AFRICAN VENTURE PHILANTHROPY ALLIANCE

THE LANDSCAPE FOR SOCIAL INVESTMENTS IN EAST AFRICA

EXECUTIVE SUMMARY

intellecap
AAVISHKAAR GROUP

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ACKNOWLEDGEMENTS

This report was commissioned by African Venture Philanthropy Alliance (AVPA) with support from the United States African Development Foundation (USADF), Social Capital Foundation, and Rockefeller Foundation.

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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AVPA would like to thank our board of directors for their continued support, in particular the following people who provided significant time and insights during the editorial process of this report: Julio Garrido-Mirapeix, Paul Carttar, and Monique Mathys.

This report was also made possible through the contributions of many individuals and institutions, both within and beyond the region. We are grateful to everyone interviewed who provided their time, expertise, and data throughout the course of this study.

EXECUTIVE SUMMARY

1. SOCIAL INVESTMENT AND THE SDG FINANCING GAP IN EAST AFRICA

East African countries have made progress on some Sustainable Development Goals (SDGs), including Climate Action and Responsible Consumption and Production, but face significant development challenges that counter the region's advancement towards many of the goals.

Figure 1: Country SDG Ranking and Best and Worst Performing SDGs, 2019

SDGs	KENYA	UGANDA	TANZANIA	RWANDA	ETHIOPIA	SOUTH SUDAN
GLOBAL RANK/162 COUNTRIES	125	140	128	126	135	N/A (Not ranked)
AFRICA RANK /52 COUNTRIES	12	18	16	12	21	52
02 ZERO HUNGER	Major challenges, stagnating	Major challenges, stagnating	Major challenges, moderately improving	Major challenges, stagnating	Major challenges, moderately improving	Major challenges, no information
03 GOOD HEALTH AND WELL BEING	Major challenges, moderately improving	Major challenges, moderately improving	Major challenges, stagnating	Major challenges, moderately improving	Major challenges, moderately improving	Major challenges, stagnating
07 AFFORDABLE AND CLEAN ENERGY	Major challenges, stagnating	Major challenges, stagnating	Major challenges, stagnating	Major challenges, moderately improving	Major challenges, stagnating	Major challenges, no information
09 INDUSTRY INNOVATION AND INFRASTRUCTURE	Major challenges, moderately improving	Major challenges, moderately improving	Major challenges, stagnating	Major challenges, moderately improving	Major challenges, stagnating	Major challenges, no information
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Major challenges, stagnating	Major challenges, stagnating	Major challenges, stagnating	Major challenges, stagnating	Major challenges, stagnating	Major challenges, stagnating
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	SDG achieved, no information	Challenges remain, no information	Challenges remain, no information	SDG achieved, no information	Challenges remain, no information	Data not available, no information
13 CLIMATE ACTION	Challenges remain, on track to achieving SDG	SDG achieved, on track to achieving SDG	SDG achieved, on track to achieving SDG	SDG achieved, on track to achieving SDG	Challenges remain, on track to achieving SDG	Challenges remain, on track to achieving SDG

Worst Performing SDGs (02, 03, 07, 09, 16)

Best Performing SDGs (12, 13)

MAJOR CHALLENGES · SIGNIFICANT CHALLENGES · CHALLENGES REMAIN · SDG ACHIEVED · DATA NOT AVAILABLE · DECREASING · STAGNATING · MODERATELY IMPROVING · ON TRACK TO ACHIEVING SDG · NO INFORMATION

Source:SDG Index and Dashboard

THE SDG FINANCING GAP IN THE REGION IS SIGNIFICANT, CURTAILING THE EFFORTS TOWARDS ACHIEVEMENT OF THE SDGS

US$ 500B – 1.2 Tr

AVERAGE ANNUAL SDG FINANCING GAP FOR AFRICA

INTERNATIONAL SOURCES OF FUNDING REMAIN DEFICIENT

2% DECREASE IN ODA BETWEEN 2013 AND 2018

US$ 14.5B NET ODA TO EAST AFRICA IN 2018

43% INCREASE IN FDI BETWEEN 2013 AND 2018

US$ 7.5B FDI TO EAST AFRICA IN 2018

FURTHER, INADEQUATE TAX REVENUE AND HEAVY EXTERNAL BORROWING LIMIT PUBLIC SPENDING CAPACITY ON THE SDGS

34% OECD COUNTRIES AVERAGE

19% SSA AVERAGE

10% EAST AFRICA AVERAGE, 2018

Tax revenue % of GDP in the region is lower than SSA and OECD countries average

NB: East Africa refers to the 6 focus countries

This funding gap necessitates collaboration amongst the local, international, public, and private social capital providers to deploy existing capital resources in new ways. Across Africa, practitioners are increasingly leveraging diverse forms of social investment to fund social sectors and solve development challenges.

Social Investment is financial and non-financial capital deployed according to rigorous investment principles to generate positive social and environmental impact, with varying financial return expectations. Social investment methodologies have proven to be a powerful strategy to create sustainable and scalable social and environmental impact by enabling diverse social investors to collaborate for a more significant impact on the achievement of the SDGs. Social investment 'capital' takes various forms: financial (grants, debt, equity, blended finance), intellectual and human capital.

This report maps the landscape of social investments in East Africa with a deep dive focus on Kenya, Uganda and Tanzania, and a high-level assessment of Rwanda, Ethiopia and South Sudan. It analyses strategies used by various international and domestic social investment capital providers.

The study leveraged concurrent triangulation, which is a mixed-method approach involving collection and analysis of qualitative and quantitative information from secondary and primary sources. The data and information leveraged was collected through four key sources, a) literature review/desktop research from existing publications on the industry, b) interviews with 51 industry stakeholders, c) transaction/deal mapping from online databases such as Crunchbase, Baobab Insights and Candid/Foundation as well as websites of the different social investors and, d) 18 online surveys received from social investors in the region.

2. EVOLUTION OF THE SOCIAL INVESTMENT INDUSTRY IN EAST AFRICA

The social investment industry in the focus countries has evolved over the past 10 years, with many milestones being achieved. The government, as well as the private sector, have been at the forefront of launching initiatives aimed at promoting the growth of the industry.

