impact being generated enlivens the possibility of an inspiring future.

ABOUT THE REPORT

The GSG is working to develop and strengthen the impact investment ecosystems in Africa. It does so by helping to unlock current supply and attract new capital, as well as by sharing knowledge and building capacity of various stakeholders in the impact investment space through the support to the establishment of National Advisory Boards in several countries in Africa. This report, relying on essential work delivered by other key players and GSG's strategic partners (ANDE, GIIN, British Council and others), provides an overview of the state of the impact investment sector in Kenya, looking at the five pillars of the impact sector ecosystem – supply of capital, demand for capital, intermediaries of capital, government & policy makers and ecosystem support providers. This report aims to provide investors and other market players with relevant information on the impact investment landscape in Kenya. It highlights existing opportunities and challenges for the impact investors and entrepreneurs, and will be used to inform the formation of National Advisory Boards and their subsequent national impact investment strategies.

In addition to providing information on impact investing with this study, the GSG is working to strengthen the ownership and engagement of countries around impact investment. The GSG is currently supporting several countries in Africa in the formation of National Advisory Boards (NABs) for impact investing. A NAB is vanguard for impact investment and serves as a national platform for private, public, and civil society actors to work together to create an enabling environment for impact investing. The findings of this report will therefore contribute to enhanced understanding of ecosystems by future NAB members, as well as provide relevant information as the countries develop their strategies.

INTRODUCTION: THE RELEVANCE OF IMPACT INVESTMENT IN KENYA

COUNTRY CONTEXT

Impact investment momentum in Kenya is growing fast due to a young, enterprising and ambitious population, a number of social or environmental challenges which need investment, and rates of return which are attracting the attention of private impact investors. Looking ahead, this momentum is unlikely to cease. This is due to positive trends in terms of the political, economic and in the business environment which render Kenya a potential hotbed of private impact investment.

Economically, Kenya has seen GDP growth averaged between four and six percent annually since 2011 and there is little indication of decline: the World Bank estimates that the annual growth in 2019 will be 6.1 percent.¹ This will be driven largely by population growth, urbanization and growth in private consumption through a rise in real incomes. Investing momentum in Kenya, in general, is strong. Foreign direct investment (FDI) in Kenya increased to USD 672 million in 2017², representing a 71 percent increase from 2016. This is particularly striking considering the 22 percent drop in FDI in Africa as a whole and a 23 percent fall-off globally.³

Recent government initiatives also support the impact investment movement. In 2018, the government of Kenya launched its *Big 4 Agenda*, outlining its four big priorities over the next five years: food security and agricultural productivity, affordable housing, manufacturing, and universal health coverage. Importantly, the government has publicly acknowledged the importance and significance of entrepreneurs and investors as the key to achieving this agenda.

Despite economic progress and growing support for social sectors, 86% of low-income households in Kenya still face challenges in accessing basic goods and services.⁴ This presents a huge opportunity for impactful and profitable businesses to develop products and services targeting these low-income, underserved customers and thus, highlights the need of impact capital in the country.

Table 1: Fact chart for Investors

Factors	Index Score / Rank	Description
Population (2016)	48.5 Million ⁵	Kenya has been experiencing high population growth rate (2.56%, 2016)
Poverty Index (2016)	36.1%	According to the 17 th edition of the Kenya Economic Update, Kenya has experienced ~10% reduction in the percentage of its population living under the international poverty line (46.8% in 2005/06 to 36.1% in 2015/16)
Gender Inequality Index (2017)⁶	0.549	Gender inequality index measures inequality between men and women on three parameters: reproductive health, empowerment and the labor market. Kenya's gender inequality index value as of 2017 is 0.549, with the rank of 137

¹ World Bank Kenya country data

² World Investment Report 2018, UNCTAD

³ World Investment Report 2018, UNCTAD

⁴ IFC Consumption database

⁵ World Bank Kenya country data

⁶ Human Development Reports, UNDP

Factors	Index Score / Rank	Description
GINI coefficient (2015)	40.8	Between 1992 and 2015 (latest figures available), Kenya's GINI coefficient changed from 57.5 indexes to 40.8.
Human Development Index (2017)	0.590 (rank 142)	As of 2017, Kenya lies in the medium human development category. Between 1990 and 2017, Kenya's HDI value increased from 0.468 to 0.590, an increase of 26.1 percent. ⁷
GDP (2016)	70.875 Billion ⁸	Due to drought, weak credit growth, security concerns and increase in oil prices, Kenya's GDP growth was 4.9% in 2017. However, medium-term GDP growth is expected to rebound to 5.8% in 2018 and 6.1% in 2019.
Per Capita GDP (2017)	US\$1,507.8	Kenya's ratio of poverty to GDP per capita is close to that of the sub-Saharan Africa average. Compared to other countries such as Ghana and Uganda, Kenya has a higher ratio of poverty to GDP per capita.
Financial Access (2017)⁹	75%	Financial inclusion is growing fast in Kenya. In 2006, 40% of Kenyans were excluded from any form of financial services while in 2016; this number was reduced to 17% primarily because of the launch of M-Pesa. ¹⁰
Ease Of Doing Business (2018)	61	Kenya improved on its Ease of doing business ranking, moved to 61 in 2018 from 80 in 2017.
Unemployment Rate (2017)	11.5% ¹¹	The unemployment rate has been fairly constant over the past 8 years; only declining at a rate of 0.74%.
Corruption Index (2017)	143 ¹²	Kenya is ranked among the top 50 most corrupt countries in the world according to the Global Corruption Perception Index (CPI) report. There has been no marked improvement over the past 3 years.

⁷ UNDP: Human Development Indices and Indicators: 2018 Statistical Update

⁸ World Bank Kenya country data

⁹ 2016 FinAccess Household Survey by FSD Kenya

¹⁰ Kenya Country Report: Navarra Centre for International Development

¹¹ World Bank Kenya country data

¹² Global Corruption Perception Index (CPI) report by Transparency International

GOVERNMENT PRIORITIES

The Government of Kenya has outlined its four big priorities for five years (2018 and 2022), also known as the Big 4 Agenda - food security and nutrition, affordable housing, enhancing manufacturing, and providing universal health coverage. The Big 4 Agenda is aimed to assist Kenya in moving towards its 2030 vision of becoming a middle-income economy.

Table 2: Spotlight on Government's Big 4 Agenda

Focus Area	Challenges
Food Security and Nutrition	The agriculture sector is a major driver of the Kenyan economy, contributing about 51% (25% directly and 26% indirectly through other sectors) to GDP. ¹³ The sector accounts for approximately 63 percent of employment and 65 percent of the country's exports. ¹⁴ Yet notwithstanding this, productivity in the sector remains low, particularly in grains. For instance, yields per hectare of maize, Kenya's main staple food, was lower in 2014 (1628 kg/ha) than in 1994 (1918 kg/ha). ¹⁵ With low levels of productivity in the sector and a growing population, there remains a structural food deficit which contributes to the trade deficit, food insecurity, and poor nutritional outcomes. Further, most of the poor in the country are employed in the agriculture sector; hence addressing the constraints in the sector would go a long way in poverty and food security reduction and boosting country's overall growth and employment. The Government, under its Big4 Agenda, has set the goal to make country food secure by 2022.
Affordable healthcare / Universal Health Coverage (UHC)	Under this Agenda, Government of Kenya aims to increase the health insurance coverage, increase access to quality healthcare services and offer financial protection to people when accessing healthcare. ¹⁶ Kenya developed UHC roadmap to achieve affordable healthcare; key components of it included increase in funding to health sector, definition and provision of basic essential healthcare services from both public and private sector, strengthening of National Hospital Insurance Fund (NHIF), strengthening of quality and accreditation system and legal and regulatory framework, development of multisector approach for enhancing service delivery. ¹⁷ In order to ensure universal access to quality and affordable healthcare, the government plans to ensure every Kenyan is covered under the National Hospital Insurance Fund (NHIF) medical insurance cover by 2022.
Enhancing Manufacturing	With the changing demographic trends of the country, it is imperative for economic growth to be driven by sectors such as manufacturing which have high potential for job creation. Unfortunately, the contribution of the manufacturing sector to GDP has been on the decline. Under its Big4 Agenda, the government aims to counter this by improving Kenya's manufacturing competitiveness and value of Kenyan products thereby increasing the manufacturing sector's contribution to 20% of the GDP by 2022.
Affordable Housing	The housing deficit in Kenya is large and growing with an estimated housing shortfall of 2 million units. ¹⁸ An additional 500,000 dwellers come to the city every year, thus aggravating an already untenable situation where 61 percent of urban households live in informal settlements (compared to 50 percent in Nigeria and 23 percent in South

