AVPA
AFRICAN VENTURE PHILANTHROPY ALLIANCE

THE LANDSCAPE FOR SOCIAL INVESTMENTS IN EAST AFRICA

ENABLING ENVIRONMENT

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The African Venture Philanthropy Alliance (AVPA) is a unique Pan-African network for social investors, headquartered in Nairobi and committed to building a vibrant and high impact community across Africa. AVPA is aligned with thriving networks in Europe (EVPA - HQ in Brussels with 250+ members) and Asia (AVPN - HQ in Singapore with 600+ members) to form a dynamic global force for social impact.

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The U.S. African Development Foundation (USADF) is an independent U.S. government agency established by Congress to invest in African grassroots organizations, entrepreneurs and small and medium-sized enterprises. USADF's investments promote local economic development by increasing incomes, revenues and jobs, and creating pathways to prosperity for marginalized populations and underserved communities.
Utilizing a community-led development approach, USADF provides seed capital and local project management assistance improving lives and impacting livelihoods while addressing some of Africa's biggest challenges around food insecurity, insufficient energy access, and unemployment, particularly among women and youth.

Over the last five years, throughout Africa, with an emphasis on the Horn, Sahel and Great Lakes regions, USADF has invested more than $115 million dollars directly into over 1,000 African owned and operated entities and impacted over four million lives.

Social Capital Foundation is a Dutch Foundation that partners with social impact first organisations who want to enhance sustainable economic opportunities for communities and small businesses.

SCF supports local talent potential, creativity and innovation with adequate tools, flexible funding and a knowledge network to maximize and scale impact.

The Rockefeller Foundation's mission—unchanged since 1913—is to promote the well-being of humanity throughout the world. Today the Foundation advances new frontiers of science, data, policy, and innovation to solve global challenges related to health, food, power, and economic mobility. As a science-driven philanthropy focused on building collaborative relationships with partners and grantees, The Rockefeller Foundation seeks to inspire and foster large-scale human impact that promotes the well-being of humanity by identifying and accelerating breakthrough solutions, ideas and conversations.

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ENABLING ENVIRONMENT FOR SOCIAL INVESTMENT IN THE REGION

1.1 OVERVIEW OF THE POLICY AND REGULATORY ENVIRONMENT FOR SOCIAL INVESTMENTS IN THE REGION

The guiding framework for social investments and philanthropy remains fragmented, with multiple laws and authorities governing the sector.

None of the focus countries has an established overarching framework and policies for philanthropy. Registration of philanthropic organisations thus remains cumbersome and bureaucratic. In Tanzania and Uganda, even though regulatory frameworks are governing the philanthropy sector, it is fragmented, with multiple laws, policies, and oversight authorities, making it cumbersome, costly, and time-consuming to comply with. In Kenya, specific laws for the establishment of local foundations do not exist - an organisation can choose to either register as an NGO, trust, society, company limited by guarantee. In addition to the confusion as to which form/type to register, the registration process is lengthy, can last six months, and up to a year to complete[75]. A report by Kenya Community Development Foundation on enabling legal environment for philanthropy in Kenya indicated that unfriendly national tax laws on charitable giving are a big challenge to philanthropic giving[76]. Further, according to the Global Philanthropy Environment Index 2018[77], which considers factors such as ease of operating, tax incentives, political and socio-cultural environment, East African countries (Kenya and Tanzania) scored poorly, only better than Zimbabwe in the SSA region.

East African philanthropists have much lower incentives than their counterparts in Southern Africa. Additionally, challenges in applying for such incentives limit their effectiveness in encouraging local giving.

Compared to the Southern Africa region, East African countries have much lower tax incentives, with only between 1-5% of the taxable income allowed as deductible donations and gifts made to charitable or religious institutions. Countries also lack CSR policies to guide and encourage corporations to fund and respond to critical social and environmental courses. Tanzania started developing its CSR policies in 2014, but this is yet to be actualised. Furthermore, tax incentives relevant for the philanthropic sector are highlighted in various laws below.

East Africa lacks guiding frameworks and incentives to incentivise impact investing in the region.