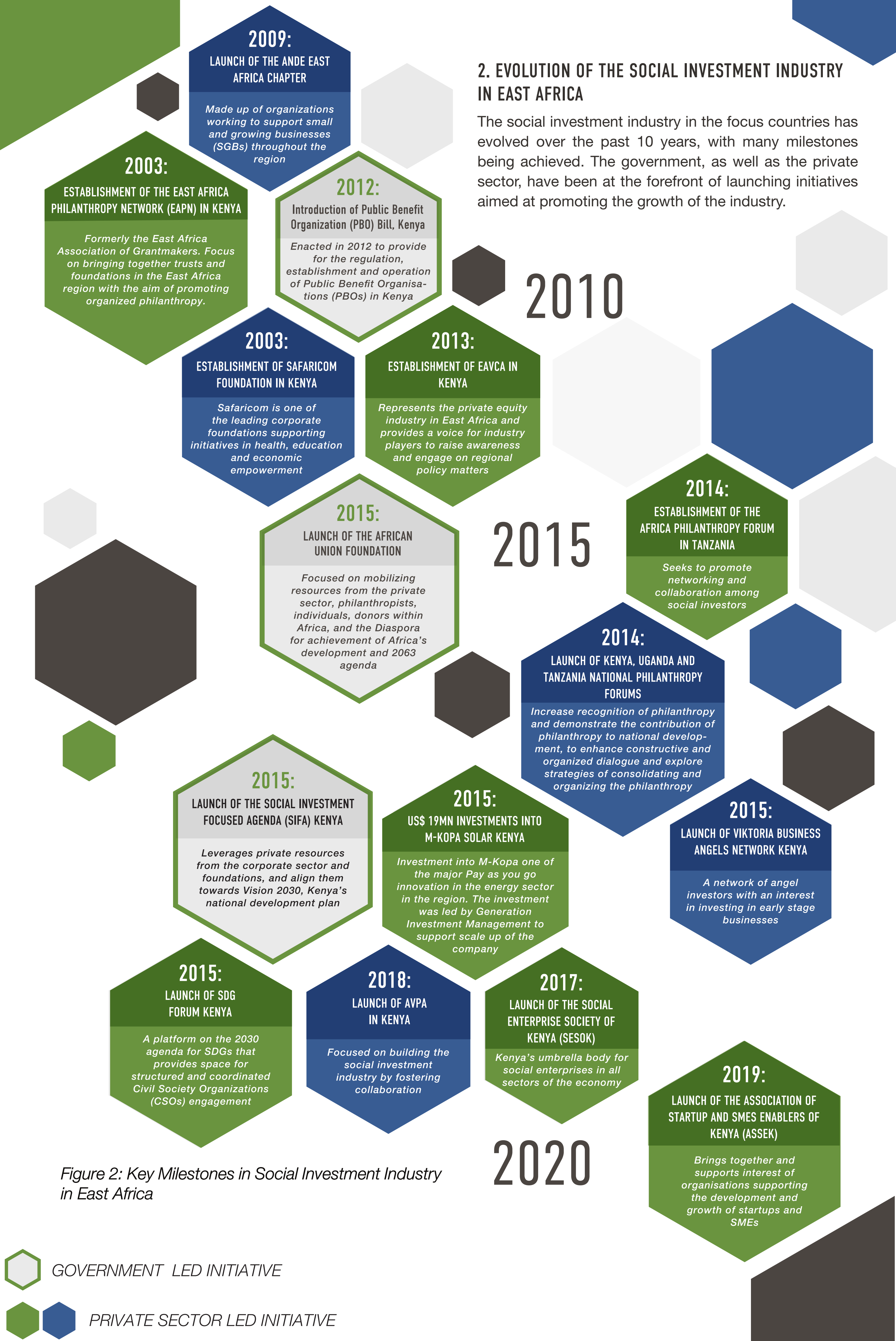


Figure 2: Key Milestones in Social Investment Industry in East Africa

3. EMERGING TRENDS IN EAST AFRICA SOCIAL INVESTMENT INDUSTRY

The social investment industry in the region has evolved in the last decade, driven by several emerging trends. Notably, the region has witnessed increased activity by the regional corporate social investors driving large social projects.