¹³ FAO: Kenya at a Glance (<http://www.fao.org/kenya/fao-in-kenya/kenya-at-a-glance/en/>)

¹⁴ STRATEGIC PLAN FOR AGRICULTURAL AND RURAL STATISTICS, Kenya National Bureau of Statistics

¹⁵ FAO data

¹⁶ Kenyan roadmap to Universal Health Coverage

¹⁷ ibid

¹⁸ <http://www.worldbank.org/en/country/kenya/publication/kenya-needs-2-million-more-low-income-homes-building-them-would-boost-its-economic-growth>

Focus Area	Challenges
	<p>Africa). Many Kenyans are forced to live in slums because of the limited supply of affordable housing. Hence, there is a critical need to deliver housing at the lower end of the income spectrum. The Government of Kenya has taken this as a priority and aims to build one million homes by 2022.</p>

THE LANDSCAPE OF IMPACT INVESTMENT IN KENYA

SUPPLY OF CAPITAL

Kenya continues to be the most attractive destination in East Africa for impact investors

According to a 2015 study by the Global Impact Investing Network (GIIN), at least 136 impact capital vehicles are active in Kenya, managed by 95 private impact investors (excluding Development Financial Institutions (DFIs)).¹⁹ This figure is most likely to have increased since 2015, but comprehensive latest data is not yet available.

Between 2005 and 2015, almost half of all impact capital disbursed in East Africa had found its way into the Kenyan market, representing more than US\$650 million of private impact investment capital and more than US\$3.6 billion of DFI capital.²⁰ Majority (~55%) of the deals made by private impact investors were of less than US\$ 1 million whereas the majority of deals (~65%) by DFIs were between US\$ 5 million to US\$ 50 million.²¹

Significant investments have been made in the energy sector by government and private commercial investors primarily on last mile connectivity projects. Impact investors also followed the lead for improving energy access in the country. Between 2005 and 2015, Development Financial Institutions (DFIs) made over US\$ 1.5 Billion worth of investments in the renewable and clean energy markets (off-grid energy projects primarily), making energy as one of their preferred sectors.²² Both forms of investments played their respective roles in contributing to huge benefits for the community: the access to electricity rate in Kenya jumped considerably from 32% in 2013; to 73.42% by the end of April 2018.²³

The financial services sector also received a large proportion of impact investment, with US\$1Billion invested over the same period.

Angel investing is gaining momentum in Kenya

Angel networks and investing platforms like VC4Africa, Kenyan Business Angel and Investment Network, Viktoria Solutions, and Intellecip's Impact Investing Network have made some strides in bringing together High-Net-Worth individuals and

Supply of Capital for impact investment sectors includes capital from foundations, Development Finance Institutions (DFIs), institutional investors, private equity funds/venture capital funds, early stage impact funds, angel investors.

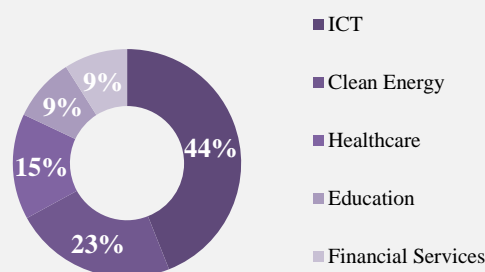
Over 130 impact investment vehicles active in Kenya

Over US\$ 4.2 Billion deployed by private impact investors and DFIs between 2005-2015

Energy and Financial services are preferred sectors for impact investors

Angel investing is picking up in Kenya with total of US\$ 10 Million invested since 2008

Sector focus of Angel investors



Source: #Closing the Gap Kenya, Intellecip report

¹⁹ The Global Impact Investing Network (GIIN), 2015, The Landscape for Impact Investing in East Africa

²⁰ Ibid

²¹ Ibid

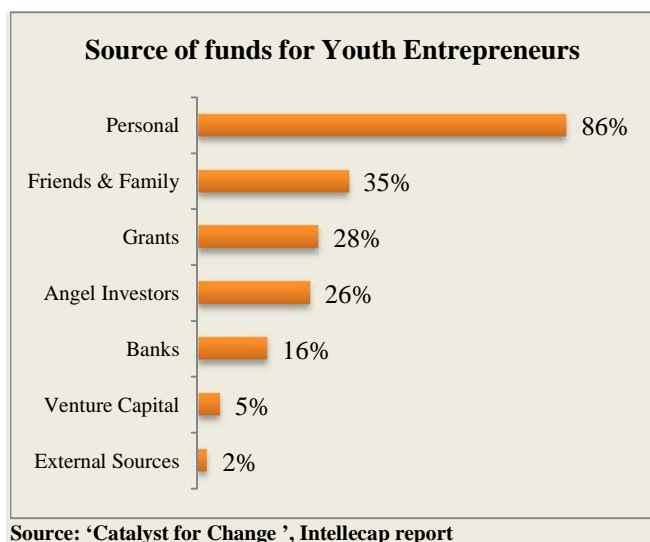
²² The Global Impact Investing Network (GIIN), 2015, The Landscape for Impact Investing in East Africa

²³ The Energy Progress Report, Kenya

raising the profile for angel investing in Kenya. A total of approximately US\$10Million has been invested by Angel investor in Kenya since 2008, spread across 82 investments.²⁴ Ticket size generally ranges from US\$20,000 – US\$500,000. Average (mean) ticket size of investments is US\$140,000.²⁵ Angel investors have funded only 2% of Kenyan startups, most of which are in the ICT sector.²⁶ It is observed that angel investors, who have made investments, preferred co-investing with other angel investors.

Impact investors in Kenya are moving to invest in growth stage enterprises with larger ticket sizes

The impact investment sector picked up in Kenya post-2008. Prior to 2008, impact investors were primarily investing in start-ups and early-stage enterprises with ticket sizes ranging between US\$ 20,000 and US\$ 1 million. Over the last decade, there has been an increase in ticket sizes to upwards of US\$3 million. This has been the consequence of increase in number of enterprises looking for larger investment. The trend has enabled the growth and expansion of many companies. Though it is a positive development in terms of the quantum of capital deployed, this recent trend has exacerbated the problem of lack of seed capital for early-stage enterprises. The British Council report (2017) states that majority (64%) of social enterprises in Kenya are still in their early stage of growth i.e. established in last five years and have an average number of employees between 10-15.²⁷ Such enterprises require small ticket-size capital (< USD 100,000), but limited capital is available at that stage.



Private investment capital in Kenya is mostly foreign originated

As per the KPMG survey on the deal activity in the East African region, 75% of investors investing in Kenya mentioned that their source of funding originates from international investors based in Europe and North America. This includes DFIs, high-net-worth individuals, family offices, insurance companies, and asset managers.²⁸

Key barriers to supply of capital

Below are main barriers hindering the increased flow of impact capital in the market, organized in order of their relevance:

- **Limited availability of unique and scalable enterprises:** Despite many upcoming social enterprises in the country, there are very few business models that are both unique and scalable. Investors expressed concerns about high rate of duplication of business ideas– with limited innovation focused on developing new solutions that are solving real development challenges of the country.