Preferential tax rates and tax exemptions are commonly used as a way to attract investors in developing countries. However, not many such incentives exist in East Africa except in Kenya. The Capital Markets Authority in Kenya regulates PE and VC investors; the Capital Markets (Registered Venture Capital Companies) Regulations 2007 – provides for 0% tax to venture capital companies registered with the Capital Markets Authority.

Table 1: Overview of Existing 'Tax Incentives for Philanthropy/Charitable Giving' across the Focus Countries

KENYA	UGANDA
Cash donations to eligible civil society organisations can be deducted from taxable income	Individuals and organisations may deduct charitable donations, not exceeding 5% of chargeable income, made to exempt organisations.
Registered NGOs are not subject to corporate income tax VAT Act, which provides for remission of tax for taxable goods intended for emergency relief purposes	Value Added Tax (VAT) exemption for NGOs providing social welfare services, medical services and agricultural services using the foreign grants.
Income Tax Act states that a person who makes a charitable donation is entitled to claim the allowance (100%) of that donation.	Individuals and organisations may deduct charitable donations up to 5% of taxable income.

[75] SDG Philanthropy Platform: Investing in the Sustainable Development Goals in Kenya, 2017
[76] KCDF, - Creating an Enabling Environment for Philanthropy through Tax Incentives
[77] The Index only considers 6 countries in SSA (South Africa, Zimbabwe, Kenya, Tanzania, Nigeria and Senegal)

TANZANIA	RWANDA
Income Tax Act exemptions to eligible individuals, institutions, or irrevocable trust of public interest, which are established for the advancement of religion or education, relief of poverty or public service provision.	Companies that carry on activities of a religious, humanitarian, scientific, charitable or educational purpose are exempted from corporate income tax, unless they are carrying on business activities or they receive income above their related expenditures.
Exemptions on taxes levied on monetary gifts and on duties levied on imported goods received by an organisation. Deductible donations and gifts made to charitable or religious institutions up to 2% of taxable income.	Gift and donations up to 1% of turnover (other than donations to profit-making) are deductible from taxable profits in the case of a corporation and from income in the case of an individual.

ETHIOPIA	SOUTH SUDAN
Tax exemption on income from grants, donations, and membership fees. Contributions made to registered welfare organisations are deductible.	All NGO funds, expatriate staff salaries, and all humanitarian supplies and services are exempted from all forms of taxation.
Contributions made in response to emergency calls issued by the government and donations to non-commercials education or health facilities are deductible.	Both personal and corporate contributions made to organisations for humanitarian, health, education, religious, scientific, cultural, and environmental protection are deductible.

Source: Charities Aid Foundation – A Global Philanthropy Legal Environment Index

"The policy aspects especially on tax is not favourable in some countries. For example, in Uganda, the impact funds almost have a triple taxation since there are no special vehicles or system for impact funds domiciled in Uganda. The funds have to be registered as 'company' in Uganda, filing annual returns, and registration fees. Compared to other regions, the funds in Uganda pay more, and about twice in taxes as much a fund would pay in Kenya. Looking at the region, Kenya has a better policy framework that other countries could learn from."

DFI in East Africa

Governments are increasingly leveraging regulatory sandboxes to provide a testing environment for social innovations, especially in the financial service sector

Regulatory sandboxes provide an environment that enables innovators to both test and refine products within temporary regulatory approval providing more confidence for the investors to invest into innovative businesses. Across the region – particularly in Kenya, Uganda, Tanzania, and Rwanda – regulators in the financial services sector are in the process of developing regulatory sandboxes that allow financial technology companies (FinTechs) to live-test their products and services. Such could be applied to other sectors to enhance innovation and growth of social enterprises.

1.2 ECOSYSTEM SUPPORT FOR SOCIAL ENTERPRISES AND START-UPS

This section outlines key business support ecosystem trends for social enterprise and start-ups. It also outlines the impact measurement tools and standards adopted by social investors.

1.2.1 OVERVIEW OF KEY ECOSYSTEM TRENDS

Ecosystem support providers, including incubators, accelerators, service providers, and financial intermediaries, are primarily located in Kenya and specifically in Nairobi.