Table 1: Summary of Key Social Investments Trends across Countries

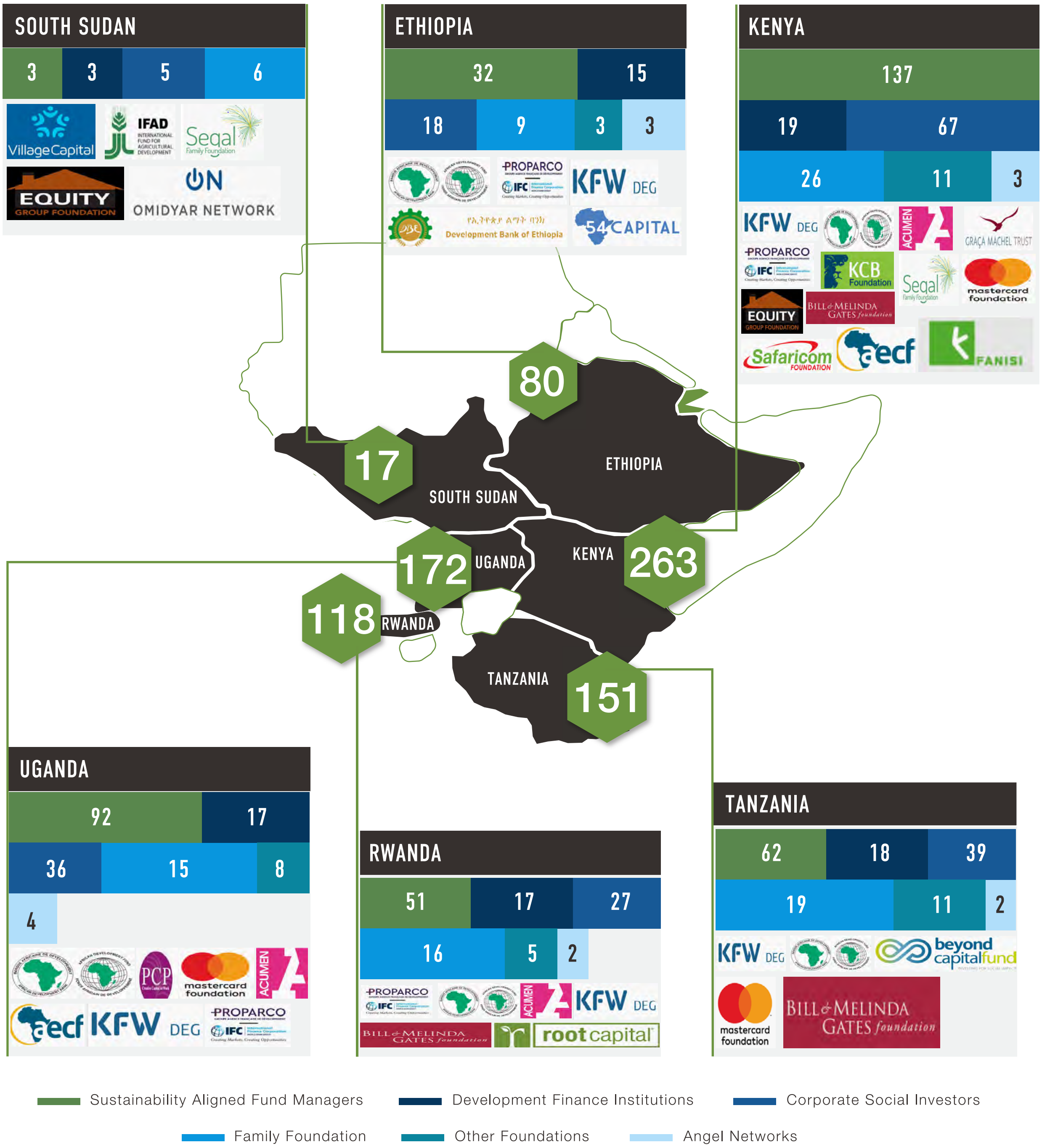
TREND	KENYA	UGANDA	TANZANIA	DESCRIPTION
Institutionalised giving and investing by East African philanthropists	◑	◔	◔	Overall, individual philanthropy in the region remains mostly unstructured and private, with only a few active family foundations identified as part of this research. The region has,however, witnessed an increase in institutional philanthropy driven by the strengthening of networks and philanthropy forums in the region. However, institutionalised philanthropyinitiatives have primarily been concentrated in Kenya.
Rise of angel investments through organized structures by HNWIs	◕	◕	◑	There has been a rise in angel investor networks established in the region in recent years, driving angel investments. These networks bring together High Net Worth Individuals (HNWIs)/ angels and entrepreneurs for structured networking. Our research identified that over 60% of the angel networks in the region exist in Kenya and Uganda.
Collaboration between governments and the philanthropy sector	◑	◔	◔	While the government and philanthropy sector have been collaborating, witnessed particularly in Kenya, more such initiatives are needed. In Kenya, the government plays an active role in the National Philanthropy Forum as well as inthe Social Investment Focused Agenda (SIFA) initiative.
Sustainable and innovative approaches to corporate social giving	◕	◑	◑	An increasing number of social investment arms of corporates (foundations, funds, and accelerators/incubators) are being set up in the region, with most of these operating in Kenya. Corporate foundations, particularly in the banking and ICT sectors, have been actively supporting long-term initiatives in the health, education, and entrepreneurship space. While some of the Kenya-headquartered corporate foundations operate across the region, CSR activities in Tanzania and Uganda remain mostly unstructured.
Usage of innovative and blended finance mechanisms	◕	◕	◑	The region tops the SSA region in the number of blended finance structures that have leveraged blended capital innovatively from different capital providers across the risk-return spectrum. Innovative structures such as SIB/DIBs have been launched in Kenya, Uganda and Ethiopia to address various social issues.
Usage of diaspora funds for supporting national development agenda	◑	◔	◔	The potential for diaspora funds in financing social challenges remains untapped, with only a few innovative structures developed in the region. Kenya is currentlydeveloping a diaspora green bond to facilitate investments forthe Big Four agenda.
Adoption of Gender Lens Investing (GLI)	◑	◑	◑	Investors in the region have started to embed GLI in their investment strategies and provide both financial and non-financial support for women.
Collaboration between international and local social capital providers	◑	◔	◔	Collaborations, in the form of long-term and strategically aligned initiatives, have been witnessed between international and local capital providers to amplify their respective impact, e.g., the partnership between MasterCard Foundation and Kenya Commercial Bank (KCB) to scale up the Tuajiri program.

● 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

4. SUPPLY OF SOCIAL INVESTMENT IN EAST AFRICA

A highly diverse group of social investors is actively deploying capital in East Africa, with over 317[1] social investors identified by the research. The majority of social investment capital deployed in East Africa continues to come from international sources. However, activity by corporate social investors headquartered in the region is also on the rise.

Figure 3: Overview of Key Social Investors in the Region



Source: Intellecap Analysis
NB: Some of the players are active in multiple countries, and thus country totals are not equal to the total number of the investors identified

[1] List not exhaustive

DEVELOPMENT FINANCE INSTITUTIONS (DFIs):

- DFIs were among the largest provider of impact capital in the focus countries between 2015 and 2019, primarily investing in growth to mature stage sustainable businesses that have the capacity to absorb large amounts of capital.
- DFIs deployed their capital largely into the financial services sector in the form of guarantees and lines of credit to financial institutions. The second-largest chunk of DFI capital went into renewable energy generating and distributing projects and businesses.
- DFIs mostly made direct investments into businesses with debt dominating the total capital deployed.

Figure 4: Summary of DFI activities 2015-2019

12 DFIS INVESTED US$ 6.6BN IN 326 DEALS BETWEEN 2015-2019

TRANSACTION SIZE
The average deal size was US$ 21Mn

SECTOR
Financial services, energy and agriculture are the top 3 sectors accounting for 78% of total capital

INSTRUMENTS
60% of the DFI capital deployed through debt

COUNTRY FOCUS
The DFIs have deployed capital in all the focus countries; 46% of which was deployed in Kenya

TECHNICAL ASSISTANCE
DFIs usually set aside TA Funds to support investees

IMPACT MEASUREMENT
DFIs use standard IMM metrics and tools such as IRIS and GIIRS. These are also customized to suit specific requirements. DFIs usually publish impact results

SUSTAINABILITY ALIGNED FUND MANAGERS (SFMs)[2] :

- SFMs mostly deployed their capital into sustainable and commercially viable businesses in the region, focusing on technology-driven enterprises in the energy, financial services and health sectors.
- While most SFM deals (45%) focused on early-stage enterprises, the largest proportion of capital (86%) was deployed into later-stage enterprises reflecting the ‘missing middle’ challenge in the region.
- Kenya remained the most preferred destination for SFM investments; Rwanda has, however, started to receive increased focus from SFMs owing to the favorable business environment and economic growth witnessed in the country.