“Water and sanitation are big problems in Kenya but we find very few investable and scalable business models in this space.”

Investor, Kenya

²⁴ Intellectap, 2015, Closing the Gap Report

²⁵ Ibid

²⁶ Ibid

²⁷ British Council, 2017, The State of Social Enterprise in Kenya

²⁸ KPMG & EAVCA: Private equity sector survey for East Africa for the period of 2015 to 2016

Investors further expressed concerns about entrepreneurs' and their team's lack of skills, particularly in areas of financial management, innovation, and growth strategies. In the absence of such critical skills amongst team members, businesses in Kenya often face challenges in growing and scaling their businesses; critical parameters that investors look for while investing in a business.

Box: Capacity building and skilling of youth and entrepreneurs

Ecosystem support players such as incubators, accelerators and business development service providers can develop technical assistance programs which provide stage appropriate capacity building support to entrepreneurs; i.e. support entrepreneurs through customized programs developed in accordance to varied needs at various stages of their businesses.

Further, in order to build practical business skills amongst the youth, the universities in Kenya can change their pedagogy from theoretical to practical. This can be done by incorporating work-based learning programs, internships and on the job training programs, in the curriculums. While some universities in Kenya have launched their incubation centers to promote entrepreneurship, more such initiatives need to be developed to promote entrepreneurship in the country.

Further, it is also observed that enterprises in Kenya prefer informality of their business i.e. not maintaining formal business records, not submitting their annual taxes etc. This can be attributed to high tax rates, which are sometimes unsustainable for small businesses and also to long bureaucratic government processes. This prevalence of informality further makes it difficult for investors to invest in these businesses and thus, resulting in a limited pipeline of investable businesses for impact investors.

Government of Kenya launched 'Presumptive tax' for small businesses in January 2019. The tax replaces 'Turnover Tax' and is applicable for businesses with turnover less than KSH 5 Million (~USD 50,000). Unlike turnover tax which was pegged to annual turnover, presumptive tax is payable at the rate of 15% of the Single Business Permit (SBP). This tax will be paid at issuance or renewal of SBP. Through this tax, government is aiming to widen its tax base and also to simplify the tax processes for small businesses (primarily in informal sector); however results/success of this tax can be evaluated only at end of financial year 2019.

- **Exits are a challenge:** Impact investors rely on the capital market/stock exchanges and developed private equity sector, as potential exit routes for their investments. However, in Kenya, both capital and private equity markets are still nascent and offer limited options for impact investors to exit their investments. Further, interviewed investors mentioned that the growth of enterprises in the country is usually slower than expected. This can be attributed to external factors such as fluctuating currency, bureaucratic regulations, competition in the market or internal factors such as young entrepreneurs with limited business experience, skill gaps in team etc. This results in investors having to wait for longer time periods before they reach the desired returns and consequently, delays in the exit process.

As of date, most exits in the country have been through a secondary buyout, wherein other investors have bought the stakes of earlier investors.

Box: Spotlights on exits in country

GoodLife Pharmacy is a pharmaceutical and wellness products retailer which provides quality and affordable products to its customers across the country through various retail outlets. It also provides clinical services in its retail stores through telemedicine. Counterfeit drugs in Kenya account for as much as 20-25% of total legal pharmaceutical market; GoodLife Pharmacy is working towards solving this challenge by supplying quality drugs to its customers and in pursuit working towards the SDG goal 3.8 “Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all”.

Catalyst Principal Partners invested in GoodLife Pharmacy in 2014 to finance the retailer’s expansion plans of increasing the footprint in the country. GoodLife further received the investment by IFC in 2015.

In 2016, Catalyst Principal Partners exited its investment in GoodLife by selling its equity stakes worth ~USD 20 Million to Leapfrog investments. Leapfrog's investment in GoodLife was guided by its strategy to partner with companies that are addressing healthcare challenges in emerging markets.

Bamba is a real-time data gathering platform that engages with customers in the emerging markets via mobile feature phones. It provides virtual data collection service to its clients to communicate and obtain feedback from beneficiaries, clients, suppliers, etc. Bamba uses the model wherein it also rewards individuals with mobile airtime for completing the surveys. Getting the right data is a challenge in most emerging countries and Bamba is solving that by democratizing the data.

The founders of the company exited their investments in 2018, as it was acquired by UK based Maximeyes Group, a business incubator, investor, and energy solutions provider.

DEMAND FOR CAPITAL

The growing middle class and emerging domestic markets have resulted in the proliferation of youth entrepreneurship in Kenya.

More than 80 percent of the population in Kenya is under the age of 35 years.²⁹ Absence of adequate avenues for formal employment on one hand and emerging domestic market on the other has resulted in Kenya's youth moving from ‘job seeking’ to ‘job creating’ mindset and in turn, exploring entrepreneurship as a means of livelihood. As per the latest estimate by the British Council, there are over 44,000 social enterprises³⁰ in Kenya, 64% of which were created between 2013 and 2016³¹, validating this phenomenon. These social enterprises comprise of both high growth ventures, which are potential deal flow for impact investors, as well as livelihood sustaining businesses.

A social enterprise seeks to maximize its profits while maximizing benefits to society and the environment. **Demand for capital** includes capital demand from both for-profit and not-for-profit ‘social enterprises’ at various stages of growth.

The number of investment funds is increasing in the country, however, the funding is going to selected few enterprises.

More investment funds are entering the region; however, they are investing in the same enterprises with the majority of funding being allocated to the larger expat founded social enterprises. For instance, just five enterprises - M-Kopa, (off-grid electricity, PAYG company), Angaza, (sales and payment

²⁹ The Kenya Youth Survey Report(2016) by Alex O.Awiti & Bruce Scott at The Aga Khan University

³⁰ Primary criteria used to define social enterprises in the study: Organizations placing emphasis on achieving social/environmental mission alongside profit, organizations with less than 75% of their income from grant funding

³¹ British Council, 2017, The State of Social Enterprise in Kenya

management provider), Tala (a consumer lending app), Off-Grid Electric (clean energy provider) and Branch (a lending app) - received over 70% of disclosed investments in the region between the period of 2015 and 2017.³²

Box: Twiga Foods solving challenges post-harvest and market access challenges for smallholder farmers	
<p>Sector: Agriculture</p> <p>Enterprise: Twiga Foods</p> <p>Model: B2B platform for agriculture produce</p> <p>Year of establishment: 2013</p>	<p>Total capital raised: US\$ 30.4 Million over 8 rounds</p> <p>Investments/Funding rounds:</p> <ul style="list-style-type: none"> • 2018: US\$ 10 million from IFC, TLcom, DOB equity, Adolph H.Lundin, Wamda Capital, 1776 ventures • 2018: US\$ 7 million from IFC & TLcom • 2017: US\$ 10.3 million from Wamda Capital, 1776 Seed investors, Alpha Mundi, Blue Haven Initiative, DOB equity, Omidyar network, Uqalo • 2017: US\$ 50,000 from Google Launchpad accelerator • 2017: US\$ 2 million from USAID • 2016: US\$ 1 million from 1776 ventures
<p>Challenge: Small scale farming accounts for over 75% of total agricultural output in Kenya. However, adequate price realization for smallholder farmers has been a key challenge in the country because of the lack of an efficient supply chain, warehousing facilities, assured markets for farmers. These challenges also result in high post-harvest losses and create food insecurity in the country.</p> <p>Solution: Twiga Foods aims to solve these challenges by creating linkages between farmers and vendors of agricultural produce. To farmers, it provides a guaranteed market, fair pricing, technical advice and access to credit and to vendors, it provides better quality produce, better prices, guaranteed product supply and safety of products. Twiga has created a mobile-based business-to-business (B2B) supply platform where farmers and vendors can register and access its services.</p> <p>Impact: Twiga Foods currently operates through 25 collection centers and employs 240 staff. It has become the largest seller of bananas in Kenya having sourced more than 245 tonnes of bananas each week from over 3,000 farmers. It is currently connecting over 8000 farmers with 5000 plus vendors, who make orders via its platform on a weekly or bi-weekly basis.</p>	