There are over 100 innovation[78] hubs in the focus countries, including incubators, accelerators, and co-working spaces operating in the region. Kenya and Tanzania dominate the ecosystem support space accounting for 47% and 30% of all the hubs respectively. Both countries are also increasingly witnessing the launch of more hubs as social entrepreneurship continues to pick momentum. Ecosystem support, however, remains concentrated in the main cities across all the focus countries. The lack of support for organisations outside the main cities of Nairobi, Kampala, and Dar es Salaam remains to be a major constraint to the growth of enterprises in rural areas.

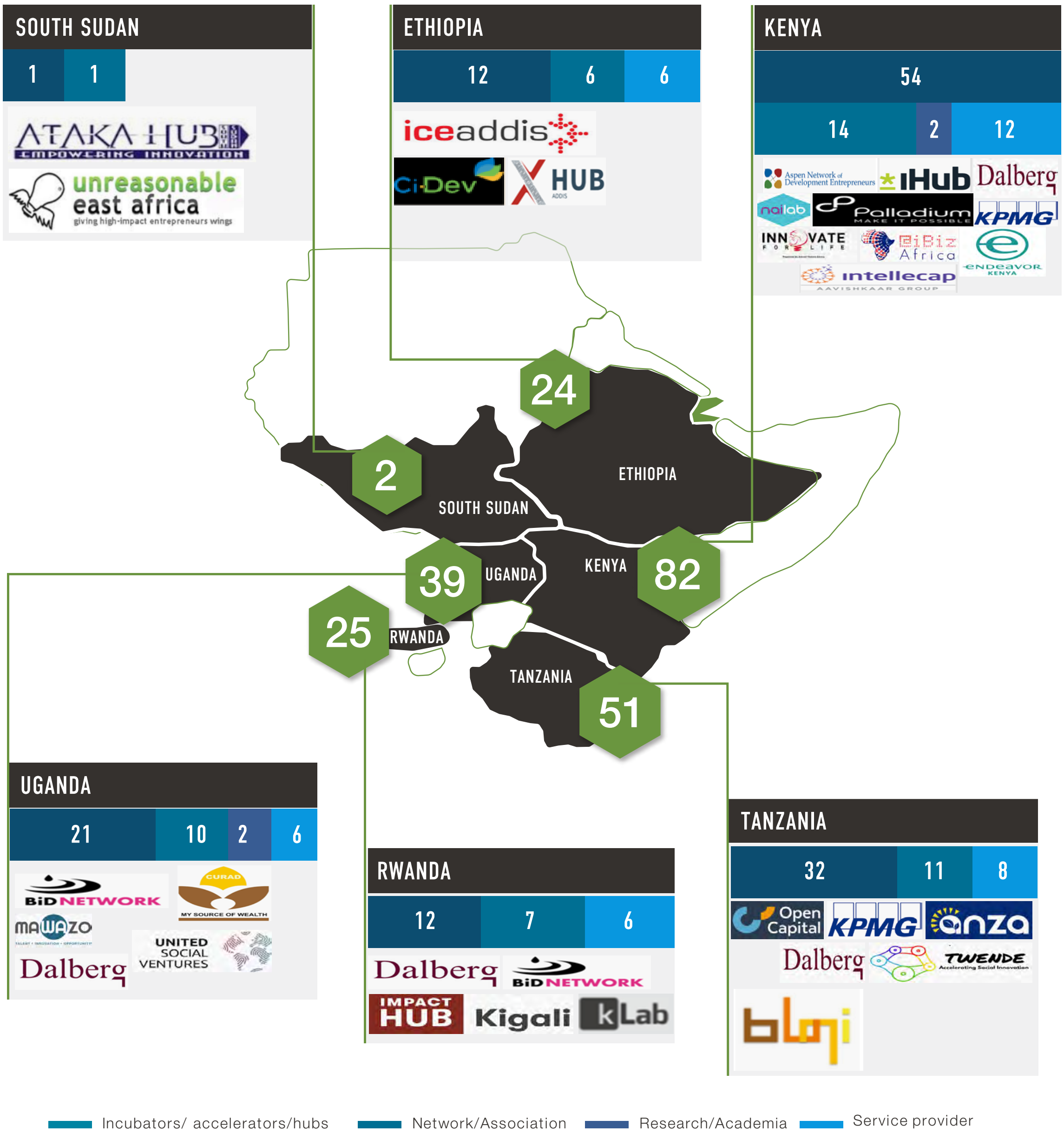
There are over 100 innovation hubs in the focus countries, 47% of which are based in Kenya.