Figure 5: Summary of SFM activities 2015-2019

US$ 1.5BN DEPLOYED BY SFMs IN 217 DEALS

TRANSACTION SIZE
The average deal size was US$ 6.7Mn; 86% of the capital deployed in deals more than US$ 5 Mn

SECTOR
Energy, Financial services, and Health are the top 3 sectors accounting for 86% of total capital

COUNTRY FOCUS
66% of the SFM country capital was deployed in Kenya; SFMs have shown increased focus in Rwanda

TECHNICAL ASSISTANCE
Most of the SFMs in the region work with TA providers and through their own staff to provide TA services to their investees

IMPACT MEASUREMENT
SFMs mainly leverage standard metrics and tools customized to suit specific requirement of the investee company and sector, some also use investee’s KPIs

[2] SFMs refer to private fund managers (including venture capital funds, private equity funds, debt funds, blended finance funds, incubators and accelerators) that deploy capital in SDG focused sectors.

CORPORATE SOCIAL INVESTORS (CSIs)[3] :

East African CSIs[4]

- East African regional corporates deployed capital mostly through their operating foundations. These foundations support long-term development projects in collaboration with NGOs and academic institutions. However, some corporates in the region had also recently launched their impact funds and accelerator programs for supporting social enterprises.
- Education, health, and economic empowerment were key focus areas for East African corporate social investors.
- The region also witnessed increased collaboration between the regional and international CSIs, over the last few years, for the development and scale-up of various social programs.

Figure 6: Summary of East African CSIs' activities 2014-2019

US$ 382.7 MN DEPLOYED BY THE EAST AFRICAN CSIs IN 69 TRANSACTIONS

TRANSACTION SIZE
The average deal size was US$ 5.5Mn; larger transactions observed in the education sector

SECTORS
67% of capital deployed to the education sector, 17% towards economics empowerment and 9% in the health sector

RECIPIENTS
66% of the CSI capital was deployed through academic/research institutions, 13% NGO/CBOs, and 11% through social enterprises.

INSTRUMENTS
Largerly grants and donations. however, debt and equity have also been deployed to enterprises

IMPACT MEASUREMENT
Mostly leverage internal tools and KPIs with customization based on standard frameworks such as the SDGs

North American and European CSIs[5]

- North American and European CSIs operating in the region have been deploying grants and addressing social causes through both direct and programmatic interventions working with governments, NGOs and collaborating with other social investors.
- Capital deployed by these CSIs focused largely on enhancing youth employment, promoting governance, and developing the agriculture and health sectors.

Figure 7: Summary of North American CSIs' activities (2015-2019)

US$ 561MN DEPLOYED BY THE TOP 5 NORTH AMERICAN CSIs

TRANSACTION SIZE
The average deal size was US$ 5.5Mn; with higher deals size in in programmatic intervations e.g. the Young Africa Works initiative by the MasterCard Foundation.

SECTORS
63% of capital was deployed towards entrepreneurship and economics empowerment initiatives.

INSTRUMENTS
Mostly grants deployed to the NGOs and programmatic interventions implemented by goverment agencies, NGOs and other startegic partners.

Other international CSIs

- While we believe there are some Asian and Latin American CSIs active in the region, these could not be comprehensively covered during this research due to limited data available on their activities. This presents a key area for future research. Some of the active Asian CSIs in the region include Toyota and Huawei making impact in the energy and ICT sectors respectively.

[3] Refers to corporate foundations, corporate funds, and corporate accelerator/incubator programs
[4] Corporate social investors headquartered in East Africa
[5] Corporate social investors headquartered in North America or Europe

FAMILY FOUNDATIONS:

East African family foundations[6]

- Giving by East African philanthropists remains mostly undocumented; however, some philanthropists have established their operating foundations to deploy grants and support various social initiatives. Some of the forward-looking East African family foundations were identified as pioneers for entrepreneurship development in the region through their support to incubation programs.
- Most East African-based family foundations have deployed funds towards essential services provision, particularly in health and education.

Figure 8: Summary of East African family foundation activities (2012-2019)

US$ 22.17MN DEPLOYED BY THE EAST AFRICAN FAMILY FOUNDATIONS IN 27 TRANSACTIONS

TRANSACTION SIZE
The average transaction size was US$ 0.27Mn, with higher deal size observed in donations towards health sector.

SECTORS
Education is the main sector accounting for 45% of family foundation transactions.

RECIPIENTS
Academic research centers and NGOs are the main recipients accounting for 37% and 26% of family foundations transactions respectively

INSTRUMENTS
Largerly grants and donations. however, debt and equity have also been deployed to enterprises

IMPACT MEASUREMENT
Mostly leverage internal tools to collect and measure impact data

North American and European family foundations[7]

- Funding from family foundations headquartered in North America and Europe was largely grant-based, focused on health interventions, and was largely deployed through NGOs and government agencies.
- However, a shifting trend was observed in the strategies of these family foundations; many of them are now supporting more sustainable solutions and adopting impact investment strategies providing financial support directly to social enterprises in the form of debt and equity.

Figure 9: Summary of North American Family Foundations activities (2015-2019)

US$ 710.4MN DEPLOYED BY THE NORTH AMERICAN FOUNDATIONS IN 708 GRANTS

TRANSACTION SIZE
The average deal size was US$ 1.0Mn

SECTORS
43% of the grant capital was deployed toward health initiatives

INSTRUMENTS
Mostly grants deployed to the NGOs and programmatic interventions in the region. However, some foundations also engage in debt and equity transactions

Other international family foundations

- While we believe there are some Asian and Latin American family foundations active in the region, these could not be comprehensively covered during this research due to limited data available on their activities. This presents a key area for future research.

[6] Family foundations headquartered in East Africa

[7] Family foundations headquartered in North America and Europe

ANGEL INVESTORS:

- Although angel investing in the focus countries is still nascent, there is a substantial growth with most of the angel networks operating in the region established in the last 3-4 years.
- Angels preferred investing in non-social sectors such as e-commerce, consumer goods (clothing, accessories), and information technology.