Key barriers to the growth of Social Enterprises

Below are the main barriers hindering the growth of social enterprises in the country, organized in order of relevance:

- **Demand and supply mismatch in funding availability:** Currently, there is a mismatch between the demand and supply of impact capital available in the country - ticket sizes and time frames at which

³² Breaking the Pattern: Village Capital/BMGF Foundation, 2017 report

investors provide capital and ticket sizes and time frames that enterprises are looking for don't match. The British Council report (2017) states that majority (64%) of social enterprises in Kenya are still in their early stages of growth i.e. established in last five years and with an average number of employees between 10-15³³; such enterprises require small ticket-size financing (< USD 100,000), but there is dearth of capital in the form and of the size that they are looking for. On the other hand, the same problem persists even for slightly bigger enterprises 'missing middle', that are too big to avail finance from traditional financiers such as microfinance but are too small or risky for private investors. Youth and women entrepreneurs face additional challenges in accessing capital, aggravated by lack of appropriate networks, business skills, and mentoring and capacity building support. Most investors do not prefer investing in early-stage enterprises as these enterprises also require technical assistance and business development services (BDS) services support and when such support is provided, cost of investment becomes higher than financial returns; thus rendering such investments financially non-viable.

"In the agriculture sector, while investors are looking to invest in enterprises that are working directly with smallholder farmers, there are a number of enterprises in logistics of agri-value chain that are investable and scalable but find it difficult to raise capital as they don't fit the regular impact story. These enterprises may not be directly working with smallholder farmers but still creating an impact on a broader scale such as reduction in post-harvest losses."

Social Enterprise, Kenya

- **Due-diligence processes are long and tedious:** Many investors have now started to open their local offices; however most have their investment committee members still sitting outside of Kenya. These investment committee members have limited contextual knowledge of investment and entrepreneurial environment in Kenya and tend to gauge risks higher than actual risks on the ground. In order to mitigate their risks, investors often conduct long and tedious due-diligence processes resulting in 'process fatigues' at entrepreneurs' end. The problem is further worsened by the fact that most enterprises in Kenya lack necessary documentation such as financial statements, pitch deck, information memorandum etc., required for due diligence and therefore investors have to rely on their physical field visits for evaluating health of the company. These factors result in lengthening the due diligence process, often stretching to 12-18 months.
- **Human capital challenges impede fundraising initiatives:** Social enterprises tend to face a dilemma - on one hand, they can't raise money in the absence of the right team, whilst on the other hand, they can't afford to have the right team without raising money. The three main talent challenges that often affect the social entrepreneurs are:
 - **Skills Gap:** Most enterprises interviewed mentioned severe skills gaps including lack of technical, functional and leadership skills, hindering their business growth. Leadership, particularly at senior management level, is the most commonly cited issue across Kenya. Reasons for lack of skills are often linked to the education systems which fail to adequately prepare students for the job market particularly for the cognitive and softer skills. The problem is acute across Africa, and not just in Kenya, which does not have a single university listed in the top 150 on the *Global Employability University Ranking*.
 - **Cost of Talent:** There is limited high quality talent pool available in the country. Supply and demand mismatch has resulted in cost of talent to be high, making it prohibitive for social enterprises to acquire these skills, particularly in their early stages, when they are already boot-strapped and struggling to get capital for their businesses.
- **Instability of local currency makes it hard for social enterprises to raise foreign debt:** While enterprises earn most of their revenues in local currency (Ksh), repayment of dividend/debt in most instances is required in hard currency (USD, Euro). The Kenyan currency has been fairly stable for past few years, but the currency is still highly prone to shocks and fluctuations from both internal and

³³ British Council, 2017, The State of Social Enterprise in Kenya

external market conditions. Depreciation of local currency makes it difficult for Kenyan enterprises to repay their foreign dominated debt. Some currencies hedging funds have opened shops for Kenyan social enterprises but their costs are still prohibitive as they charge between USD 5000 and USD 10,000, depending on the size of company, for due diligence and their lending rates are no better than commercial banks.

Box: Bridge International providing affordable and quality education to underserved children	
Sector: Education	Total capital raised: Over US\$ 20 Million (disclosed)
Enterprise: Bridge International Academies	Investments/Funding rounds: <ul style="list-style-type: none"> • 2014: US\$ 7.6 Million from CDC • 2015: USD\$ 10 Million from Chan-Zuckerberg initiative • Some of the other investors: Bill Gates, NEA, Omidyar Network, IFC, Learn Capital, Novastar Ventures
Challenge: Access to quality education remains a huge challenge in Kenya. With the introduction of free primary school education in Kenya, access to education has improved, however, the quality of education offered in public schools still remains low.	
Enterprise solution: Bridge International works with governments, communities, teachers, and parents to deliver nursery and primary education in Africa and Asia. Using data and technology, the Bridge manages the administration of the school, delivering lesson plans to teachers and facilitating classroom management. ³⁴ The company also specializes in creating instructional material and capacity building and development for teachers and other staff.	
Impact: The company has over 300 low-cost private schools and over 100,000 students in Kenya. It charges an average fee of US\$ 7 per month per child. Students from bridge academies have consistently outperformed the national average in the Kenyan Certificate of Primary Education (KCPE) exam over the last three years (2015, 2016 and 2017). ³⁵	

INTERMEDIARIES OF CAPITAL

Kenya has a high cost of credit.

Despite the interest rate capping introduced by the Central Bank of Kenya in 2016, which limits lending rates to 4 percentages above the Central Bank Rate, the cost of credit is still very high in the country. A report by Kenyan Bankers Association published in June 2017 shows that some of the biggest banks in the country add high processing fees to the

Intermediaries of capital include institutions such as banks, MFIs, fintechs, etc., assisting social enterprises with intermediate capital

³⁴ <https://www.cdcgroup.com/en/our-investments/investment/bridge-international-academies/>

³⁵ <https://www.bridgeinternationalacademies.com/home/faq/>

charged interest rates, bringing the cost of credit to 20-25%, which makes it unaffordable for small and growing businesses. The same report also mentions that costs are even higher and reach up to 40% for a large amount and small duration loans.³⁶

Fintechs in Kenya are acting as intermediaries and filling the missing financing gap.

Fintechs are rapidly booming in Kenya driven by financing gap in the market, high mobile and internet penetration, and a unique blend of technology innovations. There are over 30 fintech companies in Kenya that are providing small and microloans and credit facilities and serving the demand of micro and small businesses that traditional financiers often shy away from.

Box: Branch International reducing the cost of financial services and providing access to microcredit	
<p>Sector: Financial Services</p> <p>Enterprise: Branch International</p> <p>Model: Online lending platform</p>	<p>Total capital raised: US\$ 84.7 Million over 5 rounds</p> <p>Investments/Funding rounds:</p> <ul style="list-style-type: none"> • 2018: US\$ 3.5 Million in debt funding from Barium Capital • 2018: US\$ 70 Million from IFC, Trinity Ventures, Victory Park Capital, Andreessen Horowitz, CreditEase Fintech Investment Fund • 2017: US\$ 2 Million from Nabo Capital • 2016: US\$ 9.2 Million from Andreessen Horowitz, Formation 8 and Khosla Impact
<p>Challenge: Access to credit for micro and small businesses has always been a challenge in the country. Traditional lenders such as banks and MFI's have long tedious application processes and have high collateral requirements which are not always possible for many small traders and micro businesses.</p> <p>Enterprise solution: Branch International offers loans ranging from USD 2.5 to USD 700 at monthly interest rates of 1-14%. Customers are able to request for loans through the branch mobile application and receive funds through M-Pesa, with no late or rollover fees, and without any collateral requirements.</p> <p>Impact: As of 2017, the company has disbursed over USD 35 million worth of microloans starting from US\$ 2.5, has a customer base of over 350,000 customers and has made over 1.5 million transactions in Kenya.³⁷</p>	

GOVERNMENT / REGULATORY PLAYERS

Over the past five years, the government has tried to curb the rising unemployment rates by working with its development partners to support the growth of micro and small enterprises (MSEs) across the country.