Incubators dominate the ecosystem support environment, indicating a high focus of support for early-stage enterprises.

The high number of incubators indicates a skewness of the support ecosystem towards seed and very early-stage companies that require more support in refining their business and operating models. However, a majority of the impact investors focus on relatively mature businesses, creating a mismatch in support services provided and services needed and consequently resulting

[78] Intellecap Analysis

Figure 1: Map of Ecosystem Players



An ***accelerator*** is a structure that supports relatively established/ growth stage ventures to achieve scalability and self-sufficiency through 6-9-months programs that deliver bespoke advisory services, mentorship, networks and funding (in cash or in-kind).

An ***incubator*** is a structure that supports early stage startups to refine their business models and value proposition through workshop and hand-on trainings, networking and investment readiness support.

in lack of investable businesses. Business advisory and research service providers such as Open Capital Advisors, Genesis Analytics, KPMG, and Dalberg have, however, been established to offer SMEs with customised technical assistance, especially to later-stage businesses.

> *The region lacks adequate, and quality affordable professional services providers to support social investors' programmes.*

While many professional service firms offer services such as capital advisory, tax, legal, HR, financial management,; these services are often viewed as either too expensive or lacking in consistent quality, and largely targeted for larger businesses, locking out many early stage social enterprises. The region has however, in recent years witnessed the establishment of professional service providers targeting social businesses. The Africa Management Institute and Shortlist for example provide social enterprises with human resource services. In 2017, Endeavor launched its new office in Kenya to provide advisory services and support entrepreneurs and companies in the scale-up phase. Lack of quality affordable tax and legal services, among other business advisory services, has led some investors to consider joint CFO positions, and shared corporate services including back office solutions. More standardized, quality affordable solutions in this vein are needed.

In addition to providing talent necessary to build the entrepreneurship ecosystem, academic institutions are also helping build an entrepreneurial culture.

Academic institutions have been contributing to the development of the sector through the various incubation and acceleration programs established to develop entrepreneurial skills among students. Such incubators include the Chandaria Business and Incubation Centre by Kenyatta University, iLabAfrica by Strathmore, and C4D by the University of Nairobi, which are some of the notable incubators run by academic institutions.

Most ESOs are sector-agnostic; however, there has been an emergence of sector-specific ESOs and/or programs.

Most of the ecosystem support organisations interviewed (68%)[79] as part of this research are sector-agnostic, providing generic support to enterprises operating across various sectors. The increasing demand for customised support is, however, making it necessary for ESOs to develop customized sector-specific programs. Sector-specific ESOs and/or programs have been witnessed in the healthcare sector (Villgrow), fintech (fintech accelerator by Vilcap), and Waste (BestSeller Foundation Waste to Value accelerator currently being managed by Intellecap).

East Africa has several networking and membership organisations in the region, working with social enterprises and capacity providers.