Figure 10: Summary of Angel Investment Activities (2014-2019)

US$ 6.6MN DEPLOYED IN 27 ANGEL DEALS

TRANSACTION SIZE The average transaction size was US$ 0.35Mn;	***SECTOR*** Only 44% of the investments identified were in SDG aligned sectors	***INSTRUMENTS*** Largely equity investments in the early stage enterprises
COUNTRY FOCUS A significant proportion (59%) of the angel investments focused on Kenya.	***TECHNICAL ASSISTANCE*** Angel Networks support both enterprises and investors by proving business linkages, networking, mentorships, and capacity building.	***IMPACT MEASUREMENT*** Most Angels do not focus on impact measurement

BILATERAL AND MULTILATERAL DONORS:

- Donors accounted for the largest social capital deployment in the region (US$ 14.5Bn in 2018), deployed through multi-year programmatic interventions primarily implemented by NGOs and government agencies.
- The largest portion of the donor funding was directed towards health (30%), agriculture (25%), and education (9%) initiatives.
- Major donors in the region are undergoing significant transitions because of the push from their governments, necessitating the need for innovative strategies to blend more capital.
- Donors are also increasingly supporting the development of the entrepreneurial ecosystem through the provision of catalytic TA funds.

FAITH-BASED GIVING:

- Faith-based giving is deeply rooted in the region driven by the Christian and Islamic religious organisations active in the region for decades.
- The faith-based organisations (FBOs) are actively involved in health, education, water, economic empowerment and emergency relief initiatives.

Table 2: Characteristics of Social Investors Active in the Region

Social Investor Category	Capital Scale (US$)*	Type of Capital deployed	Patient Capital?	Innova-tive Finance?	Risk Tolerance	Geographic Reach	Dominant Sectors	Potential for Social Impact
Development Finance Institutions (DFIs)	Billions	Equity Debt Guarantees Grants	Limited	Yes	Low	**Moderately concentrated** (Kenya, Uganda, Tanzania, Rwanda, Ethiopia, major cities)	Financial Services, Energy, Agriculture and Food	• Large capital base can be used to catalyse more innovative finance structures in more sectors • Longer term financing to cover short-term financing by private investors
Sustainability Aligned Fund Managers (SFMs)	Hundreds of Millions	Equity Debt	Limited	Limited	Low	**Moderately concentrated** (Kenya, Uganda, Tanzania)	Financial Services, Energy, Health	• Through engagment with grantmakers using innovative finance structures and co-investments to de-risk their investments.
Family Foundations (North America and Europe HQ)	Hundreds of Millions	Grants Debt Equity	Yes	Yes	Medium - High	Across all countries	Agriculture and Food, Education, Health, Economic Empowerment/Entrepreneurship/SMEs	• Large and flexible capital base, can drive innovative finance e.g. payment of outcomes for DIB; • De-risking of private impact investments into social enterprises in the region e.g. through TA funds.
Family Foundations (East Africa HQ)	Tens of Millions	Grants Debt	Yes	No	Medium - High	**Concentrated** (Mainly Kenya, Tanzania)	Health, Education	• Limited capital but opportunity to lead local venture philanthropy practice; • Partnerships with international funders.
Corporate Social Investors (North America and Europe HQ)	Hundreds of Millions	Grants Debt	Yes	Limited	Medium - High	**Moderately concentrated** (Kenya, Uganda, Tanzania)	Economic Empowerment/Entrepreneurship/SMEs, Health, Agriculture and Food	• Potential to mainstream impact through corporate sustainability.
Corporate Social Investors (East Africa HQ)	Tens of Millions	Grants Debt	Yes	Limited	Medium - High	**Moderately concentrated** (Kenya, Uganda, Tanzania)	Economic Empowerment/Entrepreneurship/SMEs, Health, Agriculture and Food	• Potential to mainstream impact through corporate sustainability.
Faith-based giving	Hundreds of Millions - Billions	Grants	Yes	No	Medium - High	Deep into rural areas in all countries	Health, Education	• Large capital base and geographic reach, enormous catalytic capital potential.
Angel investors	Millions	Equity	No	Limited	High	**Moderately concentrated** (Kenya, Uganda)	Financial Services, E-commerce, Real Estate, Logistics	• Supporting early-stage commercial social enterprises.
Government Schemes	Hundreds of Millions	Debt Guarantees	Limited	Yes	Medium	**Moderately concentrated** (Kenya, Uganda, Tanzania)	Agriculture and Food	• Large capital base, can be leveraged for innovative finance like SIBs.
Bilateral and Multilateral Donors	Billions	Grant Debt	Yes	Yes	Medium - High	Across all countries	Health, Education, Agriculture and Food, Water and Sanitation (WASH)	• Large capital base can be used to catalyse more innovative finance structures in more sectors e.g. in the form of DIB.
Diaspora remittances	Billions	Bonds	Limited	Limited	Low - Medium	Across all countries	Energy, Infrastructure	Large capital base, looking at innovative structured finance, especially in highly intensive sectors.

Billions | Hundreds of Millions - Billions | Hundreds of Millions | Tens of Millions | Millions

Limited | Yes | No | High | Medium - High | Medium | Low - Medium | Low

Financial Services | Energy | Agriculture and Food | Health | Education | Economic Empowerment/Entrepreneurship/SMEs | Innovation

Logistics | Real Estate | Infrastructure | E-commerce | Water and Sanitation (WASH) | Governance | ICT | Livelihoods