Kenya's population is young: more than 80 percent of Kenyans are less than 35 years old.³⁸ The highest unemployment rates are for people around 20 years old, at 35 percent.³⁹ Young people joining the labor

³⁶ Cost of credit report by the Kenya Banker's Association (2017)

³⁷ <https://www.businessdailyafrica.com/corporate/companies/Virtual-lender-Branch-Kenya-loans/4003102-4039972-sxnths/index.html>

market (aged 15-16) face unemployment rates of above 20 percent, but rates are even higher for older age groups and are highest for 18-20 year-olds.⁴⁰ In response to the youth bulge, the government has set up relevant bodies meant to support the growth of micro, small and medium enterprises so that they can create employment and/or improve the livelihoods for the youthful population in the country.

Key Government Initiatives

The following are key initiatives taken by the government for the promotion of investments/social enterprise sector in Kenya:

- **Kenya Investment Authority (KenInvest)**

Kenya Investment Authority (KenInvest) is a statutory body established in 2004 with the main objective of promoting investments in Kenya. It is responsible for facilitating the implementation of new investment projects, providing after-care services for new and existing investments, as well as organizing investment promotion activities both locally and internationally.

Relevance to the sector: This step by the government has improved the country's ranking in the World Bank's Ease of Doing Business Index (129 in 2013 to 61 in 2018). Recently, KenInvest has also put in place an *eRegulations program* making it easier for investors and entrepreneurs to invest in the country.

- **Micro and Small Enterprises Authority (MSEA)**

MSE Act established the Micro and Small Enterprises Authority (MSEA), housed within the Ministry of Industrialization and Enterprise Development. The MSEA was established in 2013 in order to promote, develop and regulate the Micro and Small Enterprises (MSE) Sector in Kenya. Social enterprises are not recognized separately and are included in MSE sector in Kenya. The Authority is responsible for developing and reviewing policies and programs, promoting and developing the MSE sector, monitoring and evaluating the implementation of policies, programs and activities related to MSE and social enterprises development. In addition, the Authority was established to coordinate, harmonize and facilitate the integration of various public and private policies, programs and activities related to Micro and Small Enterprises in Kenya.

Relevance to the sector: Since inception, MSEA has facilitated over 1,450 MSEs to participate in various exhibitions countrywide. It has also supported entrepreneurial and skills upgrading programmes by training more than 2,000 MSEs spread across various counties. In 2018, MSEA launched the Kenya Youth and Entrepreneurship Project (KYEOP) with the World Bank to promote youth entrepreneurship in the country.

- **Information and Communication Technology (ICT) Authority**

The ICT Authority has the mandate to foster the development of ICTs in Kenya (including businesses, innovation and capacity building), implement and maintain systems and technology for the government, oversee the development of integrated information and communication technology (ICT) projects, and to develop and enforce ICT standards for the government.

Relevance to the sector: In March 2015, ICT authority launched **Enterprise Kenya**, a national accelerator to catalyze innovations in ICT space. Enterprise Kenya drives engagements with relevant government agencies to review the current procurement law with the aim of giving Kenyan ICT businesses more opportunities to supply to government technology solutions. The entity is also looking at the establishment of an **Equity Fund** to support ICT innovations that could be quasi-

³⁸ The Kenya Youth Survey Report(2016) by Alex O.Awiti & Bruce Scott at The Aga Khan University

³⁹ Argidius Foundation, 2015, The Entrepreneurship and Enterprise Growth Landscape in Kenya

⁴⁰ Argidius Foundation, 2015, The Entrepreneurship and Enterprise Growth Landscape in Kenya

government or private; and the creation of **ICT Centers of Excellence** that are linked to government ICT spending.

▪ **Ministry of Public Service, Youth and Gender Affairs**

For mainstreaming of gender in national development processes and to champion socio-economic empowerment of women, the state department of Gender affairs was created from the Ministry of Devolution and Planning in November 2015. The department is responsible for expanding credit financing to youth and women for enterprise development and for ensuring equality in gender representation in all public appointments.

Relevance to the sector: Some of the initiatives rolled out by the ministry targeted at youth- and women-led micro, small and medium enterprises (MSMEs) include:

➤ **Youth Enterprise Development Fund (YEDF)**

Youth Enterprise Development Fund (YEDF) was established in the year 2006 with the objective of reducing unemployment among the youth, who account for the majority of unemployed in the country. The fund targets young people within the age bracket of 18 to 35 years. The fund offers a variety of loans and financing products, as well as training and mentoring to youth-led enterprises.

➤ **Uwezo Fund**

Uwezo Fund is aimed at expanding access to finances and to promote women, youth and persons living with a disability, led enterprises at the constituency level. It runs a Capacity Building Programme to provide mentorship support to its beneficiaries to take advantage of the 30 percent government procurement preference. The fund is aimed at supporting the incubation of enterprises, catalyzing innovation, promotion of industry, the creation of employment, and growth of the economy. It provides loans to qualifying groups and is administered locally. The government has disbursed over **US\$51 million** under the Uwezo Fund.⁴¹

➤ **Women Enterprise Fund (WEF)**

Women Enterprise Fund was established in August 2007, as a Semi-Autonomous Government Agency under the Ministry of Public Service, Youth & Gender Affairs. It provides accessible and affordable credit to women for starting and/or expanding their business; as part of the Kenyan Government's commitment to the realization of sustainable development goals on Gender Equality and Women Empowerment (SDG 5). Within a span of four years this commitment had made significant progress, evident from the fact that the Fund was awarded as the winner of the '*Sustainable Development Goals Award for outstanding achievement on Promoting Gender Equality and Women Empowerment*' in 2011. Under the WEF, the government has disbursed over **US\$20 million** between the period of 2007 and 2012.⁴²

⁴¹ <http://www.uwezo.go.ke/disbursements>(March 2019)

⁴² Research: How effectively is the Women Enterprise Fund Managed? By Prof.Ruth Kiraka, Strathmore University

Key Barriers in the regulatory framework

Although the government has rolled out a number of positive regulatory initiatives, the following barriers hinder the development of impact investment sector in Kenya:

- **Bureaucratic process of obtaining licenses and permits (such as patents) from government bodies:** Two-thirds of social enterprises interviewed mentioned that government of Kenya has long bureaucratic processes which delay the rolling out of their products and services into the market. For example, it can take up to 6 months to 1 year to register a patent with the Kenya Industry Property Institute (KIPI). Without the necessary permits, the products cannot be launched in the market; this eventually results in delays to raise capital from external investors who would like to see some traction in the market before they can invest in a business.
- **Interest rate capping following the coming into effect of Banking Act (2016):** The interest rate cap was introduced in 2016 by Central Bank of Kenya, limiting lending rates between zero to four percent above the Central Bank Rate. The rate cap was aimed at helping small and medium businesses access capital at affordable rates; however, it had the exact opposite effect. With not being able to price risk the loans appropriately, banks have become more risk-averse and have started to view loans to small borrowers such as small and medium enterprises (SMEs) and individual applicants, riskier and expensive to manage. Thus, banks in Kenya tend to offer less credit to such borrowers and prefer lending to government and large private borrowers which provide them stable and better returns. Given that most of the social enterprises are also SMEs, they also find it difficult to raise debt capital from banks.
- **Delays in closing mergers and acquisition transactions:** All mergers and acquisitions require Competition Authority of Kenya's (CAK) authorization before they are finalized; reason being that CAK regulates the abuse of dominant position and other competition and consumer-welfare related issues in Kenya. Currently, all transactions below KES 1 Billion (~USD 10 Million) need 14 days for approval whereas those above KES 1 Billion (~USD 10 Million) are reviewed and approved within 60 days. CAK is working on a suggestion that seeks to impose a threshold so that only transactions above KES 0.5 Billion (~USD 5 Million) are notifiable to them. They are also working on block exemptions for certain sectors e.g. sports and entertainment.
- **Lack of recognition of the social enterprises by the government:** There is no recognition of social enterprises (SEs) in the country's current regulatory framework and thus they often run into registration dilemma at the point of registering their entities. Social enterprises in Kenya can register themselves as limited liability companies, sole proprietorship, not-for-profit organizations, cooperative societies, corporations, etc. As per the British Council 2017 report, 23% of the social enterprises register themselves as limited liabilities companies followed by 20% registering as a sole proprietorship and 14% as not-for-profit organizations. Most social enterprises register as limited liabilities companies as it gives them the opportunity to be listed on national stock exchange in their later stages of growth, however it also puts an obligation on them to abide by the same tax and regulations as other established businesses and often results in creating additional financial burdens for these early-stage SEs.
- **Constantly changing regulatory environment:** The regulations and particularly, import duties change quite often in Kenya, creating hindrances in the growth of social enterprises. For instance, in the past, the government had waived import duties and taxes on all components of Solar Home Systems but with recent changes certain components such as bulbs and batteries are again subjected to taxes, complicating importation of the solar home system units as these are normally packaged together. Further, in other sectors such as the agriculture, social entrepreneurs are burdened with heavy duties while importing manufacturing or agro-processing equipment despite not being able to source these products locally. There is a need to reduce import duties for such equipment in order to encourage social entrepreneurship.

ECOSYSTEM SUPPORT PROVIDERS

Kenya is home to highest number of support providers in the region

Kenya is home to more incubators, accelerators, service providers, and other ecosystem players than any other East African country; the country has over 70 ecosystem support providers.⁴³

Ecosystem support providers in Kenya are evolving their business models

With the maturity of the ecosystem and sector-specific technical assistance demand from enterprises, more and more incubators and accelerators in the country are becoming sector specific and providing tailor-made and customized sector-specific support. Some of such incubators/accelerators include Villgro & Duke Innovations which work with healthcare enterprises, KCIC which works with clean energy enterprises, MasterCard lab which works with agriculture enterprises and DFS lab which works with financial services enterprises.

The first group of incubators and accelerators in Kenya had heavily borrowed their support models from Silicon Valley but now they are contextualizing their models to fit current market/ geographical needs. Further, recently there is a shift in focus to entrepreneurship amongst higher learning institutions and consequently, they have launched their own incubation centers. For example, the University of Nairobi launched its incubation center called C4D lab and also hosts also annual summit called Nairobi Innovation Week, Kenyatta University has Chandaria Business and Innovation Center.

⁴³ Intelicap, Fintrek Report- Investment Opportunities in Fintech in East Africa-2018

RECOMMENDATIONS FOR STRENGTHENING IMPACT INVESTMENT IN KENYA

The following recommendations surface from impact investment landscape analysis of Kenya

Supply of Capital

- **Impact investors in Kenya can develop blended finance structures combining different forms of capital, providers, and instruments**

Despite the increase in the number of funders and evolved landscape of intermediaries' such as fintechs; access to capital still remains a key challenge for enterprises in the country. Majority of funds focus on equity and notwithstanding the increasing number of enterprises, deal closures are low averaging around 20 for the last five years. The current structure of investment which is akin to the Silicon Valley model needs to be contextualized for Kenya to achieve the tipping point for impact investing. Different funding structures and instruments including debt, mezzanine, guarantees and more patient risk-taking capital are required in this market. There has been an ever-increasing need to create blended finance funding structures combining different forms of capital, providers, and instruments in the Kenyan market. Different capital providers with differing risk and return appetites can come together to develop innovative structures matching the needs of businesses with the risks and stages of growth.

Example:

- *FAFIN is a US\$65 million mezzanine fund for agriculture in Nigeria with partnerships from the Nigerian government, the German Development Bank, and Nigeria's Sovereign Investment Authority. The fund combines the risk appetite and returns expectations of different players and has created blended finance structure that meets the need of agriculture sector in Nigeria.*
- *Kenya SME fund was launched in 2006 by Business Partners International in cooperation with IFC, East Africa Development Bank, European Investment Bank, Sarona Capital, and CDC. It is a US\$14.1million fund using blended finance instruments (i.e. a mix of debt, equity and quasi-equity) for investing in small and medium-sized enterprises. The fund also provides technical assistance to businesses that it invests in.*

- **Investors in Kenya should increase their risk appetite**

Impact investors in Kenya tend to be risk-averse and are increasingly investing in the same companies, so much so that over 70% of the capital deployed in the country in 2017 went to just 5 companies.⁴⁴ There is a need for impact investors to widen their horizon and invest in companies outside of their usual network and outside of the main Tier 1 cities.

Example: Aavishkaar India, an impact investment fund, invests in high-risk enterprises serving low-income populations in underserved geographies across India and South East Asia. It is usually the first external investor in its portfolio companies. Over the last 15 years, it has invested in over 50 companies and has US\$ 400 Million AUM

- **Grant providers and philanthropists can introduce a milestone based or outcome-based grant system in the country**

Grant financing is much needed in Kenyan entrepreneurial ecosystem to support the growth of micro and small enterprises. However, a large amount of grant monies disbursed in the country has also made many enterprises overly reliant on just grant financing for running their businesses. Many

⁴⁴ Breaking the Pattern: Village Capital/BMGF Foundation, 2017 report

enterprises primarily focus on seeking repeated grant financing and keep moving from one grant prize to another, using resources that might otherwise be used in the managing and scaling of their businesses. There is a need for grant providers/ philanthropists to incorporate mechanisms such as milestone based grant funding, issuance of repayable grants or matching grants where enterprises are expected to match grants with their capital investments.

***Example:** Africa Enterprise Challenge Fund (AECF) runs challenge program to identify and provide a grant to enterprises in sectors such as agriculture and agribusiness, renewable energy and adaptations to climate change, rural financial services and communication systems that support the other focus sectors. It provides grants between US\$ 100,000 and US\$ 1.5 Million to enterprises; however, grants are disbursed in stages depending on the key milestones being met, which are agreed at the beginning of the grant disbursement process. It was launched in 2008 and has so far deployed US\$ 356 Million, supporting 266 companies.*

Maendeleo Sawa (M-SAWA) Kenya project is a seven year (2015-2022), \$28.7 million project funded/implemented by Mennonite Economic Development Associates (MEDA) with funding from Global Affairs Canada (GAC). The project provides matching grants to SMEs, business associations and firms working with SEs/SMEs, in sectors such as agriculture, construction/allied industries extractives. All grants provided by M-SAWA require cash match/cost share.

- **There are opportunities for Impact investors to use instruments such as venture debt or royalty based financing to deploy more capital in the country**

Venture debt is capital in the form of debt to high-risk businesses that lack assets or cash flow for traditional debt financing. It is more flexible and longer-term than the traditional form of debt. Royalty-based financing is form of financing in which investors take percentage of ongoing gross revenues in return of capital invested into businesses.

Stakeholders interviewed as part of this research, i.e. investors, enterprises, incubators, accelerators, mentioned the need for and lack of venture debt/royalty based-financing in the country. Many enterprises, especially in their early stages of growth, require debt to scale their business, but, in the absence of venture debt or royalty based financing, are forced to raise equity capital and giving up a significant equity stake in their businesses. There is a need for impact investors to develop such instruments targeting these early-stage enterprises.