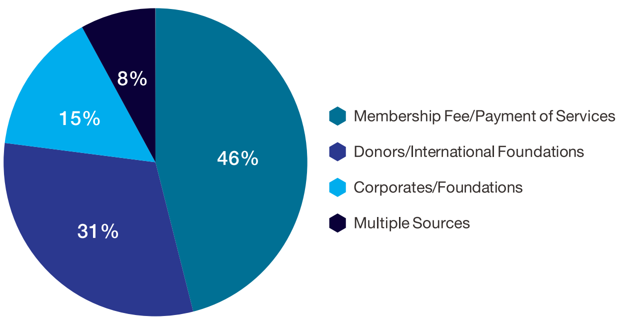
Aspen Network of Development Entrepreneurs (ANDE) has also been at the forefront of supporting entrepreneurial ecosystems across emerging markets through various initiatives. ANDE's members also actively engage in the sector in addressing the small and growing businesses needs through the provision of business support services, financial services and education to create social impact. The recently formed Association of Startup and SMEs Enablers of Kenya (ASSEK) brings together ecosystem support providers. For example, ASSEK has partnered with the GIZ under the "GIZ Make-IT in Africa –The Tech Entrepreneurship Initiative" to bring ecosystem players together (200 enablers and hubs in Kenya) through workshops, seminars, forums and conferences. This is aimed to foster collaboration amongst the players and increase the flow of knowledge and information among enablers. Further, the Social Enterprise Society of Kenya (SESOK) was established in 2017 and is in the process of developing the social enterprise policy for the country. Other membership-based organisations include East Africa Social Enterprise Network (EASEN), Trickle Out Africa Project, and Ashoka.

While most of the early-stage support organisations have primarily relied on grants to support their operations, diversification of revenue sources is also gradually gaining traction.

Donors, including international foundations, have been a major source of funding for ESOs through grants. Donor dependence for the ESOs operations affects the sustainability of the programmes in the long-term following the changing landscape in venture philanthropy and declining donor funding in the region. However, the researchers noted that some of the ESOs have started focusing on establishing more sustainable funding sources such as the establishment of funds and investment in the businesses they support.

> *"We have set up a US$ 150,000 Fund to support the enterprises we support using debt at lower rates compared to the market, i.e. 8% to 14% compared to the market rate of 21%. Other options include use of quassi-equity instruments to be bought out at the seed rounds. This has helped finance the early stage social enterprises which may not afford the high interest rates offered by the MFIs and commercial banks and also acted as a source of revenue for the incubator."*
>
> *An Incubator in Tanzania*

Figure 2: Sources of Funds for ESOs



Source: Intellecap analysis based on primary research

TA funding is mostly provided by international sources; co-financing models are also becoming popular.

International foundations, donors and DFIs provide funding mostly in the form of grants leveraged by other social investors to provide non-financial support to the investees. Additionally, some social investors, especially the SFMs have adopted co-financing models for their TA support which include partial TA financing by the investees. Co-financing of the TA with the investees is considered by the social investors as a best practice approach to ensure buy-in by investees and partly as a strategy to enhance ownerships of the grant projects and programmes. Co-financing the programmes also strengthens the operational capacity and potential portfolio companies.

[79] Intellecap Analysis

> *"We have a lot of non-financial support services for the investees. We also provide technical assistance to fund managers, supporting in better investment decisions, focus areas and advisory on how to create value and impact at scale."*
>
> *DFI operating in the East Africa*

However, companies vary in their willingness and ability to pay for TA services before significant value can be demonstrated. Various studies have shown that TA is most effective when paired with financial investment. DFIs in the region have created special TA facilities to support the investees and SFMs. Well-established TA providers operate throughout the East Africa region with service offerings ranging from development-oriented sector expertise in e.g. agriculture programming, to business development services, fundraising support, human resource management, and professional services for SMEs. A majority of the investors work with TA providers in the region, with no major challenges highlighted by the investors interviewed regarding the adequacy of these providers.

Figure 3: TA Funding Models in East Africa

Source: Primary interviews and Intellecap analysis

Table 2: Overview of Ecosystem Trends across the Focus Countries

ECOSYSTEM CATEGORY	KENYA	UGANDA	TANZANIA	DESCRIPTION
Incubators and early-stage support	◕	◑	◑	High concentration of ESOs in Kenya, followed by Tanzania and Uganda almost at par. Most incubators, however, face capacity and funding challenges limiting their sustainability. Furthermore, most are sector-agnostic and thus offer generic support to enterprises.
Accelerators, and capacity-builders	◑	◑	◑	Limited support exists for growing businesses/SMEs with a few numbers of affordable accelerators and TA providers operating across the countries.
Networks and platforms	◕	◕	◕	There are a number of growing and well-established networking platforms in the region e.g. ANDE, East Africa Philanthropy Forum, Ashoka, and Kenya SDG Forum. Most of these Networks cut across the region.
Knowledge and research	◑	◑	◔	Compared to Kenya, there are fewer research organisations in Uganda and Tanzania working on social investment and venture philanthropy. Limited information available on philanthropy and venture philanthropy in Uganda and Tanzania.