**Capital Scale = range of capital deployed annually in the region as a group*

5. DEMAND FOR SOCIAL INVESTMENT IN EAST AFRICA

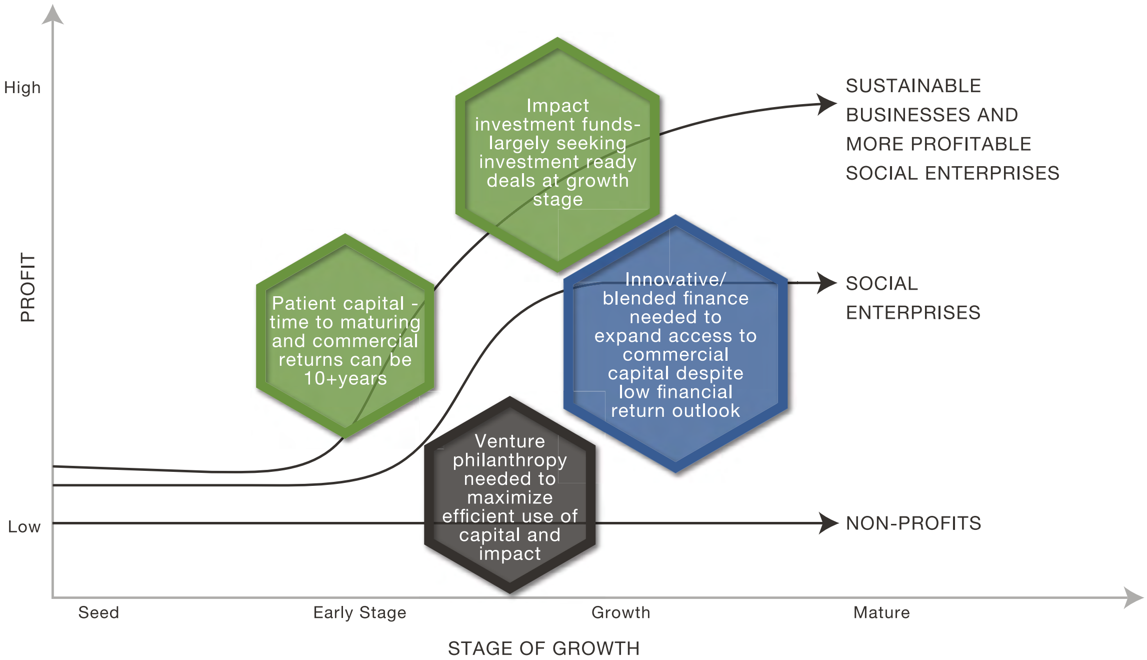
The supply of social investment capital in the region is not well aligned to demand from social enterprises and impact businesses.

- A significant financing gap exists at the early stage, with many social investors focusing on enterprises with established business models and a good track record.
- The well-known "missing middle" financing gap persists throughout the region, despite widespread recognition and serious attempts to reduce it. This gap affects start-ups and social enterprises seeking post-seed growth capital, as well as small and medium enterprises (SMEs)—those considered too small or risky for commercial investors and banks, yet too big to be catered to by microfinance institutions (MFIs) or grantmakers.
- Addressing these gaps requires catalytic funding and innovative instruments to de-risk and attract private investments. More patient growth capital is needed for scalable early-stage businesses that do not qualify for pure-play equity.

Non-profit organisations are seeking more local capital and sustainable operating models, as international grant funding declines.

- Most non-profit organisations in the region rely heavily on grant capital from bilateral donors and international foundations, which has been dwindling due to political changes in Western countries and shifting strategies away from grant-making toward impact investment.
- This trend could substantially hinder non-profit operations in the region and their provision of essential activities in many social sectors and communities where enterprises often find it difficult to operate profitably.
- More effort is needed to explore the potential of venture philanthropy and other innovative financing models to leverage local capital, improve the efficiency of non-profit operations, and secure sustainable funding.

Figure 11: Type of Financing Requirements for Various Types of Organisations at Various Stages of Growth



5.1 TRENDS, DEVELOPMENTS, AND CHALLENGES IN THE SOCIAL ENTERPRISE AND START-UP LANDSCAPE

The mobile money revolution has placed East Africa on the global map, giving rise to innovative business models that leverage digital technology to solve social challenges.

The launch of M-Pesa in Kenya in 2007 began a technological revolution that has given rise to innovative business models in sectors such as financial services, agriculture and healthcare. This coupled with the entrepreneurial spirit in the region has placed the region on the global map when it comes to innovation.

Start-up funders in the region favoured agriculture, healthcare, energy, and financial inclusion sector, with a strong bias toward fintechs.

An analysis of the SFM deals in the region shows that the largest number of deals (34%) were made into innovations and business models focused on solving financial inclusion challenges. Financial technology companies (Fintechs) have increasingly leveraged the high penetration of mobile money to facilitate access to quick loans and savings products for both business-to-business (B2B) and business-to-consumer (B2C) payments.

While the number of innovative business models established has been increasing, funding has been consistently flowing into only a few enterprises.

Top 10 companies in the region attracted over 69% of the total funding by SFMs, with 20% of the deals made in these companies. Investors have particularly shown interest in solar-based energy innovators such as M-Kopa, Solar Now, Greenlight Planet, and Azuri technologies; fintech companies such as Tala and Bitpesa; and agriculture market places such as Twiga, popularly referred to as "investor darlings".

The East Africa region has a significant proportion of expatriate founded and led enterprises;consequently, more funding in the region has gone to these enterprises at the cost of locally founded enterprises.

Compared to the West Africa region, East Africa has a higher number of expatriate enterprises, with 37% of Kenyan enterprises' founded/co-founded by foreigners, compared to 10% in Ghana and 5% in Nigeria.[8] In 2019, enterprises managed by local founders in Kenya only secured 6% of the total funding, while expat-founded start-ups received 88%[9] of the sum.

While the social enterprise and start-up ecosystem in the region has been undergoing unprecedented growth, key challenges hinder its full potential.

The research identified key challenges facing social enterprises and start-ups across the East African countries classified into three categories; ecosystem level, supply-side and demand-side challenges.

Figure 12: Challenges faced by Social Enterprises and Start-ups in East Africa

SUPPLY SIDE CHALLENGES	DEMAND SIDE CHALLENGES
Preference for funding international funders: The largest proportion of commercial capital in the region has been deployed into enterprises founded and managed by expatriates.	***Informality in early-stage businesses:*** An average of 66% of companies across the focus countries in the region are informal. This affects the ability to attract funding from investors as formal registration is a critical and mandatory requirement for fundraising for most financiers and investors.
Inadequate funding for early-stage and growth-stage businesses: Many start-ups and SMEs are still locked out of financing as investors focus on established post-revenue enterprises that are commercially viable.	***Human capital gaps:*** The social enterprises lack adequate skills to run the businesses limiting their growth potential. Further, due to resource limitations, most of the SEs cannot hire affordable talent and provide continuous training to their staff.
Unfavourable credit terms from traditional capital sources: Most start-ups and SEs have access to limited traditional financing options due to the high-interest rates, and strict underwriting and collateral requirements.	
Limited opportunities for women entrepreneurs: Women owned enterprises face unique challenges, ranging from social to financial barriers which limit their growth.	

ECOSYSTEM LEVEL CHALLENGES
Unfavourable business environment: Aside from Rwanda, the other focus rank unfavourably in the corruption perception and ease of doing business rank, indicating bureaucracies and challenges in the business and investment environment.
Lack of overarching frameworks for registering social enterprises: The social enterprise landscape is still nascent in the region with limited regulations guiding registrations of SES. Currently, the SEs are either registered as for-profit or as non-profit organisations.
Limited access to investors and information on investment opportunities: Most early-stage enterprises particularly locally owned, do not have access to investors, thus remain unaware of most investment opportunities. Further, most enterprises do not have required knowledge to understand and evaluate the investment instruments that would work best for their businesses.
High concentration of the support providers in the urban areas: Most ecosystem support organisations operate from the main cities with limited capacity building support services for enterprises outside these cities.