Example:

- ***GroFin** is a debt fund that provides medium-term venture debt and technical assistance to small and growing businesses across Africa and the Middle East. It has invested in 675 SMEs since its inception in 2004.*
- ***IntelleGrow** is a venture debt fund, based out of India that provides debt to small and growing businesses. It has disbursed over US\$ 185 Million across 280 venture debt deals so far.*

- **Mainstreaming angel investing:** Local angel investors can play a significant role in filling the gap in the required impact capital in the country. They can also provide capital in local currency which is usually preferred by enterprises. Although, angel investing has been picking up in Kenya in recent years, angel investors or high net worth individuals still prefer to make investments in traditional sectors such as real estate. Therefore, there is a need to increase awareness about impact investing and approaches for impact investing amongst high net worth individuals to unlock their potential.

Demand for Capital

- **There is a need for increased awareness amongst social enterprises on the different instruments/mechanisms of impact investments**

Many social enterprises are not aware of how they can benefit from the different masterclasses/mechanisms/ instruments available in the market. As a result, they end up absorbing grant or traditional debt funding and not using other available mechanisms/instruments.

Example:

- *Good Finance (UK) is a collaborative project to help improve access to information on social investments for charities and social enterprises.*
- *VC4Africa provides fundraising and mentoring support to startups in Africa. It connects startups in Africa to a pool of international and local experts to whom they can reach out to for advice on topics such as financial instruments, fundraising process, business development, human resource and legal matters, all free of charge.*

Government/ Regulatory Players

- There is a need for taking regulatory reforms by the government such as:
 - **Recognition of social enterprises:** Social Enterprises are not recognized nor defined in any Kenyan law. The MSE Act, Companies Act, National Trade Policy etc. currently doesn't have mention of Social Enterprises. There is a need for Social Enterprises Policy and legal and regulatory framework that governs social enterprises in the country. Social Enterprise Society of Kenya (SESOK), the Umbrella Body and Voice of Social Enterprises and Social Entrepreneurs in Kenya is currently spearheading this and has convened a steering committee with all key ecosystem stakeholders to work on this.
 - **Make regulatory environment favorable for investment funds to be domiciled in the country:** There are number of investments funds, which have funding activities in Kenya but are domiciled/registered in other countries such as South Africa and/or Mauritius because of tax incentives provided by those countries. The government of Kenya can make regulatory environment more favorable so as to attract these fund managers to register their funds in Kenya as opposed to in South Africa and/or Mauritius.
 - **Develop a tiered regulatory structure for social enterprises:** The government can develop a tiered regulatory structure with different regulations and compliances for different size/stages of companies. For instance, startups can start with limited regulatory compliances to adhere to; compliances keep increasing/ changing as they grow and become bigger in size. The size of the company can be defined in terms of a number of employees, years of operation or annual revenue.
 - **Improve formulation and enforcement of Intellectual Property Rights (IPR) regulation:** There is a need for improvement in the formulation and enforcement of IPR regulation in Kenya. In the current regulatory framework, whenever there is an IPR-related dispute, arbitration will follow an industrial court process which is time-consuming and often ineffective. Government should consider putting in place a mechanism for each sector, similar to one in banking sector where Kenya Bankers Association (KBA) is responsible for arbitrating any inter-banks' disputes.
 - **Create robust capital markets:** Nairobi Stock Exchange (NSE) launched Growth Enterprise Market Segment (GEMS) in 2013 to provide more finance options to SMEs, especially long term funding. This could have been a good exit option for impact investors who are looking to exit their investments through an Initial Public Offering (IPO) and listing on capital markets.

The regulatory reforms should be formulated and refined through systematic and regular consultation with key stakeholders from the industry.

However, there hasn't been much uptake of GEMS because of its current policies and framework. NSE should look to improve the GEMS model by enabling more firms to list on it.

- **Creating sandboxes or providing testing environment:** A sandbox is a testing environment which provides innovators with a platform to test viability of their products and services in a controlled setting. Capital Markets Authority (CMA) of Kenya launched a regulatory sandbox in April 2019 allowing fintechs to live-test their products and services for a period of 12 months on its platforms. More such initiatives are needed by the government to promote development and scaling of innovations in the country.
 - **Reduction in red tape by county governing bodies and better facilitation of trade across the Kenyan counties:** Following the declaration of the new constitution in 2010, some central government's powers were devolved to the county governments. This has further increased the regulatory burden on small social enterprises that have to now deal with both the central government and county government's regulations. For instance, enterprises which have branded delivery vehicles have to pay fees as they cross different county borders to make deliveries, thus creating a financial and regulatory burden on enterprises. There is a need of reduction in such regulations and better facilitation of trade across counties.
 - **Harmonization of trade policies and quality standards thereby facilitating trade across the East African Community (EAC) countries:** Impact enterprises that operate within the EAC region have in certain instances faced hurdles at border points due to stringent and constantly changing safety/quality compliance requirements thereby affecting their operations adversely. There is a need for harmonization of policies across the East African region for increased growth of enterprises in the region.
- **Promote deployment of local pension funds for impact investments:** Government of Kenya made amendments in the Retirement Benefit regulation in 2015, which allowed allocation of up to 10% of pension funds' assets under management for direct investment in a private equity asset class. This is a remarkable step by the government as it will channel more local capital into private equity and will allow increased participation of pension funds in the growth of micro, small and medium-sized enterprises in Kenya. However, pension funds have still not picked up the idea of investing into local social businesses and there is a need for government to further promote it.

Example:

Yield Uganda Investment Fund, managed by Pearl Capital Partners, raised €2 Million from National Social Security Fund, Uganda. It is the first impact investment fund in Africa that raised capital from local pension fund for deployment into local high impact social businesses.

Market building support

- **There is a need to develop Peer to Peer learning networks in the country:** Entrepreneurs interviewed as part of this research, highlighted the importance of peer to peer learning networks. They prefer such networks to validate their ideas, meet and learn from other entrepreneurs, develop partnerships and build greater visibility for their products and services. However, they also mentioned the lack of such networking opportunities. While there are many business forums and conferences, there are limited or no peer to peer 'structured' learning opportunities for social enterprises.

Example: *Initiatives such as Rwanda's Youth Connekt provide peer to peer learning opportunity to startups and early-stage enterprises by connecting them and providing them a platform to interact with peers and mentors.*

- **Ecosystem support providers, together with investors, can develop pre-investment technical assistance support programs:** One of the biggest challenges cited by investors is the lack of enough investment-ready enterprises in the country. This results in investors competing for a smaller pool of investment-ready enterprises, distorting the market and leading to higher valuations. Whilst investors do provide post- investment support to enterprises for their growth and scale, there is a gap in pre-investment technical assistance support for early-stage enterprises which can make them investment ready.

Example:

Kenya needs USD 6 Billion of private sector investments into primary healthcare over the next 10 years; however the pipeline of investable companies in healthcare sector in Kenya is very low. SDG Partnership Platform Kenya (SDGPP), in collaboration with USAID and McKinsey & Company, identified 15 potential deals/companies in healthcare sector and provided them support in areas such as business case development, financial modeling, market scoping and research. Two of such companies are on their path to raise required investment by mid-2019.⁴⁵

- **Incubators and accelerators need to develop support programs for enterprises outside of Nairobi:** Ecosystem support providers, i.e. accelerators, incubators are currently concentrated in Nairobi, whilst there are lots of high potential enterprises outside of Nairobi. There is a need for support providers to widen their reach and include enterprises outside of their regular network and reach. Collaboration with Non-Government organizations (NGOs) can also be crucial for support providers, as NGOs work deeply with communities in rural areas and can identify enterprises that are working to solve challenges on the ground. Support to enterprises outside of major cities can be provided through virtual incubation programs.

Example:

Realizing the lack of support for enterprises outside of tier 1 cities in East Africa, Intellectap developed an online platform called StartupWave, which provides virtual incubation support to enterprises. It assists enterprises in refining their business models, developing their value proposition, connecting the businesses to various service providers, and providing the information for the various challenge and grant programs online. Currently, StartupWave has over 700 plus enterprises from across the continent and over 30% of them outside the main cities.