● High maturity levels indicated by intensity and sophistication of the activities and number of players
◕ High activities with increasing number of players
◑ Moderate activities and number of players witnessed
◔ Minimal to no activities witnessed

Spotlight: Social Enterprise Society of Kenya (SESOK)

Established in 2017, the Social Enterprise Society of Kenya (SESOK) is a society registered in Kenya as an umbrella body for social enterprises in all sectors of the economy. SESOK aims to be catalyst for development of the social enterprise sector in Kenya. Some of the objectives of the society include, but not limited to, raising awareness on social entrepreneurship; offering support for social enterprises through advisory services, training, research, relevant resources and business networks; building networks among social enterprises; strengthening the social enterprise; and encouraging the growth of social enterprises as a sustainable way to address social needs. SESOK is sector-agnostic, drawing membership from various sectors including agribusiness, financial services, healthcare, education, youth and gender.

1.2.2 IMPACT MEASUREMENT AND MANAGEMENT FOR SOCIAL INVESTMENTS IN THE REGION

The 'definition and measurement' of impact remain varied amongst various social investors operating in the region.

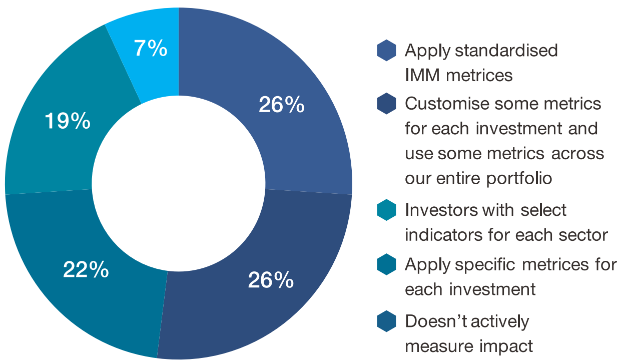
Various standards, frameworks and tools are used to collect, measure and manage impact in the region. A 2018 study conducted by B Lab East Africa and Genesis Analytics on impact measurement in the East Africa region identified three standards/pillars (Fairtrade Africa, Global Reporting Initiative, and Donor Committee for Enterprise Development (DCED)[80] with more than 15 tools used to collect impact data. Furthermore, The Global Impact Investment Network's Impact Reporting and Investment Standards (IRIS) and the Sustainable Development Goals (SDGs) are the most common standardised metrics adopted by players in the region. Some SFMs such as Acumen developed their own impact measurement tool - Lean Data Methodology - implemented by the recently established 60 Decibels, which emphasises putting the voice of the customer at the centre of impact measurement.

Some of the SFMs additionally consider the investee companies' Key Performance Indicators (KPIs) as part of the impact measurement process. DFIs interviewed also use standard IMM metrics and tools. The IFC, for example, has established standard guidelines to measure impact that have also been adopted by other DFIs such as DEG/KfW. The DEG also considers each investee company as unique and tracks impact around 15 indicators, which vary according to the sectors. Foundations and other grant makers in the focus countries have their own impact measurement metrics mostly defined at the outset of the grant making process, with each grant having inbuilt indicators and tools. The foundations rely heavily on evidence-based framework for monitoring and evaluating program performance to understand the impact on the society. International foundations such as BMGF and USADF also rely on globally approved frameworks and indicators in the sectors including SDG indicators.

"We set indicators at the beginning of the investment period… this is tracked through baseline surveys and end-term surveys to establish the impact created."

An SFM in the region

Figure 4: Impact Measurement and Management Approaches by Investors



Source: Primary interviews and Intellecap analysis

The proliferation of impact measurement tools and approaches continues to be a challenge for both local and international social investors.