[8] Timon and Briter Bridges: Compensation Study, 2019 – 778 startups across 4 African countries were analysed as part of this study

[9] WerTracker: Expat Bias – Kenya Start-up Scene

5.2 TRENDS, DEVELOPMENT AND CHALLENGES IN THE NON-PROFIT LANDSCAPE

Civil Society Organisations (CSOs) in the region performed poorly in the financial viability score, which indicates limited funding for CSO activities.

The CSO sustainability index measures the performance of CSOs in seven key dimensions, including the legal environment, organization capacity, financial viability, advocacy, service provision, sectoral infrastructure, and public image. CSOs across most focus countries in the region scored lowest[10] on the financial viability indicator- this can be attributed to the decline in foreign donor funding and insufficient local philanthropy and fundraising models to fill the gap.

With decreasing funding from international sources, non-governmental organisations (NGOs) are increasingly adopting alternative revenue-generating models.

Donors, international foundations, and international NGOs contributed the largest proportion of the financial resources for local NGOs and accounted for more than 80% and 95% of the total NGO funding in Kenya and Uganda, respectively. With the changing patterns of international funding, NGOs have been exploring other sources of income. The main models adopted include internal activities for revenue generation such as hosting events, charging for their services and membership fee), and crowdfunding models (running fundraising campaigns on local as well as internationally-based crowdfunding platforms).

NGOs/CSOs, across the countries, face several challenges linked to their financial and technical capacity.

The challenges are summarized into three categories as follows;

Figure 13: Challenges Faced by non-profits in East Africa

SUPPLY SIDE CHALLENGES	DEMAND SIDE CHALLENGES
Overreliance on international funding: Most funding for the NGOs comes from international sources, which has been decreasing. Further, the international funding tend to lead to a regional trend of 'mission-drift' in NGOs, with some projects failing to reflect on-ground realities where international donors drive project strategies.	***Human capital challenges:*** Given the inadequate administrative funding received by the NGOs, they are largely unable to hire and retain talent and mostly rely on independent project-based consultants and volunteers, resulting in challenges in building the institutional knowledge.
Restricted funding: Funding has majorly been to programmatic interventions with low funding to address capacity building needs of the NGOs.	***Poor public perception:*** Across the countries, there is an increasing perception of lack of transparency and accountability, financial mismanagement, and weak accounting of funds by the NGOs.
	Technical capacity constraints: Most of the funding provided to NGOs is directed towards project implementation with limited funding focusing on capacity building of the staff on technical skills

ECOSYSTEM LEVEL CHALLENGES
Unfavorable legal and regulatory environment: While meant to enhance the effectiveness of the industry, some of the regulations introduced by the local governments hinder the operations of the NGOs. This ranges from costly reporting requirements to bureaucracies in attaining eligibility for tax exemptions by the NGOs.
Lack of impact measurement mechanisms among the local NGOs: Most local NGOs do not collect impact data for their projects – unless it is a requirement by the donors. This is due to the lack of adequate understanding of impact measurement concepts and knowledge of impact data utilization for decision-making.

[10] FHI 360/USAID CSO Sustainability report, 2018

6. ENABLING ENVIRONMENT FOR SOCIAL INVESTMENTS IN EAST AFRICA

The guiding framework for social investments and philanthropy remains fragmented, with multiple laws and authorities governing the sector. The region, however, boasts of a high number of ecosystem support providers, including incubators, accelerators, service providers, and financial intermediaries. These Ecosystem Support Organisations (ESOs) mainly focus on supporting early-stage enterprises, with a dearth of quality and affordable support providers for the growth stage and mature enterprises. Further, the region has inadequate ESOs offering strategic advisory services for the philanthropy sector.

Table 3: Overview of Enabling Environment for Social Investments across the Focus Countries

ECOSYSTEM CATEGORY	KENYA	UGANDA	TANZANIA	DESCRIPTION
POLICY AND REGULATORY ENVIRONMENT				
Policies and regulations				None of the focus countries in the region has an established overarching framework and policies for philanthropy, and registration of philanthropic organisations remains cumbersome and bureaucratic. Further, social enterprises are not recognised in any legal framework, while tax incentives for the sector remain inadequate.
ECOSYSTEM SUPPORT TRENDS FOR SOCIAL ENTERPRISES AND START-UPS				
Incubators and early-stage support				There is a growing number of incubators largely concentrated in Kenya.Most incubators, however, face capacity and funding challenges limiting their sustainability. Furthermore, most are sector-agnostic and thus offer generic support to enterprises. Support is also mainly concentrated in the main cities.
Accelerators and capacity-builders				Limited support exists for growing businesses/SMEs with a few affordable accelerators and TA providers operating across the countries.International donors and foundations mostly provide funding for TA with co-financing from enterprisesare also becoming popular.
Networks and platforms				There are several growing and well-established networking platforms in the region e.g. ANDE, ASSEK,Ashoka, and Kenya SDG Forum. Most of these Networks work across the region.
Knowledge and research				Data and information on the social investments industry particularly philanthropic, corporate and faith-based giving in the region, remain scatteredand inaccessible. Few organisations are working to build the knowledge base for the sector.
ECOSYSTEM SUPPORT TRENDS FOR NON-PROFITS				
Philanthropy forums, networks, and membership organisations				The research identified a few philanthropy networks operating across the region. These include; East Africa Philanthropy Network, Africa Philanthropy Forum, Kenya SDG Forum, andAfrican Venture Philanthropy Alliance. These platforms create avenues to build and disseminate sector-specific knowledge and mobilize resources.
Strategic philanthropy advisors				There are very few ESOs offering strategic support and advisory services to philanthropists on the deployment of funds and other alternative innovative finance structures that can be adopted to maximize impact through the grants deployed.
IMPACT MEASUREMENT AND MANAGEMENT				
Impact measurement and management (IMM) standards, tools and frameworks				The definition and measurement of impact remain varied amongst various social investors operating in the region with investors using multiplestandards, frameworks, and tools. SFMs, DFIs and international foundations mainly use global IMM frameworks. Most local social capital providers have developed their own IMM tools and metrics.26% of the investors interviewed leveraged global standardized metricswhile another 26% customised metrics for each investment.