- **Accelerators and incubators need to innovate their business models to ensure long term sustainability:** Majority of accelerators and incubators in Kenya are currently reliant on grant funding for sustaining their operations and for running technical assistance support programs. The funding is drying up and support providers need to look for innovative business models that can sustain their operations.⁴⁶ Accelerators/incubators could introduce co-pay models where entrepreneurs pay a certain fixed amount to participate in the program, rather than it to be completely free. This will not only help gauge the entrepreneurs’ ‘skin in the game’ but also serve as a revenue source for the accelerators/incubators. In addition, accelerators and incubators can also partners with strategically aligned coprorates in the country. Government is also trying to promote entrepreneurship in the country; ecosystem support providers can also seek public funding and partner with various government initiatives. There is a need for support providers to explore and pursue a variety of revenue models in order to be sustainable in long term.
- **Impact investors and entrepreneur support organizations can come up with initiatives meant to assist SEs in attracting and retaining the necessary talent that they need to grow:** Such initiatives can entail creating linkages and/or partnerships with relevant tertiary academic institutions

⁴⁵ Interview with SDG Partnership Platform Kenya

⁴⁶ Intellectap research

or ecosystem support players so that they can develop and implement specific and customized curricula to supplement the skills of the management team of the SEs. They can also organize for short term externships/secondment of support ecosystem players' staff members to the social enterprises for capacity building. Other initiatives to consider for implementation include:

- a. Development of an integrated talent management network.
- b. Provision of subsidized capital for strategic human capital hires to de-risk investments
- c. Development of programs to connect world-class talent with SEs

- **Academia can play a critical role in developing entrepreneurship ecosystem in the country:** In order to build entrepreneurship ecosystem in the country, the universities in Kenya can play a critical role. There is need to change the pedagogy from theoretical to more practical based; this can be done by incorporating work-based learning programs, internships and on the job training programs, in the curriculums. While some universities in Kenya have launched their incubation centers to promote entrepreneurship, more such initiatives need to be developed to promote entrepreneurship in the country.

CONCLUSION

The impact investment sector in Kenya has seen significant growth and interest from across the world, in the past few years. A wide range of actors in the impact investment sector are contributing to the development of the ecosystem in Kenya. Based on the barriers and opportunities identified in this report, key high-level recommendations to foster the impact investment sector in Kenya are:

- **Develop a platform for strengthening of impact investing sector:** Despite the greater volume of impact investing activity in Kenya than its neighbors, it still represents a small part of the overall impact picture. Going forward it is critical for various stakeholders to take an ecosystem approach to Impact Investing to overcome fragmentation and further develop the sector. Kenya needs a championing body to create awareness about impact investing in the country. The body can strengthen the ecosystem for impact investment by building a multi-stakeholder and cross-sector platform to enhance advocacy, policy dialogue, joint-learning, and coordination of initiatives and optimization of respective synergies between various stakeholders.
- **Put entrepreneurs at the core of entrepreneurship ecosystem:** There is need to develop a culture in Kenya where successful entrepreneurs actively participate as mentors, angel investors etc. in the growth of other entrepreneurs in Kenya. Currently, the ecosystem is mainly driven by accelerators, incubators and finance providers but there is limited participation by successful entrepreneurs to support the ecosystem.
- **Develop public-private partnerships:** While Kenya has one of the most active entrepreneurial ecosystems in the region; the public sector is often left out of the conversations that other stakeholders are having. It is necessary for Kenyan policymakers and other ecosystem players come together to develop the policies and regulatory environment that is conducive to the growth of social enterprises and impact investments in the country.
- **Develop the continuum of impact investing from idea to scale:** There is a need to develop a continuum of support, in the form of capital and technical assistance, for social enterprises at various stages of growth. Early-stage enterprises requiring seed and proof-of-concept funding, need more and more philanthropic investors who have high risk-taking capability and low investment returns. Growth enterprises, commonly known as the missing middle, may have experienced first success but are still small and require external capital through innovative financing structures which don't burden their operations.
- **Develop support programmes for social enterprises outside of Nairobi:** Ecosystem support providers such as accelerators, incubators, etc. are currently concentrated in Nairobi, whilst there are lots of high potential enterprises outside of Nairobi. There is a need for support providers to widen their reach and include enterprises outside of their regular circle. Collaboration with Non-Government organizations (NGOs) can also be crucial here as they work deeply with communities in rural areas and can identify enterprises that are working to solve challenges on the ground.

ANNEXURE

S.No.	Organization	Category	Contact Person
1	Spark Possibilities	Demand for capital	Mr. Hal Peters
2	Food for Education	Demand for capital	Mr. Wawira Njitu
3	Godown Arts Center	Demand for capital	Ms. Joy Mboya
4	Internet of Elephants (IOE)	Demand for capital	Mr. Gautam shah
5	Azuri Technologies	Demand for capital	Mr. Snehar Shah
6	Ashoka	Ecosystem Support providers	Mr. Vincent Odhiambo
7	ANDE	Ecosystem Support providers	Ms. Maryanne Ochola
8	AMREF- Innovate4Life	Ecosystem Support providers	Mr. Simon Ndoria
9	MERCK- GSBI	Ecosystem Support providers	Mr. Herve Kubwimana
10	Chandaria Incubation Center	Ecosystem Support providers	Dr. G. K. Kosimbei
11	Tangaza College	Ecosystem Support providers	Mr. Daniel Mwangi
12	KCIC	Ecosystem Support providers	Mr. Felix Magaju
13	Netbiz Impact	Ecosystem Support providers	Ms. Makeda Tsegaye
14	TechnoServe	Ecosystem Support providers	Mr. John Logan
15	Blab East Africa	Ecosystem Support providers	Ms. Olivia Muiru
16	Advance Consulting	Ecosystem Support providers	Mr. Peter Bleeker
17	Open Capital Advisors	Ecosystem Support providers	Ms. Annie Roberts
18	NGO Board of Kenya	Government and Regulatory	Ms. Beatrice Topisia
19	Competition Authority of Kenya (CAK)	Government and Regulatory	Dr. Adano Roba
20	Competition Authority of Kenya (CAK)	Government and Regulatory	Mr. Raphael Mburu
21	Kenya Revenue Authority (KRA)	Government and Regulatory	Mr. Walter Omwenga
22	Kenya Private Sector Alliance (KEPSA)	Government and Regulatory	Mr. Tonnie Mello
23	Nairobi Securities Exchange (NSE)	Government and Regulatory	Ms. Bahati Morara
24	Export Processing Zones Authority (EPZA)	Government and Regulatory	Mr. Jonathan Chifallu

25	Kenya Investment Authority (KenInvest)	Government and Regulatory	Dr. Moses Ikiara
26	Vilcap	Intermediary	Mr. Paul Nyandika
27	Viktorias Ventures	Intermediary	Mr. Jason Musyoka
28	Grey Elephant Ventures	Supply of capital	Mr. Shudhan Kohli
29	Sorenson Impact	Supply of capital	Mr. Anders Aabo
30	Beyond Capital	Supply of capital	Ms. Mehak Malik
31	Steinbeiss Impact	Supply of capital	L Jakab
32	Pollex GmbH	Supply of capital	Ms. Julie Engelhorn
33	AHL/ Lundin	Supply of capital	Mr. Joseph Indangasi
34	Seagal Family Foundation	Supply of capital	Ms. Evelyn Omala
35	Christian Aid	Supply of capital	Mr. Ronald Ndiku
36	Social Enterprise Society of Kenya	Government and Regulatory	Mr. Peter O. Oloo
37	SDG Partnership Platform	Ecosystem Support Provider	Mr. Ruben Vellenga
36	Aavishkaar Africa Fund	Supply of capital	Mr. John Kamunya