Efforts such as the Impact Management Project[81] aim to align and standardise impact measurement globally, as well as across both international development programs and impact investment funds. Well-established impact measurement trainings are also widely available in the region. However, social investors report that standardised impact measurement methodologies have not been sufficiently adapted to the local context, and remain difficult and costly to deploy, especially when working with small non-profits and social enterprises with limited reporting capacity. For this reason, in-depth impact reporting continues to be funded largely by donors. Aligning impact measurement with core business processes and value creation will be essential to address these concerns.

[80] B Lab East Africa: East Africa Impact toolkit

[81] https://impactmanagementproject.com/

Table 3: Common Impact Data Collection Tools in East Africa

Tool	Impact measurement coverage	Sector focus	Users of the tool
B Impact Assessment	All aspects of the business based on 5 key themes: Governance, Customers, Environment, Suppliers, and workers.	Sector-agnostic companies access different versions depending on the sectors	Social enterprises, investors, for profit organisations. Has 50,000+ active users
Council on Smallholder Agricultural Finance	Metric set based on IRIS	Agriculture	Social enterprises at any stage of growth
Poverty Probability Index (PPI)	A poverty measurement tool that looks at the beneficiaries and impact of enterprises, and how the beneficiaries are underserved in relation to the outcomes generated by an enterprise's activities. The tool helps to gauge the likelihood of a client's level of poverty relative to the national poverty line. It provides stakeholders with an objective evidence that the organization is reaching the poor.	Sector-agnostic	Social enterprises at any stage of growth, financial institutions 600+ users (60% from the financial services sector and 40% from other sectors)
Lean Data	Helps build more impactful businesses by providing them with data on their social performance, customer feedback and behaviour.	Sector-agnostic	Social enterprises, investors, not-for-profit organisations 80+ active users
Other tools include PRISM, Social Return On Investment (SROI), Climate Action Impact Tool, Social Cost-Benefit Analysis (SCBA), WDI's Performance Measurement Initiative, and Excel			

Source: B Lab East Africa

1.3 ECOSYSTEM SUPPORT FOR NON-PROFITS AND PHILANTHROPY

While many networks and associations are supporting social enterprises in the region, only a few networks exist for the NGOs and philanthropists.

Membership-based organisations are instrumental in enhancing collaboration, networking, and interaction among the key social investments' stakeholders. Specifically, such platforms create avenues to build and disseminate sector-specific knowledge and mobilise resources. East Africa prides itself on a few established platforms and networks such as the East Africa Philanthropy Network[82] and National Philanthropy Forum in Kenya, Uganda, and Tanzania, which focus on enhancing collaboration between actors and advocate for policy changes in the sector. The network has been able to bring together over 200 social investors in the region, providing opportunities to share knowledge and provide models and solutions that enhance local resource mobilisations for philanthropy. Furthermore, other philanthropic networks in the region include the Africa Philanthropy Network and Africa Venture Philanthropy Alliance, advocating for partnerships in the social investing space. On the NGOs and CSO fronts, forums, such as the SDG Kenya forum, bring together diverse civil society organisations working across the 17 Sustainable Development Goals. The SDG forum has brought together over 350 organisations who subscribe to the value of SDGs[83].

The region lacks enough ESOs offering TA and advisory service to support NGOs and grant makers engaging in venture philanthropy and impact investing.

While there are already a few initiatives geared towards enhancing organizational development, skills and the capacities of the NGOs in the region, the support remains inadequate. DFID for instance, supports the Accountability in Tanzania (AcT) in Tanzania and provides both organizational development support and unrestricted grants to enhance strategy development and improved operations of NGOs and CSOs. There are however, few ESOs offering strategic support and advisory services to philanthropists on the deployment funds and other alternative innovative finance structures for to maximize impact through the grants deployed. As such, more specific ecosystem support is needed to assist NGOs and grant makers as they transition into alternative sustainable business models and venture philanthropy approaches.

[82] Formerly the East Africa Association of Grant Makers

[83] SDG Forum - Kenya