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

7. RECOMMENDATIONS AND OPPORTUNITIES FOR INDUSTRY STAKEHOLDERS

The key recommendations to develop the social investment industry are grouped into three categories; recommendations to catalyse diverse and innovative pool of social capital, recommendations to empower organisations delivering social change, and recommendations to develop enabling environment and infrastructure.

Table 4: Summary of Key Recommendations

	Recommendations for SI stakeholders	Priority Level
Recommendations to catalyze diverse and innovative pool of social capital	Enhancing collaboration among the stakeholders across the risk-return spectrum	High
	Promoting education and awareness on effective philanthropic practices	High
	Strengthening the role and engagement of the government in the social investment sector:	Medium
	Promoting the use and supply of catalytic capital	High
	Enhancing the use of innovative blended finance instruments	Medium
	Lowering the cost of matchmaking and conducting due diligence	Low
	Building capacity of fund managers	Low
Recommendations to empower organizations delivering social change (demand side players)	Developing new TA funding strategies to build investible locally founded pipeline	Medium
	Developing interventions to support human resources (HR) needs of enterprises	Low
	Promoting alternative funding models for NGOs/CSOs	Medium
	Establishing of a technical assistance toolkit and embedded capacity building for NGOs	Low
Recommendations to develop enabling environment and infrastructure	Bridging the broken link among the incubators, accelerators, and impact investors	Medium
	Improving the legal and regulatory frameworks	Medium
	Focused mobilisation and deployment of philanthropy funds	High
	Data building and development of knowledge tools	High
	Enhancing impact measurement and management	Medium
	Developing a blueprint to harness local sources of capital and diaspora funds of capital	High

7.1 RECOMMENDATIONS TO CATALYSE DIVERSE AND INNOVATIVE POOL OF SOCIAL CAPITAL

- **Promoting education and awareness of effective philanthropic practices:** More engagement is needed to create awareness amongst the philanthropic community and corporates on methodologies and tools for venture philanthropy. This could be achieved by establishing "philanthropy advisors" to support social investors in the effective deployment of philanthropy and catalytic funds in the region; organizing structured events bringing together different players; and introducing innovative finance training programs in the universities and training institutions across the region.
- **Strengthening the role and engagement of the government in the social investment industry:** Across the focus countries, governments have developed funding schemes for various population segments such as women and youth that social investors also target. The limited collaboration was, however, observed between governments and other social investors, with each working independently. Hence, there is a need to develop collaboration structures to drive more impact.
- **Promoting the use and supply of catalytic capital:** In the wake of a changing funding landscape globally, there is a need to leverage more catalytic capital in the region. Donors and international foundations are well-positioned to catalyse impact capital e.g., by providing credit or first loss default guarantees to cover the downside risk for commercial lenders lending to development sectors and in the early stage and "missing middle".

- **Increasing the use of innovative blended finance instruments:** Blended finance instruments and innovative structures such as Social and Development Impact Bonds (SIBs/DIBS) have increasingly been used as a new model to leverage funding from the private sector to fund development projects, especially in social sectors such as health, education, and youth employment.
- **Lowering the cost of matchmaking and conducting due diligence:** Lower ticket deal transactions are not attractive for most investors due to the high due diligence costs. Thus investors mostly deploy capital in the form of large ticket sizes that cannot be absorbed by most social enterprises. This cost could be lowered through a cost-sharing approach among the investors and the sharing of the due-diligence data. Further, development partners could subsidize the costs incurred by the private investors to conduct due diligence on small social enterprises and facilitate matchmaking.

7.2 RECOMMENDATIONS TO EMPOWER ORGANISATIONS DELIVERING SOCIAL CHANGE

- **Developing new TA funding strategies to build an investible pipeline of locally founded businesses:** While many technical assistance initiatives exist to support early-stage entrepreneurs, new strategies are still needed to move the needle on early and missing middle stage finance, especially for local founders. Venture philanthropists and foundations can help fill this gap by funding TA facilities linked to finance and through blended structures.
- **Developing interventions to support human resources (HR) needs of enterprises:** Financial constraints prohibit early-stage enterprises from hiring the right talent or up-skill their current talent. In order to build the HR capacities of enterprises, social investors could develop interventions such as subsidizing HR costs of enterprises or supporting ESOs that specifically run leadership and management programs.
- **Advocating for alternative funding models for non-profits:** With the declining donor funding to NGOs/CSOs, new and innovative funding models need to be leveraged to raise and attract more funding to support NGO/CSO activities. The organizations can explore several funding models leveraging internal sources (consultancy fees, asset building, membership fee, among others) and external sources (crowdfunding, microfinance, incubation, among others).

7.3 RECOMMENDATIONS TO DEVELOP ENABLING ENVIRONMENT AND INFRASTRUCTURE

- **Improving the legal and regulatory frameworks:** Governments in the region need to put in place key regulatory frameworks that attract various investors to the sector. Some key proposed regulations in the East Africa countries include the development of a “Start-up Act”; establishment of CSI policies and laws,and introduction of favorable tax incentives for social investments.
- **Focused mobilisation and deployment of philanthropy funds:** There is potential for“philanthropy advisors/ managers” who can mobilise and deploy philanthropy funds in line with the objectives of the philanthropists. Such players can also be leveraged to raise awareness on venture philanthropy practice, ensuring a balanced portfolio between philanthropy and venture philanthropy. They can also advise on co-investment opportunities for philanthropists and promote engagement between them and impact investors to drive the development of blended finance funds.
- **Data building and knowledge tools:** The disparate sources of data on the different social investment approaches observed across the region make it difficult to drive collaboration. Thus, continuous research on the sector and establishing a data portal bringing together different investors can enhance more partnerships and provide data-backed evidence on success models, identifying additional opportunities for strategic interventions amongst key social investors.
- **Enhancing impact measurement and management:** While most of the investors in the region measure impact, there is a need for standardization of impact measurement approaches, using models that are (a) relevant to the context in various African countries; (b) affordable and accessible to social investors operating at smaller transaction sizes; (c) relevant to core business operations for companies; and (d) relevant to strategic development and operational efficiency for non-profits.
- **Developing a blueprint to harness diaspora funds:** Despite the massive amounts of diaspora funds coming into the region, the potential for structured deployment of these funds has not been fully exploited, with only a few diaspora bonds issued mainly for infrastructure projects. There is thus a need to develop a blueprint for harnessing diaspora funds.